Corporate Update| Wednesday, 02 November 2022

Sunway Construction Group Berhad

(5263 | SCGB MK) Main | Construction

Maintain BUY

SunCon wins RM463m worth of jobs

***Unchanged* Target Price: RM1.87**

KEY INVESTMENT HIGHLIGHTS

- **Secures 2 new jobs worth RM463m**
- **This is for a RM278m condominium project and a RM185m solar facility project**
- **Duration of projects are 3 years and 1.5 years respectively**
- **Outstanding order book of RM4.32b provides earnings visibility for three years**
- **Maintain BUY with a target price of RM1.87**

Latest wins. Sunway Construction Group Berhad (SunCon), via its wholly-owned subsidiary Sunway Construction Sdn Bhd, clinched two new jobs worth RM463m – an internally secured job to develop two blocks of condominiums and a large-scale solar project.

Residential condominium. This is a RM278m in-house job from Sunway Flora Sdn Bhd, an indirect wholly-owned subsidiary of Sunway Bhd. The project commenced on Nov 1 and is expected to be completed by Oct 31, 2025. The job scope involves the development of two condominium blocks in Taman Mutiara, Bukit Jalil, including a podium, carpark, common facilities and a swimming pool. We expect the net margins from this project to be in the tune of 5%, which will see it contributing about RM6.95m to SunCon's bottom line in FY24 and FY25.

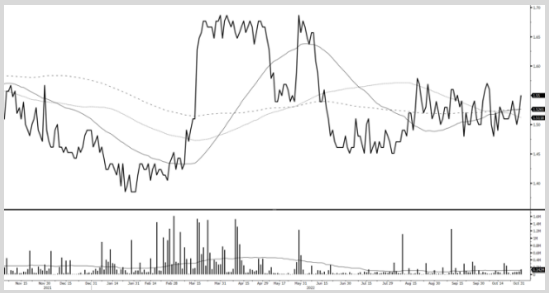
Solar EPCC job. Awarded by Sharp Ventures Solar Sdn Bhd, the RM185.01m contract is for the Engineering, Procurement, Construction, Testing and Commissioning (EPCC) for a solar photovoltaic energy generating facility with ancillary equipment and facilities with generating capacity of 50MW in Klang. Works will commence in Dec-22 and is expected to take 18 months to complete, or by May-24. We also expect a net margin of 5% from this project, which will contribute a bottom line of about RM6.5m in FY23 and RM2.75m in FY24.

Strong order book. We estimate that SunCon's outstanding order book currently stands at RM4.32b, which gives its strong earnings visibility over the next three years. We note that SunCon is still behind on its replenishment target of RM2b this year, with only RM881.3m of jobs secured year-to-date, or 44.1% of its target. The solar project has already been accounted for as part of the replenishment in 2021 in view of the letter of intent that was issued on Dec 27, 2021. We believe that the upcoming rollout of the MRT3 contracts will give SunCon's order book a boost this year, apart from other potential job wins. The group has previously indicated that it would tender packages CMC302 and CMC301, which could come up to RM13.94b and RM2.79b respectively. As a company is only allowed to take on only one package, even the smaller portion in the form of CMC301 would aid greatly in replenishing SunCon's order book. The submission of tenders closed on Sept 30 and MRT Corp is expected to announce the tender winners before the year end.

Earnings estimates. We are maintaining our earnings estimates as the new job wins are in line with our expectations.

RETURN STATISTICS	
Price @ 1st Nov 2022 (RM)	**1.55**
Expected share price return (%)	**+20.65**
Expected dividend yield (%)	**+3.21**
Expected total return (%)	**+23.86**

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	3.3	-0.3
3 months	3.3	8.3
12 months	-1.9	4.3

KEY STATISTICS	
FBM KLCI	1,445.92
Syariah compliant	Yes
F4BGM Index	No
ESH Grading Band (Star rating)	N/A
Issue shares (m)	1289.36
Estimated free float (%)	14.50
Market Capitalisation (RM'm)	1,998.51
52-wk price range	RM1.44 - RM1.74
Beta vs FBM KLCI (x)	0.75
3-mth average daily volume (m)	0.12
3-mth average daily value (RM'm)	0.18
Top Shareholders (%)	
Sunway Holdings Sdn Bhd	54.56
Sungei Way Corp Sdn Bhd	10.08
Employees Provident Fund Board	9.28

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Reiterate BUY. SunCon remains one of our top picks for the construction sector, premised on its strong balance sheet which places it in an advantageous position to take on future infrastructure jobs that may require upfront financing. With a net cash position of RM326.6m, SunCon has much headroom to gear up, if required, on top of the strong support that can be expected from its parent company Sunway Bhd. We expect SunCon to be among the front runners for the main MRT3 packages. We reiterate our BUY recommendation on SunCon with an unchanged **TP** of **RM1.87**, derived by pegging its FY23F EPS of 10.7sen to a PE ratio of 17.5x.

INVESTMENT STATISTICS

FYE 31st December	2020A	2021A	2022E	2023F	2024F
Revenue	1,552.65	1,729.16	2,105.30	2,310.00	2,637.10
Net Operating Expenses	(1,462.13)	(1,589.74)	(1,949.36)	(2,140.95)	(2,448.43)
Operating Profit	90.52	139.42	155.94	169.05	188.67
Finance Income	13.76	4.15	17.16	19.43	18.35
Finance Costs	(6.94)	(4.58)	(9.80)	(11.08)	(10.93)
JV and Associates	4.17	13.26	6.93	9.32	11.66
Profit Before Tax	101.50	152.25	170.12	186.66	207.69
Tax Expense	(27.78)	(41.50)	(38.95)	(43.71)	(52.29)
Reported Net Profit	72.79	112.59	124.21	137.54	160.86
Core Net Profit	69.60	110.40	124.21	137.54	160.86
Reported EPS	0.056	0.087	0.096	0.107	0.125
Core EPS	0.054	0.087	0.096	0.107	0.125

Source: Company, 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 *rise* 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 *fall* 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