

Sunway Construction Group Berhad

TP: RM1.73 (-3.9%)

Eying for More IT Infrastructure Works

Last Traded: RM1.80

SELL (ESG: ★★★★★)

Chan Mun Chun

Tel: +603-2167 9731

mcchan@ta.com.my

www.taonline.com.my

Results Review

- SUNCON's IHFY23 core profit of RM58.1mn came in below expectations, accounting for 40.2% and 39.0% of ours and consensus' full-year estimates. The variance was mainly due to lower-than-expected profit contributions from the construction segment.
- The group declared a first interim dividend of 3.0sen/share, maintaining the same amount declared in the corresponding period last year.
- YoY, IHFY23 core profit dropped 21.2% to RM58.1mn as revenue was 4.8% lower at RM1,126.2mn. The softer earnings performance was largely attributed to the construction segment. The PBT for the construction segment decreased by 13.7% to RM75.3mn from RM87.3mn a year earlier due to a high base effect as the group accelerated the construction progress for certain projects in central and northern regions in IHFY22. Additionally, the construction segment also saw a higher profit margin in the preceding year thanks to the finalisation of accounts for completed projects.
- QoQ, 2QFY23 core profit surged 25.0% to RM32.3mn while revenue was 15.7% higher at RM604.1mn. Both construction and precast segments mainly contributed to the stronger earnings performance.

Impact

- Given the weaker-than-expected results, we adjust our revenue recognition assumptions for certain ongoing projects. Consequently, earnings forecasts for FY23/FY24/FY25 are reduced by 7.2%/11.2%/8.1%, respectively.

Outlook

- SUNCON's outstanding order book dropped slightly from RM6.0bn a quarter ago to RM5.8bn, translating into 2.7x FY22 revenue. The group maintains its order book replenishment target of RM2.0bn for FY23. YTD, the group has secured RM1.6bn of new contracts. Meanwhile, the group has an active tender book of about RM27.0bn.
- Currently, the group is actively bidding for jobs from niche segments such as data centres, semiconductor factories, and warehouses.

Valuation

- We take this opportunity to raise the target PE multiple for SUNCON from 13x to 14x after removing the political discount post-state elections. Together with the earnings revision, we tweaked the target price from RM1.81 to **RM1.73** based on 14xCY24 earnings. Downgrade the stock from Hold to **Sell**.

Share Information

Bloomberg Code	SCGB MK
Bursa	SUNCON
Stock Code	5263
Listing	Main Market
Share Cap (mn)	1,292.9
Market Cap (RMmn)	2327.2
52-wk Hi/Lo (RM)	1.84/1.41
12-mth Avg Daily Vol ('000 shrs)	415.7
Estimated Free Float (%)	13.4
Beta	0.7

Major Shareholders (%)

Sunholdings	- 54.6
Sungei Way Corp Sdn Bhd	- 10.1
Employee Provident Fund	- 9.8
Amanah Saham Nasional Bhd	- 6.4

Forecast Revision

	FY23	FY24
Forecast Revision (%)	(7.2)	(11.2)
Net profit (RMmn)	134.1	159.7
Consensus	149.1	161.4
TA's / Consensus (%)	89.9	98.9
Previous Rating	Hold (Downgraded)	
Consensus Target Price	1.95	

Financial Indicators

	FY23	FY24
Net Debt / Equity (%)	Net Cash	Net Cash
CFPS (sen)	10.8	1.8
Price / CFPS (x)	16.7	97.4
ROA (%)	5.6	5.9
NTA/Share (RM)	59.3	63.6
Price/NTA (x)	3.0	2.8

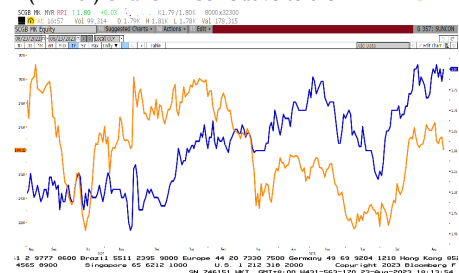
Scorecard

	% of FY	
vs. TA	40.2	Below
vs. Consensus	39.0	Below

Share Performance (%)

Price Change	SUNCON	FBM KLCI
1 mth	6.5	1.9
3 mth	6.5	2.0
6 mth	7.8	(1.2)
12 mth	16.1	(2.9)

(12-Mth) Share Price relative to the FBMKLCI



Source: Bloomberg

Table 1: Earnings Summary (RMmn)

FYE Dec (RMmn)	2021	2022	2023F	2024F	2025F
Revenue	1,729.2	2,155.2	2,272.0	2,720.0	2,780.0
Gross profit	357.6	365.8	431.7	544.0	558.8
EBITDA	166.8	210.3	187.9	215.5	242.0
EBITDA margin (%)	9.6	9.8	8.3	7.9	8.7
EBIT	139.4	186.5	161.0	192.4	216.2
PBT	152.2	184.1	169.7	202.1	225.9
PAT	112.6	135.2	134.1	159.7	178.5
Core net profit	145.5	147.1	134.1	159.7	178.5
Core EPS (sen)	11.3	11.4	10.4	12.3	13.8
PER (x)	16.0	15.8	17.4	14.6	13.0
Gross dividend (sen)	5.3	5.3	8.0	8.0	8.0
Dividend yield (%)	2.9	2.9	4.4	4.4	4.4
ROE (%)	21.8	20.5	17.8	20.1	20.7

Table 2: 2QFY23 Results Analysis (RMmn)

FYE Dec	2Q22	1Q23	2Q23	QoQ (%)	YoY (%)	6MFY22	6MFY23	YoY(%)
Revenue	557.9	522.1	604.1	15.7	8.3	1182.5	1126.2	(4.8)
- Construction	523.0	469.1	535.6	14.2	2.4	1110.7	1004.7	(9.5)
- Precast	34.9	53.0	68.5	29.3	96.4	71.8	121.5	69.3
Operating profit	42.4	41.7	46.7	12.0	10.2	85.3	88.4	3.6
Finance income	3.2	4.1	6.7	63.8	111.8	5.4	10.8	100.6
Finance costs	(3.2)	(8.3)	(11.5)	38.5	260.4	(4.3)	(19.7)	355.4
Profit before taxation	43.0	37.5	42.3	12.7	(1.7)	90.1	79.8	(11.5)
- Construction	41.1	36.2	39.0	7.8	(5.0)	87.3	75.3	(13.7)
- Precast	1.9	1.3	3.2	149.0	71.3	2.9	4.5	56.3
Income tax expense	(9.3)	(8.9)	(9.0)	1.3	(3.8)	(20.9)	(17.9)	(14.4)
Non-controlling interests	1.3	0.8	0.3	(67.2)	(79.9)	2.5	1.1	(55.9)
Net profit	32.3	27.8	33.0	18.6	2.2	66.8	60.8	(9.0)
- Construction	30.9	27.5	29.8	8.3	(3.6)	64.6	57.2	(11.4)
- Precast	1.4	0.4	3.2	808.1	124.2	2.2	3.6	63.4
Core net profit	38.6	25.8	32.3	25.0	(16.4)	73.7	58.1	(21.2)
Reported EPS (sen)	2.5	2.2	2.6	18.6	2.2	5.2	4.7	(9.0)
Core EPS (sen)	3.0	2.0	2.5	25.0	(16.4)	5.7	4.5	(21.2)
Dividend (sen)	3.0	0.0	3.0	na	0.0	3.0	3.0	0.0
Margin (%):				% pts	% pts			% pts
- Operating	7.6	8.0	7.7	(0.3)	0.1	7.2	7.8	0.6
- Construction	7.6	8.0	7.5	(0.5)	(0.1)	7.3	7.8	0.4
- Precast	7.0	7.7	9.1	1.5	2.1	5.4	8.5	3.1
- PBT	7.7	7.2	7.0	(0.2)	(0.7)	7.6	7.1	(0.5)
- PAT	6.0	5.5	5.5	0.4	(1.6)	6.2	5.2	(1.1)
- Effective tax rate	21.7	23.7	21.3	(2.4)	(0.5)	23.2	22.4	(0.8)

(THIS PAGE IS INTENTIONALLY LEFT BLANK)

Stock Recommendation Guideline

- BUY** : Total return within the next 12 months exceeds required rate of return by 5%-point.
HOLD : Total return within the next 12 months exceeds required rate of return by between 0-5%-point.
SELL : Total return is lower than the required rate of return.
Not Rated: The company is not under coverage. The report is for information only.

Total Return is defined as expected share price appreciation plus gross dividend over the next 12 months. Gross dividend is excluded from total return if dividend discount model valuation is used to avoid double counting.

Required Rate of Return of 7% is defined as the yield for one-year Malaysian government treasury plus assumed equity risk premium.

ESG Scoring & Guideline

	Environmental	Social	Governance	Average
Scoring	★★★★	★★★★	★★★★★	★★★★
Remark	Environmental management system in place with ISO 14001:2015 certification. SUNCON will embark on the environmental supply chain assessment in 2021 and complete it by 2023.	Adopted e-bidding. CSR events include Build A Home, which focuses on the welfare of the Orang Asli community.	Established anti-bribery and whistleblower policies. 20.0%-woman representation on the board. Transparent in its sustainability report and has won several ESG and IR awards.	

- ★★★★★ (≥80%) : Displayed market leading capabilities in integrating ESG factors in all aspects of operations, management and future directions.
 ★★★★ (60-79%) : Above adequate integration of ESG factors into most aspects of operations, management, and future directions.
 ★★★ (40-59%) : Adequate integration of ESG factors into operations, management, and future directions.
 ★★ (20-39%) : Have some integration of ESG factors in operations and management but are insufficient.
 ★ (<20%) : Minimal or no integration of ESG factors in operations and management.

Disclaimer

The information in this report has been obtained from sources believed to be reliable. Its accuracy and/ or completeness is not guaranteed and opinions are subject to change without notice. This report is for information only and not to be construed as a solicitation for contracts. We accept no liability for any direct or indirect loss arising from the use of this document. We, our associates, directors, employees may have an interest in the securities and/or companies mentioned herein.

As of Thursday, August 24, 2023, the analyst, Chan Mun Chun, who prepared this report, has interest in the following securities covered in this report:
 (a) nil

Kaladher Govindan – Head of Research

TA SECURITIES HOLDINGS BERHAD (14948-M)

A Participating Organisation of Bursa Malaysia Securities Berhad

Menara TA One | 22 Jalan P. Ramlee | 50250 Kuala Lumpur | Malaysia | Tel: 603 – 2072 1277 | Fax: 603 – 2032 5048
www.ta.com.my