Sunway Construction Group Berhad

(5263 | SCGB MK) Main | Construction

***Maintain* BUY**

SunCon's first win in FY23

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

DEVELOPMENT

- SunCon has scored its first order book win in FY23 with a RM218.8m solar plant project in Perak.
- This raises the group's outstanding order book level to RM5.92b, with strong earnings visibility up to FY24.

OUR VIEW

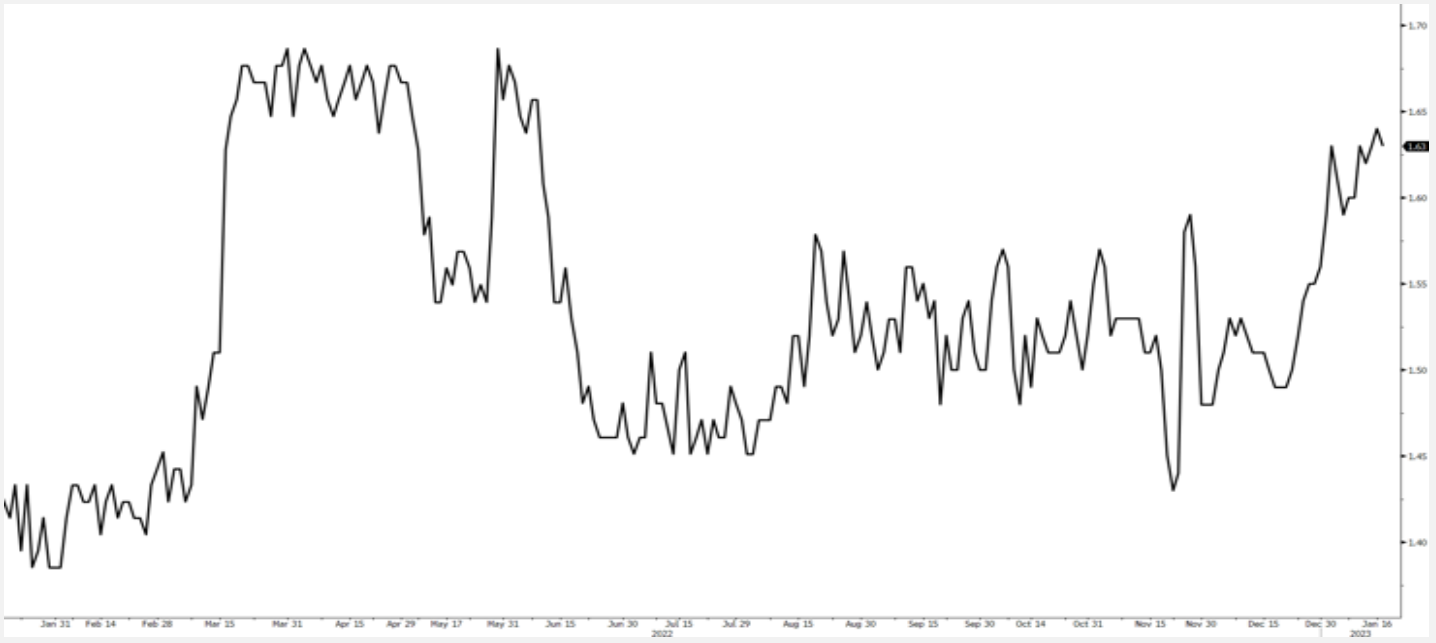
- **EPCC contract.** Sunway Construction Sdn Bhd, a wholly-owned subsidiary of SunCon, was awarded the job by GBS Suria Sdn Bhd, a wholly-owned subsidiary of Gopeng Bhd. This is for the EPCC works for a solar photovoltaic energy generating facility with ancillary equipment and facilities, which is capable of generating 50MW in Kampar. Works commenced immediately on Jan 17 and completion of the project is expected to be within 20 months, or by Sep-24. We expect a bottom line margin of between 5% to 7%, which sums up to an earnings contribution of about RM6.3m to RM8.8m in FY23 and RM4.6m to RM6.5m in FY24.
- **RPT**. As disclosed by SunCon, the contract is classified as a related party transaction (RPT) as Fortuna Gembira Enterpris Sdn Bhd, an indirect wholly-owned subsidiary of SunCon's parent Sunway, is in turn a major shareholder of Gopeng, which is 19.3% according to our checks. SunCon's director Tan Sri Dr Chew Chee Kin also sits on the boards of Sunway and Gopeng.
- **Healthy prospects**. We expect FY23 to be a smooth sailing year for SunCon, given the strong earnings visibility based on its outstanding order book of almost RM6b. We are confident of the group's ability to secure more jobs this year, internally within the Sunway Group and also infrastructure projects, such as one of the main MRT3 packages. SunCon is also currently negotiating the terms and conditions for the engineering, procurement and construction (EPC) of a coal-fired power plant at the Hau Giang Provice in Vietnam, a project worth USD2.2b (RM9.69b) which will be undertaken via a 60:40 joint-venture with Power Engineering Consulting Joint Stock Company 2.
- SunCon remains in our list of top picks for the construction sector, alongside its larger counterparts **Gamuda (BUY, TP: RM4.67)** and **IJM Corp (BUY, TP: RM1.93)**. We like SunCon's ability to handle its margins well, on top of its strong balance sheet which is in a net cash position of RM175.5m. We are also pleased to observe SunCon's aspirations in growing its overseas operations, with its ongoing negotiations for the power plant project in Vietnam. It currently has jobs in India and Singapore, which makes up about 20% of its outstanding order book.
- Reiterate **BUY** with an unchanged **target price of RM1.87**, premised on the group's FY23 EPS of 10.7 sen against a forward PER of 17.5x

INVESTMENT STATISTICS

Annual Standardized Year end 31 March	2020A	2021A	2022E	2023F	2024F
Revenue	1,552.65	1,729.16	2,105.30	2,310.00	2,637.10
Operating Profit	90.52	139.42	155.94	169.05	188.67
Profit Before Tax	101.5	152.25	170.12	186.66	207.69
Reported Earnings	72.79	112.59	124.21	137.54	160.86
Core Earnings	69.6	110.4	124.21	137.54	160.86
Core EPS	5.4	8.7	9.6	10.7	12.5
DPS	4.00	5.25	4.00	4.00	4.00
Dividend Yield	2.3%	3.3%	2.1%	2.1%	2.1%

Source: Company, MIDFR

SHARE PRICE CHART



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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