

## Sunway Construction Group Berhad

(5263 | SCGB MK) Main | Construction

### Setting Stronger Goals for FY24

#### KEY INVESTMENT HIGHLIGHTS

- **Core net profit recorded at RM143.9m in FY23, an improvement of +7.0%**
- **Construction revenue rose +20.6%yoy to RM2.38b; PBT declined -2.0% to RM169.9m**
- **Precast segment revenue grew +59.8% to RM290.2m; PBT up +74.8% to RM18.7m**
- **Maintain BUY with a revised TP of RM2.86**

**Within expectations.** Sunway Construction Group Berhad (SunCon) recorded a core net profit of RM143.9m in FY23, which came in +7.0% higher over FY22. This was on the back of stronger revenue of +23.9%yoy to RM2.67b, driven by improved performance from both its construction and precast segments. The bottom line came in within ours and consensus expectations, exceeding estimates slightly by only +2.2% and +2.8% respectively. The group declared a second interim dividend of 3 sen per share, lifting the FY23 DPS to 6 sen, within our expectations.

**Construction segment.** Being the main revenue driver for the group, the construction segment posted a +20.6%yoy growth in revenue to RM2.38b, delivering a PBT of RM169.9m, which declined slightly by -2.0%yoy. The higher revenue in FY23 was attributable to the peak construction progress in India and higher contribution from the group's sustainable energy projects. PBT margin came in lower at 7.1% compared to 8.8% a year ago due to the finalisation of accounts of several projects in FY22 and the reversal of a legal case provision.

**Precast segment.** Revenue from the precast business surged +59.8%yoy to RM290.2m while PBT for the segment grew +74.8%yoy to RM18.7m. Margins saw an improvement from 5.9% to 6.5%. These were driven by contribution from new projects and increase in production of its Integrated Construction & Prefabrication Hub (ICPH) in Singapore.

**Stronger replenishment target.** After ending FY23 on a strong note by securing RM2.51b of new projects, exceeding its target of RM2.0b. Management has set a more optimistic target of RM3.0b job wins for FY24. Its outstanding order book currently stands at RM5.3b and its active tender book at RM26.2b. Apart from pursuing more data centre jobs, SunCon is also actively tendering for various warehousing and semiconductor manufacturing projects.

**Earnings estimates.** We are raising our revenue estimates for FY24E and FY25F each by +13.0% in line with the stronger order book burn rate and the expectations of higher job wins, and subsequently our bottom line estimates by +11.1% and +10.1% respectively.

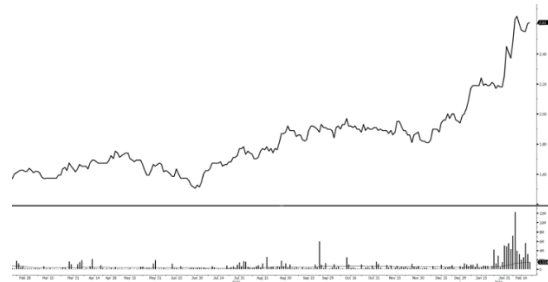
**Target price.** This raises our **TP** to **RM2.86** from RM2.09, based on SunCon's FY24 EPS of 13.9 sen per share, pegged to a PER of 20.5x, which is +0.5SD above its mean since 2017.

**Maintain BUY**
**Revised Target Price: RM2.86**
*(Previously RM2.09)*

#### RETURN STATISTICS

Price @ 20 <sup>th</sup> Feb 2024 (RM)	2.61
Expected share price return (%)	+9.6
Expected dividend yield (%)	+2.4
<b>Expected total return (%)</b>	<b>+12.0</b>

#### SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	19.2	14.2
3 months	34.5	27.6
12 months	61.1	53.0


#### INVESTMENT STATISTICS

FYE Dec	2023A	2024F	2025F
Revenue	2,671.23	2,978.96	3,127.90
Operating Profit	224.27	217.27	239.58
Profit Before Tax	188.65	230.45	251.35
Core net profit	143.90	178.74	189.36
Core EPS (sen)	11.3	13.9	14.7
DPS (sen)	6.0	7.0	7.0
Dividend Yield	2.9%	2.5%	2.5%

#### KEY STATISTICS

FBM KLCI	1,555.59
Issue shares (m)	1289.36
Estimated free float (%)	13.45
Market Capitalisation (RM'm)	3,365.23
52-wk price range	RM1.53-RM2.73
3-mth average daily volume (m)	1.52
3-mth average daily value (RM'm)	3.58
Top Shareholders (%)	
Sunway Holdings Sdn Bhd	54.56
Sungei Wav Corp Sdn Bhd	10.08
Employees Provident Fund Board	8.99

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**Maintain BUY.** SunCon remains a favoured name for the construction sector, armed with a strong outstanding order book and its active participation in various tenders. We believe SunCon will be among the main beneficiaries of the rise in data centres in Malaysia, which are among the themes we identified from our recent visit to Johor. The group is currently working on two such projects at the Sedenak Tech Park. SunCon is also expected to benefit from the development initiatives lined out in the Budget 2024 and the Mid-Term Review of the 12<sup>th</sup> Malaysia Plan and other off-budget projects such as the MRT3. All factors considered, we reiterate our **BUY** recommendation on **SunCon**. 

## SUNWAY CONSTRUCTION: 4QFY23 RESULTS SUMMARY

All in RM'm unless stated otherwise Income Statement	Quarterly Results					Cumulative		
	4QFY23	3QFY23	4QFY22	QoQ	YoY	12MFY23	12MFY22	YoY
Revenue	871.5	673.5	503.4	29.4%	73%	2,671.2	2,155.2	23.9%
Net Operating Expenses	(766.4)	(616.6)	(438.5)	-24%	-75%	(2,119.6)	(1,963.7)	-7.9%
Operating Profit	81.8	54.1	64.3	51%	27%	224.3	148.4	51.1%
Finance Income	8.6	7.0	4.4	22%	95%	26.4	13.9	90.6%
Finance Costs	(15.2)	(13.0)	(10.5)	-16%	-45%	(47.9)	(18.0)	-165.8%
JV and Associates	(14.5)	0.0	(2.0)	-	-637%	(14.1)	1.7	-932.3%
Profit Before Tax	60.8	48.1	56.3	26%	8%	188.6	184.1	2.5%
Tax Expense	(12.3)	(12.6)	(10.8)	2%	-14%	(42.8)	(45.3)	5.6%
Minority Interest	(0.8)	0.5	(0.1)	-268%	-518%	0.7	3.6	-79.3%
Reported Net Profit	49.3	35.0	45.6	41%	8%	145.1	135.2	7.3%
Core Net Profit	49.8	34.8	46.1	43%	8.1%	143.9	134.4	7.0%

## FINANCIAL SUMMARY

Income Statement (RM'm)	2021A	2022A	2023A	2024E	2025F
Revenue	1,729.16	2,155.23	2,364.70	2,978.96	3,127.90
Net operating expenses	(1,589.74)	(1,963.75)	(2,182.91)	(2,655.54)	(2,749.01)
Operating profit	139.42	148.41	169.97	217.27	239.58
Profit before tax	152.25	184.06	193.79	230.45	251.35
Net profit	112.59	135.18	140.80	178.74	189.36
Core net profit	110.40	134.44	140.80	178.74	189.36
Core EPS (sen)	8.7	10.5	10.9	0.139	0.147
DPS (sen)	5.0	5.5	6.0	7.0	7.0

Balance Sheet (RM'm)	2021A	2022A	2023A	2024E	2025F
Fixed assets	124.8	107.6	118.4	124.3	130.6
Other investments and assets	724.6	491.1	498.0	511.9	518.9
<b>Non-current assets</b>	<b>849.4</b>	<b>598.7</b>	<b>616.3</b>	<b>636.2</b>	<b>649.6</b>
Cash	98.8	491.6	468.2	522.1	548.3
Trade debtors	850.1	988.7	1,123.5	1,231.3	1,304.2
<b>Current assets</b>	<b>1,014.8</b>	<b>1,637.4</b>	<b>1,730.1</b>	<b>1,905.9</b>	<b>2,013.5</b>
Trade creditors	891.4	916.8	1,121.6	1,193.8	1,277.4
Short-term debt	92.5	172.2	161.6	197.5	197.6
<b>Current liabilities</b>	<b>992.0</b>	<b>1,103.3</b>	<b>1,296.9</b>	<b>1,407.9</b>	<b>1,491.6</b>
Long-term debt	145.4	308.5	203.6	207.6	150.6
<b>Non-current liabilities</b>	<b>155.4</b>	<b>311.9</b>	<b>489.1</b>	<b>212.8</b>	<b>155.4</b>
Share capital	258.6	258.6	258.6	258.6	258.6
Retained earnings	470.8	515.9	579.3	662.8	757.4
<b>Equity</b>	<b>699.1</b>	<b>737.1</b>	<b>837.9</b>	<b>921.4</b>	<b>1,016.0</b>

Cash Flow (RM'm)	2021A	2022A	2023A	2024E	2025F
PBT	152.2	184.1	193.8	211.5	232.3
Depreciation & amortisation	27.4	23.8	26.1	27.4	28.8
Changes in working capital	83.3	-382.1	100.8	-64.8	-23.9
<b>Operating cash flow</b>	<b>238.7</b>	<b>-215.0</b>	<b>414.9</b>	<b>206.6</b>	<b>297.7</b>
Capital expenditure	-31.5	-1.9	-25.0	-25.0	-25.0
<b>Investing cash flow</b>	<b>-174.0</b>	<b>423.7</b>	<b>-308.0</b>	<b>-123.2</b>	<b>184.8</b>
Debt raised/(repaid)	-70.1	233.4	107.6	193.7	-145.4
Dividends paid	-51.6	-90.3	-77.4	-77.4	-77.4
<b>Financing cash flow</b>	<b>-122.4</b>	<b>142.7</b>	<b>30.2</b>	<b>116.3</b>	<b>-222.8</b>
<b>Net cash flow</b>	<b>-57.7</b>	<b>351.4</b>	<b>137.1</b>	<b>199.7</b>	<b>259.8</b>
<b>Beginning cash flow</b>	<b>117.8</b>	<b>60.6</b>	<b>407.7</b>	<b>544.8</b>	<b>744.4</b>
<b>Ending cash flow</b>	<b>60.6</b>	<b>407.7</b>	<b>544.8</b>	<b>744.4</b>	<b>1004.2</b>

Profitability Margins	2021A	2022A	2023A	2024E	2025F
Operating profit margin	8.1%	6.9%	7.2%	7.3%	7.7%
PBT margin	8.8%	8.5%	8.2%	7.7%	8.0%
PAT margin	6.5%	6.3%	6.0%	6.0%	6.1%
Core PAT margin	6.4%	5.8%	6.0%	6.0%	6.1%

Source: Bloomberg, MIDFR

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### MIDF AMANAH INVESTMENT BANK: GUIDE TO RECOMMENDATIONS

#### STOCK RECOMMENDATIONS

BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <-10% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

#### SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.

#### ESG RECOMMENDATIONS\* - source Bursa Malaysia and FTSE Russell

☆☆☆	Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆	Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆	Top 51%- 75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
	Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell

\* ESG Ratings of PLCs in FBM EMAS that have been assessed by FTSE Russell in accordance with FTSE Russell ESG Ratings Methodology