

**HLIB Research**

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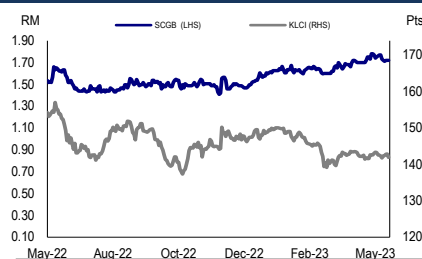
**BUY** (Maintain)

**Target Price: RM1.95**
**Previously: RM1.94**
**Current Price: RM1.54**

Capital upside	26.6%
Dividend yield	3.2%
Expected total return	29.8%

**Sector coverage:** Construction

**Company description:** SunCon is involved in construction and precast products.

**Share price**


Historical return (%)	1M	3M	12M
Absolute	-1.8	1.8	-2.9
Relative	0.0	5.3	7.5

**Stock information**

Bloomberg ticker	SCGB MK
Bursa code	5263
Issued shares (m)	1,293
Market capitalisation (RM m)	1,991
3-mth average volume ('000)	102
SC Shariah compliant	Yes
F4GBM Index member	No
ESG rating	NA

**Major shareholders**

Sunway Berhad	54.6%
EPF	9.7%

**Earnings summary**

FYE (Dec)	FY22	FY23f	FY24f
PATMI - core (RM m)	143.9	161.3	175.3
EPS - core (sen)	11.1	12.5	13.6
P/E (x)	13.8	12.3	11.4

# Sunway Construction Group

## More to come

SunCon announced a refurbishment contract for Sunway Carnival Mall in Seberang Perai worth RM253m. This takes orderbook to RM6.28bn (2.9x cover) buoyed by YTD wins of RM1.53bn (70% of our forecasts). Going forward, further contract catalysts could come from internal projects, MRT3, VN power plant (RM6.0bn) and factories. Increase FY24f/FY25f earnings forecasts by +1.3%/+3.0% after lifting replenishment assumptions. Maintain BUY with higher TP of RM1.95. We like the company due to: (i) safer exposure to future infrastructure rollouts, (ii) strong support from parent-co, (iii) poised to enter stronger earnings cycle driven by fresh contract wins and (iv) execution of guidance.

## NEWSBREAK

SunCon announced that it has accepted the LoA from Sunway REIT Management Sdn Bhd in respect of the main building works for Sunway Carnival Mall located in Seberang Perai worth RM253m. The contract will run for 24 months, finishing by 30-June-25. Scope of works are refurbishment of the existing 4-storey shopping complex and 1-storey cultural/ commercial centre with 1-storey basement.

## HLIB'S VIEW

**Racking up the wins.** This latest contract win takes SunCon's total orderbook replenishment in FY23 so far to RM1.53bn accounting for 70% of our full year forecasts. Orderbook thus rises to RM6.28bn representing a healthy 2.9x cover on FY22 revenue. We note that this hovers close to its record orderbook of RM6.8bn achieved in 3Q17 – impressive considering this was achieved without MRT3 rolling out. SunCon has been getting busy this year chalking up ~RM3.2bn worth of new contracts since Dec-22. Going forward, further contract catalysts could come from internal projects (Ipoh mall), MRT3 and VN power plant (RM6.0bn) and potentially factory type projects (award decision could be closer to 4Q23).

**Recap of FY23 win targets.** Based on previous guidance, SunCon's base case replenishment target for 2023 stands at RM2.0bn with a bull case target of ~RM8.0bn. The latter scenario is double of its record high wins achieved in FY17. Making up its RM2.0bn base case target are: (i) Tier 2 MRT 3 works at RM1.0-1.2bn, (ii) CP2 at RM300m, (iii) Ipoh mall at RM200m, and (iv) precast jobs at ~RM300m (SGD100m). There are also several other tenders ongoing such as Tier 1 MRT3 packages and mixed development – podium, warehouses, data centres & factories. We note that SunCon's upside scenario has incorporated the RM6.0bn Vietnam power plant project (expecting financial close by 3QCY23) but no Tier 1 MRT 3 packages.

**Forecast.** Increase FY24f/FY25f earnings forecasts by +1.3%/+3.0% after lifting replenishment assumptions to RM2.5bn from RM2.2bn previously.

**Maintain BUY, TP: RM1.95.** Maintain BUY with slightly higher TP of RM1.95 (from RM1.94). TP is derived by pegging mid-FY24 EPS to 15x P/E multiple. We like the company due to: (i) safer exposure to future infrastructure project rollouts, (ii) strong support from parent-co, (iii) poised to enter stronger earnings cycle driven by fresh contract wins and (iv) execution of guidance. Key catalyst: contract wins. Risks: MRT3 cancellation, political risks, elevated materials prices and labour shortage.

Figure #1 Total contract wins YTD

Projects (2023 new awards)	Client	Duration	Contract Sum (RM'mil)
Bidadari C17 - LPS	Eng Seng Lee Construction Co Pte Ltd	Dec-23	3.9
Precast - Watertanks (various projects)	Jin Cheng Pte Ltd	Various	9.4
Heliosel Solar PV System - Package L3	Heliosel Sdn Bhd	Dec-23	34.0
Heliosel Solar PV System - Package L2	Heliosel Sdn Bhd	Oct-23	10.5
RTS Package 1B and Package 5	Malaysia Rapid Transit System Sdn Bhd	Jun-25	604.9
South Quay Square Mix Development - 2nd SA	Sunway South Quay Sdn Bhd	Oct-25	606.6
Oxley Tower VO	BUCG (M) Sdn Bhd	Feb-24	8.5
<b>Secured in 1Q 2023</b>			<b>1,278</b>
Sunway Carnival Mall Refurbishment	Sunway REIT Management Sdn Bhd	Jun-25	253.0
<b>Secured in 2Q 2023</b>			<b>253.0</b>
<b>TOTAL AS AT 2Q 2023</b>			<b>1,531</b>

SunCon

## Financial Forecast

All items in (RM m) unless otherwise stated

### Balance Sheet

FYE Dec (RM m)	FY21	FY22	FY23f	FY24f	FY25f
Cash	98.8	491.6	1,158.8	891.9	895.5
Receivables	660.8	1,077.6	1,128.8	1,223.6	986.3
Inventories	46.2	53.4	28.3	30.9	24.8
PPE	124.7	107.5	99.9	90.9	80.5
Others	933.7	505.9	501.5	518.5	538.0
<b>Assets</b>	<b>1,864.2</b>	<b>2,236.0</b>	<b>2,917.3</b>	<b>2,755.7</b>	<b>2,525.0</b>
Debts	237.9	480.7	825.5	450.7	361.5
Payables	873.2	895.4	1,130.8	1,234.8	990.4
Others	36.3	39.2	39.2	39.2	39.2
<b>Liabilities</b>	<b>1,147.4</b>	<b>1,415.3</b>	<b>1,995.5</b>	<b>1,724.6</b>	<b>1,391.1</b>
Shareholder's equity	699.1	737.1	838.2	947.5	1,050.3
Minority interest	17.6	83.7	83.7	83.7	83.7
<b>Equity</b>	<b>716.8</b>	<b>820.8</b>	<b>921.8</b>	<b>1,031.1</b>	<b>1,134.0</b>

### Cash Flow Statement

FYE Dec (RM m)	FY21	FY22	FY23f	FY24f	FY25f
Profit before taxation	185.0	192.8	213.5	225.2	225.9
Depreciation & amortisation	27.4	23.8	27.6	29.0	30.4
Changes in working capital	157.9	(401.8)	209.4	6.6	(1.0)
Share of JV profits	(13.3)	(1.7)	4.4	(17.0)	(19.5)
Taxation	(41.5)	(45.3)	(47.9)	(45.8)	(45.4)
Others	(76.8)	17.3	-	-	-
<b>Operating cash flow</b>	<b>238.7</b>	<b>(215.0)</b>	<b>407.0</b>	<b>198.0</b>	<b>190.4</b>
Net capex	(40.6)	(2.9)	(20.0)	(20.0)	(20.0)
Others	(133.4)	426.7	-	-	-
<b>Investing cash flow</b>	<b>(174.0)</b>	<b>423.8</b>	<b>(20.0)</b>	<b>(20.0)</b>	<b>(20.0)</b>
Changes in borrowings	(63.0)	242.8	344.8	(374.8)	(89.2)
Issuance of shares	-	-	-	-	-
Dividends paid	(77.0)	(71.1)	(64.5)	(70.1)	(77.6)
Others	17.7	(29.0)	-	-	-
<b>Financing cash flow</b>	<b>(122.4)</b>	<b>142.7</b>	<b>280.2</b>	<b>(444.9)</b>	<b>(166.8)</b>
<b>Net cash flow</b>	<b>(57.7)</b>	<b>351.4</b>	<b>667.2</b>	<b>(266.9)</b>	<b>3.6</b>
Forex	-	-	-	-	-
Others	(43.5)	41.3	-	-	-
Beginning cash	200.1	98.8	491.6	1,158.8	891.9
Ending cash	98.8	491.6	1,158.8	891.9	895.5

### Income Statement

FYE Dec (RM m)	FY21	FY22	FY23f	FY24f	FY25f
<b>Revenue</b>	<b>1,729.2</b>	<b>2,155.2</b>	<b>2,575.0</b>	<b>2,791.3</b>	<b>2,250.0</b>
EBITDA	199.6	219.0	263.9	254.5	241.9
EBIT	172.2	195.2	236.3	225.5	211.5
Net finance income/ (cost)	(0.4)	(4.2)	(18.4)	(17.2)	(5.1)
Associates & JV	13.3	1.7	(4.4)	17.0	19.5
<b>Profit before tax</b>	<b>185.0</b>	<b>192.8</b>	<b>213.5</b>	<b>225.2</b>	<b>225.9</b>
Tax	(41.5)	(45.3)	(47.9)	(45.8)	(45.4)
<b>Net profit</b>	<b>143.5</b>	<b>147.4</b>	<b>165.6</b>	<b>179.4</b>	<b>180.5</b>
Minority interest	1.8	(3.6)	(4.2)	(4.1)	(4.0)
<b>Core PATAMI</b>	<b>145.3</b>	<b>143.9</b>	<b>161.3</b>	<b>175.3</b>	<b>176.5</b>
Exceptional items	(32.8)	(8.7)	-	-	-
Reported earnings	112.6	135.2	161.3	175.3	176.5

### Valuation & Ratios

FYE Dec (RM m)	FY21	FY22	FY23f	FY24f	FY25f
Core EPS (sen)	11.2	11.1	12.5	13.6	13.6
P/E (x)	13.7	13.8	12.3	11.4	11.3
EV/EBITDA (x)	9.5	8.7	7.2	7.5	7.8
DPS (sen)	6.0	5.5	5.0	5.4	6.0
Dividend yield	3.9%	3.6%	3.2%	3.5%	3.9%
BVPS (RM)	0.5	0.6	0.6	0.7	0.8
P/B (x)	2.8	2.7	2.4	2.1	1.9
EBITDA margin	11.5%	10.2%	10.2%	9.1%	10.8%
EBIT margin	10.0%	9.1%	9.2%	8.1%	9.4%
PBT margin	10.7%	8.9%	8.3%	8.1%	10.0%
Net margin	8.3%	6.8%	6.4%	6.4%	8.0%
ROE	21.8%	20.0%	20.5%	19.6%	17.7%
ROA	7.1%	6.1%	4.7%	4.5%	5.0%
Net gearing	19.9%	CASH	CASH	CASH	CASH

### Assumptions

FYE Dec (RM m)	FY21	FY22	FY23f	FY24f	FY25f
Construction	1,149	2,414	2,300	2,000	2,000
Precast	296	168	200	400	300
<b>Total new job wins</b>	<b>1,445</b>	<b>2,582</b>	<b>2,500</b>	<b>2,400</b>	<b>2,300</b>

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