

COMPANY RESULTS

Sunway Construction (SCGB MK)

3Q23: Within Expectations

Suncon's 9M23 earnings came in within expectations, despite accounting for only 69% of our forecasts and consensus' estimates. We anticipate higher earnings in the upcoming quarters stemming from stronger progress billing amid eased labour issues. The group's near-term earnings outlook remains resilient, supported by its robust outstanding orderbook of RM5.8b as of end-3Q23 (2.7x cover ratio of its 2022 revenue). **Maintain HOLD. Target price: RM1.95.**

3Q23 RESULTS

Year to 31 Dec (RMm)	3Q23	qoq % chg	yoy % chg	9M23	yoy % chg	Comments
Revenue	673.5	11.5	43.5	1,799.7	9.0	Accelerated progress billing
- Construction	590.6	10.3	41.0	1,595.2	4.3	
- Precast Concrete	83.0	21.0	64.8	204.5	67.4	
Operating profit	54.1	15.9	46.7	142.5	16.6	Slightly higher EBIT margins
Construction	44.7	10.5	34.8	122.7	7.1	
Precast Concrete	9.5	50.7	152.0	19.8	159.8	
Pre-tax Profit	48.1	13.8	27.9	127.9	0.1	Higher finance costs
PATAMI	35.0	6.1	54.1	95.8	7.0	
Core PATAMI	38.3	18.7	47.3	96.4	(2.2)	
Margins	%	+/-ppt	+/-ppt	%	+/-ppt	
EBIT:	8.0	0.3	0.2	7.9	0.5	
- Construction	7.6	0.0	(0.3)	7.7	0.2	
- Precast Concrete	11.4	2.2	3.9	9.7	3.4	
PBT	7.1	0.1	(0.9)	7.1	(0.6)	
Core PATMI	5.7	0.3	0.1	5.4	(0.6)	

Source: Suncon, UOB Kay Hian

RESULTS

• **9M23 earnings within expectation.** Sunway Construction (Suncon) reported a higher core net profit of RM38.3m (+18.7% qoq, +47.3% yoy) on the back of a rise in revenue to RM673.5m (+11.5% qoq, +43.5% yoy). This brought 9M23 core net profit to RM96.4m (-2.2% yoy) despite a higher revenue of RM1.8b (+9.0% yoy). We deem 9M23 earnings within expectations despite it only accounting for 69% of our and consensus' estimates. This is premised on anticipations of higher earnings in 4Q23, underpinned by improvement in progress billing and profit margins.

KEY FINANCIALS

Year to 31 Dec (RMm)	2021	2022	2023F	2024F	2025F
Net turnover	1,729	2,155	2,724	3,531	3,260
EBITDA	167	210	225	310	292
Operating profit	139	187	196	274	260
Net profit (rep./act.)	111	139	143	185	180
Net profit (adj.)	113	135	139	180	175
EPS (sen)	11.2	11.6	10.9	12.5	13.4
PE (x)	16.8	16.2	17.4	15.1	14.1
P/B (x)	3.4	3.0	2.8	2.6	2.4
EV/EBITDA (x)	15.5	11.6	11.0	8.1	8.6
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
Net margin (%)	6.4	6.4	5.3	5.2	5.5
Net debt/(cash) to equity (%)	19.4	(1.3)	3.6	6.4	6.2
Interest cover (x)	30.4	10.3	5.0	6.8	7.4
Consensus net profit	-	-	140	162	173
UOBKH/Consensus (x)	-	-	0.99	1.11	1.01

Source: Sunway Construction, Bloomberg, UOB Kay Hian

HOLD

(Maintained)

Share Price	RM1.89
Target Price	RM1.95
Upside	+3.2%

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):	2,443.7
Market cap (US\$m):	525.2
3-mth avg daily t'over (US\$m):	0.3

Price Performance (%)

52-week high/low RM1.97/RM1.43

1mth	3mth	6mth	1yr	YTD
1.1	7.9	11.6	28.0	23.1

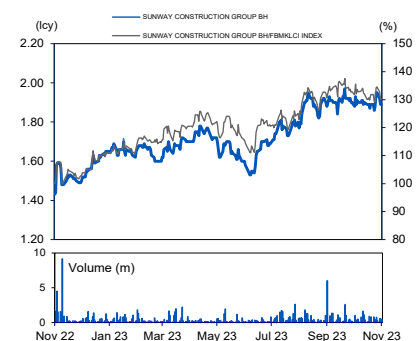
Major Shareholders

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

FY23 NAV/Share (RM) 0.62

FY23 Net Debt/Share (RM) 0.10

PRICE CHART



Source: Bloomberg

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• **Construction division benefitted from accelerated construction progress.** The construction division's operating profit (EBIT) grew to RM44.7m (+10.5% qoq, +34.8% yoy) on higher revenue of RM590.6m (+10.3% qoq, +41.0% yoy) in 3Q23. We understand that the higher revenue was mainly driven by accelerated progress billing from newer projects amid eased labour issues. This also resulted in marginally better profit margins in 3Q23 on a qoq basis. However, note that EBIT margin was lower yoy due a high base in 3Q22 on the reversal of provisions for a legal case.

• **Resilient precast segment.** The precast segment also recorded higher EBIT of RM9.5m (+50.7% qoq, +152.0% yoy) on higher revenue of RM83.0m (+21.0% qoq, +64.8% yoy) largely underpinned by stronger contributions from Integrated Construction & Prefabrication Hub (ICPH) projects and other new projects. Singapore's Housing and Development Board (HDB) launched 16,708 flats in Feb-Oct 23, with plans to introduce an additional 6,000 units of flats in Dec 23. With this, HDB remains on track to launch 23,000 flats in 2023 and a total of 100,000 flats between 2021 and 2025 to cater for the higher housing demand. This would provide earnings momentum for the division given that HDB flats typically contribute >90% of precast sales.

STOCK IMPACT

• **On track to hit replenishment target.** Suncon's near-term earnings outlook remains promising, backed by its robust outstanding orderbook of RM5.8b as of end-3Q23 (2.7x cover ratio of its 2022 revenue). Furthermore, the group is on track to accomplish our orderbook replenishment assumption of RM2.4b for 2023, having already secured multiple new projects collectively valued at RM2.1b as of ytd Nov 23 (excluding the RM120m contract for a 29.9MW solar power plant under the corporate green power programme). That said, we believe Suncon will be able to consistently replenish its orderbook, taking cue from its tenderbook of >RM27.0b. Meanwhile, the resilient internal contract flows from parent company Sunway Berhad could provide further growth opportunities amid the rising vibrancy of the property market, particularly in Johor.

• **Potential awards of MRT3 and BLLRT delayed to 2024.** In addition, we remain upbeat on Suncon's potential involvement in upcoming mega infrastructure projects such as Mass Rapid Transit 3 (MRT3) and Bayan Lepas Light Rail Transit (BLLRT). Recall that Suncon previously submitted bids for CMC301 and CMC302 under MRT3's packages in 3Q22. CMC301 involves the depot segment and a 6km elevated section while CMC302 entails a 27km elevated section and 1.2km of underground tunnels. The company could also potentially participate in BLLRT via its bid submitted earlier in 4Q22. The MRT3 contract is expected to be awarded in 1H24 following the extension of tender validity to end-23 while BLLRT is also anticipated to come into fruition in 2024 as highlighted under Budget 2024. This would pave the path for tremendous domestic job flows, benefitting big-cap local contractors such as Suncon.

EARNINGS REVISION/RISK

• Our forecasts are unchanged.

VALUATION/RECOMMENDATION

• **Maintain HOLD with an unchanged target price of RM1.95.** Our target price implies 14x 2024F PE which is in line with the Bursa Malaysia Construction Index's one-year forward PE. The group's fundamentals remain robust, underpinned by its proven capability to clinch a balanced mix of external and internal projects which will ultimately lead to decent earnings visibility for the next two to three years.

ENVIRONMENTAL, SOCIAL, GOVERNANCE (ESG) UPDATES

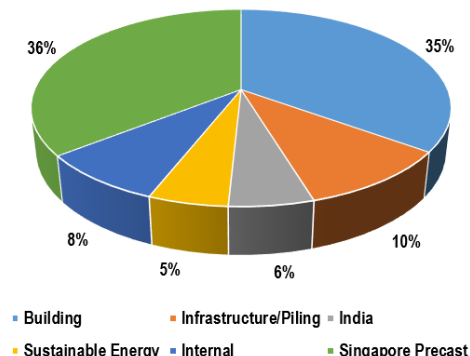
<ul style="list-style-type: none"> • Environmental <ul style="list-style-type: none"> - Mitigate the release of emissions, biodiversity impacts, waste disposal, pollution. • Social <ul style="list-style-type: none"> - Work with local authorities and communities to ensure projects' success. • Governance <ul style="list-style-type: none"> - Independent directors (four out of seven) comprise the majority of the board.
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OUTSTANDING ORDERBOOK AS OF END-2023

Projects	(RMm)
STeP Data Centre	1,500
RTS Link Package 1B & 5	551
Daiso Warehouse	298
Sustainable energy	300
India Highway	318
Others	274
Total External (A)	3,241
Sunway Belfield	162
South Quay Square Superstructure	357
South Quay Square Superstructure VO	607
Sunway Carnival Refurbishment	239
Sunway Flora	250
Others	446
Total Internal (B)	2,061
Precast Concrete (C)	486
Grand Total (A+B+C)	5,788

Source: Suncon

ORDERBOOK BREAKDOWN



Source: Suncon

ORDERBOOK REPLENISHMENT ASSUMPTIONS

(RMm)	2022	2023F	2024F	2025F
Construction	2,500	2,400	2,400	2,400
Precast Concrete	170	250	250	250

Source: Suncon, UOB Kay Hian

VALUATION

	(RMm)	Valuation (RMm)	Remarks
2024F net profit (ex net interest cost)	193	2,503	13x PE
End-22 net debt		11	
Total SOTP		2,514	
Share base		1,289	
TP (RM)		1.95	

Source: Suncon, UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (RMm)	2022	2023F	2024F	2025F
Net turnover	2,155	2,724	3,531	3,260
EBITDA	210	225	310	292
Deprec. & amort.	24	29	37	33
EBIT	187	196	274	260
Associate contributions	2	9	(17)	(21)
Net interest income/(expense)	(4)	(17)	(14)	(3)
Pre-tax profit	184	189	243	236
Tax	(45)	(45)	(58)	(57)
Minorities	(4)	(4)	(6)	(6)
Net profit	135	139	179	173
Net profit (adj.)	135	139	180	175

CASH FLOW

Year to 31 Dec (RMm)	2022	2023F	2024F	2025F
Operating	(215)	86	129	153
Pre-tax profit	184	189	243	236
Tax	(53)	(45)	(58)	(57)
Deprec. & amort.	24	29	37	33
Working capital changes	(382)	(87)	(92)	(60)
Other operating cashflows	12	0	0	0
Investing	424	(45)	(51)	(50)
Capex (growth)	(27)	(45)	(51)	(50)
Proceeds from sale of assets	25	0	0	0
Others	426	0	0	0
Financing	143	70	(138)	(151)
Dividend payments	(90)	(84)	(108)	(105)
Proceeds from borrowings	239	154	(30)	(45)
Others/interest paid	(6)	0	0	0
Net cash inflow (outflow)	351	111	(60)	(48)
Beginning cash & cash equivalent	61	408	519	459
Changes due to forex impact	(4)	0	0	0
Ending cash & cash equivalent	408	519	459	411

BALANCE SHEET

Year to 31 Dec (RMm)	2022	2023F	2024F	2025F
Fixed assets	108	123	138	155
Other LT assets	491	491	491	491
Cash/ST investment	309	412	393	363
Other current assets	492	603	543	495
Total assets	1,146	1,384	1,703	1,596
ST debt	2,236	2,601	2,875	2,737
Other current liabilities	172	222	212	196
LT debt	931	1,082	1,310	1,143
Other LT liabilities	3	3	3	3
Shareholders' equity	737	793	864	932
Minority interest	84	88	93	100
Total liabilities & equity	2,236	2,601	2,875	2,737

KEY METRICS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
Profitability				
EBITDA margin	9.8	7.4	8.1	8.2
Pre-tax margin	8.5	6.0	6.7	6.8
Net margin	6.3	4.4	4.9	5.0
Net profit (adj.)	20.1	3.3	25.8	(4.6)
Leverage				
Debt to total capital	39.5	44.4	41.2	37.5
Debt to equity	58.6	72.0	63.2	54.2
Net debt/(cash) to equity	(1.3)	3.6	6.4	6.2
Interest cover (x)	10.3	5.0	6.8	7.4

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