RHB Small Cap Asean Research

24 August 2022

Sunway Construction (SCGB MK)

Firing On All Cylinders; Stay BUY

Construction & Engineering | Construction

Buy (Maintained)

MYR1.93 (25%)
MYR1.55 (USD445m)
3.20 (out of 4)
0.16m/0.04m

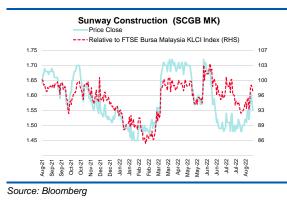
Analyst

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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(0.7)	4.7	(2.5)	4.7	(5.5)
Relative	4.7	3.6	1.4	11.2	(2.9)
52-wk Price low	/high (MYR))		1.45	- 1.72



Overall ESG Score: 3.20 (out of 4)

E: EXCELLENT

Implemented rooftop solar panels at its Sunway Precast Industries plant at Senai, Johor, to reduce the carbon emissions of site operations. With this, 98.6MWh of energy can be consumed via solar generation at this Senai plant, avoiding 57.7 tonnes of carbon emissions. In FY21, the group guided that its carbon emission intensity per unit revenue has declined from 98 tonnes CO2/RMmn.

S: GOOD

The group ensures the safety and health of all its employees, and public areas surrounding the construction sites, via various training and safety programmes. Apart from up-to-standard health & safety policies, we see active community engagement and efforts to uplift employee relations.

G: EXCELLENT

57% of its board members are independent, with full disclosure on director remuneration, including salaries and bonuses. The group has an in-house investor relations team. Accessibility to investor relations is excellent, and the team mostly helps to deal with investor queries.

Note:

Small cap stocks are defined as companies with a market capitalisation of less than USD0.5bn.

• Stay BUY and MYR1.93 TP, 25% upside and c.4% yield. Sunway Construction's 1H22 core earnings met our and Street's expectations, accounting for 52% and 55% our and Street's full-year projections. Looking ahead, we reiterate SCGB as a frontrunner for the elevated works portion of Mass Rapid Transit 3 (MRT3) given its lean balance sheet to take up large projects. Aside from that, its listed parent should continue to support earnings visibility – 46% of its orderbook comes from internal building contracts from its parent.

- **Results review.** SCGB reported a strong 2Q22 core net profit of MYR38.4m, which was >100% YoY higher, underpinned by the 49% YoY expansion in revenue that reached MYR557.9m (2Q21: MYR375m). In terms of PBT, the construction segment reported a >100% YoY growth amid normalisation of works to full capacity. Meanwhile, its precast segment recorded a 2Q22 PBT of MYR1.9m vs breakeven level (achieved in 2Q21) in the absence of restrictions seen in 2Q21, whereby pre-cast plants were allowed to operate at 60% capacity. Cumulatively, SCGB recorded a 1H22 core earnings of MYR73.3m (>100% YoY).
- **Prospects.** SCGB's outstanding construction orderbook stood at MYR4.2bn as at end 2Q22 (end 1Q22: MYR4.4bn), which should support earnings visibility well into FY24. New YTD date job wins currently stand at MYR563m vs its FY22 job replenishment target of MYR2bn this includes the district cooling system project for ENGIE Services Malaysia and the Light Rapid Transit 3 (LRT3) GS06 package by Setia Utama LRT3 among others. We believe its replenishment target can be met, as SCGB stands a high chance to clinch jobs from the MRT3 project either CMC301 (estimated value: MYR3.3bn) or CMC302 (estimated value: MYR16.2bn) given its previous track record under MRT2. The contract value attributable to SCGB is subject to the stake in the JV or consortium formed when bidding. It is also looking to participate in the pre-qualification stage for the Bayan Lepas LRT, which has a 7 Oct deadline.
- Forecasts and valuation. We make no changes to our earnings forecasts as results were within expectations. Our valuation target P/E of 15.5x is pegged to our FY23F EPS and remains unchanged. The valuation target is fair, in our view to reflect SCGB's high likelihood of securing MRT3 jobs. The target P/E is above KLCON's forward P/E of 12.1x, considering SCGB's strong orderbook/revenue cover of c.2.6x that is backed by a robust balance sheet with manageable gearing. All in, our MYR1.93 TP remains unchanged after imputing a 4% premium to our intrinsic valuation based on our proprietary ESG scoring methodology. Valuations appear undemanding, as the stock trades at 13.3x FY23F P/E, -1SD from its 5-year mean. Key risks include project delays and a prolonged period of high material costs.

Forecasts and Valuation	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Total turnover (MYRm)	1,553	1,729	2,354	2,737	2,687
Recurring net profit (MYRm)	92	110	141	151	154
Recurring net profit growth (%)	(31.6)	19.9	27.7	7.4	1.8
Recurring P/E (x)	21.78	18.17	14.23	13.25	13.01
P/B (x)	3.1	2.9	2.7	2.5	2.3
P/CF (x)	9.51	16.82	24.17	9.81	10.62
Dividend Yield (%)	2.6	3.4	4.2	4.5	4.6
EV/EBITDA (x)	13.09	8.69	6.51	5.72	5.86
Return on average equity (%)	11.6	17.2	19.4	19.3	18.2
Net debt to equity (%)	16.7	21.1	32.4	20.2	11.8

Source: Company data, RHB

Market Dateline / PP 19489/05/2019 (035080)



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Financial Exhibits

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Sunway Construction
SCGB MK
Buy

Valuation basis

We value the company based on FY23F P/E of 15.5x. Sunway Construction's minimal net debt position allows it to gear up for more jobs moving forward.

Key drivers

Sunway Construction's earnings are backed by:

- An outstanding order backlog of MYR4.7bn, of which more than 90% is from construction, which would keep the firm busy for the next three years;
- ii. Recurring orders from its parent company.

Key risks

- i. Project delays;ii. Prolonged period of high material costs.
- **Company Profile**

Sunway Construction is one of the largest construction companies in Malaysia. Apart from civil & infrastructure construction services, the company also provides the more specialised: i) Foundation & geotechnical engineering services and ii) mechanical, electrical & plumbing or MEP services. In addition, it runs a highly profitable precast concrete product manufacturing operation in Malaysia and Singapore. Aside from fulfilling local requirements, it also largely supplies hose concrete products for Housing & Development Board projects in the island republic.

Source: Company data, RHB	

Financial summary (MYR)	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Recurring EPS	0.07	0.09	0.11	0.12	0.12
DPS	0.04	0.05	0.07	0.07	0.07
BVPS	0.49	0.54	0.58	0.63	0.68
Return on average equity (%)	11.6	17.2	19.4	19.3	18.2
			-		-
Valuation metrics	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Recurring P/E (x)	21.78	18.17	14.23	13.25	13.01
P/B (x)	3.1	2.9	2.7	2.5	2.3
FCF Yield (%)	10.3	4.2	1.4	7.4	6.7
Dividend Yield (%)	2.6	3.4	4.2	4.5	4.6
EV/EBITDA (x)	13.09	8.69	6.51	5.72	5.86
EV/EBIT (x)	17.93	10.39	8.51	7.53	7.38
Income statement (MYRm)	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Total turnover	1,553	1,729	2,354	2,737	2,687
Gross profit	270	358	416	463	491
EBITDA	124	167	234	254	238
Depreciation and amortisation	(33)	(27)	(55)	(61)	(49)
Operating profit	91	139	179	193	189
Net interest	1	(0)	(8)	(8)	(7)
Pre-tax profit	102	155	177	190	191
Taxation	(28)	(41)	(36)	(39)	(37)
Reported net profit	73	115	141	151	154
Recurring net profit	92	110	141	151	154
3				-	-
Cash flow (MYRm)	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Change in working capital	104	(36)	(113)	(8)	(14)
Cash flow from operations	211	119	83	204	189
Capex	(3)	(35)	(55)	(55)	(55)
Cash flow from investing activities	(173)	(174)	(55)	(55)	(54)
Dividends paid	(62)	(52)	(84)	(91)	(92)
Cash flow from financing activities	(147)	(122)	(10)	(16)	(18)
Cash at beginning of period	615	200	99	78	211
Net change in cash	(110)	(177)	18	133	117
Ending balance cash	505	23	117	211	328
Balance sheet (MYRm)	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Total cash and equivalents	200	99	78	211	328
Tangible fixed assets	107	130	130	124	130
Total investments	489	724	724	724	724
Total assets	1,906	1,869	1,997	2,251	2,335
Short-term debt	234	93	143	193	243
Total long-term debt	73	158	163	173	183
Total liabilities	1,267	1,153	1,296	1,489	1,512
Total equity	639	717	701	761	823
Total liabilities & equity	1,906	1,869	1,997	2,251	2,335
Kaumatriaa	Dec 20	Dec 24	Dec 225	Dec 225	Dec-24F
Key metrics Revenue growth (%)	Dec-20 (12.2)	Dec-21 11.4	Dec-22F 36.1	Dec-23F 16.3	(1.8)
	(31.6)	19.9	27.7	7.4	1.8
Recurrent EPS growth (%)		20.7	17.7	16.9	18.3
	17 4			10.5	
Gross margin (%)	17.4		9.9	03	80
Gross margin (%) Operating EBITDA margin (%)	8.0	9.6	9.9	9.3	8.9
Gross margin (%) Operating EBITDA margin (%) Net profit margin (%)	8.0 4.7	9.6 6.6	6.0	5.5	5.7
Recurrent EPS growth (%) Gross margin (%) Operating EBITDA margin (%) Net profit margin (%) Dividend payout ratio (%) Capex/sales (%)	8.0	9.6			



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Results At a Glance

Figure 1: SCGB's results review

FYE Dec (MYRm)	2Q21	1Q22	2Q22	QoQ (%)	YoY (%)	1H21	1H22	YoY (%)	Comments
Revenue	375.3	624.7	557.9	(10.7)	48.7	830.5	1,182.5	42.4	Better progress billings due to normalisation to full work capacity.
EBIT	26.1	42.5	36.3	(14.7)	39.1	31.1	78.8	153.5	normalisation to full work capacity.
EBIT margin (%)	7.0	6.8	6.5			3.7	6.7		
Interest expense	(1.0)	(1.2)	(3.2)	175.9	219.7	(2.6)	(4.3)	67.9	
Interest income	1.4	2.2	3.2	42.8	131.0	2.1	5.4	153.5	
JV/Associates	2.8	3.2	0.6	(80.1)	(77.1)	4.7	3.8	(19.8)	
EI/Others	0.2	0.4	6.1	nm	nm	1.4	6.5	nm	Impairment of receivables.
Pre-tax profit	9.5	47.2	43.0	(8.9)	351.7	36.8	90.1	>100	
Pre-tax margin (%)	2.5	7.6	7.7			4.4	7.6		
Гах	(3.6)	(11.5)	(9.3)	(19.0)	160.4	(10.5)	(20.9)	98.4	
Effective tax rate (%)	(53.1)	(26.2)	(22.1)			(32.8)	(24.2)		
Minority interest	2.4	(1.1)	(1.3)	18.6	>-100	2.3	(2.5)	>-100	
Net profit	8.3	34.5	32.3	(6.4)	>100	28.6	66.8	>100	
Core profit	8.1	34.9	38.4	9.8	>100	28.6	73.3	>100	Within our expectations.
Core net margin (%)	2.2	5.6	6.9			3.4	6.2		

Source: Company data, RHB

See important disclosures at the end of this report Market Dateline / PP 19489/05/2019 (035080)



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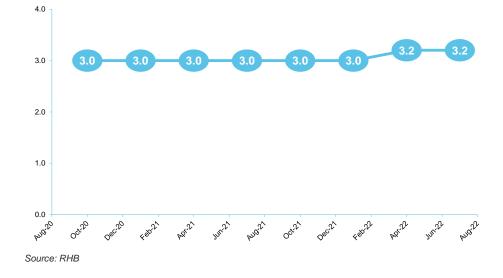
Recommendation Chart



Date	Recommendation	Target Price	Price
2022-07-21	Buy	1.93	1.50
2022-05-26	Buy	1.93	1.57
2022-04-26	Buy	1.93	1.69
2022-02-24	Buy	1.74	1.47
2021-11-19	Buy	1.81	1.55
2021-08-20	Buy	1.81	1.61
2021-08-11	Buy	1.81	1.58
2021-06-29	Buy	1.94	1.64
2021-05-21	Buy	2.03	1.63
2021-04-22	Buy	2.18	1.80
2021-02-24	Buy	2.18	1.66
2020-11-19	Buy	2.09	1.83
2020-10-29	Buy	2.09	1.81
2020-09-30	Buy	2.09	1.84
2020-09-07	Buy	2.09	1.89

Source: RHB, Bloomberg

ESG Rating History



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