

23 August 2024

Construction & Engineering | Construction

Sunway Construction (SCGB MK)

Buy (Maintained)

Continues Exhibiting YoY Strength; Still BUY

Target Price (Return): MYR5.50 (30%)
 Price (Market Cap): MYR4.24 (USD1,249m)
 ESG score: 3.3 (out of 4)
 Avg Daily Turnover (MYR/USD) 18.3m/3.96m

- **Still BUY, new MYR5.50 TP from MYR6.29, 30% upside and c.3% FY25F yield.** 1H24 core earnings of MYR64m (+10% YoY) missed our and Street's estimates at 36% and 35% of full-year projections. The negative deviation was mainly due to lower-than-expected progress billings of certain projects (our earlier projections were too optimistic). While we expect FY24 to see a decline in earnings, we view FY25 to be a supercharged year (earnings projected to grow at c.53%), underpinned by stronger recognition from a mix of data centre (DC) jobs.
- **Sunway Construction's construction arm's PBT grew 20% YoY in 2Q24** with a stronger PBT margin of 7.8% (2Q23: 7.3%). This was underpinned by accelerated progress on newer projects. However, certain projects such as the JHB1X0 (initial package) DC project at Sedenak Tech Park continues to see sluggish progress at 14.7% in 2Q24 (1Q24: 14.5%). SCGB's precast segment also recorded a 2Q24 PBT of MYR3.3m (3Q23: MYR3.2m) on a reversal of provisions for completed projects.
- **Orderbook update.** SCGB's construction orderbook stood at MYR7.4bn as at end 2Q24 (end 2Q23: MYR5.8bn) with MYR3.5bn orders secured vs our FY24 target of MYR4.5bn. Looking ahead, the group has MYR13.7bn worth of active tenders comprising DC, warehousing, and semiconductor facilities.
- **We cut FY24F-26F earnings** by 9%, 13%, and 3% as we dial down on the revenue recognition for some projects, particularly the initial package for JHB1X0 at Sedenak Tech Park (completion was relatively unchanged in 2Q24 vs 1Q24 as mentioned above). Consequently, we arrive at a new TP of MYR5.50 by pegging FY25F EPS to an unchanged target P/E of 27x to reflect the breadth of industrial jobs SCGB has (especially DCs) that can weather the risks of not securing public infrastructure jobs. Our TP also bakes in a 6% ESG premium, given the company's 3.3 score vs the 3.0 country median.
- **SCGB is currently trading at 22x FY25F P/E**, a premium from the Bursa Malaysia Construction Index's 10-year mean of 13x. We think this is justified, given its ROE - which is significantly higher than its peers - and SCGB's position to benefit from an array of catalysts. These include the securing semiconductor-related jobs (SCGB has yet to clinch any) and job wins from the infrastructure space, eg additional Light Rail Transit (LRT) 3 stations and the Segment 2 of the Penang LRT's Mutiara Line. In the longer run, SCGB is likely to benefit from the Johor-Singapore Special Economic Zone via Sunway City Iskandar Puteri in addition to Sunway's (SWB MK, BUY, TP: MYR5) hospital expansion plans across Penang, Kelantan, and Iskandar Puteri.
- **Key risks:** Project delays and a prolonged period of high material costs.

Analyst

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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	118.6	(14.5)	30.5	63.1	139.5
Relative	105.7	(15.7)	29.3	56.9	126.4
52-wk Price low/high (MYR)				1.79	-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	2,920	3,935	5,066
Recurring net profit (MYRm)	144	170	162	248	314
Recurring net profit growth (%)	(0.3)	18.2	(4.8)	52.9	26.8
Recurring P/E (x)	37.97	32.12	33.76	22.08	17.41
P/B (x)	7.4	6.7	6.2	5.6	4.9
P/CF (x)	na	na	12.11	42.24	17.81
Dividend Yield (%)	1.3	1.4	1.8	2.7	3.4
EV/EBITDA (x)	24.90	20.15	22.45	15.58	13.05
Return on average equity (%)	18.8	18.6	19.0	26.5	30.0
Net debt to equity (%)	net cash	38.7	26.9	30.8	38.6

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 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

SCGB ensures the safety and health of all its employees, and public areas surrounding its 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 remunerations, 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.

Financial Exhibits

Asia	Financial summary (MYR)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Malaysia	Recurring EPS	0.11	0.13	0.13	0.19	0.24
Construction & Engineering	DPS	0.05	0.06	0.08	0.12	0.15
Sunway Construction	BVPS	0.57	0.64	0.69	0.76	0.86
SCGB MK	Return on average equity (%)	18.8	18.6	19.0	26.5	30.0
Buy						
	Valuation metrics	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Valuation basis	Recurring P/E (x)	37.97	32.12	33.76	22.08	17.41
We value the company based on FY25F P/E of 27x.	P/B (x)	7.4	6.7	6.2	5.6	4.9
	FCF Yield (%)	(4.4)	(5.5)	7.3	1.4	4.6
Key drivers	Dividend Yield (%)	1.3	1.4	1.8	2.7	3.4
Sunway Construction's earnings are backed by:	EV/EBITDA (x)	24.90	20.15	22.45	15.58	13.05
i. An outstanding order backlog of MYR6.3bn, of which >90% is from construction – this would keep the firm busy for the next three years;	EV/EBIT (x)	28.07	25.10	26.99	17.86	14.73
ii. Recurring orders from its parent company.						
	Income statement (MYRm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Key risks	Total turnover	2,155	2,671	2,920	3,935	5,066
Project delays and a prolonged period of high material costs.	Gross profit	366	198	457	853	1,046
	EBITDA	210	279	247	360	441
	Depreciation and amortisation	(24)	(55)	(42)	(46)	(50)
	Operating profit	187	224	205	314	390
	Net interest	(4)	(21)	(7)	(3)	(4)
	Pre-tax profit	184	189	199	306	387
	Taxation	(45)	(43)	(39)	(60)	(75)
	Reported net profit	135	145	162	248	314
	Recurring net profit	144	170	162	248	314
Company Profile	Cash flow (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 and 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, the group also largely supplies hose concrete products for Housing & Development Board (HDB) projects in the island republic.	Change in working capital	(382)	(498)	250	(163)	(55)
	Cash flow from operations	(215)	(286)	451	129	307
	Capex	(27)	(18)	(55)	(55)	(56)
	Cash flow from investing activities	424	(88)	(54)	(53)	(256)
	Dividends paid	(90)	(72)	(97)	(149)	(188)
	Cash flow from financing activities	143	349	267	142	96
	Cash at beginning of period	99	492	470	595	587
	Net change in cash	351	(25)	664	219	147
	Ending balance cash	446	467	1,135	815	735
	Balance sheet (MYRm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Total cash and equivalents	576	582	707	699	627
	Tangible fixed assets	108	99	183	191	196
	Total investments	223	253	253	253	253
	Total assets	2,236	3,083	2,959	3,421	4,064
	Short-term debt	172	438	488	538	588
	Total long-term debt	312	489	477	487	497
	Total liabilities	1,415	2,191	2,000	2,362	2,877
	Total equity	821	892	959	1,059	1,187
	Total liabilities & equity	2,236	3,083	2,959	3,421	4,064
	Key metrics	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Revenue growth (%)	24.6	23.9	9.3	34.8	28.7
	Recurrent EPS growth (%)	(0.3)	18.2	(4.8)	52.9	26.8
	Gross margin (%)	17.0	7.4	15.7	21.7	20.6
	Operating EBITDA margin (%)	9.8	10.5	8.5	9.2	8.7
	Net profit margin (%)	6.3	5.4	5.5	6.3	6.2
	Dividend payout ratio (%)	52.5	53.3	60.0	60.0	60.0
	Capex/sales (%)	1.3	0.7	1.9	1.4	1.1
	Interest cover (x)	10.3	4.7	3.4	6.4	8.6

Source: Company data, RHB

Results At a Glance

Figure 1: SCGB's results review

FYE Dec (MYRm)	2Q23	1Q24	2Q24	QoQ (%)	YoY (%)	1H23	1H24	YoY (%)	Comments
Revenue	604.1	604.8	651.2	7.7	7.8	1,126.2	1,256.0	11.5	Better progress billings from some projects.
EBIT	46.7	53.1	52.7	(0.8)	12.8	88.4	105.7	19.7	
EBIT margin (%)	7.7	8.8	8.1			7.8	8.4		
Interest expense	(11.5)	(16.2)	(17.8)	9.9	55.3	(19.7)	(34.0)	72.2	
Interest income	6.7	4.7	15.3	223.9	128.2	10.8	20.1	85.4	
EI/Others	0.3	0.0	0.0	nm	(100.0)	0.3	0.0	(100.0)	
Pre-tax profit	(0.7)	5.4	1.7	(68.5)	(342.9)	(2.6)	7.1	(373.1)	
Pre-tax margin (%)	42.3	41.6	50.2	20.5	18.8	79.8	91.9	15.1	
Tax	7.0	6.9	7.7			7.1	7.3		
Effective tax rate (%)	(9.0)	(8.9)	(12.4)	39.2	38.3	(17.9)	(21.4)	19.6	
Minority interest	(1.5)	(21.5)	(24.8)			(22.5)	(23.3)		
Net profit	(0.3)	(0.3)	1.1	(455.2)	(512.4)	(1.1)	0.8	(173.2)	
Core profit	33.0	32.4	38.9	19.9	17.8	60.8	71.3	17.2	Missed expectations.
Core net margin (%)	32.3	27.0	37.2	37.6	15.1	58.2	64.2	10.2	

Source: Company data, RHB

Emissions And ESG

Trend analysis

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

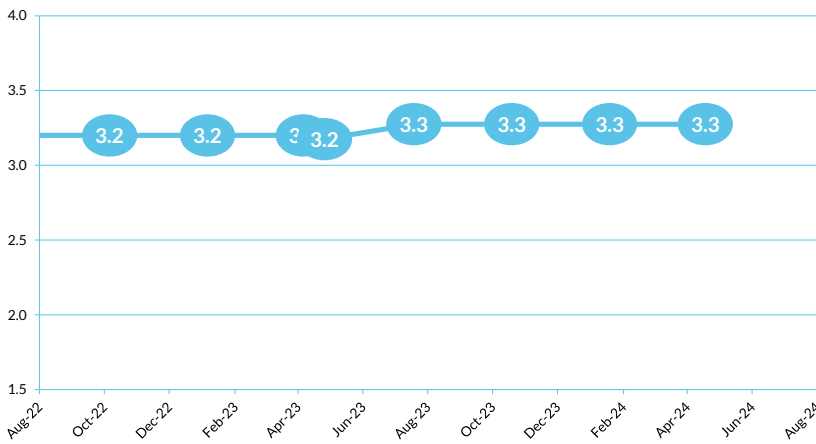
Emissions (tCO2e)	Dec-21	Dec-22	Dec-23
Scope 1	6,104	7,167	7,440
Scope 2	3,863	4,504	6,997
Scope 3	144,401	168,888	314,414
Total emissions	154,368	180,559	328,851

Source: Company data, RHB

Latest ESG-Related Developments

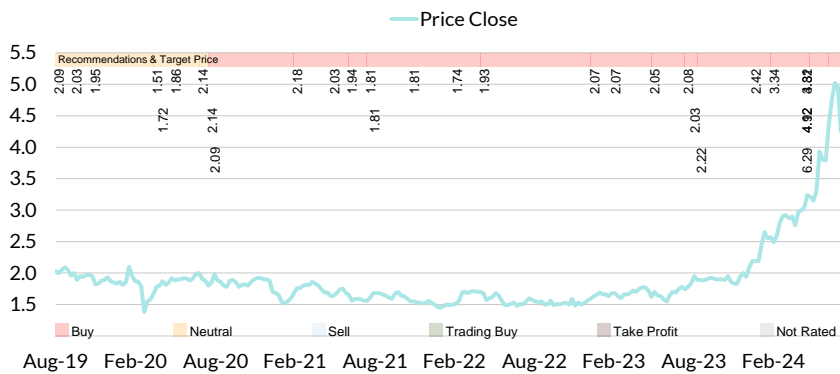
- Through SCGB's Sustainable Energy Services division, the group continues to be in the forefront of ongoing efforts to enable the transition towards a greener economy. In FY22, the division completed 18 rooftop solar panels installation projects with a cumulative clean energy generating capacity of 17,866kWp.

ESG Rating History



Source: RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2024-07-19	Buy	6.29	5.02
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

Source: RHB, Bloomberg

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Buy:	Share price may exceed 10% over the next 12 months
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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