

Asian Daily

SunCon (SCOG.KL)

Strong new job flows, with bright replenishment prospects

Maintain OUTPERFORM

Previous Rating: OUTPERFORM

Target price (RM): 2.05

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- SunCon's 1Q23 net profit -19.4% YoY to RM27.8mn (18% of street/our estimates) on weaker performance of its construction division (PBT -21.6% YoY) where construction progress of its existing projects is still in initial phases.
- Outstanding orderbook stood at a healthy RM6bn, having secured RM1.3bn in new orders YTD, making up 64% of its FY23 new order target of RM2bn. Management is maintaining its RM2bn target so far, which we view as conservative.
- Possible orderbook replenishments: in-house projects (~RM900mn in total), precast projects (~RM300mn), data centers, warehousing facilities and further contracts from the JB-SIN RTS. SunCon is also exploring opportunities in Vietnam (potentially ~RM6bn), and we think it stands a good chance for works on MRT3.
- Maintain Outperform. SunCon's orderbook replenishment prospects are looking more positive. If it is successful in its foray into Vietnam, this would provide further earnings upside. The stock trades at 14.7x FY23E P/E, close to 1 SD below its historical average of 18.8x.

Price (22-May-23, RM)	1.72	Est. pot. % chg. to TP	19.2
Mkt cap (RM/US\$ mn)	2,224 / 490	Blue sky scenario (RM)	3.05
Number of shares (mn)	1,293	Grey sky scenario (RM)	1.18
Free float (%)	14.3	<b>Performance</b>	<b>1M 3M 12M</b>
52-wk range (RM)	1.78 - 1.43	Absolute (%)	1.2 4.2 7.5
ADTO-6M (US\$ mn)	0.2	Relative (%)	1.4 8.0 15.9
<b>Year</b>	<b>12/22A</b>	<b>12/23E</b>	<b>12/24E 12/25E</b>
Revenue (RM mn)	2,155.2	2,701.4	2,850.9 3,002.4
EBITDA (RM mn)	210.3	229.0	249.3 243.7
EBIT (RM mn)	186.5	208.6	228.0 221.7
Net profit (RM mn)	135.2	150.5	158.4 162.6
EPS (CS adj.) (RM)	0.1	0.12	0.12 0.13
Chg. from prev. EPS (%)	n.a.	0.0	0.0 0.0
Consensus EPS (RM)	n.a.	0.12	0.12 0.13
EPS growth (%)	20.1	11.3	5.2 2.7
P/E (x)	16.4	14.7	14.0 13.6
Dividend yield (%)	3.2	3.7	4.3 4.4
EV/EBITDA (x)	10.1	9.0	8.4 8.4
P/B (x)	3.01	2.76	2.55 2.38
ROE (%)	18.8	19.5	18.9 18.1
Net debt/equity (%)	(11.2)	(18.2)	(12.4) (17.3)

Source: Company data, Refinitiv, Credit Suisse estimates

**Weak 1Q23 results.** SunCon registered a net profit of RM27.8mn in 1Q23, which was weaker by 19.4% YoY and made up 18% of street and our estimates. The results were mainly dragged down by weaker performance of its construction division (PBT -21.6% YoY) where construction works on its existing projects are still in initial phases. On a QoQ basis, revenue improved slightly (+3.7% QoQ) but the net profit was lower by 39.0% due to absence of margin recalibration for projects nearing completion, which occurred in 4Q22. Going forward, we expect SunCon's results to improve as construction progress continues to ramp-up. As at end-Mar 2023, >75% of its outstanding orderbook of RM6.0bn had a completion rate of <20%.

Figure 1: PBT summary by segment

	Revenue (RM' mn)		YoY (%)	PBT (RM' mn)		YoY (%)	PBT margin	
	1QFY23	1QFY22		1QFY23	1QFY22		1QFY23	1QFY22
Construction	469.1	587.8	-20.2%	36.2	46.2	-21.6%	7.7%	7.9%
Precast	53.0	36.9	43.6%	1.3	1.0	30.0%	2.5%	2.7%

Source: Company data

**Well on track to meet RM2bn new orders for 2022.** As at end-Mar 2023, SunCon's outstanding orderbook stood at a healthy RM6bn, having secured RM1.3bn in new orders YTD 2023, which made up 64% of its FY23 new order target of RM2bn. The new orders mainly comprised of a new construction package on the JB-SIN RTS worth RM605mn and additional works on Sunway's South Quay Square (RM607mn). Despite the strong new order performance, management is maintaining its RM2bn target, which we view as conservative. We believe that possible sources of new orders for SunCon include

Figure 2: Summary of results

Year-end 31 Dec	1QFY23	1QFY22	% YoY chg	% of CS FY23e	% of str FY23e	4Q22	% QoQ chg
Revenue	522.1	624.7	-16.4%	19%	19%	503.4	3.7%
EBITDA	46.9	49.2	-4.5%	20%	20%	69.9	-32.9%
PBT	37.5	47.2	-20.5%	19%	19%	56.3	-33.4%
Net profit	27.8	34.5	-19.4%	18%	18%	45.6	-39.0%

Source: Company data, I/B/E/S, Credit Suisse estimates

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### Target Price and Rating

Valuation Methodology and Risks: (12 months) for SunCon (SCOG.KL)

**Method:** Our target price of RM2.05 is derived by pegging FY23 estimates to SunCon's historical normalized ex-cash P/E average of 16x. We rate the stock OUTPERFORM. The group's orderbook replenishment outlook is looking incrementally positive and we think that it is well positioned to participate for works on local infrastructure projects.

**Risk:** The main risks to our target price of RM2.05 and OUTPERFORM rating for SunCon include: (1) changes in government policy, (2) increase in payment risk from customers on the back of a prolonged slowdown in the construction and property sector, and (3) a spike in raw material prices.

### Companies Mentioned (Price as of 22-May-2023)

**SunCon** (SCOG.KL, RM1.72, OUTPERFORM, TP RM2.05)

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### 3-Year Price and Rating History for SunCon (SCOG.KL)

SCOG.KL	Closing Price	Target Price	
Date	(RM)	(RM)	Rating
02-Oct-20	1.88	2.50	O *
24-Feb-21	1.66	2.25	
21-May-21	1.63	2.15	
20-Aug-21	1.61	1.85	
18-Nov-21	1.56	1.80	
24-Feb-22	1.47	2.20	
24-Aug-22	1.56	2.10	
22-Nov-22	1.43	1.96	
18-Jan-23	1.65	2.05	



\* Asterisk signifies initiation or assumption of coverage.

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