HLIB Research
PP 9484/12/2012 (031413)

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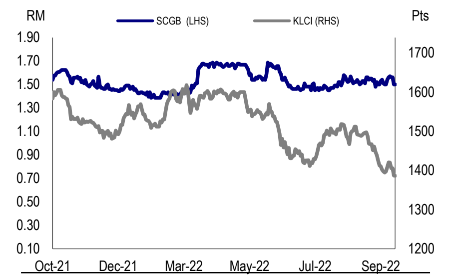
BUY (Maintain)

Target Price:	**RM1.94**
Previously:	**RM1.94**
Current Price:	**RM1.62**

Capital upside	19.8%
Dividend yield	3.2%
Expected total return	23.0%

Sector coverage: Construction
Company description: SunCon is involved in construction and precast products.

Share price



Historical return (%)	1M	3M	12M
Absolute	-	13.8	10.7
Relative	1.8	12.1	18.8

Stock information

Bloomberg ticker	SCGB MK
Bursa code	5263
Issued shares (m)	1,293
Market capitalisation (RM m)	2,094
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	167.2	171.7
EPS - core (sen)	11.1	12.9	13.3
P/E (x)	14.6	12.5	12.2

Sunway Construction Group

Another win in Johor

SunCon announced its maiden contract win in FY23 amounting to RM604.9m in relation to the JB-SG RTS project. In our view, the win is a positive surprise as it does not form part of management's contract win guidance in FY23. Execution risks are limited by: (i) no marine elements and (ii) SunCon's vast experience in railway construction. In the near term, we are expecting award conversion from its parent-co projects before VN power plant (RM6.0bn) and MRT3 (RM1.2bn-WPC) opportunities become clearer in 2HFY23. No change in forecasts for now as it falls within our replenishment assumptions. Maintain BUY with unchanged TP of RM1.94.

NEWSBREAK

SunCon announced its maiden contract win in FY23 having received an LOA from Malaysia Rapid Transit System Sdn Bhd for Package 1B and Package 5 of the JB-SG Rapid Transit System project. The contract sum for the both packages amounts to RM604.9m to be executed over 26 months with an expected completion date in 2QCY25. Scope of work includes advance works for stations and viaducts under Package 1B and construction of terrestrial viaducts and ancillary structures under Package 5.

HLIB'S VIEW

Positive surprise. We are positively surprised by the RTS contract win. While SunCon had earlier guided on their participation in the re-tender of both packages called in Dec-22, we had attached a low probability of clinching the job due to stiff competition. Company's guided construction EBIT margins are generally in the 5-8% range which we believe is manageable. We do not foresee significant execution risks from the project considering: (i) packages are landed portion of the RTS (no marine elements) and (ii) SunCon's vast experience in railway construction (MRT1, MRT2, LRT3 & LRT KJ extension). The RTS win does not form part of SunCon's contract win guidance in FY23. In the near term, we are expecting award conversion from its parent-co projects before VN power plant (RM6.0bn) and MRT3 (RM1.2bn WPC) opportunities become clearer in 2HFY23.

Recap of FY23 win targets. 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 and data centres. We believe SunCon's upside scenario has incorporated the RM6.0bn Vietnam power plant project (interim EPC signed) but no Tier 1 MRT 3 packages.

Forecast. No change for now as it falls within our replenishment assumptions.

Maintain BUY, TP: RM1.94. Maintain BUY with unchanged TP of RM1.94. TP is derived by pegging FY23 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 and (iii) poised to enter stronger earnings cycle driven by fresh contract wins. Key catalyst: contract wins. Risks: MRT3 cancellation, political risks, elevated materials prices and labour shortage.

Figure #2 Financial forecast

FYE Dec (RM m)	FY20	FY21	FY22	FY23f	FY24f
Revenue	1,552.7	1,729.2	2,155.2	2,857.9	2,968.7
EBITDA	143.2	199.6	220.3	275.6	255.0
EBIT	109.7	171.6	196.6	238.4	216.0
PBT	120.3	184.5	192.8	215.7	215.4
PAT	92.5	143.0	147.4	168.3	172.8
PATMI – Core	91.9	144.8	143.9	167.2	171.7
PATMI – Reported	72.7	112.6	135.2	167.2	171.7
Core EPS (sen)	7.1	11.2	11.1	12.9	13.3
P/E (x)	22.8	14.4	14.6	12.5	12.2
EV/EBITDA (x)	14.0	10.0	9.1	7.3	7.8
DPS (sen)	4.0	5.3	5.5	5.2	6.2
Yield (%)	2.5%	3.2%	3.4%	3.2%	3.8%
BVPS (RM/share)	0.5	0.5	0.6	0.7	0.7
P/B (x)	3.3	3.0	2.7	2.4	2.2
ROE (%)	15%	22%	18%	21%	19%
Net Gearing (%)	16%	20%	CASH	50%	30%

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Stock rating guide

BUY	Expected absolute return of +10% or more over the next 12 months.
HOLD	Expected absolute return of -10% to +10% over the next 12 months.
SELL	Expected absolute return of -10% or less over the next 12 months.
UNDER REVIEW	Rating on the stock is temporarily under review which may or may not result in a change from the previous rating.
NOT RATED	Stock is not or no longer within regular coverage.

Sector rating guide

OVERWEIGHT	Sector expected to outperform the market over the next 12 months.
NEUTRAL	Sector expected to perform in-line with the market over the next 12 months.
UNDERWEIGHT	Sector expected to underperform the market over the next 12 months.

The stock rating guide as stipulated above serves as a guiding principle to stock ratings. However, apart from the abovementioned quantitative definitions, other qualitative measures and situational aspects will also be considered when arriving at the final stock rating. Stock rating may also be affected by the market capitalisation of the individual stock under review.