

19 July 2024

Construction & Engineering | Construction

Sunway Construction (SCGB MK)

Buy (Maintained)

Still Walking On Sunshine; BUY

Target Price (Return): MYR6.29 (+24%)
 Price (Market Cap): MYR5.09 (USD1,405m)
 ESG score: 3.3 (out of 4)
 Avg Daily Turnover (MYR/USD) 13.4m/2.83m

- **Still BUY, TP rises to MYR6.29 (from MYR4.92) TP, 24% upside and c.2% FY24F yield.** We remain upbeat on Sunway Construction's growth prospects, which are backed by data centre (DC) works contracts as well as other industrial jobs such as warehouses and semiconductor manufacturing facilities. Our estimated job wins of at least MYR4bn pa backs our 3-year earnings CAGR (2023-2026) of 24%.
- **Expecting more DC wins.** Sunway (SWB MK, BUY, TP: MYR5.00) hived off two parcels of land spanning 64 acres in Sunway City Iskandar Puteri (SCIP) to Singapore-based Equalbase for the purpose of DC development. This is in addition to Equalbase's MYR8bn carbon-neutral logistics hub in a free commercial zone of SCIP. We envisage SCGB to be a frontrunner for either the said logistics hub or any DC construction job in SCIP.
- **The value of industrial property transactions** in Selangor grew by 20% YoY in 1Q24 while Johor registered a larger growth of 61% YoY in the same period, according to the National Property Information Centre. Going forward, SCGB may regard other types of industrial buildings to be a strategic cushion, if the DC construction market gets too saturated. SCGB is currently involved in Daiso Malaysia Group's global distribution centre warehouse project worth MYR298m in Port Klang.
- **SCGB's foreign ownership** has stayed above 2.5% over March-May vs Nov 2023-to-Jan 2024 when the figure hovered between 0.5% and 0.6%. Record-high foreign shareholding levels since its listing in 2015 were chalked in May 2016, at 11%. We anticipate foreign shareholding levels to gradually rise in the coming months, in light of the upcycle of the construction sector.
- **We take the opportunity to bump up our job replenishment assumptions** for FY25F and FY26F to MYR4bn each (from MYR3.5bn), which leads to a 2% increase in FY25-26F earnings. This is to pencil in the growth prospects of its industrial building segment, underpinned by robust FDI prospects. Malaysia has approved [MYR83.7bn \(+13% YoY\) of investments for 1Q24](#) with foreign investments making up c.56% of the total.
- **The valuation of the construction sector may be set for a re-rating** amidst an imminent slew of public infrastructure projects, combined with the growth in demand for industrial buildings (absent in the 2017 sector upcycle). As such, we are ascribing a new target P/E of 27x (from 21.5x) for SCGB, which is higher than the large-cap peer average of 25x, to reflect the breadth of industrial jobs it has (including DCs). This enables it to weather downside risks related to the possibility of not securing public infrastructure jobs.
- **Post earnings and target P/E adjustment.** We derive a new TP of MYR6.29 (from MYR4.92) after pegging FY25F EPS to the new target P/E. Our TP also bakes in a 6% ESG premium. Key catalysts: Potential involvement in the Penang Light Rail Transit project, and SWB's hospital expansion plan across Penang, Kelantan and Iskandar Puteri. Key downside risk: Inability to consistently secure new jobs.

Analyst

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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	162.4	31.5	81.8	132.4	203.0
Relative	150.1	29.8	76.0	121.9	186.6
52-wk Price low/high (MYR)				1.69	-5.09

Sunway Construction (SCGB MK)



Source: Bloomberg

Forecasts and Valuation	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Total turnover (MYRm)	2,155	2,671	3,082	4,731	5,566
Recurring net profit (MYRm)	144	170	179	283	324
Recurring net profit growth (%)	(0.3)	18.2	4.9	58.7	14.2
Recurring P/E (x)	45.58	38.56	36.76	23.15	20.28
P/B (x)	8.9	8.0	7.4	6.5	5.8
P/CF (x)	na	na	14.17	54.88	17.87
Dividend Yield (%)	1.1	1.2	1.6	2.6	3.0
EV/EBITDA (x)	30.11	24.07	26.61	16.76	15.50
Return on average equity (%)	18.8	18.6	20.9	29.9	30.3
Net debt to equity (%)	net cash	38.7	26.4	32.7	35.4

Source: Company data, RHB

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 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 directors, with full disclosure on 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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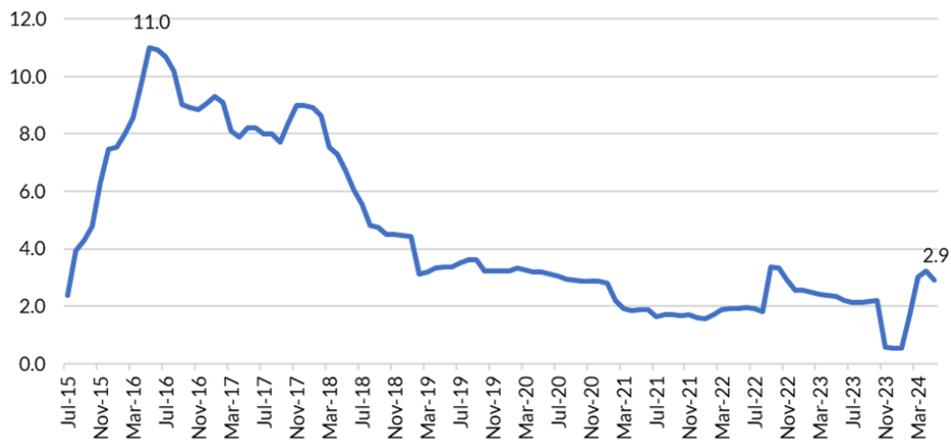
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Financial Exhibits

Asia	Financial summary (MYR)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Malaysia	Recurring EPS	0.11	0.13	0.14	0.22	0.25
Construction & Engineering	DPS	0.05	0.06	0.08	0.13	0.15
Sunway Construction	BVPS	0.57	0.64	0.69	0.78	0.88
SCGB MK	Return on average equity (%)	18.8	18.6	20.9	29.9	30.3
Buy						
	Valuation metrics	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Recurring P/E (x)	45.58	38.56	36.76	23.15	20.28
	P/B (x)	8.9	8.0	7.4	6.5	5.8
	FCF Yield (%)	(3.7)	(4.6)	6.2	1.0	4.7
	Dividend Yield (%)	1.1	1.2	1.6	2.6	3.0
	EV/EBITDA (x)	30.11	24.07	26.61	16.76	15.50
	EV/EBIT (x)	33.95	29.99	31.93	18.93	17.51
	Income statement (MYRm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Total turnover	2,155	2,671	3,082	4,731	5,566
	Gross profit	366	198	460	978	1,046
	EBITDA	210	279	250	403	441
	Depreciation and amortisation	(24)	(55)	(42)	(46)	(50)
	Operating profit	187	224	208	357	390
	Net interest	(4)	(21)	(7)	(3)	(4)
	Pre-tax profit	184	189	211	348	396
	Taxation	(45)	(43)	(41)	(68)	(77)
	Reported net profit	135	145	179	283	324
	Recurring net profit	144	170	179	283	324
	Cash flow (MYRm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Change in working capital	(382)	(498)	252	(207)	(2)
	Cash flow from operations	(215)	(286)	463	120	367
	Capex	(27)	(18)	(55)	(55)	(56)
	Cash flow from investing activities	424	(88)	(54)	(53)	(256)
	Dividends paid	(90)	(72)	(107)	(170)	(194)
	Cash flow from financing activities	143	349	257	121	90
	Cash at beginning of period	99	492	470	597	557
	Net change in cash	351	(25)	666	188	201
	Ending balance cash	446	467	1,136	785	760
	Balance sheet (MYRm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Total cash and equivalents	576	582	709	669	652
	Tangible fixed assets	108	99	183	191	196
	Total investments	223	253	253	253	253
	Total assets	2,236	3,083	3,048	3,772	4,341
	Short-term debt	172	438	488	538	588
	Total long-term debt	312	489	477	487	497
	Total liabilities	1,415	2,191	2,076	2,683	3,118
	Total equity	821	892	972	1,089	1,223
	Total liabilities & equity	2,236	3,083	3,048	3,772	4,341
	Key metrics	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Revenue growth (%)	24.6	23.9	15.4	53.5	17.7
	Recurrent EPS growth (%)	(0.3)	18.2	4.9	58.7	14.2
	Gross margin (%)	17.0	7.4	14.9	20.7	18.8
	Operating EBITDA margin (%)	9.8	10.5	8.1	8.5	7.9
	Net profit margin (%)	6.3	5.4	5.8	6.0	5.8
	Dividend payout ratio (%)	52.5	53.3	60.0	60.0	60.0
	Capex/sales (%)	1.3	0.7	1.8	1.2	1.0
	Interest cover (x)	10.3	4.7	3.4	7.3	8.6

Source: Company data, RHB

Figure 1: SCGB's foreign shareholding levels since its listing (%)



Source: Company data

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 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 SCGB's Sustainable Energy Services division, it continues to be in 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
2024-07-05	Buy	4.92	4.35
2024-07-01	Buy	4.32	3.90
2024-06-11	Buy	4.12	3.74
2024-06-10	Buy	3.81	3.31
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

Source: RHB, Bloomberg

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