

Sunway Construction Group Berhad

(5263 | SCGB MK) Main | Construction

Kicking off Strongly in FY24

KEY INVESTMENT HIGHLIGHTS

- **Core net profit recorded at RM32.2m in 1QFY24, an improvement of +22.7% yoy**
- **Construction revenue rose +15.9%yoy to RM543.6m; PBT grew +4.7%yoy to RM37.9m**
- **Precast segment revenue rose +15.5% to RM61.2m; PBT up 2.8x to RM3.7m**
- **Maintain NEUTRAL with a revised TP of RM3.09**

Within expectations. Sunway Construction Group Berhad (SunCon) recorded a core net profit of RM32.2m in 1QFY24, which came in +22.7%yoy higher over 1QFY23. This was on the back of stronger revenue of +15.8%yoy to RM604.8m, driven by improved performance from both its construction and precast segments. However, its earnings came in below ours and consensus estimates, making up 18.0% and 17.7% of full-year estimates.

Construction segment. The group's construction revenue grew +15.9%yoy to RM543.6m, generating a PBT of RM37.9m, a growth of +4.7%yoy, attributable to higher billings from its newer projects. PBT margin was at 7.0%, almost unchanged from the FY23 PBT margin of 7.1%.

Precast segment. Revenue from the precast business rose +15.5%yoy to RM61.2m while PBT for the segment grew 2.8x to RM3.7m. PBT margin was recorded at 6.1% for the quarter, close to the 6.5% achieved in FY23. The stronger segmental results were mainly driven by contributions from the Integrated Construction & Prefabrication Hub (ICPH) in Singapore.

Ahead of replenishment target. As at Mar-24, the group has secured RM1.72b or 57.3% of its FY24 replenishment target of RM3.0b. Its active tender book currently stands at RM9.4b and we learnt that almost 80% of these are Advanced Technology Facilities (ATF) projects, which comprises data centers, warehouses, and semiconductor factories. Management is also interested in securing jobs in Penang, namely the Penang LRT and the Penang International Airport expansion. It is in the pre-qualification stage for the latter.

Earnings estimates. We maintain our earnings estimates for now, in line with the traditionally slower first quarter.

Target price. We upgrade our TP for SunCon to **RM3.09** from RM2.86 previously as we roll forward our valuation year. We peg its FY25F EPS of 14.7 sen to a PER of 21x, which is +0.5SD above its five-year mean.

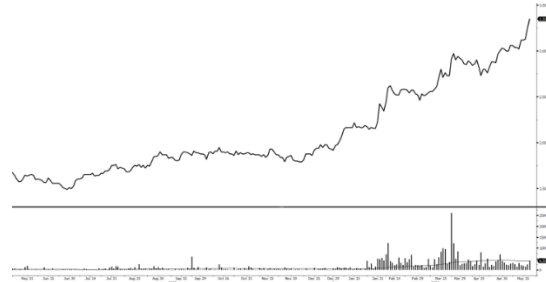
Maintain NEUTRAL. We view that the upcoming pipeline of projects remains healthy for the sector and SunCon is expected to be among the main beneficiaries of the rise in both private and civil construction jobs. In terms of valuation however, we believe the strong run-up in its share price by +72.7% year-to-date fairly values the group's prospects for now.

Maintain NEUTRAL
Revised Target Price: RM3.09
(Previously RM2.86)

RETURN STATISTICS

Price @ 20 th May 2024 (RM)	3.35
Expected share price return (%)	-7.8
Expected dividend yield (%)	+2.3
Expected total return (%)	-5.5

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	21.4	15.4
3 months	14.7	22.7
12 months	94.8	71.0

INVESTMENT STATISTICS


FYE Dec	2024F	2025F	2026F
Revenue	2,978.96	3,127.90	3,284.30
Operating Profit	217.27	239.58	262.74
Profit Before Tax	230.45	251.35	266.03
Core net profit	178.74	189.36	201.68
Core EPS (sen)	13.9	14.7	15.6
DPS (sen)	7.0	7.0	7.0
Dividend Yield	2.3%	2.3%	2.3%

KEY STATISTICS

FBM KLCI	1,627.50
Issue shares (m)	1292.90
Estimated free float (%)	20.48
Market Capitalisation (RM'm)	4,319.35
52-wk price range	RM1.53-RM3.35
3-mth average daily volume (m)	4.09
3-mth average daily value (RM'm)	11.53
Top Shareholders (%)	
Sunway Holdings Sdn Bhd	54.56
Sungei Wav Corp Sdn Bhd	10.08
Employees Provident Fund Board	6.23

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At its current share price, SunCon is trading at 23x FY25F PE. Rerating catalysts would come from stronger than expected job wins. 

SUNWAY CONSTRUCTION: 1QFY24 RESULTS SUMMARY

Income Statement	Quarterly Results				
	1QFY24	4QFY23	1QFY23	QoQ	YoY
Revenue	604.8	871.5	522.1	-30.6%	15.8%
Net Operating Expenses	(550.1)	(766.4)	(479.5)	28.2%	-14.7%
Operating Profit	53.1	81.8	41.7	-35.1%	27.4%
Finance Income	4.7	8.6	4.1	-44.9%	15.4%
Finance Costs	(16.2)	(15.2)	(8.3)	-6.7%	-95.7%
JV and Associates	0.0	(14.5)	0.0	100.0%	-
Profit Before Tax	41.6	60.8	37.5	-31.5%	11.0%
Tax Expense	(8.9)	(12.3)	(8.9)	27.6%	-0.7%
Minority Interest	0.3	(0.8)	0.8	136.6%	-61.9%
Reported Net Profit	32.4	49.3	27.8	-34.2%	16.4%
Core Net Profit	32.2	49.8	26.2	-35.4%	22.7%

FINANCIAL SUMMARY

Income Statement (RM'm)	2022A	2023A	2024E	2025F	2026F
Revenue	2,155.23	2,364.70	2,978.96	3,127.90	3,284.30
Net operating expenses	(1,963.75)	(2,182.91)	(2,655.54)	(2,749.01)	(2,873.76)
Operating profit	148.41	169.97	217.27	378.89	410.54
Profit before tax	184.06	193.79	230.45	251.35	262.74
Net profit	135.18	140.80	178.74	189.36	201.68
Core net profit	134.44	140.80	178.74	189.36	201.68
Core EPS (sen)	10.5	10.9	13.9	14.7	15.6
DPS (sen)	5.5	6.0	7.0	7.0	7.0

Balance Sheet (RM'm)	2022A	2023A	2024E	2025F	2026F
Fixed assets	107.6	118.4	124.3	130.6	124.1
Other investments and assets	491.1	498.0	511.9	518.9	532.0
Non-current assets	598.7	616.3	636.2	649.6	656.1
Cash	491.6	468.2	522.1	548.3	520.8
Trade debtors	988.7	1,123.5	1,231.3	1,304.2	1,369.4
Current assets	1,637.4	1,730.1	1,905.9	2,013.5	2,051.3
Trade creditors	916.8	1,121.6	1,193.8	1,277.4	1,335.4
Short-term debt	172.2	161.6	197.5	197.6	217.3
Current liabilities	1,103.3	1,296.9	1,407.9	1,491.6	1,569.4
Long-term debt	308.5	203.6	207.6	150.6	118.3
Non-current liabilities	311.9	489.1	212.8	155.4	122.1
Share capital	258.6	258.6	258.6	258.6	258.6
Retained earnings	515.9	579.3	662.8	757.4	757.4
Equity	737.1	837.9	921.4	1,016.0	1,016.0

Cash Flow (RM'm)	2022A	2023A	2024E	2025F	2026F
PBT	184.1	193.8	211.5	232.3	262.7
Depreciation & amortisation	23.8	26.1	27.4	28.8	27.4
Changes in working capital	-382.1	100.8	-64.8	-23.9	-16.7
Operating cash flow	-215.0	414.9	206.6	297.7	286.1

Capital expenditure	-1.9	-25.0	-25.0	-25.0	-30.0
Investing cash flow	423.7	-308.0	-123.2	184.8	189.8
Debt raised/(repaid)	233.4	107.6	193.7	-145.4	-145.4
Dividends paid	-90.3	-77.4	-77.4	-77.4	-77.4
Financing cash flow	142.7	30.2	116.3	-222.8	-222.8
Net cash flow	351.4	137.1	199.7	259.8	253.1
Beginning cash flow	60.6	407.7	544.8	744.4	1004.2
Ending cash flow	407.7	544.8	744.4	1004.2	1257.3

Profitability Margins	2022A	2023A	2024E	2025F	2026F
Operating profit margin	6.9%	7.2%	7.3%	7.7%	8.0%
PBT margin	8.5%	8.2%	7.7%	8.0%	8.1%
PAT margin	6.3%	6.0%	6.0%	6.1%	6.1%
Core PAT margin	5.8%	6.0%	6.0%	6.1%	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