

22 November 2023

Sunway Construction Group

Flattish 9MFY23, Better FY24 Ahead

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SUNCON's 9MFY23 results disappointed due to a slower-than-expected pick-up in its construction work progress and weaker margins. However, we remain upbeat on the impending roll-out of key public infrastructure projects. We cut FY23F and FY24F earnings by 7% and 6%, respectively, trim our TP by 5% to RM2.26 (from RM2.39) but maintain our OUTPERFORM call.

SUNCON's 9MFY23 core profit of RM96.1m missed expectations at only 66% and 68% of our full-year forecast and the full-year consensus estimate, respectively. The variance against our forecast came largely from a slower-than-expected pickup in its construction work progress and weaker margins. No dividend was declared as expected as it usually pays half-yearly dividend, historically.

YoY, despite 9MFY23 revenue growing 9%, its core profit fell 2% as key new projects were still at their initial stages of construction where profit margins were typically lower. Not helping either was a higher interest cost largely from borrowings to fund its projects in India.

QoQ, its 3QFY23 revenue grew 11% while core profit grew 17% due to higher progress billings from sustainable energy projects as well as the acceleration in work progress of newer projects.

Forecasts. We cut our FY23F and FY24F net profit by 7% and 6%, respectively, to account for lower revenue and margin assumptions as key new projects are still at initial construction stages as mentioned above.

Correspondingly, we reduce our TP by 5% to RM2.26 from RM2.39, based on unchanged 18x FY24F PER, which is in-line with our valuation for big cap construction companies, i.e., **GAMUDA (OP; TP: RM5.45)** and **IJM (OP; TP: RM2.15)**. Our TP also includes a 5% premium to reflect a 4-star ESG rating as appraised by us (see Page 4).

Outlook. We expect a significant revitalisation of the construction sector in 2024 backed by: (i) the roll-out of the RM45b MRT3 project, RM9.5b Bayan Lepas LRT and six flood mitigation projects reportedly to be worth RM13b, and (ii) the vibrant private sector construction market, underpinned by massive investment in new semiconductor foundries and data centres. SUNCON is eyeing opportunities in data centre building jobs, MRT3 and Bayan Lepas LRT work packages and contracts from parent and sister companies.

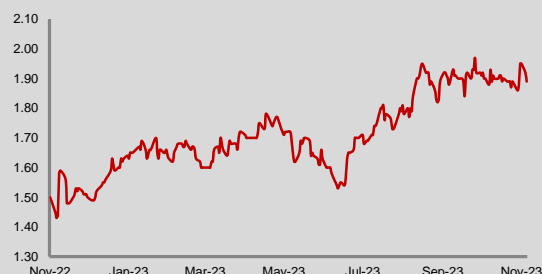
We like SUNCON for: (i) strong job prospects of the sector as a whole with the imminent roll-out of key public infrastructure projects; (ii) its strong earnings visibility underpinned by RM5.79b outstanding order book and recurring jobs from parent and sister companies, and (iii) its extensive capabilities and track record in building, infrastructure, solar, mechanical, electrical and plumbing works. Maintain **OUTPERFORM**.

Risks to our recommendation include: (i) weak flows of construction jobs from public and private sectors, (ii) project cost overrun and liabilities arising from liquidated ascertained damages (LAD), and (iii) rising cost of building materials.

OUTPERFORM ↔

Price: RM1.89
Target Price: RM2.26 ↓

Share Price Performance



KLCI	1,463.40
YTD KLCI chg	-2.1%
YTD stock price chg	21.2%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	SCGB MK Equity
Market Cap (RM m)	2,436.9
Shares Outstanding	1,289.4
52-week range (H)	1.99
52-week range (L)	1.41
3-mth avg daily vol:	603,633
Free Float	12%
Beta	0.8

Major Shareholders

Sunway Holdings Sdn Bhd	54.6%
Sungei Way Corp Sdn Bhd	10.1%
Employees Provident Fund Board	10.0%

Summary Earnings Table

FY Dec (RM m)	2022A	2023F	2024F
Turnover	2155.2	2417.0	2698.4
EBIT	188.2	183.0	212.6
PBT	184.1	177.5	202.6
Net Profit (NP)	135.2	136.1	154.2
Core net profit	144.0	136.1	154.2
Consensus (NP)	-	140.4	161.6
Earnings Revision (%)	-	-6.9	-5.6
Core EPS (sen)	11.2	10.6	12.0
Core EPS growth (%)	28.7	-5.5	13.3
NDPS (sen)	5.5	5.0	5.0
NTA per Share (RM)	0.59	0.65	0.72
Price to NTA (x)	3.2	2.9	2.6
PER (x)	16.9	17.9	15.8
Net Gearing (x)	N Cash	0.07	N Cash
ROE (%)	18.9	16.3	16.7
Net Div. Yield (%)	2.9	2.6	2.6

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Income Statement								
FYE Dec (RM m)	3Q	2Q	QoQ	3Q	YoY	9M	9M	YoY
	FY23	FY23	Chg	FY22	Chg	FY23	FY22	Chg
Revenue	673.5	604.1	11%	469.3	44%	1,799.7	1,651.8	9%
Operating Expenses	-622.8	-562.5	11%	-440.8	41%	-1,669.6	-1,541.5	8%
Other Operating Income	3.4	5.0	-33%	8.5	-60%	12.3	11.9	3%
Operating Profit	54.1	46.7	16%	36.9	47%	142.5	122.2	17%
Finance Income	7.0	6.7	4%	4.1	73%	17.8	9.5	89%
Finance costs	-13.0	-11.5	14%	-3.2	304%	-32.8	-7.6	334%
Associates	0.0	0.3	-100%	-0.1	N/A	0.3	3.7	-91%
JV	0.0	0.0	N/A	0.0	N/A	0.0	0.0	N/A
PBT	48.1	42.3	14%	37.6	28%	127.9	127.8	0%
Tax	-12.6	-9.0	40%	-13.6	-8%	-30.5	-34.5	-12%
PAT	35.5	33.3	7%	24.0	48%	97.4	93.2	5%
MI	0.5	0.3	88%	1.2	-60%	1.6	3.7	-57%
Net Profit	35.0	33.0	6%	22.7	54%	95.8	89.5	7%
Exceptional items	-2.9	0.7	-511%	-2.1	37%	-0.3	-8.4	-97%
Core net profit	37.9	32.3	17%	24.8	53%	96.1	97.9	-2%
DPS	0.0	3.0	-100%	0.0	N/A	3.0	3.0	0%
EBIT margin	8.0%	7.7%		7.9%		7.9%	7.4%	
Pretax margin	7.1%	7.0%		8.0%		7.1%	7.7%	
NP margin	5.3%	5.5%		5.1%		5.4%	5.6%	
CNP margin	5.6%	5.3%		5.3%		5.3%	5.9%	
Effective tax	26.2%	21.3%		36.3%		23.8%	27.0%	

Source: Company, Kenanga Research

Segmental Breakdown								
FYE Dec (RM m)	3Q	2Q	QoQ	3Q	YoY	9M	9M	YoY
	FY23	FY23	Chg	FY22	Chg	FY23	FY22	Chg
Revenue								
Construction	590.6	535.6	10%	418.9	41%	1,595.2	1,529.7	4%
Precast Concrete	83.0	68.5	21%	50.3	65%	204.5	122.1	67%
Total Revenue	673.5	604.1	11%	469.3	44%	1,799.7	1,651.8	9%
Pre-tax Segmentation								
Construction	41.6	39.0	7%	35.1	19%	116.9	122.3	-4%
Precast Concrete	6.5	3.2	102%	2.5	156%	11.0	5.4	103%
Total PBT	48.1	42.3	14%	37.6	28%	127.9	127.8	0%
PAT Segmentation								
Construction	32.2	30.0	7%	21.7	48%	90.5	88.8	2%
Precast Concrete	3.3	3.2	3%	2.2	50%	6.9	4.4	57%
Total PAT	35.5	33.3	7%	24.0	48%	97.4	93.2	5%
Net Profit Segmentation								
Construction	31.7	29.8	6%	20.5	55%	88.9	85.1	4%
Precast Concrete	3.3	3.2	3%	2.2	50%	6.9	4.4	57%
Total Net Profit	35.0	33.0	6%	22.7	54%	95.8	89.5	7%
PBT margins								
Construction	7.0%	7.3%		8.4%		7.3%	8.0%	
Precast Concrete	7.8%	4.7%		5.0%		5.4%	4.4%	
Total	7.1%	7.0%		8.0%		7.1%	7.7%	

Source: Company, Kenanga Research

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Peer Table Comparison

Name	Rating	Last Price (RM)	Target Price (RM)	Upside (%)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) - Core Earnings		PBV (x)	ROE (%)	Net Div. (sen)	Net Div Yld (%)
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
Stocks Under Coverage																	
GAMUDA	OP	4.61	5.45	18.2%	12,441.5	Y	07/2024	43.6	52.0	29.5%	19.2%	12.7	10.2	1.0	9.8%	12.0	2.6%
IJM	OP	1.89	2.15	13.8%	6,626.7	Y	03/2024	9.2	8.6	-2.1%	-6.3%	20.7	22.2	0.7	4.0%	6.0	3.2%
KERJAYA	OP	1.49	1.67	12.1%	1,879.0	Y	12/2023	11.0	14.2	18.5%	29.0%	12.2	10.7	1.4	10.9%	8.0	5.4%
KIMLUN	OP	0.800	0.910	13.8%	280.9	Y	12/2023	9.5	11.9	-12.6%	25.9%	8.0	6.9	0.3	4.1%	1.0	1.3%
SUNCON	OP	1.89	2.26	19.6%	2,436.9	Y	12/2023	10.5	11.9	-5.5%	13.3%	14.9	14.2	2.9	17.0%	5.0	2.6%
WCT	OP	0.525	0.740	41.0%	744.0	Y	12/2023	2.5	3.7	-28.6%	48.6%	20.8	14.3	0.2	2.7%	0.5	1.0%
Sector Aggregate					24,409.0					15.6%	15.4%	13.7	11.8	0.9	6.4%		2.7%

Source: Kenanga Research

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Stock ESG Ratings:

	Criterion	Rating				
GENERAL	Earnings Sustainability & Quality	★	★	★	☆	
	Corporate Social Responsibility	★	★	★	★	
	Management/Workforce Diversity	★	★	★	★	
	Accessibility & Transparency	★	★	★	★	☆
	Corruption-Free Pledge	★	★	★	★	
	Carbon-Neutral Initiatives	★	★	★	★	☆
SPECIFIC	Migrant Worker Welfare	★	★	★	★	
	Waste Disposal/Pollution Control	★	★	★	★	
	Work Site Safety	★	★	★	★	
	Environmentally Friendly Construction Technology	★	★	★	★	
	Supply Chain Auditing	★	★	★	★	
	Energy Efficiency	★	★	★	★	
OVERALL		★	★	★	★	

☆ denotes half-star
 ★ -10% discount to TP
 ★★ -5% discount to TP
 ★★★ TP unchanged
 ★★★★ +5% premium to TP
 ★★★★★ +10% premium to TP

Stock Ratings are defined as follows:

Stock Recommendations

OUTPERFORM : A particular stock's Expected Total Return is MORE than 10%
 MARKET PERFORM : A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
 UNDERPERFORM : A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT : A particular sector's Expected Total Return is MORE than 10%
 NEUTRAL : A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
 UNDERWEIGHT : A particular sector's Expected Total Return is LESS than -5%

***Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.

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