

12 July 2023

Construction & Engineering | Construction

## Sunway Construction (SCGB MK)

**Buy** (Maintained)

### Quay-ing In Strong Internal Job Contributions; BUY

Target Price (Return): MYR2.05 (20%)  
 Price (Market Cap): MYR1.70 (USD469m)  
 ESG score: 3.2 (out of 4)  
 Avg Daily Turnover (MYR/USD) 0.45m/0.10m

- **Keep BUY and MYR2.05 TP, 20% upside, c.4% FY23F yield.** We recently visited Sunway Construction's Sunway South Quay Square (SQS) project in Bandar Sunway – two office towers, a retail area, and a university – and came away feeling positive. We expect the project to be the main earnings driver for its internal jobs segment, and estimate a contribution of 16%, 16%, and 7% to the group's FY23-25F PBT. SCGB is our construction sector Top Pick, premised on its diversification efforts into industrial jobs (mainly data centres), mitigating downside risks from public infrastructure jobs.

- **To recap,** SCGB secured the first work package of the SQS project for piling works in Jun 2019 worth MYR119m. In Aug 2020, it secured a MYR284m job for the main construction of the project. The overall contract value was revised to MYR756m in Dec 2021 due to a revision in the job scope. In Apr 2023, SCGB was awarded with additional works of MYR607m for the SQS project – increasing the total value to MYR1.3bn from MYR756m. With 15-16% completion as at end 1Q23 (estimated completion in 4Q25), the unbilled portion of the project's orderbook is MYR1.1bn – the largest under its internal orderbook at 48%. Meanwhile, internal jobs from its parent make up about 39% of its overall orderbook of MYR6.1bn based on our estimates.

- **Labour supply at SQS.** We gather that around 1,000-1,200 workers are currently deployed for the SQS project – both direct and sub-contracted workers. On a group basis, SCGB has an adequate workforce of 600-800 workers. Its unutilised foreign worker quota of 300 workers allows it to easily tap on additional supply when the SQS project (and other ongoing projects) reaches the work-intensive phase – reducing risks of substantial delays.

- **From an ESG angle,** a MYR40m district cooling system (DCS) will be built for the SQS project via a collaboration between SCGB and ENGIE South East Asia – an energy solutions provider for buildings. The DCS will provide an energy efficient cooling solution and is aligned with the parent's focus on reducing carbon footprint. To date, SCGB has installed 44,250 refrigeration tonnes (RT) of DCS facilities for three projects in Putrajaya.

- **No changes to earnings estimates.** As such, our MYR2.05 TP remains, with a 4% ESG premium imputed to our intrinsic valuation, based on SCGB's ESG score of 3.2. Our unchanged valuation target of 15.5x (above Bursa Malaysia Construction's 12x 5-year mean P/E) pegged to our FY24F EPS is justified based on SCGB's commendable orderbook/revenue cover of c.3.1x and steady job flow from its parent. All in, valuations appear undemanding as the stock is trading at 13.4x FY24F P/E (-0.5SD from its 5-year mean). Further rerating catalysts include more job wins from the data centre space and a faster-than-expected rollout of the Mass Rapid Transit 3 and Bayan Lepas Light Rail Transit projects.

- **Key risks:** Project delays and prolonged period of high material costs.

| Forecasts and Valuation         | Dec-21 | Dec-22   | Dec-23F | Dec-24F  | Dec-25F  |
|---------------------------------|--------|----------|---------|----------|----------|
| Total turnover (MYRm)           | 1,729  | 2,155    | 2,666   | 2,809    | 3,279    |
| Recurring net profit (MYRm)     | 145    | 144      | 153     | 164      | 184      |
| Recurring net profit growth (%) | 57.1   | (0.5)    | 6.5     | 7.1      | 12.2     |
| Recurring P/E (x)               | 15.21  | 15.29    | 14.35   | 13.40    | 11.94    |
| P/B (x)                         | 3.1    | 3.0      | 2.8     | 2.5      | 2.3      |
| P/CF (x)                        | 9.22   | na       | 14.21   | 10.41    | 12.36    |
| Dividend Yield (%)              | 3.1    | 3.2      | 4.2     | 4.5      | 5.0      |
| EV/EBITDA (x)                   | 9.82   | 9.36     | 8.14    | 7.72     | 6.90     |
| Return on average equity (%)    | 16.9   | 18.8     | 19.9    | 19.7     | 20.4     |
| Net debt to equity (%)          | 20.4   | net cash | 5.8     | net cash | net cash |

Source: Company data, RHB

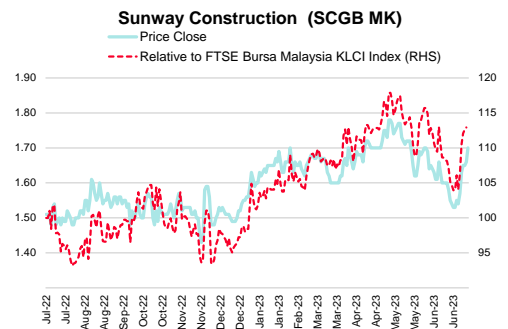
#### Analyst

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#### Share Performance (%)

|                            | YTD  | 1m  | 3m  | 6m          | 12m  |
|----------------------------|------|-----|-----|-------------|------|
| Absolute                   | 9.0  | 3.7 | 2.4 | 4.3         | 12.6 |
| Relative                   | 16.5 | 3.2 | 6.1 | 11.4        | 15.6 |
| 52-wk Price low/high (MYR) |      |     |     | 1.43 – 1.78 |      |



Source: Bloomberg

#### Overall ESG Score: 3.2 (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 carbon dioxide/RM million.

##### 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.

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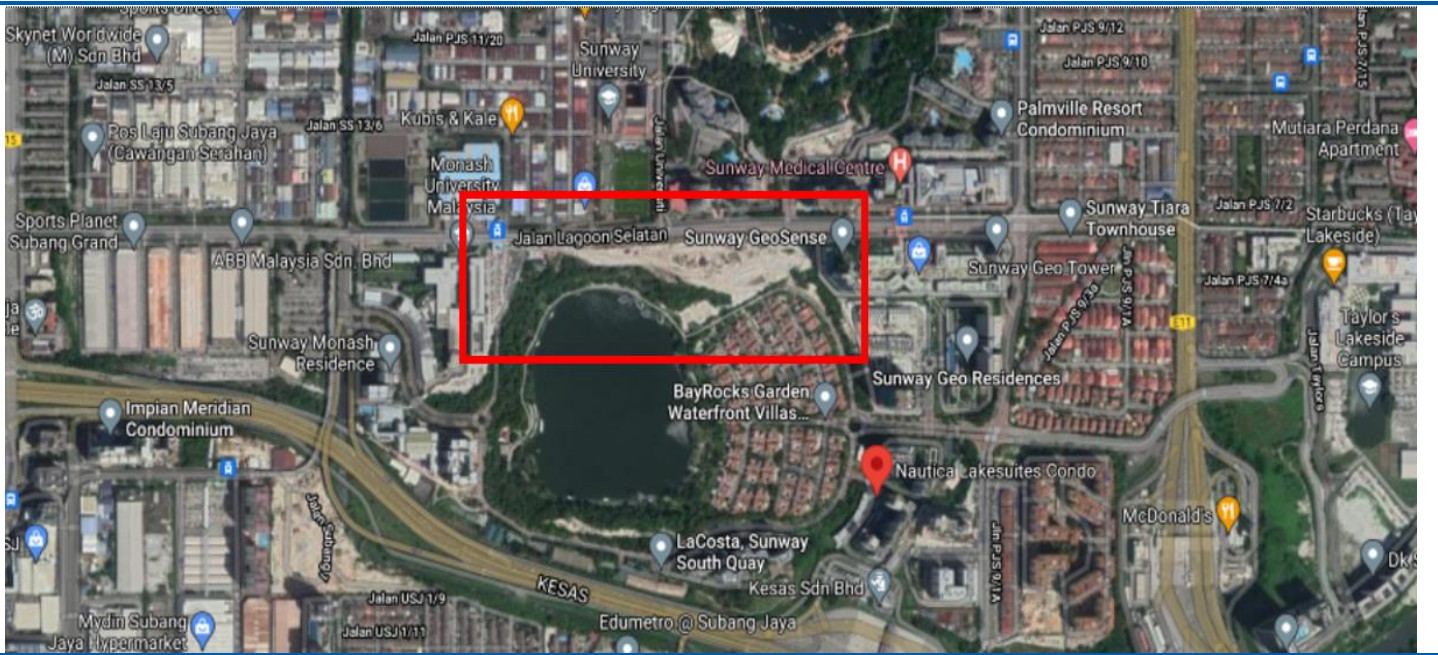
## Financial Exhibits

| Asia                       | Financial summary (MYR)             | Dec-21        | Dec-22        | Dec-23F        | Dec-24F        | Dec-25F        |
|----------------------------|-------------------------------------|---------------|---------------|----------------|----------------|----------------|
| Malaysia                   | Recurring EPS                       | 0.11          | 0.11          | 0.12           | 0.13           | 0.14           |
| Construction & Engineering | DPS                                 | 0.05          | 0.05          | 0.07           | 0.08           | 0.09           |
| <b>Sunway Construction</b> | BVPS                                | 0.54          | 0.57          | 0.62           | 0.67           | 0.73           |
| SCGB MK                    | Return on average equity (%)        | 16.9          | 18.8          | 19.9           | 19.7           | 20.4           |
| Buy                        |                                     |               |               |                |                |                |
|                            | <b>Valuation metrics</b>            | <b>Dec-21</b> | <b>Dec-22</b> | <b>Dec-23F</b> | <b>Dec-24F</b> | <b>Dec-25F</b> |
|                            | Recurring P/E (x)                   | 15.21         | 15.29         | 14.35          | 13.40          | 11.94          |
|                            | P/B (x)                             | 3.1           | 3.0           | 2.8            | 2.5            | 2.3            |
|                            | FCF Yield (%)                       | 9.3           | (11.0)        | 4.5            | 7.1            | 5.6            |
|                            | Dividend Yield (%)                  | 3.1           | 3.2           | 4.2            | 4.5            | 5.0            |
|                            | EV/EBITDA (x)                       | 9.82          | 9.36          | 8.14           | 7.72           | 6.90           |
|                            | EV/EBIT (x)                         | 11.75         | 10.56         | 10.14          | 9.25           | 8.28           |
|                            | <b>Income statement (MYRm)</b>      | <b>Dec-21</b> | <b>Dec-22</b> | <b>Dec-23F</b> | <b>Dec-24F</b> | <b>Dec-25F</b> |
|                            | Total turnover                      | 1,729         | 2,155         | 2,666          | 2,809          | 3,279          |
|                            | Gross profit                        | 358           | 375           | 510            | 511            | 648            |
|                            | EBITDA                              | 167           | 210           | 259            | 251            | 277            |
|                            | Depreciation and amortisation       | (27)          | (24)          | (51)           | (42)           | (46)           |
|                            | Operating profit                    | 139           | 186           | 208            | 209            | 231            |
|                            | Net interest                        | (0)           | (4)           | (15)           | (11)           | (8)            |
|                            | Pre-tax profit                      | 152           | 184           | 198            | 208            | 232            |
|                            | Taxation                            | (41)          | (45)          | (41)           | (40)           | (45)           |
|                            | Reported net profit                 | 113           | 135           | 153            | 164            | 184            |
|                            | Recurring net profit                | 145           | 144           | 153            | 164            | 184            |
|                            | <b>Cash flow (MYRm)</b>             | <b>Dec-21</b> | <b>Dec-22</b> | <b>Dec-23F</b> | <b>Dec-24F</b> | <b>Dec-25F</b> |
|                            | Change in working capital           | 153           | (382)         | (54)           | 2              | (55)           |
|                            | Cash flow from operations           | 238           | (215)         | 155            | 211            | 178            |
|                            | Capex                               | (35)          | (27)          | (55)           | (55)           | (55)           |
|                            | Cash flow from investing activities | (174)         | 424           | (55)           | (54)           | (53)           |
|                            | Dividends paid                      | (52)          | (90)          | (92)           | (98)           | (110)          |
|                            | Cash flow from financing activities | (122)         | 143           | (36)           | (32)           | (43)           |
|                            | Cash at beginning of period         | 200           | 99            | 492            | 476            | 601            |
|                            | Net change in cash                  | (58)          | 351           | 64             | 125            | 82             |
|                            | Ending balance cash                 | 143           | 450           | 555            | 601            | 684            |
|                            | <b>Balance sheet (MYRm)</b>         | <b>Dec-21</b> | <b>Dec-22</b> | <b>Dec-23F</b> | <b>Dec-24F</b> | <b>Dec-25F</b> |
|                            | Total cash and equivalents          | 99            | 576           | 561            | 686            | 769            |
|                            | Tangible fixed assets               | 125           | 108           | 269            | 183            | 191            |
|                            | Total investments                   | 724           | 223           | 223            | 223            | 223            |
|                            | Total assets                        | 1,864         | 2,236         | 2,531          | 2,621          | 2,917          |
|                            | Short-term debt                     | 93            | 172           | 211            | 261            | 311            |
|                            | Total long-term debt                | 153           | 312           | 400            | 310            | 320            |
|                            | Total liabilities                   | 1,147         | 1,415         | 1,652          | 1,680          | 1,906          |
|                            | Total equity                        | 717           | 821           | 878            | 941            | 1,011          |
|                            | Total liabilities & equity          | 1,864         | 2,236         | 2,531          | 2,621          | 2,917          |
|                            | <b>Key metrics</b>                  | <b>Dec-21</b> | <b>Dec-22</b> | <b>Dec-23F</b> | <b>Dec-24F</b> | <b>Dec-25F</b> |
|                            | Revenue growth (%)                  | 11.4          | 24.6          | 23.7           | 5.4            | 16.7           |
|                            | Recurrent EPS growth (%)            | 57.1          | (0.5)         | 6.5            | 7.1            | 12.2           |
|                            | Gross margin (%)                    | 20.7          | 17.4          | 19.1           | 18.2           | 19.8           |
|                            | Operating EBITDA margin (%)         | 9.6           | 9.7           | 9.7            | 8.9            | 8.4            |
|                            | Net profit margin (%)               | 6.5           | 6.3           | 5.7            | 5.8            | 5.6            |
|                            | Dividend payout ratio (%)           | 60.1          | 52.6          | 60.0           | 60.0           | 60.0           |
|                            | Capex/sales (%)                     | 2.0           | 1.3           | 2.1            | 2.0            | 1.7            |
|                            | Interest cover (x)                  | 30.4          | 10.3          | 6.8            | 7.1            | 10.2           |

Source: Company data, RHB

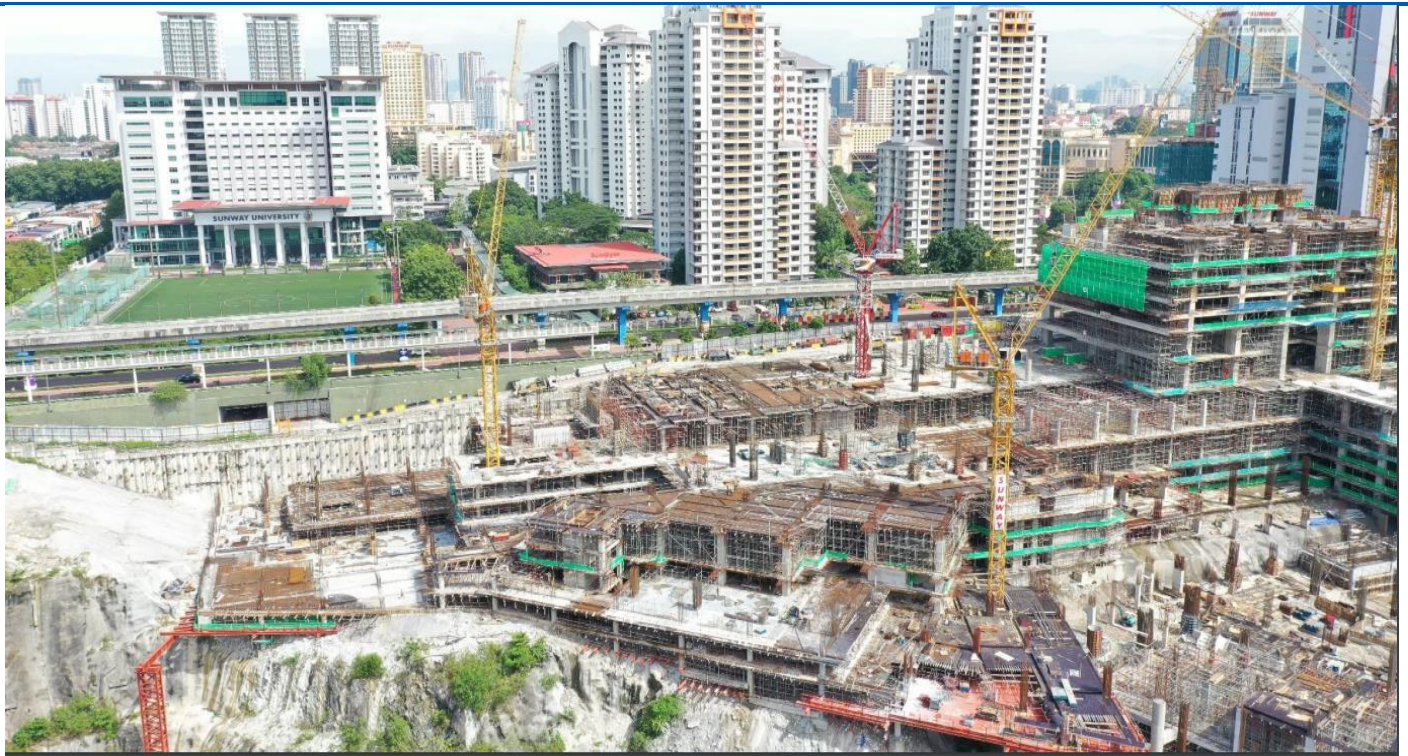


Figure 1: SQS project location



Source: Google Map

Figure 2: SQS project site (as at end Mar 2023)



Source: Company



Figure 3: Artist impression of SQS



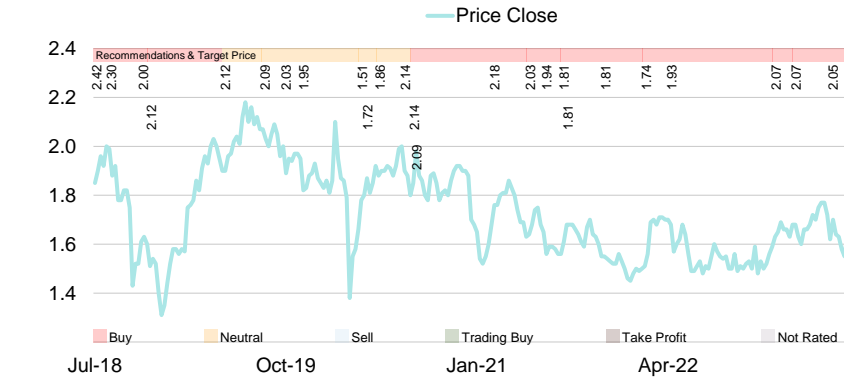
Source: News Straits Times

Figure 4: Front view of SQS



Source: Malaysia Rating Corporation

## Recommendation Chart

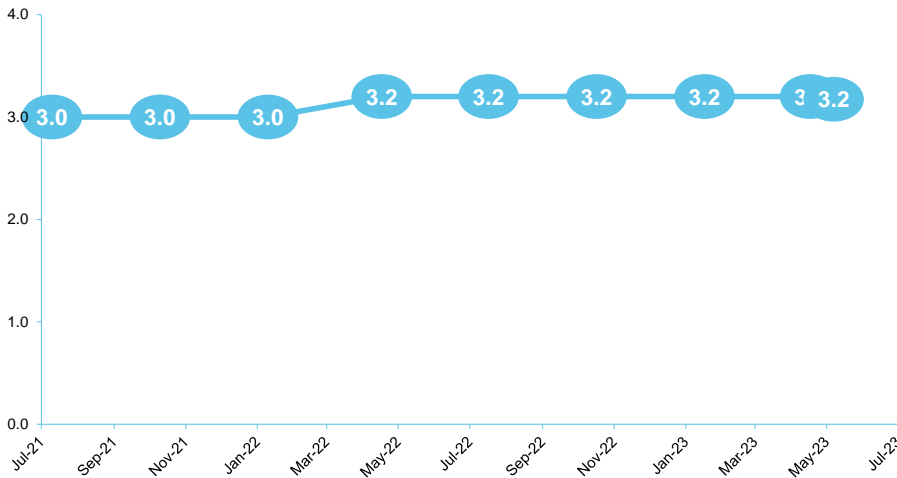


Source: RHB, Bloomberg

| Date       | Recommendation | Target Price | Price |
|------------|----------------|--------------|-------|
| 2023-05-23 | Buy            | 2.05         | 1.69  |
| 2023-05-16 | Buy            | 2.07         | 1.72  |
| 2023-04-05 | Buy            | 2.07         | 1.69  |
| 2023-03-02 | Buy            | 2.07         | 1.69  |
| 2023-02-22 | Buy            | 2.07         | 1.66  |
| 2023-01-25 | Buy            | 2.07         | 1.67  |
| 2023-01-04 | Buy            | 2.07         | 1.63  |
| 2022-11-22 | Buy            | 1.93         | 1.43  |
| 2022-11-02 | Buy            | 1.93         | 1.57  |
| 2022-08-24 | Buy            | 1.93         | 1.56  |
| 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  |

Source: RHB, Bloomberg

## ESG Rating History



Source: RHB

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|                     |  |
|---------------------|--|
| <b>Buy:</b>         | Share price may exceed 10% over the next 12 months   |
| <b>Trading Buy:</b> | Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain |
| <b>Neutral:</b>     | Share price may fall within the range of +/- 10% over the next 12 months                         |
| <b>Take Profit:</b> | Target price has been attained. Look to accumulate at lower levels                               |
| <b>Sell:</b>        | Share price may fall by more than 10% over the next 12 months                                    |
| <b>Not Rated:</b>   | Stock is not within regular research coverage  |

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