

Sunway Construction (SCGB MK)

Ending 2023 on a strong note

MALAYSIA | CONSTRUCTION | RESULT

- Sunway Construction's (SunCon) full-year 2023 results exceeded both ours and consensus estimates
- The stronger sequential earnings were driven by higher contributions from both construction and precast segments
- Raise our 2024E–25E earnings forecast by 6–16%. Maintain HOLD but lift target price to RM2.46 (RM2.06 previously)

Result exceeds our expectation

SunCon recorded full year 2023 core net profit of RM170m (+18% YoY) on the back of higher revenue of RM2.7bn (+24% YoY) driven by better construction (+21% YoY) and precast (+60% YoY) contributions. PBT margin was lower at 7.1% (-1.5ppt YoY) despite the higher revenue due to lower margins for early-stage projects. The higher incurred finance costs (+166% YoY) to fund the India highway and LSS4 projects was cushioned by lower depreciation and effective tax rates. Overall, results exceeded both ours and consensus estimate, representing 125% and 122% of both respective forecasts. The deviation against our forecast was due to quicker-than-expected orderbook recognition for its existing projects.

Stronger sequential earnings

Sequential 4Q23 core net profit soared 95% driven by better construction (+27%) and precast contribution (+19%). Looking ahead, we expect upcoming 1Q24 earnings to remain robust on the back of its RM5.3bn outstanding orderbook (2x cover ratio on 2023 revenue), providing revenue visibility until 2027. We factored in a RM2.5bn orderbook replenishment assumption in 2024E, in line with management's internal target, on the back of the sizeable RM26.2bn tenderbook consisting of a combination of infrastructure, data centres, warehousing, and internal Sunway Group (non-rated) jobs.

Maintain HOLD but raise TP to RM2.46

We raise our 2024E–25E earnings forecast by 6–16% imputing in a quicker orderbook recognition. We also raise our 2025–26E orderbook replenishment to RM3bn/RM3.2bn (from RM2.7bn/RM3bn). In tandem with the earnings upgrade, we lift our TP to RM2.46 (from RM2.06) after raising PE multiple to 18x (at +1SD of 3-year mean; from 16x) to reflect the better tender prospects ahead. Key risks: delay in mega infrastructure project rollouts, slower-than-expected orderbook recognition and margin pressures.

Key Financials

| Y/E Dec | 2022 | 2023 | 2024E | 2025E | 2026E |
|-----------------------|---------|---------|---------|---------|---------|
| Revenue (RMm) | 2,155.2 | 2,671.2 | 3,214.2 | 3,434.5 | 3,527.8 |
| EBITDA (RMm) | 218.9 | 270.4 | 286.4 | 313.3 | 328.2 |
| Pretax profit (RMm) | 184.1 | 188.6 | 232.9 | 259.2 | 273.8 |
| Net profit (RMm) | 135.2 | 145.1 | 176.3 | 196.3 | 207.4 |
| EPS (sen) | 10.5 | 11.2 | 13.7 | 15.2 | 16.1 |
| PER (x) | 24.9 | 23.2 | 19.1 | 17.2 | 16.2 |
| Core net profit (RMm) | 143.8 | 170.2 | 176.3 | 196.3 | 207.4 |
| Core EPS (sen) | 11.1 | 13.2 | 13.7 | 15.2 | 16.1 |
| Core EPS growth (%) | (0.6) | 18.4 | 3.6 | 11.3 | 5.7 |
| Core PER (x) | 23.4 | 19.8 | 19.1 | 17.2 | 16.2 |
| Net DPS (sen) | 5.5 | 6.0 | 5.5 | 6.0 | 7.0 |
| Dividend Yield (%) | 2.1 | 2.3 | 2.1 | 2.3 | 2.7 |
| EV/EBITDA (x) | 15.2 | 13.9 | 13.3 | 12.1 | 11.4 |
| Chg in EPS (%) | | | +6.2 | +16.4 | New |
| Phillip/Consensus (%) | | | 1.0 | 1.1 | - |

Sources: Company, Bloomberg, Phillip Research forecasts

21 February 2024

HOLD (maintain)

| | |
|------------------|---------|
| LAST CLOSE PRICE | RM2.61 |
| TARGET PRICE | RM2.46 |
| TOTAL RETURN | -5.7% |
| (Previous TP) | RM2.06) |

COMPANY DATA

| | |
|------------------------------|----------------|
| BLOOMBERG TICKER | SCGB MK EQUITY |
| O/S SHARES (MN): | 1,289 |
| MARKET CAP (USD mn / RM mn): | 701 / 3365 |
| 52 - WK HI/LO (RM): | 2.73 / 1.53 |
| 3M Average Daily T/O (mn): | 1.52 |
| NET CASH/(DEBT) (RMm) | (405.60) |

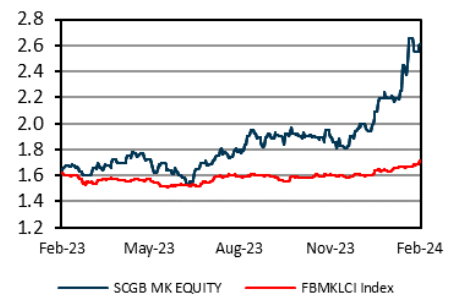
MAJOR SHAREHOLDERS (%)

| | |
|---------------------|-------|
| Sunway Holdings Sdn | 54.6% |
| Sungei Way Corp Sdn | 10.1% |
| Employees Provident | 9.0% |

PRICE PERFORMANCE (%)

| | 1MTH | 3MTH | YTD |
|----------------|------|------|------|
| COMPANY | 18.7 | 33.3 | 34.0 |
| FBMKLCI RETURN | 3.6 | 5.6 | 5.8 |

PRICE VS. FBMKLCI



Source: Bloomberg

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Results at a glance

| Y/E Dec (RMm) | 4Q22 | 3Q23 | 4Q23 | QoQ % chg | YoY % chg | 2022 | 2023 | YoY % chg | Comment |
|--------------------------|-------------|-------------|--------------|-----------------|-----------------|--------------|--------------|-----------------|---|
| Revenue | 503.4 | 673.5 | 871.5 | 29.4 | 73.1 | 2,155.2 | 2,671.2 | 23.9 | 2023 higher construction (+77% YoY) and pre-cast (+44% YoY) revenue |
| Op costs | (433.0) | (611.3) | (759.7) | 24.3 | 75.4 | (1,936.4) | (2,400.9) | 24.0 | |
| EBITDA | 70.4 | 62.2 | 111.8 | 79.7 | 58.9 | 218.9 | 270.4 | 23.5 | |
| <i>EBITDA margin (%)</i> | <i>14.0</i> | <i>9.2</i> | <i>12.8</i> | <i>3.6ppt</i> | <i>(1.2ppt)</i> | <i>10.2</i> | <i>10.1</i> | <i>(0.0ppt)</i> | |
| Depn and amort | (5.6) | (5.2) | (5.2) | 0.2 | (6.6) | (23.8) | (21.0) | (11.6) | |
| EBIT | 64.8 | 57.0 | 106.6 | 86.9 | 64.5 | 195.1 | 249.4 | 27.8 | |
| <i>EBIT margin (%)</i> | <i>12.9</i> | <i>8.5</i> | <i>12.2</i> | <i>3.8ppt</i> | <i>(0.6ppt)</i> | <i>9.1</i> | <i>9.3</i> | <i>0.3ppt</i> | |
| Int and other inc | 4.4 | 7.0 | 8.6 | 22.5 | 94.9 | 13.9 | 26.4 | 90.6 | |
| Int expense | (10.5) | (13.0) | (15.2) | 16.4 | 44.8 | (18.0) | (47.9) | 165.8 | Higher finance costs due to financing for on-going projects |
| Forex | 0.9 | (0.9) | (1.6) | <i>n.m</i> | <i>n.m</i> | 2.1 | (1.7) | <i>n.m</i> | |
| El | (1.4) | (2.0) | (23.2) | <i>nm</i> | <i>nm</i> | (10.7) | (23.4) | <i>n.m</i> | Mainly impairment losses for receivables |
| Pretax profit | 56.3 | 48.1 | 60.8 | 26.3 | 7.9 | 184.1 | 188.6 | 2.5 | |
| Tax | (10.8) | (12.6) | (12.3) | (2.0) | 14.3 | (45.3) | (42.8) | (5.6) | |
| <i>Tax rate (%)</i> | <i>19.2</i> | <i>26.2</i> | <i>20.3</i> | <i>(5.9ppt)</i> | <i>1.1ppt</i> | <i>24.9</i> | <i>21.1</i> | <i>(3.7ppt)</i> | |
| MI | 0.1 | (0.5) | 0.8 | (268.2) | 517.5 | (3.6) | (0.7) | NA | |
| Net profit | 45.6 | 35.0 | 49.3 | 40.7 | 7.9 | 135.2 | 145.1 | 7.3 | |
| EPS (sen) | 3.5 | 2.7 | 3.8 | 40.4 | 7.9 | 10.5 | 11.3 | 7.3 | |
| Core net profit | 46.1 | 37.9 | 74.1 | 95.3 | 60.6 | 143.8 | 170.2 | 18.4 | Exceed expectations |

Sources: Company, Phillip Research

Segmental revenue breakdown

| Y/E Dec (RMm) | 4Q22 | 3Q23 | 4Q23 | QoQ % chg | YoY % chg | 2022 | 2023 | YoY % chg |
|------------------|--------------|--------------|--------------|--------------|--------------|----------------|----------------|--------------|
| Construction | 444.0 | 590.6 | 785.8 | 33.1 | 77.0 | 1,973.6 | 2,381.0 | 20.6 |
| Precast concrete | 59.4 | 83.0 | 85.7 | 3.3 | 44.2 | 181.6 | 290.2 | 59.8 |
| Total | 503.4 | 673.5 | 871.5 | 29.4 | 73.1 | 2,155.2 | 2,671.2 | 23.9 |

Segmental PBT breakdown

| Y/E Dec (RMm) | 4Q22 | 3Q23 | 4Q23 | QoQ % chg | YoY % chg | 2022 | 2023 | YoY % chg |
|------------------|-------------|-------------|-------------|--------------|--------------|--------------|--------------|--------------|
| Construction | 51.0 | 41.6 | 53.0 | 27.4 | 4.0 | 173.3 | 169.9 | (2.0) |
| Precast concrete | 5.3 | 6.5 | 7.7 | 19.2 | 46.0 | 10.7 | 18.7 | 74.8 |
| Total | 56.3 | 48.1 | 60.8 | 26.3 | 7.9 | 184.1 | 188.6 | 2.5 |

Segmental PBT margin

| Y/E Dec (%) | 4Q22 | 3Q23 | 4Q23 | QoQ ppt chg | YoY ppt chg | 2022 | 2023 | YoY ppt chg |
|------------------|-------------|------------|------------|-----------------|-----------------|------------|------------|-----------------|
| Construction | 11.5 | 7.0 | 6.7 | (0.3ppt) | (4.7ppt) | 8.8 | 7.1 | (1.6ppt) |
| Precast concrete | 8.9 | 7.8 | 9.0 | 1.2ppt | 0.1ppt | 5.9 | 6.5 | 0.6ppt |
| Total | 11.2 | 7.1 | 7.0 | (0.2ppt) | (4.2ppt) | 8.5 | 7.1 | (1.5ppt) |

Sources: Company, Phillip Research

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