

# Sunway Construction Group (SCGB MK)

## 1Q24: In-line

### Pricey valuations; maintain SELL

SCGB's 1Q24 net profit was in-line at 21% of our FY24E and 18% of consensus in anticipation of stronger quarters ahead as work progresses on its MYR6.3b outstanding orderbook. We make no change to our earnings forecasts. Our MYR2.30 TP (unchanged) pegs on a 19x PER (mean) on FY24E earnings. While we continue to like SCGB for its strong execution capability, the stock is pricey, trading at 28x FY24E PER. Maintain SELL.

### Net profit +16% YoY, -34% QoQ

Both construction/precast revenue/EBIT rose YoY due to higher billings in the newer projects, while margins were stable at construction but higher in precast due to better margin projects. QoQ, construction revenue was slower after accelerated progress in some projects in 4Q23, while margins have remained stable. Precast revenue was also down QoQ after higher contribution from projects nearing completion and reversal of provisions for completed projects, both in 4Q23.

### MYR6.3b o/s jobs; targets MYR2.5-MYR3b win

Job wins in 1Q24 totalled MYR1.7b, lifting the outstanding orderbook to MYR6.3b as at end-Mar 2024. Notable wins were a 3<sup>rd</sup>/4<sup>th</sup>/5<sup>th</sup> data centre job in the Klang Valley (MYR748m) and the new Sunway Ipoh Mall (MYR721m). The internal replenishment target for FY24 is a MYR2.5b to MYR3b range. The active tender book is MYR9.4b as SCGB continues to participate in the tender for data centre jobs and in the warehousing and semiconductor segments. Other major infra projects that SCGB could be eyeing are the KVLRT3's revived 5 stations, Bayan Lepas LRT and KVMRT3.

### Maintain earnings forecasts

We make no change to our earnings forecasts which have imputed MYR3b orderbook replenishment (for construction & precast) in FY24 and a higher MYR3.5b in FY25.

FYE Dec (MYR m)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue	2,155	2,671	3,560	3,342	2,921
EBITDA	210	245	258	260	225
Core net profit	135	145	154	170	165
Core EPS (sen)	10.5	11.3	12.0	13.2	12.8
Core EPS growth (%)	20.1	7.3	6.4	9.9	(2.5)
Net DPS (sen)	5.5	6.0	6.0	6.0	6.0
Core P/E (x)	14.9	17.2	28.0	25.5	26.1
P/BV (x)	2.7	3.0	4.8	4.4	4.0
Net dividend yield (%)	3.5	3.1	1.8	1.8	1.8
ROAE (%)	18.8	18.6	18.0	18.0	16.0
ROAA (%)	6.6	5.5	4.4	4.5	5.0
EV/EBITDA (x)	9.9	12.3	20.5	18.4	18.8
Net gearing (%) (incl perps)	net cash	51.1	92.8	38.3	net cash
Consensus net profit	-	-	180	218	231
MIBG vs. Consensus (%)	-	-	(14.4)	(22.2)	(28.2)

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# SELL

Share Price	MYR 3.35
12m Price Target	MYR 2.30 (-28%)
Previous Price Target	MYR 2.30

### Company Description

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

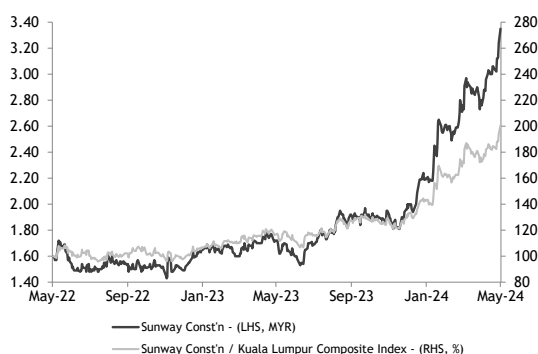
### Statistics

52w high/low (MYR)	3.35/1.53
3m avg turnover (USDm)	2.5
Free float (%)	14.2
Issued shares (m)	1,293
Market capitalisation	MYR4.3B USD924M

### Major shareholders:

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

### Price Performance



	-1M	-3M	-12M
Absolute (%)	21	28	95
Relative to index (%)	16	24	72

Source: FactSet

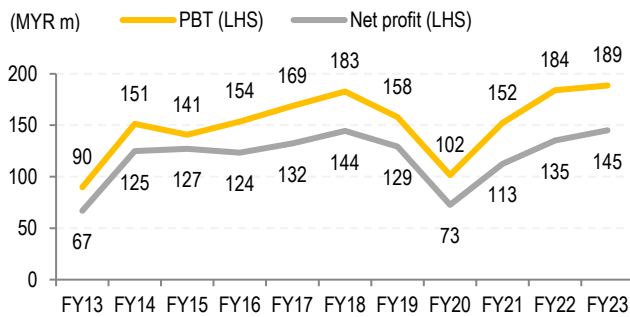
### Abbreviation

KVMRT = Klang Valley Mass Rapid Transit  
LRT = Light Rapid Transit

## 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, 3<sup>rd</sup> 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 (since relisting on 28 Jul 2015)

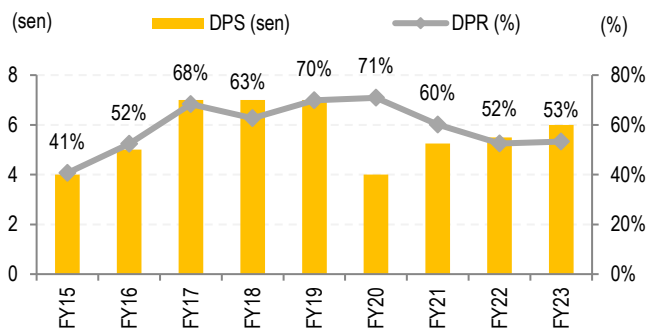


Source: Company

## Financial Metrics

- Two main earning growth drivers are major orderbook replenishment 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, 18.6% in FY23.
- DPR is a minimum 35% of PATMI; since its relisting (on 28 Jul 2015), SCGB had paid up to 71% (FY20).

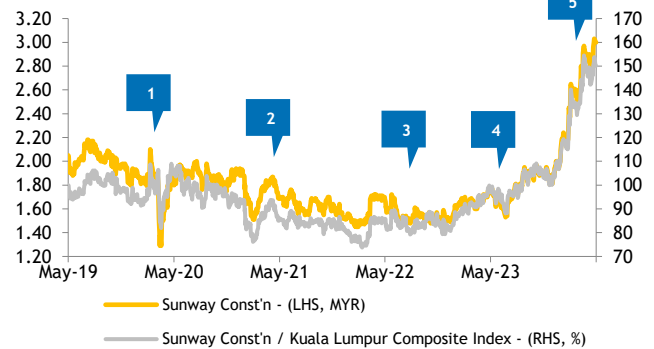
### Dividends



Source: Company

## Price Drivers

### Historical share price trend



Source: Company, Maybank IBG Research

- Malaysia's COVID-induced movement control order (MCO) from 18 Mar 2020 led to work disruption at all of SCGB's projects.
- 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).
- Secured MYR2.5b new orderbook in 2023.
- Expectation for sizeable orderbook replenishment, including datacentre construction jobs.

## 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.

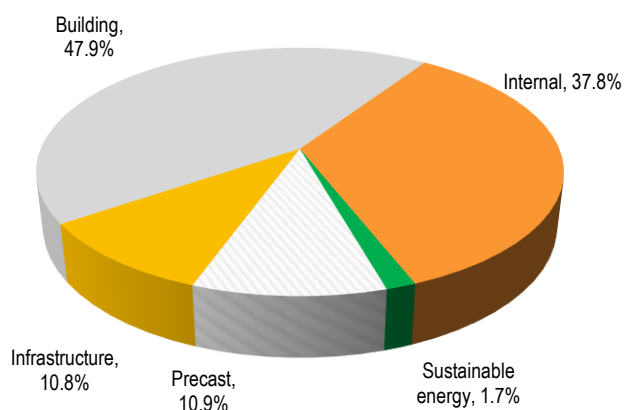
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Fig 1: Results summary

FY Dec (MYR m)	Quarterly					Cumulative		
	1Q24	1Q23	% YoY	4Q23	% QoQ	3M24	3M23	% YoY
Revenue	604.8	522.1	15.8	871.5	(30.6)	604.8	522.1	15.8
EBIT	53.1	41.7	27.4	81.8	(35.1)	53.1	41.7	27.4
Net interest inc/(exp)	(11.4)	(4.2)	174.9	(6.6)	74.2	(11.4)	(4.2)	174.9
Assoc, JV profits	-	-	NM	(14.5)	NM	-	-	NM
<b>Pre-tax profit</b>	<b>41.6</b>	<b>37.5</b>	<b>11.0</b>	<b>60.8</b>	<b>(31.5)</b>	<b>41.6</b>	<b>37.5</b>	<b>11.0</b>
Tax	(8.9)	(8.9)	0.7	(12.3)	(27.6)	(8.9)	(8.9)	0.7
Minority Interests	(0.3)	(0.8)	(61.9)	0.8	NM	(0.3)	(0.8)	(61.9)
<b>Net profit</b>	<b>32.4</b>	<b>27.8</b>	<b>16.4</b>	<b>49.3</b>	<b>(34.2)</b>	<b>32.4</b>	<b>27.8</b>	<b>16.4</b>
EPS (sen)	2.51	2.16	16.2	3.82	(34.3)	2.51	2.16	16.2
DPS (sen)	-	-	NM	3.00	NM	-	-	NM
	<b>1Q24</b>	<b>1Q23</b>	<b>+/- ppt</b>	<b>4Q23</b>	<b>+/- ppt</b>	<b>3M24</b>	<b>3M23</b>	<b>+/- ppt</b>
<b>EBIT margin (%)</b>	<b>8.8</b>	<b>8.0</b>	<b>0.8</b>	<b>9.4</b>	<b>(0.6)</b>	<b>8.8</b>	<b>8.0</b>	<b>0.8</b>
<b>Pretax margin (%)</b>	<b>6.9</b>	<b>7.2</b>	<b>(0.3)</b>	<b>7.0</b>	<b>(0.1)</b>	<b>6.9</b>	<b>7.2</b>	<b>(0.3)</b>
<b>Tax rate (%)</b>	<b>21.5</b>	<b>23.7</b>	<b>(2.2)</b>	<b>20.3</b>	<b>1.1</b>	<b>21.5</b>	<b>23.7</b>	<b>(2.2)</b>
<b>Segmental</b>								
<b>Revenue</b>	<b>1Q24</b>	<b>1Q23</b>	<b>% YoY</b>	<b>4Q23</b>	<b>% QoQ</b>	<b>3M24</b>	<b>3M23</b>	<b>% YoY</b>
Construction	543.6	469.1	15.9	785.8	(30.8)	543.6	469.1	15.9
Precast concrete	61.2	53.0	15.5	85.7	(28.6)	61.2	53.0	15.5
<b>Total</b>	<b>604.8</b>	<b>522.1</b>	<b>15.8</b>	<b>871.5</b>	<b>(30.6)</b>	<b>604.8</b>	<b>522.1</b>	<b>15.8</b>
<b>EBIT</b>								
Construction	46.4	37.6	23.3	56.5	(17.9)	46.4	37.6	23.3
Precast concrete	6.7	4.1	65.3	25.3	(73.4)	6.7	4.1	65.3
<b>Total</b>	<b>53.1</b>	<b>41.7</b>	<b>27.4</b>	<b>81.8</b>	<b>(35.1)</b>	<b>53.1</b>	<b>41.7</b>	<b>27.4</b>
<b>EBIT margin (%)</b>								
Construction	8.5	8.0	0.5	7.2	1.3	8.5	8.0	0.5
Precast concrete	11.0	7.7	3.3	29.5	(18.5)	11.0	7.7	3.3
<b>Total</b>	<b>8.8</b>	<b>8.0</b>	<b>0.8</b>	<b>9.4</b>	<b>(0.6)</b>	<b>8.8</b>	<b>8.0</b>	<b>0.8</b>

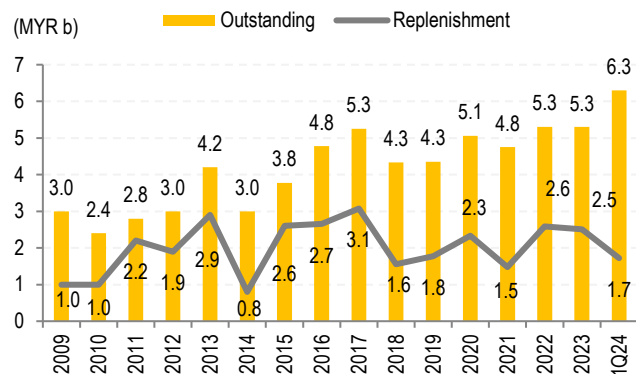
Source: Company, Maybank IBG Research (tabulation)

Fig 2: Outstanding orderbook of MYR6.3b @ 31 Mar 2024

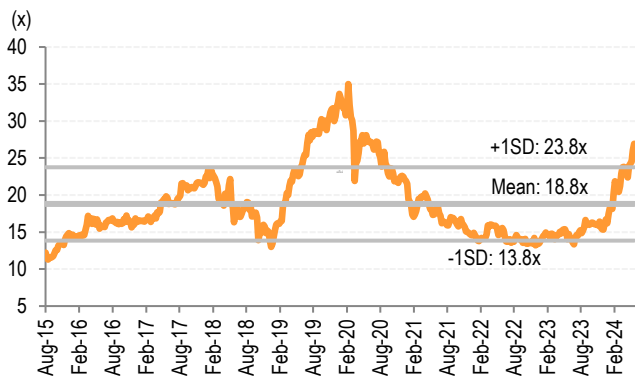


Source: Company data, Maybank IBG Research (chart)

Fig 3: Outstanding orderbook vs. replenishment

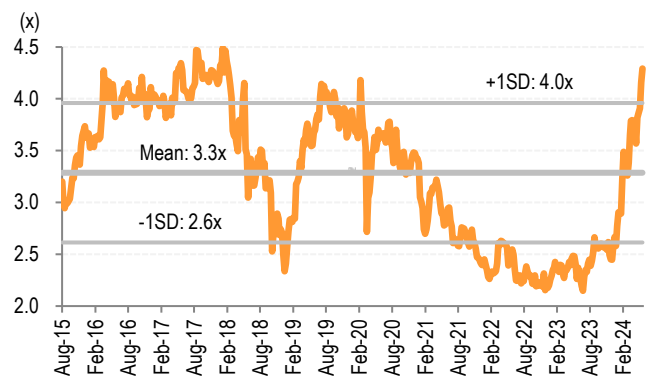
Note: Including precast, adjusted for revised value of KVLRT3 project;  
Source: Company data, Maybank IBG Research (chart)

**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	FY22A	FY23A	FY24E	FY25E	FY26E
<b>Key Metrics</b>					
P/E (reported) (x)	14.8	15.6	28.0	25.5	26.1
Core P/E (x)	14.9	17.2	28.0	25.5	26.1
P/BV (x)	2.7	3.0	4.8	4.4	4.0
P/NTA (x)	2.7	3.1	4.8	4.4	4.0
Net dividend yield (%)	3.5	3.1	1.8	1.8	1.8
FCF yield (%)	nm	nm	nm	4.0	4.5
EV/EBITDA (x)	9.9	12.3	20.5	18.4	18.8
EV/EBIT (x)	11.2	13.5	22.2	19.9	20.6
<b>INCOME STATEMENT (MYR m)</b>					
Revenue	2,155.2	2,671.2	3,559.6	3,342.1	2,920.9
EBITDA	210.2	245.3	257.7	260.2	224.6
Depreciation	(23.7)	(21.0)	(19.2)	(19.5)	(19.4)
EBIT	186.5	224.3	238.4	240.8	205.2
Net interest income / (exp)	(4.2)	(21.5)	(42.0)	(25.2)	3.7
Associates & JV	1.7	(14.1)	0.0	0.0	0.0
Exceptionals	0.0	0.0	0.0	0.0	0.0
Pretax profit	184.1	188.6	196.4	215.6	208.9
Income tax	(45.3)	(42.8)	(42.1)	(45.9)	(43.5)
Minorities	(3.6)	(0.7)	0.0	0.0	0.0
Reported net profit	135.2	145.1	154.4	169.7	165.4
Core net profit	135.2	145.1	154.4	169.7	165.4
<b>BALANCE SHEET (MYR m)</b>					
Cash & Short Term Investments	491.6	470.4	401.4	497.7	616.5
Accounts receivable	813.3	1,410.2	2,108.8	1,994.5	1,770.3
Inventory	53.4	46.4	64.3	59.8	52.0
Property, Plant & Equip (net)	107.5	98.5	99.6	99.2	96.5
Intangible assets	0.1	0.1	0.1	0.1	0.1
Investment in Associates & JVs	223.1	253.1	253.1	253.1	253.1
Other assets	547.0	804.0	1,066.7	670.1	211.5
<b>Total assets</b>	<b>2,236.0</b>	<b>3,082.8</b>	<b>3,994.1</b>	<b>3,574.6</b>	<b>3,000.0</b>
ST interest bearing debt	172.2	438.2	438.2	438.2	438.2
Accounts payable	886.0	1,211.7	1,671.5	1,556.3	1,352.3
LT interest bearing debt	308.5	487.7	862.2	465.6	7.0
Other liabilities	49.0	53.0	53.0	53.0	53.0
<b>Total Liabilities</b>	<b>1,415.3</b>	<b>2,190.8</b>	<b>3,025.1</b>	<b>2,513.3</b>	<b>1,850.7</b>
Shareholders Equity	737.1	820.2	897.2	989.5	1,077.6
Minority Interest	83.7	71.8	71.8	71.8	71.8
<b>Total shareholder equity</b>	<b>820.8</b>	<b>892.0</b>	<b>969.0</b>	<b>1,061.3</b>	<b>1,149.3</b>
<b>Total liabilities and equity</b>	<b>2,236.0</b>	<b>3,082.8</b>	<b>3,994.1</b>	<b>3,574.6</b>	<b>3,000.0</b>
<b>CASH FLOW (MYR m)</b>					
Pretax profit	184.1	188.6	196.4	215.6	208.9
Depreciation & amortisation	23.7	21.0	19.2	19.5	19.4
Adj net interest (income)/exp	(3.7)	(21.2)	(42.0)	(25.2)	3.7
Change in working capital	(382.1)	(498.0)	(256.7)	3.7	28.1
Cash taxes paid	(50.8)	(31.9)	(42.1)	(45.9)	(43.5)
Other operating cash flow	13.9	55.6	42.0	25.2	(3.7)
Cash flow from operations	(215.0)	(285.8)	(83.1)	192.8	212.9
Capex	(1.9)	(15.3)	(20.4)	(19.1)	(16.7)
Free cash flow	(216.9)	(301.1)	(103.4)	173.7	196.2
Dividends paid	(90.3)	(70.9)	(77.4)	(77.4)	(77.4)
Change in Debt	233.4	420.9	374.5	(396.6)	(458.6)
Other invest/financing cash flow	450.8	(71.1)	(262.7)	396.6	458.6
Net cash flow	377.1	(22.2)	(69.0)	96.3	118.8

FYE 31 Dec	FY22A	FY23A	FY24E	FY25E	FY26E
<b>Key Ratios</b>					
<b>Growth ratios (%)</b>					
Revenue growth	24.6	23.9	33.3	(6.1)	(12.6)
EBITDA growth	26.0	16.7	5.1	1.0	(13.7)
EBIT growth	33.8	20.2	6.3	1.0	(14.8)
Pretax growth	20.9	2.5	4.1	9.7	(3.1)
Reported net profit growth	20.1	7.3	6.4	9.9	(2.5)
Core net profit growth	20.1	7.3	6.4	9.9	(2.5)
<b>Profitability ratios (%)</b>					
EBITDA margin	9.8	9.2	7.2	7.8	7.7
EBIT margin	8.7	8.4	6.7	7.2	7.0
Pretax profit margin	8.5	7.1	5.5	6.5	7.2
Payout ratio	52.5	53.3	50.1	45.6	46.8
<b>DuPont analysis</b>					
Net profit margin (%)	6.3	5.4	4.3	5.1	5.7
Revenue/Assets (x)	1.0	0.9	0.9	0.9	1.0
Assets/Equity (x)	3.0	3.8	4.5	3.6	2.8
ROAE (%)	18.8	18.6	18.0	18.0	16.0
ROAA (%)	6.6	5.5	4.4	4.5	5.0
<b>Liquidity &amp; Efficiency</b>					
Cash conversion cycle	(42.6)	(8.6)	19.3	30.1	33.9
Days receivable outstanding	123.1	149.8	177.9	221.0	232.0
Days inventory outstanding	10.0	7.9	6.3	7.6	7.9
Days payables outstanding	175.7	166.3	164.9	198.5	206.1
Dividend cover (x)	1.9	1.9	2.0	2.2	2.1
Current ratio (x)	1.5	1.3	1.3	1.3	1.4
<b>Leverage &amp; Expense Analysis</b>					
Asset/Liability (x)	1.6	1.4	1.3	1.4	1.6
Net gearing (%) (incl perps)	net cash	51.1	92.8	38.3	net cash
Net gearing (%) (excl. perps)	net cash	51.1	92.8	38.3	net cash
Net interest cover (x)	44.9	10.4	5.7	9.6	na
Debt/EBITDA (x)	2.3	3.8	5.0	3.5	2.0
Capex/revenue (%)	0.1	0.6	0.6	0.6	0.6
Net debt/ (net cash)	(10.9)	455.6	899.1	406.1	(171.3)

Source: Company; Maybank IBG Research

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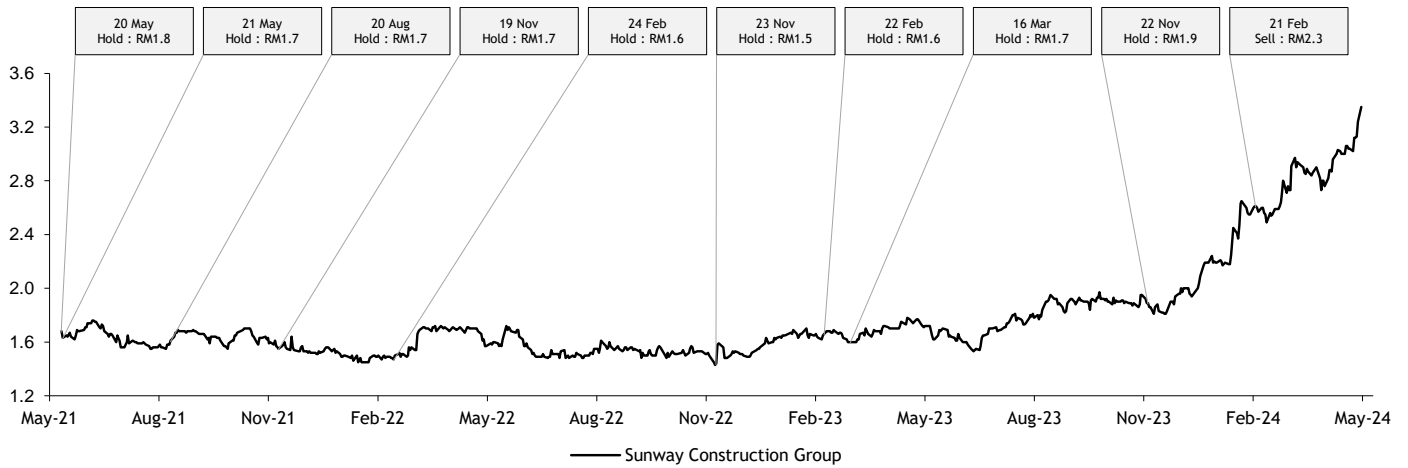
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