

24 August 2023

Construction & Engineering | Construction

Sunway Construction (SCGB MK)

Buy (Maintained)

Gradually Gaining Ground; Keep BUY

Target Price (Return): MYR2.03 (13%)
Price (Market Cap): MYR1.80 (USD498m)
ESG score: 3.3 (out of 4)
Avg Daily Turnover (MYR/USD) 0.74m/0.16m

- **Keep BUY, new MYR2.03 TP from MYR2.08, 13% upside, c.4% FY24F yield.** Sunway Construction's 1H23 core profit of MYR58.2m (-20% YoY) trailed estimates, at 38% and 39% 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 25% for SCGB, backed by the Johor data centre job (higher margins, faster turnaround) and steady job awards from its listed parent (c.40% of its outstanding orderbook).
- **SCGB posted a MYR42m (-2% YoY) PBT in 2Q23**, with the construction segment reporting a 5% YoY PBT decline during the quarter, as 2Q22 saw the finalisation of accounts for some completed projects. This offset the 2.4% YoY increase in construction revenue for 2Q23 amid better progress of new projects. Its precast segment recorded a 2Q23 PBT of MYR3.2m (2Q22: MYR1.9m), supported by better progress in projects related to the Integrated Construction and Prefabrication Hub (ICPH).
- **Prospects.** SCGB's construction orderbook stood at MYR5.8bn as at end 2Q23 (end 2Q22: MYR4.2bn) with MYR1.6bn orders secured, vs our FY23 job replenishment target of MYR2.3bn, backed by a MYR27bn tenderbook. We expect higher billings in remaining quarters as progress of projects move higher along the S-curve. We believe job replenishments will remain steady, backed by its parent which contributed 56% of YTD job wins, while SCGB has participated in two new tenders under the Rapid Transit System (RTS) link. Also, the MYR6bn Song Hau 2 power plant project in Vietnam, which is awaiting financial close – likely by September or October – could boost FY24-25F earnings by 30-35%. SCGB's success in securing a 29.9MW quota under the Corporate Green Power Programme may also enable it to create a new source of recurring income.
- **We cut FY23-25F earnings by 12%, 3%, and 2%** to account for higher finance costs, particularly from India's highway projects. As such, we arrive at our new MYR2.03 TP with an unchanged 15.5x target P/E pegged to our FY24F EPS – after imputing a 6% ESG premium based on SCGB's ESG score of 3.3 (above the country median). While we now forecast a 6% earnings drop for FY23, FY24, and FY25, core profit is projected to grow >10% each year, backed by increased billings and steady job wins.

- **The 15.5x valuation target** (above Bursa Malaysia Construction's 5-year mean P/E of 12x) pegged to our FY24F EPS is justified, based on SCGB's consistent job replenishment trends and its rail credentials – giving it a chance to clinch upcoming mega projects. Short- to medium-term catalysts include faster-than-expected awards of industrial buildings (warehouses, factories, data centres) and infrastructure projects such as the Bayan Lepas Light Rail Transit and Mass Rapid Transit 3.

- **Key risks:** Project delays and a 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	135	159	180
Recurring net profit growth (%)	57.1	(0.5)	(6.1)	17.8	13.3
Recurring P/E (x)	16.06	16.15	17.19	14.59	12.88
P/B (x)	3.3	3.1	2.9	2.7	2.5
P/CF (x)	9.73	na	17.01	11.26	13.34
Dividend Yield (%)	2.9	3.1	3.5	4.1	4.7
EV/EBITDA (x)	10.56	9.95	8.64	8.24	7.38
Return on average equity (%)	16.9	18.8	17.7	19.3	20.2
Net debt to equity (%)	20.4	net cash	6.7	net cash	net cash

Source: Company data, RHB

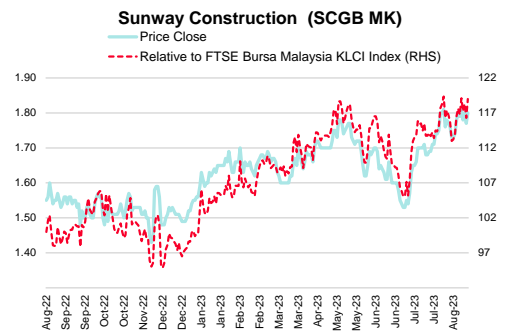
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	15.4	6.5	6.5	7.8	16.1
Relative	19.1	4.6	4.5	9.0	19.0
52-wk Price low/high (MYR)	1.43 – 1.81				



Source: Bloomberg

Overall ESG Score: 3.3 (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.

Financial Exhibits

Asia	Financial summary (MYR)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Malaysia	Recurring EPS	0.11	0.11	0.10	0.12	0.14
Construction & Engineering	DPS	0.05	0.05	0.06	0.07	0.08
Sunway Construction	BVPS	0.54	0.57	0.61	0.66	0.72
SCGB MK	Return on average equity (%)	16.9	18.8	17.7	19.3	20.2
Buy						
	Valuation metrics	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
	Recurring P/E (x)	16.06	16.15	17.19	14.59	12.88
	P/B (x)	3.3	3.1	2.9	2.7	2.5
	FCF Yield (%)	8.8	(10.4)	3.5	6.5	5.1
	Dividend Yield (%)	2.9	3.1	3.5	4.1	4.7
	EV/EBITDA (x)	10.56	9.95	8.64	8.24	7.38
	EV/EBIT (x)	12.63	11.22	10.77	9.88	8.85
	Income statement (MYRm)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
	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)	(38)	(17)	(12)
	Pre-tax profit	152	184	175	201	228
	Taxation	(41)	(45)	(36)	(39)	(44)
	Reported net profit	113	135	135	159	180
	Recurring net profit	145	144	135	159	180
	Cash flow (MYRm)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
	Change in working capital	153	(382)	(54)	2	(55)
	Cash flow from operations	238	(215)	136	206	174
	Capex	(35)	(27)	(55)	(55)	(55)
	Cash flow from investing activities	(174)	424	(55)	(54)	(53)
	Dividends paid	(52)	(90)	(81)	(95)	(108)
	Cash flow from financing activities	(122)	143	(25)	(29)	(40)
	Cash at beginning of period	200	99	492	469	592
	Net change in cash	(58)	351	56	124	81
	Ending balance cash	143	450	548	592	674
	Balance sheet (MYRm)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
	Total cash and equivalents	99	576	553	677	758
	Tangible fixed assets	125	108	269	183	191
	Total investments	724	223	223	223	223
	Total assets	1,864	2,236	2,523	2,612	2,906
	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	871	931	1,000
	Total liabilities & equity	1,864	2,236	2,523	2,612	2,906
	Key metrics	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
	Revenue growth (%)	11.4	24.6	23.7	5.4	16.7
	Recurrent EPS growth (%)	57.3	(0.5)	(6.1)	17.8	13.3
	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	5.1	5.7	5.5
	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	3.9	5.9	8.5

Source: Company data, RHB

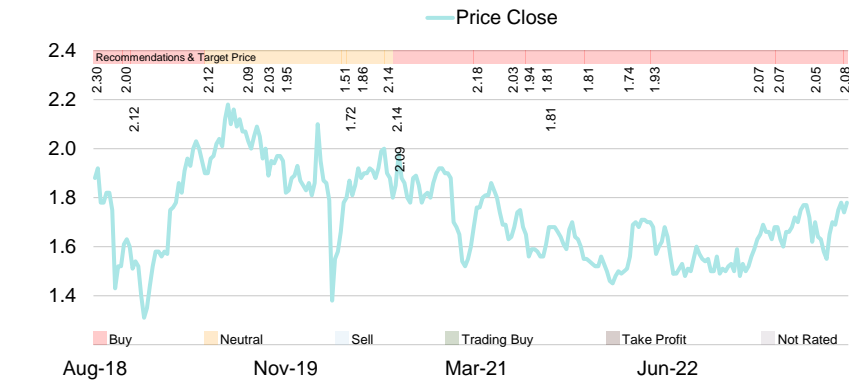
Results At a Glance

Figure 1: SCGB's results review

FYE Dec (MYRm)	2Q22	1Q23	2Q23	QoQ (%)	YoY (%)	1H22	1H23	YoY (%)	Comments
Revenue	557.9	522.1	604.1	15.7	8.3	1,182.5	1,126.2	(4.8)	Better progress billings for ongoing projects
EBIT	37.1	39.8	46.0	15.6	24.1	79.0	85.8	8.6	
<i>EBIT margin (%)</i>	6.6	7.6	7.6			6.7	7.6		
Interest expense	(3.2)	(8.3)	(11.5)	38.5	>100	(4.3)	(19.7)	>100	
Interest income	3.2	4.1	6.7	63.8	>100	5.4	10.8	>100	
JV/Associates	0.6	0.0	0.3	nm	(49.9)	3.8	0.3	(91.7)	
El/Others	(5.3)	1.9	0.7	63.2	>100	(6.3)	2.6	>100	
Pretax profit	43.0	37.5	42.3	12.7	(1.7)	90.1	79.8	(11.5)	
<i>Pretax margin (%)</i>	7.7	7.2	7.0			7.6	7.1		
Tax	(9.3)	(8.9)	(9.0)	1.3	(3.8)	(20.9)	(17.9)	(14.4)	
<i>Effective tax rate (%)</i>	(1.7)	(23.7)	(21.4)			(24.2)	(22.5)		
Minority interest	(1.3)	(0.8)	(0.3)	(67.2)	(79.9)	(2.5)	(1.1)	(55.9)	
Net profit	32.3	27.8	33.0	18.6	2.2	66.8	60.8	(9.0)	
Core profit	37.6	25.9	32.3	24.6	(14.1)	73.1	58.2	(20.4)	Below expectations
<i>Core net margin (%)</i>	6.7	5.0	5.3			6.2	5.2		

Source: Company data, RHB

Recommendation Chart

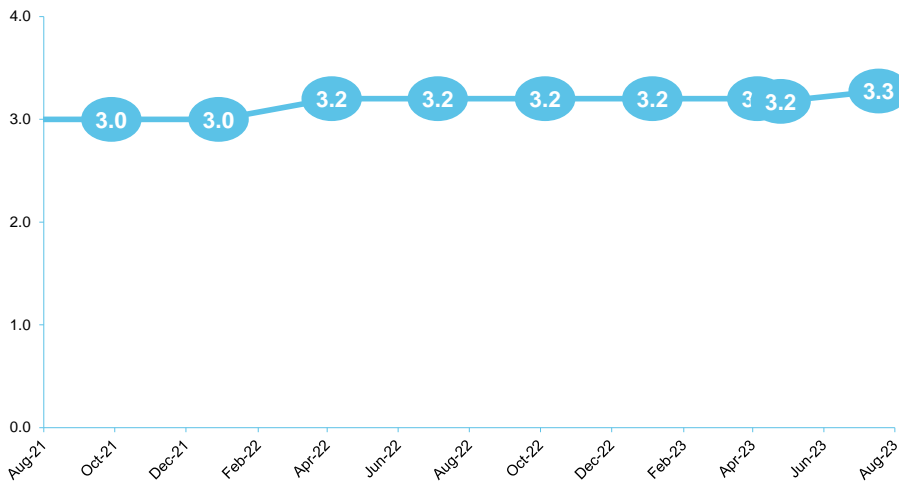


Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2023-08-08	Buy	2.08	1.76
2023-07-12	Buy	2.05	1.70
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

Source: RHB, Bloomberg

ESG Rating History



Source: RHB

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

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