

COMPANY RESULTS

Sunway Construction (SCGB MK)

1Q23: Within Expectations

SunCon's earnings came in within expectation at RM26m, accounting for 21% of our forecast. The qoq decline was mainly due to higher margins driven by some tail-end projects in the previous quarter. The potential rollout of the MRT3 project in 2023 could benefit SunCon given its participation in MRT1 and MRT2. Outstanding orderbook of RM6b provides strong earnings visibility (3x cover). Ytd, the company has secured over RM1.2b new job wins. Maintain HOLD. Target price: RM1.57.

1Q23 RESULTS

Year to 31 Dec (RMm)	1Q23	4Q22	qoq % chg	yoy % chg
Revenue	522.1	503.4	3.7	(16.4)
Construction	469.1	444.0	5.7	(20.2)
Precast Concrete	53.0	59.4	(10.8)	43.6
EBIT	41.7	64.3	(35.2)	(2.9)
Construction	37.6	54.1	(30.4)	(9.4)
Precast Concrete	4.1	10.3	(60.5)	186.7
Pre-tax Profit	37.5	56.3	(33.4)	(20.5)
PATAMI	27.8	45.6	(39.0)	(19.4)
Core PATAMI	26.0	44.9	(42.2)	(24.0)

Margins (%)

Construction	8.0	12.2	(4.2)	1.0
Precast Concrete	7.7	17.3	(9.6)	3.8
PBT	7.2	11.2	(4.0)	(0.4)
PATAMI	5.3	9.1	(3.7)	(0.2)

Source: Sunway Construction, UOB Kay Hian

RESULTS

• **1Q23 earnings within expectations.** Sunway Construction (SunCon) reported a core net profit of RM26.0m (-42.2% qoq, -24.0% yoy) on revenue of RM522.1m (+3.7% qoq, -16.4% yoy) in 1Q23. This accounts for around 21% of our and consensus full-year forecasts. We deem this largely within expectations as we expect higher earnings ahead from stronger progress billings on the back of improved labour intake and better margins from the gradual easing of building materials prices. The qoq earnings decline was mainly due to higher margins driven by some tail-end projects in the previous quarter, despite the higher revenue from better productivity levels. The yoy decline was generally due to the acceleration of progress for project completion in 1H22, which resulted in higher revenue and earnings last year.

KEY FINANCIALS

Year to 31 Dec (RMm)	2021	2022	2023F	2024F	2025F
Net turnover	1,729	2,155	2,452	2,196	2,306
EBITDA	167	210	195	163	187
Operating profit	139	186	185	169	175
Net profit (rep./act.)	113	133	143	132	156
Net profit (adj.)	113	133	143	132	156
EPS (sen)	8.8	10.4	11.0	10.2	10.7
PE (x)	16.5	14.5	13.4	6.8	6.4
P/B (x)	2.7	2.5	2.3	2.2	2.2
EV/EBITDA (x)	11.8	10.6	9.9	10.9	10.3
Dividend yield (%)	3.6	3.3	4.6	4.2	4.4
Net margin (%)	6.6	6.2	5.8	6.0	6.4
Net debt/(cash) to equity (%)	(50.4)	(51.4)	(52.2)	(55.2)	(58.0)
ROE (%)	17.0	18.4	19.2	19.1	20.1
Consensus net profit	-	-	144	147	164
UOBKH/Consensus (x)	-	-	0.98	0.97	0.95

Source: Sunway Construction, Bloomberg, UOB Kay Hian

HOLD

(Maintained)

Share Price	RM1.72
Target Price	RM1.57
Upside	-8.7%

COMPANY DESCRIPTION

A leading construction company in Malaysia.

STOCK DATA

GICS sector	Industrials
Bloomberg ticker:	SCGB MK
Shares issued (m):	1,289.4
Market cap (RMm):	2,220.6
Market cap (US\$m):	488.1
3-mth avg daily t'over (US\$m):	0.2

Price Performance (%)

52-week high/low RM1.79/RM1.41

1mth	3mth	6mth	1yr	YTD
1.2	3.6	20.3	8.2	8.1

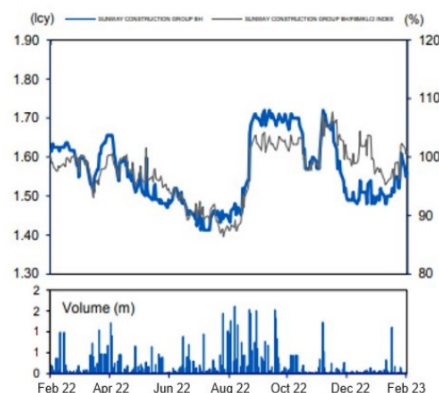
Major Shareholders

Sunway Berhad	54.4
Employees Provident Fund	9.2
-	-

FY23 NAV/Share (RM) 0.55

FY23 Net Cash/Share (RM) 0.28

PRICE CHART



Source: Bloomberg

ANALYST(S)

Hazmy Hazin

+603 2147 1934

noorhazmy@uobkayhian.com

STOCK IMPACT

- Construction division remained the major contributor.** The construction arm reported a profit before tax (PBT) of RM36.2m (-79% qoq, -22% yoy) on revenue of RM469.1m (-76% qoq, -20% yoy) in 1Q23. The weaker performance is mainly due to lower contribution from completing projects and the existing active projects still being in the initial stage, where the progress has yet to pick up. Margins remain flattish, pressured by the ongoing inflationary pressure. Seasonality also plays a role as 1Q is typically the weakest quarter.
- Robust orderbook...** SunCon continued to secure new orders in 1Q23 worth over RM1.2b, on track to achieve its orderbook replenishment target of RM2b. Its outstanding orderbook now stands at around RM6b (over 3x of revenue cover). With the economic reopening, we believe SunCon will be able to continue replenishing its orderbook on the back of its strong tenderbook of >RM21b. SunCon expects more opportunities in the semiconductor, data centre, power plant and warehouse space. It is also among the frontrunners for the civil packages of the railway jobs given its strong execution track record coupled with its strong balance sheet.
- ...to be further strengthened by upcoming mega infrastructure jobs.** In 3Q22, SunCon submitted bids for the civil packages of MRT3, CP1 and CP2, with the aim for CP2 which offers a higher value of around RM12b vs CP1 of about RM2b. CP1 involves a 6km elevated section, while CP2 consists of a 27km elevated section and 1.2km of ground tunnels. Contracts are expected to be awarded in 2H23. Assuming a 6% margin, CP2 could increase orderbook by at least RM5b while offering potential upside to our 2023 earnings by around 20% and approximately an increase of RM0.30/share to our target price. MRT3 tender evaluation is extended to Jun 23. It is also eyeing the Bayan Lepas LRT as the tender is currently underway, with its bid submitted in 4Q22 and pre-qualification validity extended to Jul 23.
- Precast: Slower quarter.** The division's 1Q23 PBT profit stood at RM1.3m (-75% qoq, +30% yoy) on revenue of RM53m (-11% qoq, +44% yoy). The weaker qoq is mainly due to completion of some projects in 4Q22. On a yoy basis, the division performed stronger due to faster progress from new projects. Singapore's Housing and Development Board (HDB) launched 9,908 flats in Feb-May 23 and is planning to launch 11,400 more in Aug 23. Note that HDB flats contribute >90% of the precast sales. We believe the economic recovery in Malaysia and Singapore will continue to support earnings.
- Raw materials cost and labour shortage will stabilise.** Steel prices remained elevated at around RM3,000/mt in 1Q23 (+12% qoq, -5% yoy) but the yoy decline could help to partially offset the higher cement prices of RM390/mt (+16% qoq, +37% yoy). SunCon is also expecting for gradual improvement in the labour shortage issue, which will help to increase its progress. It has managed to secure 400 Indonesian workers from the Ministry of Human Resources (MOHR) last year. As such, it now has 500 foreign workers in total (Suncon used to have up to 800 workers during the construction of LRT3 and MRT2). It is currently applying for a second batch of 600 foreign workers.

EARNINGS REVISION/RISK

- None.

VALUATION/RECOMMENDATION

- **Maintain HOLD with an unchanged target price of RM1.57**, implying 15.9x 2023F PE (implied ex-cash PE: 14x). SunCon has solid fundamentals and earnings visibility, underpinned by its ability to clinch a balanced mix of external and internal projects.

ENVIRONMENTAL, SOCIAL, GOVERNANCE (ESG) UPDATES

<ul style="list-style-type: none"> • Environmental • Mitigate the release of emissions, biodiversity impact, waste disposal, pollution. • Social • Works with local authorities and communities to ensure the projects' success. • Governance • Independent directors (four out of seven) comprise the majority of the board.
--

OUTSTANDING ORDERBOOK AS OF 31 MAR 23

Projects	(RMm)
LRT 3	102
JHB Data Centre	1,656
RTS Link	608
India Highway	507
Others	52
Total External (A)	2,925
Sunway Medical Centre - Phase 4 + VO	102
Sunway Belfield	236
Sunway Velocity 2 (Plot A)	11
Sunway Velocity 2 (Plot B)	146
South Quay CP2	472
Others	1,275
Total Internal (B)	2,242
Precast Concrete (C)	443
Grand Total (A+B+C)	6,030

Source: SunCon

ORDER BOOK REPLENISHMENT ASSUMPTION

(RMm)	2022	2023F	2024F
Construction	2,500	2,000	1,500
Precast Concrete	170	250	250

Source: UOB Kay Hian

SEGMENTAL FORECASTS

(RMm)	2022	2023F	2024F
Revenue	2,155	2,452	2,196
Construction	1,973	2,229	1,958
Precast Concrete	181	223	238
Operating profit	186	185	169
Construction	168	165	147
Precast Concrete	17	20	22

Source: UOB Kay Hian

VALUATION

	(RMm)	Value (RMm)	Remarks
2023F net profit ex net interest income	126	1,690	13x PE
Net cash	340	340	
Total SOTP value		2,030	
Share base		1,289	
			Implied PE (x)
TP (RM)		1.57	15.9
TP (RM) (ex-cash)		1.40	14.0

Source: SunCon, UOB Kay Hian