

24 March 2023

Sunway Construction Group

Bags JB-Singapore RTS Link Jobs

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SUNCON has bagged work packages worth RM605m from the Johor Bahru – Singapore Rapid Transit Systems Link project (RTS Link) - lifting its YTD job wins to RM663m and its outstanding order book to RM11.9b. We maintain our earnings forecasts (which already reflect new jobs), TP of RM2.13 and OUTPERFORM call.

SUNCON has secured Package 1B and Package 5 of RTS Link worth RM605m. Package 1B entails the advance works for a station and viaducts while Package 5 involves the construction of terrestrial viaducts and its ancillary structures. These works have a construction period of 26 months and are scheduled for completion by 2QCY25.

We are positive on the wins which bring YTD replenishment to RM663m – accounting for 30% of our FY23F target of RM2.2b (company is targeting RM2b), and lifts its outstanding order book by 5% to RM11.9b. The EBIT margin of 5%-8% is in line with our assumption of 7.5%.

For the rest of the year, we anticipate replenishment opportunities for more data centre building jobs, MRT3 and contracts from related parties.

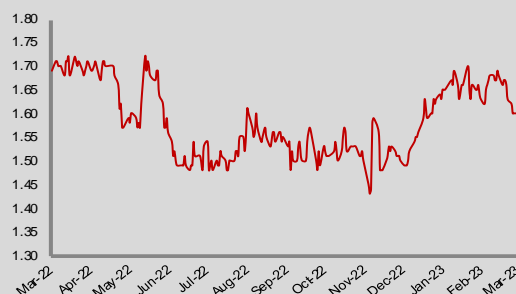
We maintain our earnings forecast and TP of RM2.13 based on PER of 16x on FY24 EPS. We like SUNCON for: (i) its strong replenishment pipeline from parent SUNWAY, (ii) its dominant position in the local construction space with extensive capabilities and track record in building, infrastructure, solar, mechanical, electrical and plumbing works, and (iii) its strong balance sheet that allows participation in deferred payment model projects. We accord a 5% premium to its TP given a 4-star ESG rating as appraised by us (see Page 4). Maintain **OUTPERFORM**.

Risks to our call include: (i) sustained weak flows of construction jobs from public and private sectors, (ii) project cost overrun and liabilities arising from liquidated ascertained damages (LAD), and (iii) rising cost of building materials.

OUTPERFORM ↔

Price : RM1.62
Target Price : RM2.13 ↔

Share Price Performance



KLCI	1,410.98
YTD KLCI chg	-5.7%
YTD stock price chg	3.8%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	SCGB MK Equity
Market Cap (RM m)	2,088.8
Shares Outstanding	1,289.4
52-week range (H)	1.74
52-week range (L)	1.41
3-mth avg daily vol:	432,627
Free Float	14%
Beta	0.8

Major Shareholders

Sunway Holdings Sdn Bhd	54.6%
Sungei Way Corp Sdn Bhd	10.1%
Employees Provident Fund Board	9.7%

Summary Earnings Table

FYE Dec (RM m)	2022A	2023F	2024F
Turnover	2155.2	2884.0	2995.0
EBIT	188.2	218.9	235.4
PBT	184.1	213.4	225.4
Net Profit	135.2	163.7	171.6
Core Net Profit	137.1	163.7	171.6
Consensus (NP)	n.a.	152.7	159.6
Earnings Revision	n.a.	0%	0%
Core EPS (sen)	10.6	12.7	13.3
Core EPS growth (%)	23	19	5
NDPS (sen)	5.5	5.0	5.0
NTA per Share (RM)	0.59	0.67	0.75
Price to NTA (x)	2.7	2.4	2.2
PER (x)	15.2	12.8	12.2
Net Gearing (x)	-0.5	0.0	-0.1
Return on Equity (%)	18	19	18
Net Div. Yield (%)	3.4	3.1	3.1

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Peer Comparison

Name	Rating	Last Price (RM)	Target Price (RM)	Upside (%)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Core EPS (sen)		Core Earnings Growth		PER (x) - Core Earnings		PBV (x)		ROE (%)		Net Div. (sen)		Net Div. Yld. (%)	
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.		
GAMUDA BHD	OP	4.14	5.15	24.40%	11,006.5	Y	07/2023	35.0	43.6	7.4%	24.7%	11.4	9.1	1.2	10.4%	50.0	12.1%				
IJM CORP BHD	MP	1.61	1.67	3.73%	5,655.8	Y	03/2023	8.6	9.2	26.2%	6.9%	18.9	17.7	0.6	3.8%	6.0	3.7%				
KERJAYA PROSPEK GROUP BHD	OP	1.16	1.50	29.31%	1,462.8	Y	12/2023	12.2	14.0	31.0%	14.6%	9.5	8.3	1.3	14.6%	6.0	5.2%				
KIMLUN CORP BHD	OP	0.735	1.12	52.38%	259.7	Y	12/2023	12.9	15.6	18.9%	20.5%	6.0	4.9	0.4	6.6%	2.0	2.7%				
SUNWAY CONSTRUCTION GROUP BHD	OP	1.62	2.13	31.48%	2,088.8	Y	12/2023	9.9	12.6	14.3%	28.1%	16.4	12.8	3.1	19.5%	5.0	3.1%				
WCT HOLDINGS BHD	OP	0.425	0.600	41.18%	602.3	Y	12/2023	2.5	3.7	-28.6%	48.6%	16.9	11.5	0.2	2.7%	0.5	1.2%				
Simple Average					21,075.9							12.2%	20.9%	13.5	11.2	0.9	6.4%				4.7%

Source: Bloomberg, Kenanga Research

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Stock ESG Ratings:

	Criterion	Rating				
GENERAL	Earnings Sustainability & Quality	★	★	★	☆	
	Corporate Social Responsibility	★	★	★	★	
	Management/Workforce Diversity	★	★	★	★	
	Accessibility & Transparency	★	★	★	★	☆
	Corruption-Free Pledge	★	★	★	★	
	Carbon-Neutral Initiatives	★	★	★	★	☆
SPECIFIC	Migrant Worker Welfare	★	★	★	★	
	Waste Disposal/Pollution Control	★	★	★	★	
	Work Site Safety	★	★	★	★	
	Environmentally Friendly Construction Technology	★	★	★	★	
	Supply Chain Auditing	★	★	★	★	
	Energy Efficiency	★	★	★	★	
	OVERALL	★	★	★	★	

☆ denotes half-star
★ -10% discount to TP
★★ -5% discount to TP
★★★ TP unchanged
★★★★ +5% premium to TP
★★★★★ +10% premium to TP

Stock Ratings are defined as follows:**Stock Recommendations**

OUTPERFORM : A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM : A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM : A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT : A particular sector's Expected Total Return is MORE than 10%
NEUTRAL : A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT : A particular sector's Expected Total Return is LESS than -5%

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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