

Sunway Construction Group (SCGB MK)

2Q23: In-line

Maintain HOLD

SCGB's 2Q/1H23 PATAMI was within our expectation with 1H at 45% of our FY23E, but fell short of consensus forecasts at 41%. We make no change to our earnings forecasts, expecting works catch-up to continue, riding on its MYR5.8b outstanding orderbook. Our TP is also unchanged, based on 16.5x FY23E PER (-0.5SD of LT mean). We like SCGB for its strong execution capability. The stock is however fairly valued at 17.1x FY23E PER.

2Q23 PATAMI +19% QoQ, 1H -9% YoY

2Q construction revenue picked up by 14% QoQ (+2% YoY) as work progressed further especially for projects which were in their initial stages. Construction EBIT margin was stable QoQ (and YoY). 2Q precast revenue climbed 29% QoQ (+96% YoY) on contribution from the new ICPH plant, while EBIT margin was higher by 1.5ppts QoQ to 9.1% (+2.1ppts YoY). 1H23 construction revenue was down 10% YoY (but EBIT margin was stable) due to expedited work progress in 1H22 to ensure timely completion of projects. A 1st interim DPS of 3sen (unchanged YoY) goes ex- on 11 Sep.

MYR5.8b o/s orderbook, MYR27b active tender

New jobs secured in 1H23 totalled MYR1.59b (FY22: MYR2.58b), lifting the outstanding orderbook to MYR5.8b (55 ongoing projects) as at 30 Jun 2023. The internal job win target for FY23 is MYR2b (base case); we have assumed MYR2.5b. Active tender book is MYR27b. Besides Song Hau 2 (MYR5.6b), SCGB has tendered for two KVMRT3 civil works main packages (in JVs), two packages of the JB-SG RTS, and participated in the pre-qualification for Bayan Lepas LRT.

Net debt due to annuity, deferred payment projects

Cash balance was down 30% YTD while borrowing has risen by 29% mainly due to the two Hybrid Annuity Model (HAM) projects in India (to complete in 3Q/4Q23) where 60% of the receivable will only be paid after project completion and over 15 years, and two LSS4 jobs which are on deferred payment (to complete in 3Q24). Net gearing was 0.33x as at 30 Jun 2023, in-line with our 0.5x net gearing forecast by end-FY23E.

FYE Dec (MYR m)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue	1,729	2,155	3,214	3,309	2,770
EBITDA	167	210	222	226	202
Core net profit	113	135	135	136	126
Core EPS (sen)	8.7	10.5	10.5	10.5	9.8
Core EPS growth (%)	54.7	20.1	0.2	0.2	(6.9)
Net DPS (sen)	5.3	5.5	5.5	5.5	5.5
Core P/E (x)	17.9	14.9	17.1	17.1	18.4
P/BV (x)	2.9	2.7	2.9	2.7	2.5
Net dividend yield (%)	3.4	3.5	3.1	3.1	3.1
ROAE (%)	16.9	18.8	17.6	16.3	14.1
ROAA (%)	6.0	6.6	4.8	3.8	3.7
EV/EBITDA (x)	13.0	9.9	12.9	13.2	12.8
Net gearing (%) (incl perps)	19.4	net cash	51.8	62.3	19.2
Consensus net profit	-	-	148	164	174
MIBG vs. Consensus (%)	-	-	(8.5)	(17.2)	(27.4)

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HOLD

Share Price	MYR 1.80
12m Price Target	MYR 1.73 (-0%)
Previous Price Target	MYR 1.73

Company Description

Sunway Construction Group offers integrated construction services and has precast concrete business in Singapore.

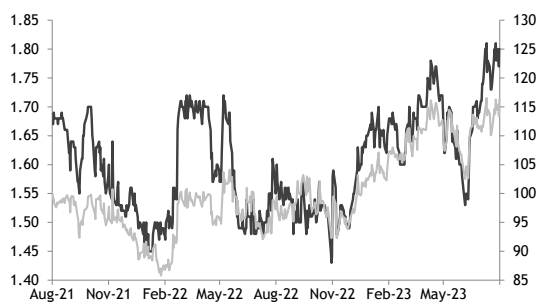
Statistics

52w high/low (MYR)	1.81/1.43
3m avg turnover (USDm)	0.2
Free float (%)	25.6
Issued shares (m)	1,293
Market capitalisation	MYR2.3B
	USD500M

Major shareholders:

Active Equity Sdn Bhd	64.6%
Employees Provident Fund	9.7%
Amanah Saham Bumiputera	6.0%

Price Performance



	-1M	-3M	-12M
Absolute (%)	7	7	16
Relative to index (%)	4	4	19

Source: FactSet

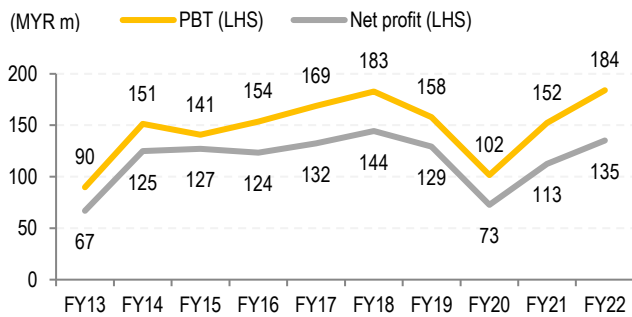
Abbreviation

Ops = operations
MY = Malaysia
SG = Singapore
ICPH = Integrated construction & prefabricated hub
EPC = Engineering, procurement and construction
KVMRT = Klang Valley Mass Rapid Transit
RTS = Rapid Transit System
LSS = Large scale solar

Value Proposition

- Malaysia's largest pure play construction group with an established brandname having commenced operations in 1981 with a cumulative revenue of >MYR34b.
- Operates on a fully integrated business model with 6 core ops: (i) building construction; (ii) civil & infrastructure; (iii) foundation & geotechnics; (iv) mechanical, electrical & plumbing; (v) precast concrete products manufacturing (two plants in Johor, 3rd in SG [commissioned in Dec 2022] of total 200,000m3 in capacity - supplying IBS components largely to SG); (vi) sustainable energy.
- Completed special purpose building projects include KL Convention Centre, Sunway Shopping Mall; completed civil projects include SILK, MEX, SKVE, BRT, KVMRT 1&2 and KVLRT.
- Experienced senior management team and support from the Sunway Group add onto its value proposition.

Profits (relisted on 28 Jul 2015)

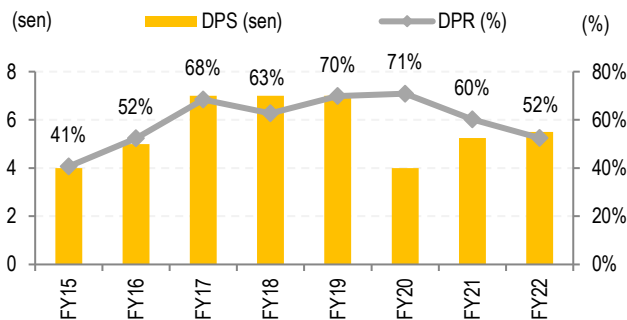


Source: Company

Financial Metrics

- Two main earning growth drivers are rising orderbook and higher margins which may come from value engineering.
- ROEs of >20% since its relisting in 2015 were above peers, but this suffered a set-back in FY20/FY21 due to the COVID-19 pandemic. ROE rebounded to 18.8% in FY22.
- DPR is a minimum 35% of PATMI; since its relisting (on 28 Jul 2015), SCGB had paid up to 71% (FY20).

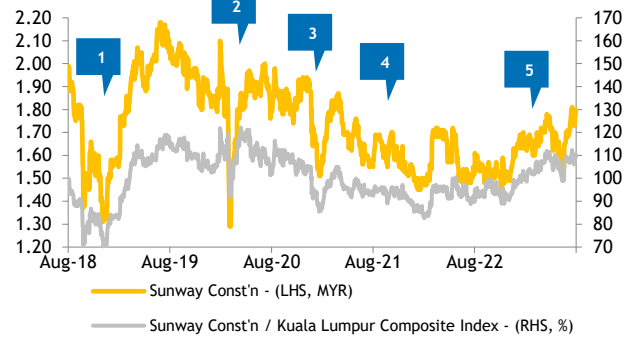
Dividends



Source: Company

Price Drivers

Historical share price trend



Source: Company, Maybank IBG Research

- Post GE14 (9 May 2018) concerns, as the new Government sought to review the cost of major infra projects awarded during the previous Government.
- Malaysia's COVID-induced movement control order (MCO) from 18 Mar 2020 led to work disruption at all of SCGB's projects.
- MCO 2.0 from 13 Jan 2021.
- More economic activities re-opened in States under the National Recovery Plan Phase 1 (from 16 Aug 2021).
- Secured MYR2.58b new orderbook in 2022 (2021: MYR1.47b).

Swing Factors

Upside

- Larger-than-expected orderbook replenishment could lift sentiment on the stock although the earnings impact will only be felt in full at least a year later.
- Significant margin expansion for its existing orderbook coming from value engineering breakthrough.
- Government's policy on high usage of IBS in construction to reduce over-reliance on foreign labour; this will be positive for SCGB's precast concrete products operation.

Downside

- Slower-than-expected work progress at existing projects will affect the timing of earnings recognition.
- The timing of mega infrastructure project roll-outs by the Government could affect orderbook replenishment.
- At the precast segment, significant increase in steel prices and stiffer competition could affect margins.

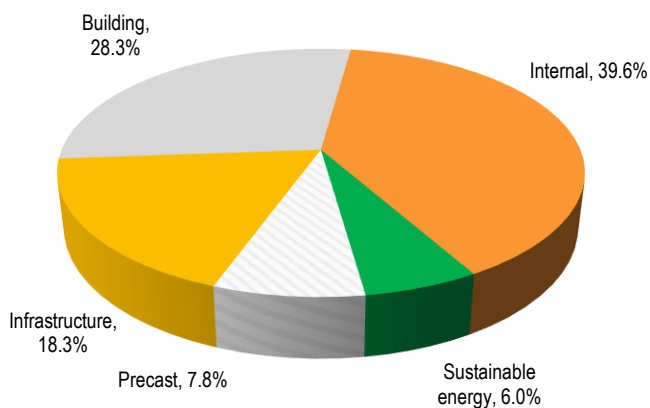
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Fig 1: Results summary

FY Dec (MYR m)	Quarterly					Cumulative		
	2Q23	2Q22	% YoY	1Q23	% QoQ	6M23	6M22	% YoY
Revenue	604.1	557.9	8.3	522.1	15.7	1,126.2	1,182.5	(4.8)
EBIT	46.7	42.4	10.2	41.7	12.0	88.4	85.3	3.6
Net interest inc/(exp)	(4.7)	(0.0)	NM	(4.2)	13.6	(8.9)	1.1	NM
Assoc, JV profits	0.3	0.6	(49.9)	-	NM	0.3	3.8	(91.7)
Pre-tax profit	42.3	43.0	(1.7)	37.5	12.7	79.8	90.1	(11.5)
Tax	(9.0)	(9.3)	(3.8)	(8.9)	1.3	(17.9)	(20.9)	(14.4)
Minority Interests	(0.3)	(1.3)	(79.9)	(0.8)	(67.2)	(1.1)	(2.5)	(55.9)
Net profit	33.0	32.3	2.2	27.8	18.6	60.8	66.8	(9.0)
EPS (sen)	2.56	2.51	2.0	2.16	18.5	4.72	5.19	(9.1)
DPS (sen)	3.00	3.00	-	-	NM	3.00	3.00	-
	2Q23	2Q22	+/- ppt	1Q23	+/- ppt	6M23	6M22	+/- ppt
EBIT margin (%)	7.7	7.6	0.1	8.0	(0.3)	7.8	7.2	0.6
Pretax margin (%)	7.0	7.7	(0.7)	7.2	(0.2)	7.1	7.6	(0.5)
Tax rate (%)	21.3	21.7	(0.5)	23.7	(2.4)	22.4	23.2	(0.8)
Segmental								
Revenue	2Q23	2Q22	% YoY	1Q23	% QoQ	6M23	6M22	% YoY
Construction	535.6	523.0	2.4	469.1	14.2	1,004.7	1,110.7	(9.5)
Precast concrete	68.5	34.9	96.4	53.0	29.3	121.5	71.8	69.3
Total	604.1	557.9	8.3	522.1	15.7	1,126.2	1,182.5	(4.8)
EBIT								
Construction	40.4	39.9	1.3	37.6	7.4	78.0	81.4	(4.2)
Precast concrete	6.3	2.4	156.1	4.1	54.5	10.3	3.9	167.3
Total	46.7	42.4	10.2	41.7	12.0	88.4	85.3	3.6
EBIT margin (%)								
Construction	7.5	7.6	(0.1)	8.0	(0.5)	7.8	7.3	0.4
Precast concrete	9.1	7.0	2.1	7.7	1.5	8.5	5.4	3.1
Total	7.7	7.6	0.1	8.0	(0.3)	7.8	7.2	0.6

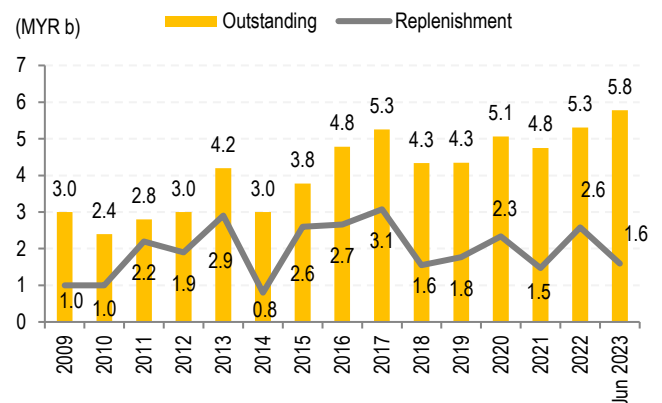
Source: Company, Maybank IBG Research (tabulation)

Fig 2: Outstanding orderbook of MYR5.8b @ 30 Jun 2023



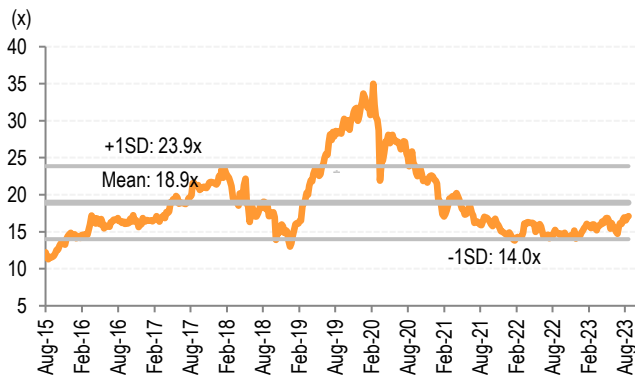
Source: Company data, Maybank IBG Research (chart)

Fig 3: Outstanding orderbook vs. replenishment



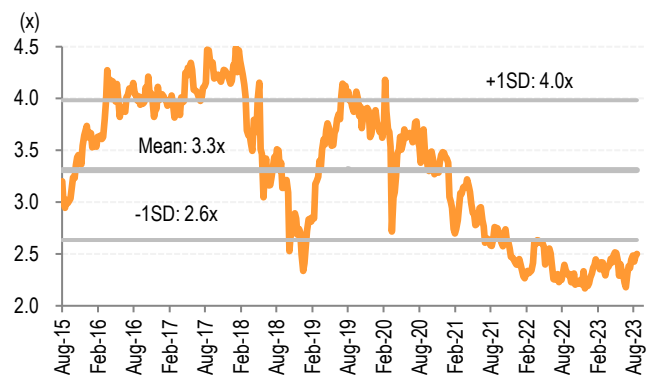
Note: Including precast, adjusted for revised value of LRT3 project; Source: Company data, Maybank IBG Research (chart)

Fig 4: 12M forward PER



Source: Bloomberg, Company data, Maybank IBG Research

Fig 5: 12M forward P/B



Source: Bloomberg, Company data, Maybank IBG Research

FYE 31 Dec	FY21A	FY22A	FY23E	FY24E	FY25E
Key Metrics					
P/E (reported) (x)	19.0	14.8	17.1	17.1	18.4
Core P/E (x)	17.9	14.9	17.1	17.1	18.4
P/BV (x)	2.9	2.7	2.9	2.7	2.5
P/NTA (x)	2.9	2.7	2.9	2.7	2.5
Net dividend yield (%)	3.4	3.5	3.1	3.1	3.1
FCF yield (%)	10.3	nm	8.3	5.7	3.2
EV/EBITDA (x)	13.0	9.9	12.9	13.2	12.8
EV/EBIT (x)	15.6	11.2	14.3	14.8	14.7
INCOME STATEMENT (MYR m)					
Revenue	1,729.2	2,155.2	3,214.4	3,309.4	2,769.7
EBITDA	166.8	210.3	221.9	226.3	202.3
Depreciation	(27.4)	(23.8)	(21.5)	(23.6)	(25.5)
EBIT	139.4	186.5	200.4	202.7	176.8
Net interest income / (exp)	(0.4)	(4.2)	(26.4)	(29.4)	(15.3)
Associates & JV	13.3	1.7	5.0	5.0	5.0
Exceptionals	0.0	0.0	0.0	0.0	0.0
Pretax profit	152.2	184.1	179.0	178.2	166.4
Income tax	(41.5)	(45.3)	(43.5)	(42.4)	(40.1)
Minorities	1.8	(3.6)	0.0	0.0	0.0
Reported net profit	112.6	135.2	135.4	135.8	126.4
Core net profit	112.6	135.2	135.4	135.8	126.4
BALANCE SHEET (MYR m)					
Cash & Short Term Investments	98.8	491.6	657.6	718.5	721.5
Accounts receivable	660.8	988.7	1,385.6	1,417.3	1,222.5
Inventory	46.2	53.4	84.7	87.4	72.0
Property, Plant & Equip (net)	124.7	107.5	118.2	127.6	129.8
Intangible assets	0.1	0.1	0.1	0.1	0.1
Investment in Associates & JVs	723.5	223.1	228.1	233.1	238.1
Other assets	210.1	371.5	963.1	1,158.0	761.4
Total assets	1,864.2	2,236.0	3,437.5	3,742.0	3,145.4
ST interest bearing debt	92.5	172.2	172.2	172.2	172.2
Accounts payable	860.8	916.8	1,418.4	1,463.2	1,207.8
LT interest bearing debt	145.4	308.5	943.8	1,138.7	742.1
Other liabilities	49.0	18.0	18.0	18.0	18.0
Total Liabilities	1,147.4	1,415.3	2,552.1	2,791.8	2,139.8
Shareholders Equity	699.1	737.1	801.7	866.5	922.0
Minority Interest	17.6	83.7	83.7	83.7	83.7
Total shareholder equity	716.8	820.8	885.3	950.2	1,005.7
Total liabilities and equity	1,864.2	2,236.0	3,437.5	3,742.0	3,145.4
CASH FLOW (MYR m)					
Pretax profit	152.2	184.1	179.0	178.2	166.4
Depreciation & amortisation	27.4	23.8	21.5	23.6	25.5
Adj net interest (income)/exp	0.1	(3.7)	(26.4)	(29.4)	(15.3)
Change in working capital	83.3	(382.1)	73.4	10.5	(45.2)
Cash taxes paid	(26.6)	(50.8)	(43.5)	(42.4)	(40.1)
Other operating cash flow	2.3	13.8	21.4	24.4	10.3
Cash flow from operations	238.7	(215.0)	225.3	164.9	101.7
Capex	(31.5)	(1.9)	(32.1)	(33.1)	(27.7)
Free cash flow	207.2	(216.9)	193.2	131.8	74.0
Dividends paid	(51.6)	(90.3)	(70.9)	(70.9)	(70.9)
Change in Debt	(70.1)	233.4	635.3	194.8	(396.6)
Other invest/financing cash flow	(139.4)	450.8	(591.6)	(194.8)	396.6
Net cash flow	(53.8)	377.1	166.0	60.9	3.1

FYE 31 Dec	FY21A	FY22A	FY23E	FY24E	FY25E
Key Ratios					
Growth ratios (%)					
Revenue growth	11.4	24.6	49.1	3.0	(16.3)
EBITDA growth	34.6	26.0	5.6	2.0	(10.6)
EBIT growth	54.0	33.8	7.5	1.1	(12.8)
Pretax growth	50.0	20.9	(2.7)	(0.4)	(6.6)
Reported net profit growth	54.7	20.1	0.2	0.2	(6.9)
Core net profit growth	54.7	20.1	0.2	0.2	(6.9)
Profitability ratios (%)					
EBITDA margin	9.6	9.8	6.9	6.8	7.3
EBIT margin	8.1	8.7	6.2	6.1	6.4
Pretax profit margin	8.8	8.5	5.6	5.4	6.0
Payout ratio	60.1	52.5	52.4	52.2	56.1
DuPont analysis					
Net profit margin (%)	6.5	6.3	4.2	4.1	4.6
Revenue/Assets (x)	0.9	1.0	0.9	0.9	0.9
Assets/Equity (x)	2.7	3.0	4.3	4.3	3.4
ROAE (%)	16.9	18.8	17.6	16.3	14.1
ROAA (%)	6.0	6.6	4.8	3.8	3.7
Liquidity & Efficiency					
Cash conversion cycle	(62.8)	(31.1)	(6.5)	(14.2)	(15.9)
Days receivable outstanding	163.0	137.8	133.0	152.5	171.6
Days inventory outstanding	10.6	10.0	8.8	10.6	11.9
Days payables outstanding	236.4	178.9	148.2	177.2	199.4
Dividend cover (x)	1.7	1.9	1.9	1.9	1.8
Current ratio (x)	1.0	1.5	1.4	1.4	1.5
Leverage & Expense Analysis					
Asset/Liability (x)	1.6	1.6	1.3	1.3	1.5
Net gearing (%) (incl perps)	19.4	net cash	51.8	62.3	19.2
Net gearing (%) (excl. perps)	19.4	net cash	51.8	62.3	19.2
Net interest cover (x)	nm	44.9	7.6	6.9	11.5
Debt/EBITDA (x)	1.4	2.3	5.0	5.8	4.5
Capex/revenue (%)	1.8	0.1	1.0	1.0	1.0
Net debt/ (net cash)	139.1	(10.9)	458.4	592.4	192.7

Source: Company; Maybank IBG Research

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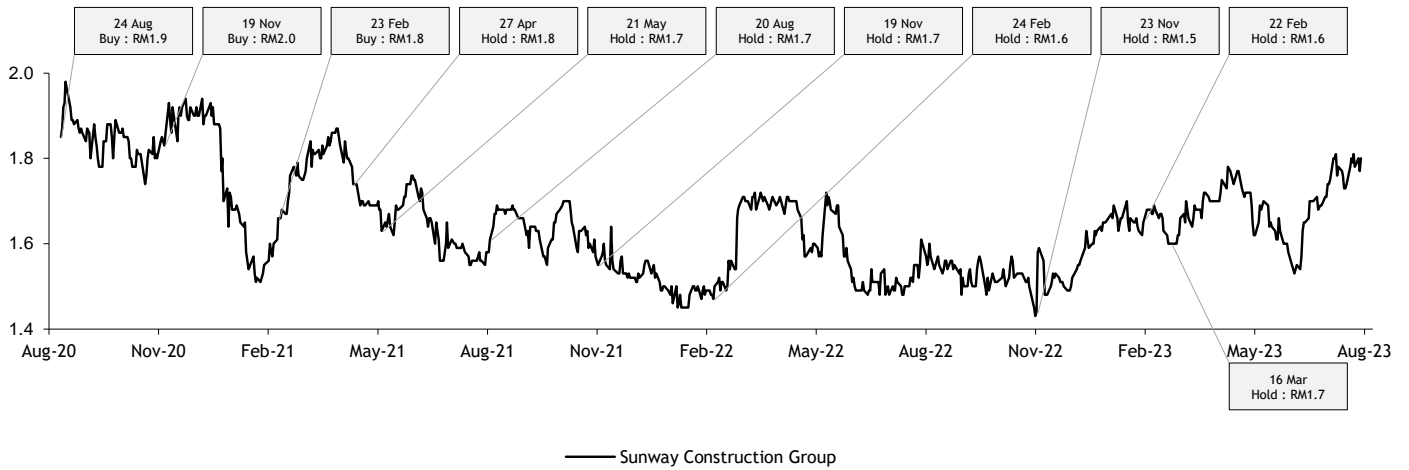
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