

23 May 2023

Construction & Engineering | Construction

# Sunway Construction (SCGB MK)

**Buy** (Maintained)

Higher Billings Expected In Coming Quarters; BUY

Target Price (Return): MYR2.05 (19%)  
Price (Market Cap): MYR1.72 (USD487m)  
ESG score: 3.18 (out of 4)  
Avg Daily Turnover (MYR/USD) 0.59m/0.13m

- **Still BUY, new MYR2.05 TP from MYR2.07, 19% upside, c.4% FY23F yield.** Sunway Construction's 1Q23 core profit of MYR25.9m (-27% YoY) was below estimates, at 16% and 17% of our and Street's full-year projections. The negative deviation was mainly due to higher-than-expected finance costs. We project a 5-year earnings CAGR of 15% for SCGB, backed by the data centre job in Johor (higher margins, faster turnaround period) and steady job awards from its listed parent – currently accounts for 37% of its outstanding orderbook.

- **Segmental review.** In terms of PBT, the construction segment reported a 22% YoY decline in 1Q23 as some major projects such as the MYR1.7bn data centre job in Sedenak Technology Park (STeP) Johor are still in the early stages. Its precast segment recorded 1Q23 PBT of MYR1.3m (1Q22: MYR1m) with its growth capped by depreciation costs incurred for the new Integrated Pre-Cast Hub in Singapore.

- **Prospects.** Construction orderbook stood at MYR6bn at end 1Q23 (end 4Q22: MYR5.3bn) with MYR1.3bn orders secured vs our MYR2.3bn FY23 job replenishment target. We expect higher progress billings in the remaining quarters, underpinned by SCGB's steady labour supply (600-700 workers). SCGB has MYR22.7bn worth of active tenders including two bids (CMC301 and CMC302 work packages) under the Mass Rapid Transit 3 (MRT3) project and some data centre jobs in the Klang Valley. All in, we think SCGB's foray into the data centre space will buffer downside risks from public infrastructure jobs.

- **FY23-25F earnings cut by 8%, 7%, and 2%** to account for higher finance costs, mainly from India's highway projects. SCGB's potential involvement (likely known by end 1H23) in the Song Hau 2 power plant in Vietnam could boost its orderbook by MYR6bn. Its current exposure in STeP via Yondr Group could also enable it to win more data centre jobs, with Princeton Digital Group planning to build a 150MW data centre in STeP.

- **Post earnings adjustment and rolling forward our valuation base** (FY23 to FY24), we arrived at our new MYR2.05 TP, with a 4% ESG premium added to our intrinsic valuation. Our unchanged 15.5x valuation target (above the 12x 5-year mean P/E of Bursa Malaysia Construction Index) pegged to FY24F EPS is justified based on SCGB's commendable orderbook/revenue cover of c.2.8x. Valuations appear undemanding, as SCGB is trading at 13.6x FY24F P/E (-1SD from its 5-year mean). Key risks: Project delays and prolonged period of high material costs.

- **ESG framework update.** As there is now greater focus on the E pillar due to critical climate change issues, we tweaked our ESG weightage. We now assign a weightage of 50% to the E pillar, followed by 25% each to the S and G pillars. Further details are in our 2 May thematic research note: [Envisioning a Better Future](#).

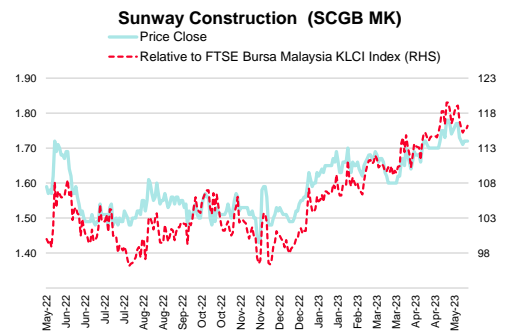
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## Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	10.3	1.2	3.6	20.3	7.5
Relative	15.4	1.4	6.7	21.9	15.9
52-wk Price low/high (MYR)	1.43 – 1.78				



Source: Bloomberg

## Overall ESG Score: 3.18 (out of 4)

### E: EXCELLENT

Implemented rooftop solar panels at its Sunway Precast Industries plant at Senai, Johor, to reduce carbon emissions of site operations. With this, 98.6MWh of energy can be consumed via solar generation at the Senai plant, avoiding 57.7 tonnes of carbon emissions. In FY21, it guided that its carbon emission intensity per unit revenue declined from 98 tonnes CO<sub>2</sub>/MYRm.

### 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 disclosures 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 helps to deal with investor queries.

### Note:

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

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)	15.39	15.47	14.52	13.56	12.08
P/B (x)	3.2	3.0	2.8	2.6	2.4
P/CF (x)	9.33	na	14.38	10.53	12.51
Dividend Yield (%)	3.0	3.2	4.1	4.4	5.0
EV/EBITDA (x)	9.98	9.48	8.24	7.82	6.99
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

See important disclosures at the end of this report

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

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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)	15.39	15.47	14.52	13.56	12.08
	P/B (x)	3.2	3.0	2.8	2.6	2.4
	FCF Yield (%)	9.2	(10.9)	4.5	7.0	5.5
	Dividend Yield (%)	3.0	3.2	4.1	4.4	5.0
	EV/EBITDA (x)	9.98	9.48	8.24	7.82	6.99
	EV/EBIT (x)	11.93	10.69	10.27	9.38	8.39
	<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

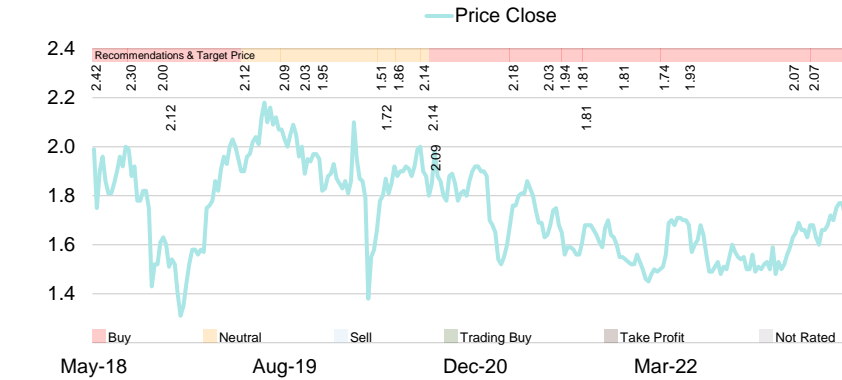
## Results At a Glance

Figure 1: SCGB's results review

FYE Dec (MYRm)	1Q22	4Q22	1Q23	QoQ (%)	YoY (%)	Comments
<b>Revenue</b>	<b>624.7</b>	<b>503.4</b>	<b>522.1</b>	<b>3.7</b>	<b>(16.4)</b>	Most projects are still in early stages
<b>EBIT</b>	<b>42.5</b>	<b>64.0</b>	<b>39.8</b>	<b>(37.8)</b>	<b>(6.5)</b>	
<i>EBIT margin (%)</i>	6.8	12.7	7.6			
Interest expense	<b>(1.2)</b>	<b>(10.5)</b>	<b>(8.3)</b>	(21.1)	>100	
Interest income	<b>2.2</b>	<b>4.4</b>	<b>4.1</b>	(7.0)	84.7	
JV/Associates	<b>3.2</b>	<b>(2.0)</b>	<b>0.0</b>	(100.0)	(100.0)	
<b>Pretax profit</b>	<b>47.2</b>	<b>56.3</b>	<b>37.5</b>	<b>(33.4)</b>	<b>(20.5)</b>	
<i>Pretax margin (%)</i>	7.6	11.2	7.2			
Tax	<b>(11.5)</b>	<b>(10.8)</b>	<b>(8.9)</b>	<b>(17.8)</b>	<b>(23.0)</b>	
<i>Effective tax rate (%)</i>	(1.8)	(18.5)	23.7			
Minority interest	<b>(1.1)</b>	<b>0.1</b>	<b>(0.8)</b>	>-100	(27.5)	
<b>Net profit</b>	<b>34.5</b>	<b>45.6</b>	<b>27.8</b>	<b>(39.0)</b>	<b>(19.4)</b>	
<b>Core profit</b>	<b>35.5</b>	<b>46.0</b>	<b>25.9</b>	<b>(43.7)</b>	<b>(27.0)</b>	Below expectations
<i>Core net margin (%)</i>	5.7	9.1	5.0			

Source: Company data, RHB

## Recommendation Chart

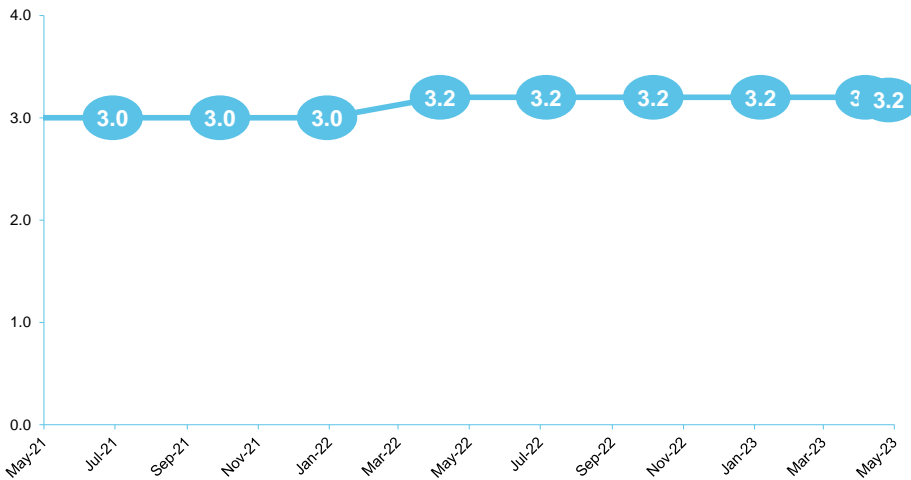


Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
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
2021-08-20	Buy	1.81	1.61

Source: RHB, Bloomberg

## ESG Rating History



Source: RHB

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<b>Trading Buy:</b>	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
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