

5 July 2024

Construction & Engineering | Construction

Sunway Construction (SCGB MK)

Buy (Maintained)

The Sun Still Shines For Sunway Construction; Still BUY

Target Price (Return):	MYR4.92 (+19%)
Price (Market Cap):	MYR4.13 (USD1,131m)
ESG score:	3.3 (out of 4)
Avg Daily Turnover (MYR/USD)	12.0m/2.54m

- **Still BUY, with new MYR4.92 from MYR4.32 TP, 19% upside and c.2% FY24F yield.** The Ministry of Industry and Trade of the Socialist Republic of Vietnam (MOIT) has notified Song Hau 2 Power Company of the effective termination of the Build-Operate-Transfer (BOT) contract for the Song Hau 2 thermal power plant (SH2P). The termination came via a letter from MOIT dated 1 Jul informing that the 90-day period since the issuance of the notice of intention to terminate has expired while financial arrangements for SH2P are still not being remedied.
- **No impact to Sunway Construction.** Toyo Ventures Holdings (TOYOVEN MK, NR), of which Song Hau 2 Power Company is a subsidiary, is evaluating the implications of the said termination and will be seeking legal advice to explore appropriate actions and remedies as per the terms of the BOT contract of SH2P. Notwithstanding this, there is no financial impact to our earnings estimates as we have not included the c.MYR6bn job value of SH2P (effective 55% share) into SCGB's orderbook.
- **We view the abovementioned development to be of no major concern to SCGB** as its outstanding orderbook of MYR7.9bn may provide earnings visibility over the next three years. Furthermore, the group may be able to focus on delivering more data centre (DC) jobs that constitute around 50% of its outstanding orderbook. Aside from DCs, SCGB has various tenders related to warehouse and semiconductor manufacturing facilities. It currently only has one warehouse related job – Daiso Malaysia Group's global distribution centre warehouse worth MYR298m in Port Klang.
- **We are taking the opportunity to bump up our job replenishment assumptions for FY25F and FY26F to MYR3.5bn from MYR2.5bn for both years while leaving the FY24F new job target of MYR4.5bn unchanged.** We deem the previous targets to be too conservative as Malaysia's current operating capacity of between 180MW and 200MW of operational capacity will see a 600% growth in the next five years based on [Cushman and Wakefield's APAC Centre Update](#). In our opinion, we also envisage manpower management to not be a major issue for SCGB, particularly for DC jobs as the group could adopt the job specific hiring model for such jobs.
- **Earnings and valuation.** Post new job wins target adjustment, we raise FY25F-26F earnings by 14% each. Our new TP of MYR4.92 (from MYR4.32) is derived via pegging FY25F EPS to a target P/E of 21.5x and includes a 6% ESG premium. We believe the target P/E is justified to reflect SCGB's position in the DC space which may provide a buffer in the event that anticipated infrastructure projects such as the Mass Rapid Transit 3 is further delayed beyond our base case assumption of 1H25.
- **Long term catalysts** would be Sunway's (SWB MK, BUY, TP: MYR4.00) hospital expansion plan across Penang, Kelantan and Iskandar Puteri.
- **Key risks:** Project delays and prolonged period of high material costs.

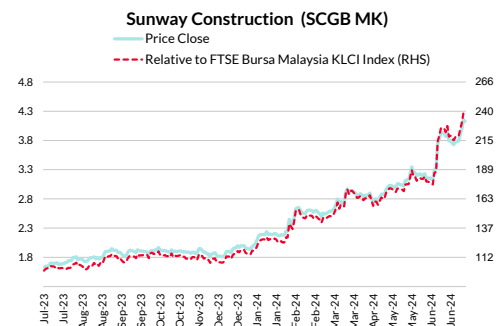
Analyst

Adam Bin Mohamed Rahim
+603 2302 8101
adam.mohamed.rahim@rhbgroup.com



Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	112.9	30.7	42.9	102.5	163.1
Relative	101.8	30.6	38.8	93.1	147.0
52-wk Price low/high (MYR)				1.65	-4.16



Source: Bloomberg

Forecasts and Valuation	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Total turnover (MYRm)	2,155	2,671	3,082	4,599	5,509
Recurring net profit (MYRm)	144	170	179	278	318
Recurring net profit growth (%)	(0.3)	18.2	5.0	55.8	14.1
Recurring P/E (x)	36.98	31.29	29.80	19.13	16.76
P/B (x)	7.2	6.5	6.0	5.3	4.7
P/CF (x)	na	na	11.50	43.61	14.82
Dividend Yield (%)	1.3	1.5	2.0	3.1	3.6
EV/EBITDA (x)	24.22	19.64	21.65	13.90	12.91
Return on average equity (%)	18.8	18.6	20.9	29.4	29.8
Net debt to equity (%)	net cash	38.7	26.4	32.2	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 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	0.22	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	29.4	29.8
Buy						
	Valuation metrics	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Valuation basis	Recurring P/E (x)	36.98	31.29	29.80	19.13	16.76
We value the company based on FY25F P/E of 21.5x.	P/B (x)	7.2	6.5	6.0	5.3	4.7
Sunway Construction's minimal net debt position allows it to gear up for more jobs moving forward.	FCF Yield (%)	(4.5)	(5.7)	7.7	1.3	5.7
	Dividend Yield (%)	1.3	1.5	2.0	3.1	3.6
	EV/EBITDA (x)	24.22	19.64	21.65	13.90	12.91
	EV/EBIT (x)	27.31	24.47	25.98	15.72	14.61
Key drivers	Income statement (MYRm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Sunway Construction's earnings are backed by:	Total turnover	2,155	2,671	3,082	4,599	5,509
i. An outstanding order backlog of MYR7.9bn, of which >90% is from construction, which would keep the firm busy for the next three years;	Gross profit	366	198	460	956	1,032
ii. Recurring orders from its parent company.	EBITDA	210	279	250	396	433
	Depreciation and amortisation	(24)	(55)	(42)	(46)	(50)
	Operating profit	187	224	208	350	383
	Net interest	(4)	(21)	(7)	(3)	(4)
	Pre-tax profit	184	189	211	342	388
	Taxation	(45)	(43)	(41)	(67)	(76)
	Reported net profit	135	145	179	278	318
	Recurring net profit	144	170	179	278	318
Key risks	Cash flow (MYRm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
i. Project delays;	Change in working capital	(382)	(498)	252	(199)	(4)
ii. A prolonged period of high material costs.	Cash flow from operations	(215)	(286)	463	122	359
	Capex	(27)	(18)	(55)	(55)	(56)
	Cash flow from investing activities	424	(88)	(54)	(53)	(256)
	Dividends paid	(90)	(72)	(107)	(167)	(191)
	Cash flow from financing activities	143	349	257	124	93
	Cash at beginning of period	99	492	470	597	563
	Net change in cash	351	(25)	666	193	197
	Ending balance cash	446	467	1,136	791	761
Company Profile	Balance sheet (MYRm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Sunway Construction is one of the largest construction companies in Malaysia. Apart from civil & infrastructure construction services, the company also provides the more specialised: i. Foundation & geotechnical engineering services; ii. Mechanical, electrical & plumbing (MEP) services. In addition, it runs a highly profitable precast concrete product manufacturing operation in Malaysia and Singapore. Aside from fulfilling local requirements, it also largely supplies hose concrete products for Housing & Development Board (HDB) projects in the island republic.	Total cash and equivalents	576	582	709	675	653
	Tangible fixed assets	108	99	183	191	196
	Total investments	223	253	253	253	253
	Total assets	2,236	3,083	3,048	3,717	4,316
	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	2,630	3,097
	Total equity	821	892	972	1,087	1,219
	Total liabilities & equity	2,236	3,083	3,048	3,717	4,316
	Key metrics	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Revenue growth (%)	24.6	23.9	15.4	49.2	19.8
	Recurrent EPS growth (%)	(0.3)	18.2	5.0	55.8	14.1
	Gross margin (%)	17.0	7.4	14.9	20.8	18.7
	Operating EBITDA margin (%)	9.8	10.5	8.1	8.6	7.9
	Net profit margin (%)	6.3	5.4	5.8	6.1	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	7.2	8.4

Source: Company data, RHB

Emissions And ESG

Trend analysis

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

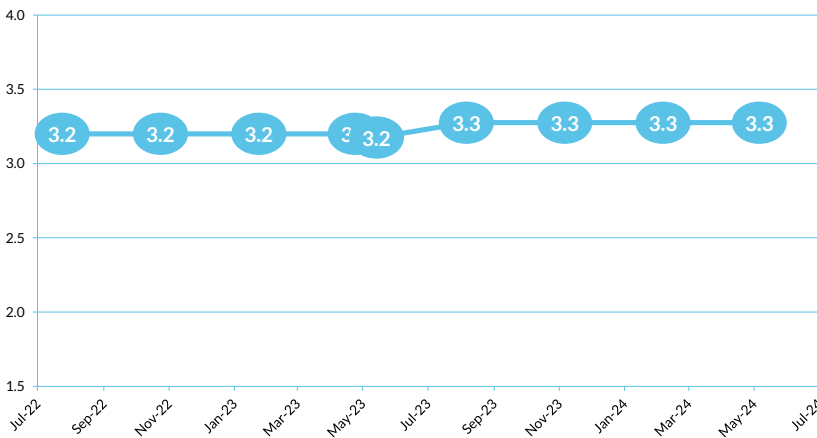
Emissions (tCO2e)	Dec-21	Dec-22	Dec-23
Scope 1	6,104	7,167	7,440
Scope 2	3,863	4,504	6,997
Scope 3	144,401	168,888	314,414
Total emissions	154,368	180,559	328,851

Source: Company data, RHB

Latest ESG-Related Developments

- Through SCGB’s Sustainable Energy Services division, the group continues to be in the forefront of ongoing efforts to enable the transition towards a greener economy.
- In FY22, 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
2024-07-01	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
2023-05-23	Buy	2.05	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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KUALA LUMPUR

RHB Investment Bank Bhd
Level 3A, Tower One, RHB Centre
Jalan Tun Razak
Kuala Lumpur 50400
Malaysia
Tel : +603 2302 8100
Fax : +603 2302 8134

JAKARTA

PT RHB Sekuritas Indonesia
Revenue Tower, 11th Floor, District 8 - SCBD
Jl. Jendral Sudirman Kav 52-53
Jakarta 12190
Indonesia
Tel: +6221 509 39 888
Fax : +6221 509 39 777

BANGKOK

RHB Securities (Thailand) PCL
10th Floor, Sathorn Square Office Tower
98, North Sathorn Road, Silom
Bangrak, Bangkok 10500
Thailand
Tel: +66 2088 9999
Fax :+66 2088 9799

SINGAPORE

RHB Bank Berhad (Singapore branch)
90 Cecil Street
#04-00 RHB Bank Building
Singapore 069531
Fax: +65 6509 0470