

10 June 2024

Construction & Engineering | Construction

Sunway Construction (SCGB MK)

Buy (Maintained)

Marking a “Pho-sitive” Development In Vietnam; BUY

Target Price (Return):	MYR3.81 (+15%)
Price (Market Cap):	MYR3.30 (USD907m)
ESG score:	3.3 (out of 4)
Avg Daily Turnover (MYR/USD)	10.9m/2.30m

- Maintain BUY and MYR3.81 TP, 15% upside with c.3% yield.** On 7 Jun, Toyo Ventures Holdings (TVHB) (TOYOVEN MK, NR) accepted an equipment procurement facility of USD980m for the 2.12GW Song Hau 2 thermal power plant (SH2P) in Vietnam. This facility may finance up to 70% of the invoice amount required to procure equipment related to EPCC works for SH2P. While this does not constitute a financial close for SH2P, we view this as remarkable progress in the execution of the project, after some delays.
- Project details.** The SH2P project is owned by TVHB, and will be operated via a build-operate-transfer model by its wholly owned subsidiary, Song Hau 2 Power Company. Back in Mar 2023, Sunway Construction, via a JV with Power Engineering Consulting Joint Stock Company 2 (PECC2), executed a formal contract agreement with the owner to formalise the terms and conditions regarding the EPCC job for SH2P, with SCGB holding a 55% stake in the JV, and PECC2 holding the remaining 45%. The contract value for SH2P is USD2.4bn (c.MYR11.2bn), which brings the value of SCGB's effective share to c.MYR6bn.
- Indicative earnings accretion if SH2P kicks off.** With a targeted duration of close to five years (57 months) and an assumed 7% PAT margin, we estimate that SH2P may boost earnings by <5% for FY24F and 20-35% for FY25F and FY26F, if financial close is obtained by end-June. SCGB's outstanding orderbook may also expand to a record high of c.MYR12bn from MYR6.3bn currently. Subsequently, we postulate that there could be an indicative upside of 15-20% to our current MYR3.81 TP, if this project commences.
- No changes to our earnings estimates** pending financial close of the SH2P project. Hence, our MYR3.81 TP – derived by pegging FY25F EPS to an unchanged target P/E of 20.5x (which bakes in a 6% ESG premium) – is unchanged, for now. We believe that the target P/E is justified, as it reflects SCGB's position to secure more data centre (DC) jobs in Johor and Selangor. The group has already secured MYR2.8bn worth of DC contracts (which were not in the last construction upcycle in 2017 when it traded at 18.5x P/E).
- The stock is currently trading at 19x FY25 P/E**, which is at a premium to the Bursa Malaysia Construction Index's 5-year mean of 13x. We think this is justified, as SCGB's ROE is significantly higher than that of its peers, and as it also has the potential to benefit from the Johor-Singapore Special Economic Zone via Sunway City Iskandar Puteri. Long-term catalysts would be Sunway's (SWB MK, BUY, TP: MYR4) hospital network expansion plan across Penang, Kelantan, and Iskandar Puteri.
- Key downside risks** include project delays and a prolonged period of high material costs.

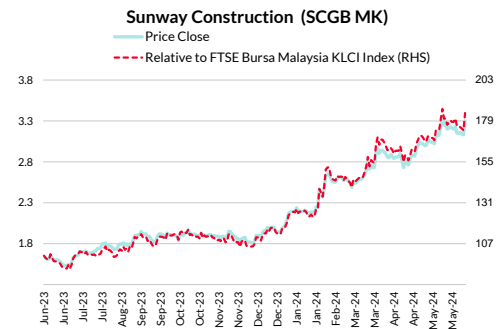
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	70.1	7.8	28.4	82.3	101.2
Relative	58.9	7.0	23.1	70.2	83.8
52-wk Price low/high (MYR)				1.53	–3.35



Source: Bloomberg

Forecasts and Valuation	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Total turnover (MYRm)	2,155	2,671	2,843	3,463	4,100
Recurring net profit (MYRm)	144	170	176	226	259
Recurring net profit growth (%)	(0.3)	18.2	3.2	28.7	14.6
Recurring P/E (x)	29.55	25.00	24.23	18.83	16.43
P/B (x)	5.8	5.2	4.8	4.3	3.9
P/CF (x)	na	na	9.29	29.85	13.69
Dividend Yield (%)	1.7	1.8	2.5	3.2	3.7
EV/EBITDA (x)	19.13	15.81	17.78	13.33	12.55
Return on average equity (%)	18.8	18.6	20.5	24.2	25.1
Net debt to equity (%)	net cash	38.7	26.8	28.4	33.8

Source: Company data, RHB

Overall ESG Score: 3.3 (out of 4)

E: EXCELLENT

It installed 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 power 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/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 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.

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Financial Exhibits

Asia	Financial summary (MYR)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Malaysia	Recurring EPS	0.11	0.13	0.14	0.18	0.20
Construction & Engineering	DPS	0.05	0.06	0.08	0.11	0.12
Sunway Construction	BVPS	0.57	0.64	0.69	0.76	0.84
SCGB MK	Return on average equity (%)	18.8	18.6	20.5	24.2	25.1
Buy						
	Valuation metrics	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Recurring P/E (x)	29.55	25.00	24.23	18.83	16.43
	P/B (x)	5.8	5.2	4.8	4.3	3.9
	FCF Yield (%)	(5.7)	(7.1)	9.5	2.1	6.0
	Dividend Yield (%)	1.7	1.8	2.5	3.2	3.7
	EV/EBITDA (x)	19.13	15.81	17.78	13.33	12.55
	EV/EBIT (x)	21.57	19.70	21.43	15.50	14.62
	Income statement (MYRm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Total turnover	2,155	2,671	2,843	3,463	4,100
	Gross profit	366	198	454	753	787
	EBITDA	210	279	244	329	357
	Depreciation and amortisation	(24)	(55)	(42)	(46)	(50)
	Operating profit	187	224	203	283	307
	Net interest	(4)	(21)	(5)	(1)	(1)
	Pre-tax profit	184	189	207	277	316
	Taxation	(45)	(43)	(40)	(54)	(62)
	Reported net profit	135	145	176	226	259
	Recurring net profit	144	170	176	226	259
	Cash flow (MYRm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Change in working capital	(382)	(498)	250	(126)	6
	Cash flow from operations	(215)	(286)	458	143	311
	Capex	(27)	(18)	(55)	(55)	(56)
	Cash flow from investing activities	424	(88)	(54)	(53)	(256)
	Dividends paid	(90)	(72)	(105)	(136)	(155)
	Cash flow from financing activities	143	349	259	155	129
	Cash at beginning of period	99	492	470	593	611
	Net change in cash	351	(25)	662	245	183
	Ending balance cash	446	467	1,133	839	797
	Balance sheet (MYRm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Total cash and equivalents	576	582	705	723	688
	Tangible fixed assets	108	99	183	191	196
	Total investments	223	253	253	253	253
	Total assets	2,236	3,083	2,936	3,248	3,709
	Short-term debt	172	438	488	538	588
	Total long-term debt	312	489	477	487	497
	Total liabilities	1,415	2,191	1,965	2,184	2,536
	Total equity	821	892	971	1,065	1,173
	Total liabilities & equity	2,236	3,083	2,936	3,248	3,709
	Key metrics	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Revenue growth (%)	24.6	23.9	6.4	21.8	18.4
	Recurrent EPS growth (%)	(0.3)	18.2	3.2	28.7	14.6
	Gross margin (%)	17.0	7.4	16.0	21.7	19.2
	Operating EBITDA margin (%)	9.8	10.5	8.6	9.5	8.7
	Net profit margin (%)	6.3	5.4	6.2	6.5	6.3
	Dividend payout ratio (%)	52.5	53.3	60.0	60.0	60.0
	Capex/sales (%)	1.3	0.7	1.9	1.6	1.4
	Interest cover (x)	10.3	4.7	3.3	5.8	6.8

Source: Company data, RHB

Emissions And ESG

Trend analysis

While total emissions have been increasing, the company's Scope 1 emissions have eased to 7,440 tonnes in FY23 from 9,713 tonnes in FY20.

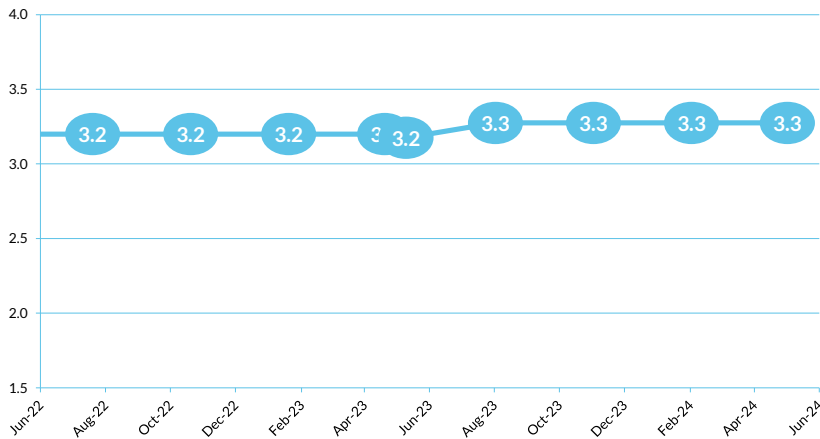
Emissions (tCO2e)	Dec-21	Dec-22	Dec-23
Scope 1	6,104	7,167	7,440
Scope 2	3,863	4,504	6,997
Scope 3	144,401	168,888	314,414
Total emissions	154,368	180,559	328,851

Source: Company data, RHB

Latest ESG-Related Developments

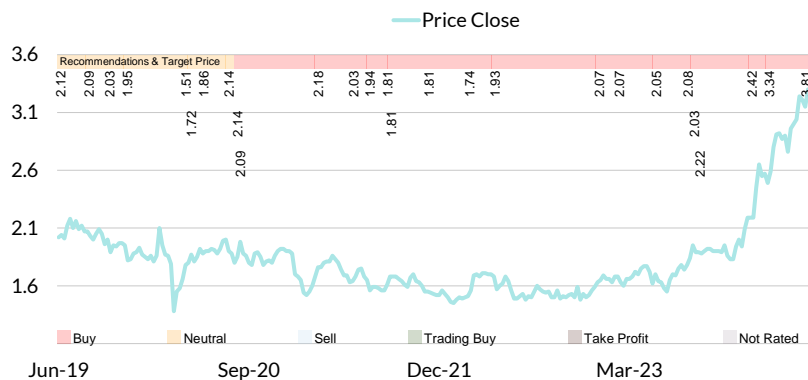
- Through its Sustainable Energy Services division, the group continues to be on the forefront of ongoing efforts to enable the transition towards a greener economy.
- In FY2022, the division completed 18 rooftop solar panels installation projects with a cumulative clean energy generating capacity of 17,866 kWp.

ESG Rating History



Source: RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2024-05-21	Buy	3.81	3.25
2024-03-21	Buy	3.34	2.73
2024-02-22	Buy	3.34	2.60
2024-02-21	Buy	3.34	2.61
2024-01-12	Buy	2.42	2.19
2023-11-22	Buy	2.22	1.89
2023-10-06	Buy	2.22	1.92
2023-09-07	Buy	2.22	1.88
2023-08-24	Buy	2.03	1.79
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

Source: RHB, Bloomberg

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Neutral:	Share price may fall within the range of +/- 10% over the next 12 months
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Not Rated:	Stock is not within regular research coverage

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