



AmInvestment Bank

Company report

SUNWAY CONSTRUCTION

(SCGB MK EQUITY, SCOG.KL)

24 Mar 2023

Secures 2 RTS Link Packages worth RM605mil

BUY

(Maintained)

Julian Soo, CFA

soo.sheng-cheong@ambankgroup.com

03-2036 2298

Rationale for report: Company update

Price	RM1.62
Fair Value	RM1.84
52-week High/Low	RM1.74/RM1.41

Key Changes

Fair value	↔
EPS	↔

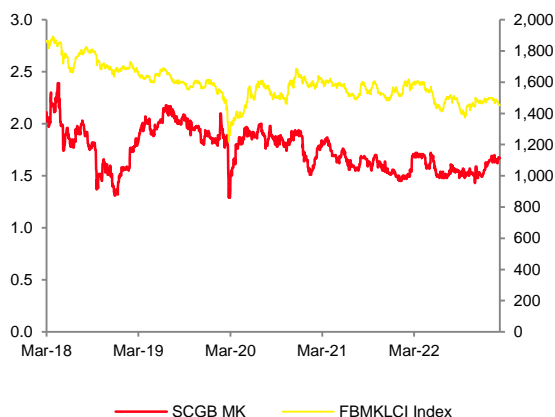
YE to Dec	FY22	FY23F	FY24F	FY25F
Revenue (RM mil)	2,155.2	3,067.7	3,074.0	3,079.9
Core net profit (RM mil)	130.8	164.6	165.3	170.4
FD Core EPS (sen)	10.1	12.8	12.8	13.2
FD Core EPS growth (%)	(9.8)	25.9	0.4	3.1
Consensus Net Profit (RM mil)	-	152.8	157.1	159.0
DPS (sen)	5.5	6.4	6.4	6.6
PE (x)	16.5	13.1	13.0	12.6
EV/EBITDA (x)	10.4	7.9	7.7	7.2
Div yield (%)	3.4	3.9	4.0	4.1
ROE (%)	18.8	21.1	19.2	18.0
Net Gearing (%)	nm	nm	nm	nm

Stock and Financial Data

Shares Outstanding (million)	1,289.4
Market Cap (RM mil)	2,153.2
Book Value (RM/share)	0.57
P/BV (x)	2.9
ROE (%)	18.8
Net Gearing (%)	-

Major Shareholders	Sunway & Cheah family (64.6%) EPF (9.5%) Amanah Saham Nasional (6.0%)
Free Float	19.8
Avg Daily Value (RM mil)	1.0

Price performance	3mth	6mth	12mth
Absolute (%)	12.8	6.4	9.9
Relative (%)	16.1	9.4	20.9



Investment Highlights

- We maintain **BUY** on Sunway Construction (SunCon) with an unchanged fair value (FV) of RM1.84/share. Our FV is based on 14x FY23F PE, in line with our benchmark for large-cap construction stocks. We also ascribe a 3% premium to reflect our 4-star ESG rating.
- SunCon has signed a letter of acceptance issued by Malaysia Rapid Transit System for the proposed construction and completion of Package 1B advance works for station and viaducts together with Package 5 terrestrial viaducts and ancillary structures for Rapid Transit System between Johor Bahru and Singapore (RTS Link).
- The total contract sum for both packages won are RM605mil, and will be carried out over a period of 26 months until 2Q2025. We estimate SunCon's EBIT accretion at RM20mil per year (or 9% of FY24F group EBIT) from the contract.
- This is SunCon's 2nd and 3rd package for RTS Link. SunCon was awarded Package P2A worth RM112mil back in 1QFY22, which has reached 7% completion as at Dec 2022.
- YTD projects secured (including the RM1.7bil data centre job) amounts to RM2.4bil, raising its estimated order book to RM5.4bil, +2% from RM5.3bil as at Dec 2022. However, we make no changes to our FY23F-25F earnings as this project is within our replenishment assumption of RM2.9bil.
- We may raise our earnings estimates if (i) SunCon wins the main package for MRT3, which is expected to be awarded in 2H2023; or (ii) Vietnam power plant project worth RM6bil that SunCon will commence after Toyo achieves financial close.
- Risks include (i) eroding margins from higher-than-expected building material costs and labour shortages; and (ii) shelving of mega projects.
- SunCon currently trades at an attractive FY23F PE of 13x, which is 24% below its 5-year average of 17x.

EXHIBIT 1: PB BAND CHART

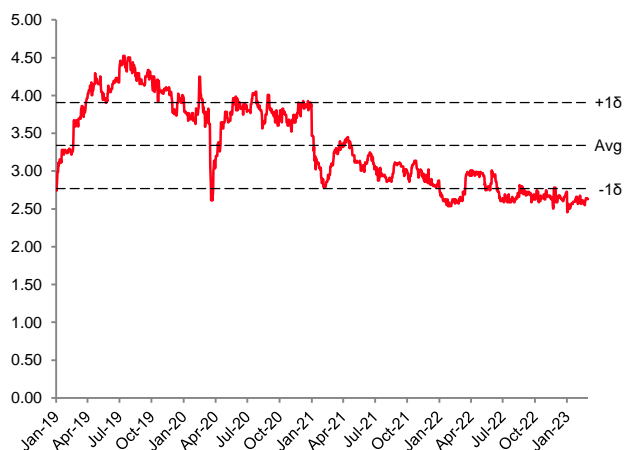
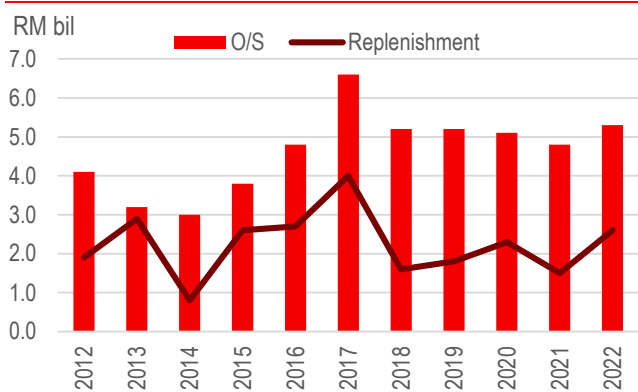


EXHIBIT 2: PE BAND CHART



EXHIBIT 3: ORDER BOOK TREND



Source: Company, AmlInvestment Bank

EXHIBIT 4: ESG RATING

Overall	★	★	★		
Zero-carbon initiatives	★				
Work site safety	★	★	★	★	
Migrant worker welfare	★	★	★		
Corporate social responsibility	★	★	★	★	
Pollution control	★	★			
Supply chain auditing	★	★			
Corruption-free pledge	★	★	★		
Gender diversity	★	★			
Accessibility & transparency	★	★	★		

We accord a discount/premium of -6%, -3%, 0%, +3% and +6% on fundamental fair value based on the overall ESG rating as appraised by us, from 1-star to 5-star

Source: AmlInvestment Bank

EXHIBIT 5: FINANCIAL DATA

Income Statement (RMmil, YE 31 Dec)	FY21	FY22	FY23F	FY24F	FY25F
Revenue	1,729.2	2,155.2	3,067.7	3,074.0	3,079.9
EBITDA	199.2	205.9	249.5	244.0	249.3
Depreciation/Amortisation	(27.4)	(23.8)	(31.8)	(31.7)	(31.5)
Operating income (EBIT)	171.8	182.1	217.7	212.3	217.8
Other income & associates	13.3	1.7	-	-	-
Net interest	(0.4)	(4.2)	(0.4)	4.8	7.6
Exceptional items	(32.4)	4.4	-	-	-
Pretax profit	152.2	184.1	217.3	217.1	225.4
Taxation	(41.5)	(45.3)	(51.2)	(50.4)	(53.4)
Minorities/pref dividends	1.8	(3.6)	(1.5)	(1.4)	(1.6)
Net profit	112.6	135.2	164.6	165.3	170.4
Core net profit	145.0	130.8	164.6	165.3	170.4
Balance Sheet (RMmil, YE 31 Dec)	FY21	FY22	FY23F	FY24F	FY25F
Fixed assets	124.8	107.6	96.1	84.9	73.8
Intangible assets	-	-	-	-	-
Other long-term assets	724.7	491.1	604.4	605.2	605.9
Total non-current assets	849.4	598.7	700.5	690.0	679.7
Cash & equivalent	98.8	491.6	590.2	728.3	862.6
Stock	46.2	53.4	67.0	67.0	67.3
Trade debtors	600.6	677.7	1,293.2	1,292.3	1,298.3
Other current assets	269.2	414.6	302.4	300.7	301.5
Total current assets	1,014.8	1,637.4	2,252.8	2,388.3	2,529.7
Trade creditors	891.4	916.8	1,616.8	1,619.1	1,623.9
Short-term borrowings	92.5	172.2	239.7	263.8	288.7
Other current liabilities	8.1	14.4	20.4	20.5	20.5
Total current liabilities	992.0	1,103.3	1,876.9	1,903.4	1,933.2
Long-term borrowings	145.4	308.5	170.1	187.2	204.9
Other long-term liabilities	2.9	-	-	-	-
Total long-term liabilities	148.3	308.5	170.1	187.2	204.9
Shareholders' funds	699.1	737.1	819.4	902.1	987.3
Minority interests	17.6	83.7	82.2	80.8	79.2
BV/share (RM)	0.54	0.57	0.64	0.70	0.77
Cash Flow (RMmil, YE 31 Dec)	FY21	FY22	FY23F	FY24F	FY25F
Pretax profit	152.2	184.1	217.3	217.1	225.4
Depreciation/Amortisation	27.4	23.8	31.8	31.7	31.5
Net change in working capital	83.3	(382.1)	70.9	3.3	(1.5)
Others	(24.2)	(40.7)	(50.8)	(55.2)	(61.0)
Cash flow from operations	238.7	(215.0)	269.2	196.9	194.3
Capital expenditure	(34.8)	(27.1)	(17.4)	(17.4)	(17.4)
Net investments & sale of fixed assets	3.3	25.2	-	-	-
Others	(142.5)	425.6	-	-	-
Cash flow from investing	(174.0)	423.7	(17.4)	(17.4)	(17.4)
Debt raised/(repaid)	(70.1)	233.4	(71.0)	41.3	42.6
Equity raised/(repaid)	-	-	-	-	-
Dividends paid	(51.8)	(90.3)	(82.3)	(82.7)	(85.2)
Others	(0.5)	(0.4)	-	-	-
Cash flow from financing	(122.4)	142.7	(153.3)	(41.3)	(42.6)
Net cash flow	(57.7)	351.4	98.6	138.1	134.3
Net cash/(debt) b/f	459.7	402.4	749.5	848.1	986.2
Net cash/(debt) c/f	402.4	749.5	848.1	986.2	1,120.5
Key Ratios (YE 31 Dec)	FY21	FY22	FY23F	FY24F	FY25F
Revenue growth (%)	11.4	24.6	42.3	0.2	0.2
EBITDA growth (%)	41.2	3.3	21.2	(2.2)	2.2
Pretax margin (%)	8.8	8.5	7.1	7.1	7.3
Net profit margin (%)	6.5	6.3	5.4	5.4	5.5
Interest cover (x)	399.6	43.9	545.9	nm	nm
Effective tax rate (%)	27.3	24.6	23.6	23.2	23.7
Dividend payout (%)	60.1	52.5	50.0	50.0	50.0
Debtors turnover (days)	155	108	117	153	154
Stock turnover (days)	8	8	7	8	8
Creditors turnover (days)	195	153	151	192	192

Source: Company, AmlInvestment Bank Bhd estimates

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