

Sunway Construction Group (SCGB MK)

Higher capacity ahead

Earnings outlook to improve

SCGB's earnings outlook should improve on higher workforce capacity, based on the PM's statement yesterday. We maintain our FY21E net profit pending 2Q21 results release; earnings should be weaker QoQ, disrupted by MCO 3.0 (from 6 May) and FMCO (from 1 Jun). The disruption has continued into 1st half 3Q21. We value SCGB on 18x PER (-0.5SD of mean) 12M ending mid-FY22E earnings, deriving a MYR1.72 TP. Maintain HOLD.

At 30% effective work pace

Work at all SCGB's construction sites drew to a halt in the first 2 weeks of July on more stringent SOPs. Work resumed from mid-July for critical infra - KVLRT3 - and building jobs with approved workers accommodation or CLQs; these make up c.50% of SCGB's outstanding orderbook. That said, on just 60% workforce capacity (as per SOPs for projects located in NRP Phase 1 states), this is just a 30% effective work pace of its total orderbook, we estimate. About 70% of SCGB's outstanding orderbook comprises projects located in the Klang Valley, now under NRP Phase 1.

High workforce vaccination rate

Positively, 99% of SCGB's workforce has received 1st dose vaccination and they should be fully inoculated by end-August. Its sub-contractors have also achieved high workforce vaccination rate. A fully vaccinated workforce will enable a 100% workforce capacity regardless of projects location in NRP Phase 1 or 2 or 3 states, per PM's statement yesterday on further opening of economic sectors [\[link\]](#). Under the original NRP SOPs, a fully vaccinated workforce was a condition for 80% workforce capacity for projects located in NRP Phase 2 and 3 states.

Some other positives

Elsewhere, SCGB's NH-227 Indian annuity project has received the go-ahead from NHAI to start works from 9 Aug. SCGB has also, since end-1Q21, secured MYR155m new jobs, taking its YTD win to MYR620m and outstanding orderbook to MYR5.1b; the latter based on MYR5.0b balance as of end-Mar 2021 but before deducting for 2Q21 works recognition.

FYE Dec (MYR m)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue	1,769	1,553	2,396	2,699	2,753
EBITDA	181	124	175	218	239
Core net profit	129	73	111	136	139
Core EPS (sen)	10.0	5.6	8.6	10.5	10.8
Core EPS growth (%)	(10.3)	(43.7)	52.4	22.3	2.4
Net DPS (sen)	7.0	4.0	6.0	7.0	7.0
Core P/E (x)	19.1	33.3	18.1	14.8	14.5
P/BV (x)	4.0	3.8	3.0	2.8	2.6
Net dividend yield (%)	3.7	2.1	3.8	4.5	4.5
ROAE (%)	21.3	11.6	17.0	19.6	18.8
ROAA (%)	6.6	3.7	5.2	5.3	4.7
EV/EBITDA (x)	12.3	20.4	11.3	10.2	10.3
Net gearing (%) (incl perps)	net cash	15.8	net cash	29.1	60.2
Consensus net profit	-	-	111	141	153
MKE vs. Consensus (%)	-	-	(0.0)	(3.8)	(9.1)

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HOLD

Share Price	MYR 1.56
12m Price Target	MYR 1.72 (+14%)
Previous Price Target	MYR 1.72

Company Description

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

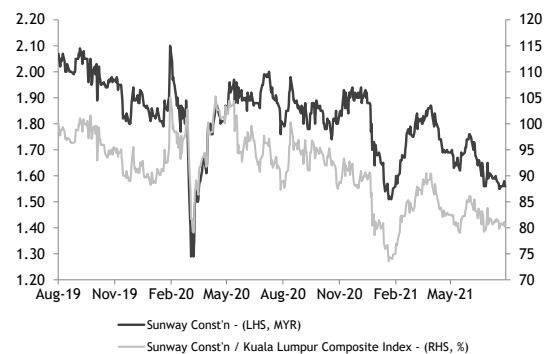
Statistics

52w high/low (MYR)	1.98/1.51
3m avg turnover (USDm)	0.1
Free float (%)	25.2
Issued shares (m)	1,293
Market capitalisation	MYR2.0B USD476M

Major shareholders:

Sunway Bhd.	54.4%
Active Equity Sdn. Bhd.	10.1%
Employees Provident Fund	9.0%

Price Performance



	-1M	-3M	-12M
Absolute (%)	(1)	(8)	(14)
Relative to index (%)	(0)	(3)	(10)

Source: FactSet

Abbreviation

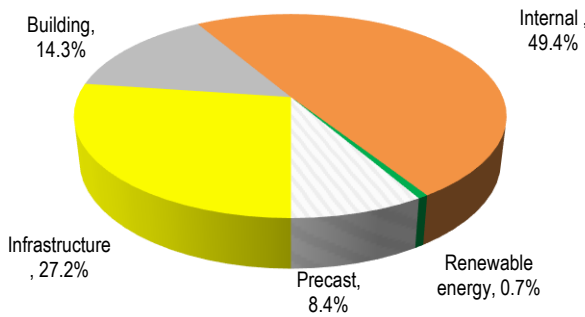
- PM = Prime Minister
- MCO = Movement Control Order
- FMCO = Full MCO
- SOP = Standard Operating Procedures
- KVLRT3 = Klang Valley Light Rail Transit Phs 3
- CLQ = Centralised Labour Quarter
- NRP = National Recovery Plan
- NHAI = National Highway Authority of India

ESG@MKE
Tear Sheet Insert

Value Proposition

- Malaysia's largest pure play construction group with an established brandname having commenced operations in 1981 with a cumulative revenue of MYR30b.
- 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 (two existing plants in Johor, 3rd under construction in SG [operational 2H22] - supplying IBS components largely to SG); (vi) renewable energy.
- Completed special purpose building projects include KL Convention Centre, Sunway Shopping Mall; completed civil projects include SILK, MEX, SKVE, BRT, KVMRT and KVLRT.
- Experienced senior management team and support from the Sunway Group add onto its value proposition.

MYR5b outstanding orderbook as of end-Mar 2021

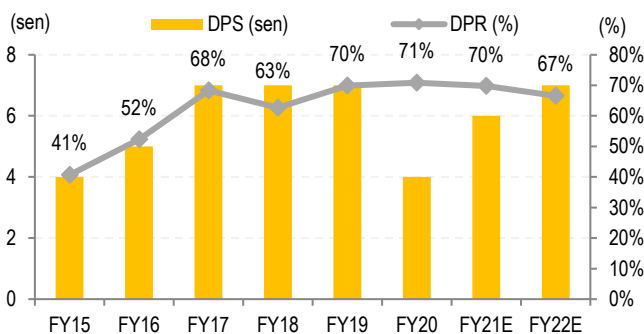


Source: Company

Financial Metrics

- Two main earning growth drivers are rising orderbook 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 due to work disruption from Malaysia's MCO; we expect ROE to rebound in FY22E.
- Balance sheet is strong with a near-cash (wholesale fund) balance of MYR497m as of 31 Mar 2021, off-setting a net debt of MYR117m (0.18x gearing).
- DPR is a minimum 35% of PATMI; since its relisting (on 28 Jul 2015), SCGB has been paying up to 71% (FY20).

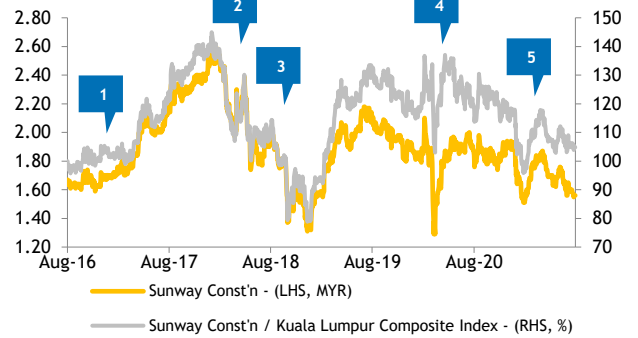
Dividends



Source: Company

Price Drivers

Historical share price trend



Source: Company, Maybank Kim Eng

- Secured MYR2.7b new jobs in 2016, bringing outstanding order book to a new high of MYR4.8b as of end-2016.
- Secured work packages under KVMRT 2 and KVLRT 3; outstanding orderbook reached another high of MYR6.1b as of end-2017.
- Post GE14 (9 May 2018) concerns, as the new Government sought to review the cost of major infra projects awarded during the previous Government.
- Malaysia's Movement Control Order (MCO) from 18 Mar 2020 led to work disruption at all of SCGB's projects.
- MCO 2.0 from 13 Jan 2021.

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 reaffirmation on higher usage of IBS in construction as a long-term plan to reduce the country's over-reliance on foreign labour; this will be positive for SCGB's precast concrete business.

Downside

- Slower-than-expected work progress at existing projects will affect the timing of earnings recognition.
- High COVID-19 cases could disrupt work pace again.
- 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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Risk Rating & Score ¹	30.7 (High)
Score Momentum ²	+1.5
Last Updated	14 Apr 2021
Controversy Score ³ (Updated: 14 Dec 2019)	1 - Business ethics incidents

Business Model & Industry Issues

- As an industry leader, SCGB has built a track record in GBI-certified buildings and it also offers renewable energy services. SCGB has started measuring and reporting on key "E" parameters - water & energy use, carbon emission - on per unit revenue basis, in 2020.
- On labour matters, SCGB complies with Act 446, which extends to CLQ/workers accommodation of its business partners. To mitigate bribery & corruption risks, its Anti-Bribery and Corruption Policy and Anti-Money Laundering Policy were rolled out in 2020.
- Overall, SCGB's ESG risks are manageable, in our view. As SCGB continues to build on these efforts, its value proposition and investment case should strengthen further.

Material E issues

- SCGB has built a track record in designing Green Building Index (GBI)-certified buildings with 4 completed and 3 ongoing projects. It offers renewable (solar) energy services and has participated in the tender of Large Scale Solar (LSS) projects.
- SCGB started reporting on the following parameters (on per unit revenue basis) in 2020: (i) Water Use Intensity (WUI; 253m³/MYRm); (ii) Energy Use Intensity (EUI; 3.08 MWh/MYRm); (iii) Carbon Emission Intensity (CEI; 98 tCO₂e/MYRm). It targets to lower WUI and CEI by 10% by 2030 (with 2020 as base year), while target for EUI has yet to be established.
- In Jan 2021, SCGB signed up as an official supporter of the Task Force on Climate-Related Financial Disclosures (TCFD).
- SCGB achieved zero environmental compounds and fines in 2020. All its project sites are certified with ISO 14001:2015 Environmental Management System since 2018, ensuring strict implementation and monitoring.
- In Nov 2020, SCGB ceased to be a FTSE4Good Index constituent after 5 consecutive years as it fell out of the FTSE Index series for not passing the liquidity screening.

Material S issues

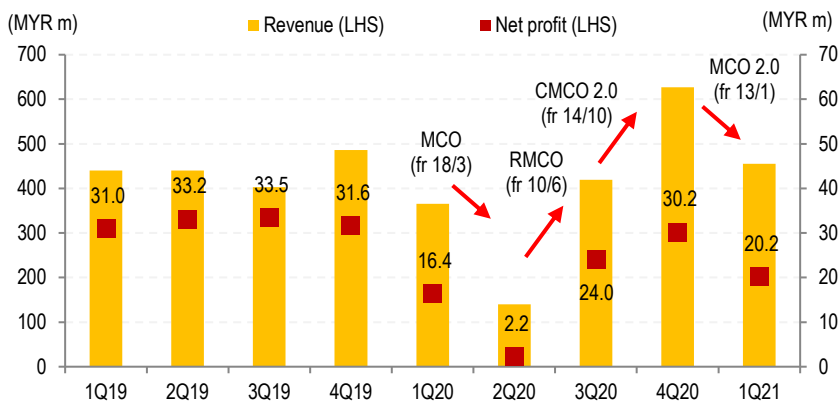
- Women made up just 16% of SCGB's workforce in 2020 due to the nature of its operations (women made up 31% at the executive level, 5% at the non-executive level). Pay equity was however balanced at 1.00 (women) : 0.99 (men).
- Employees' training was an avg. 15.9 hours per employee in 2020 (total MYR289k); SCGB targets 40 hours by 2030.
- All of SCGB's workplaces are ISO 45001/OHSAS 18001 Occupational Health and Safety Management System certified.
- SCGB complies with Act 446 - Workers' Minimum Standards of Housing and Amenities (Amendment) Act 2019 - fully enforced in Sep 2020. This extends to CLQ/workers accommodation of its business partners.
- To mitigate COVID-19 infection risk at worksites, >12,500 tests were conducted on its workforce and that of its business partners in Jun-Dec 2020.
- SCGB contributed MYR250k to the National Disaster Relief Fund and MYR280k to the Jeffrey Cheah Foundation in 2020 to support the foundation's aim of quality education; this was in addition to its other community outreach efforts.

Key G metrics and issues

- SCGB's Board comprises 7 Directors of which 6 are Non-Executive (incl. Chairman). 4 (or 57%) are Independent; each has not served a cumulative term of >9 years. SCGB's Constitution provides for 1/3 of its Board to retire by rotation by each AGM but eligible for re-election.
- There is presently just 1 woman on SCGB's Board (14% representation), short of the 30% requirement.
- SCGB provides detailed disclosure on remuneration of its directors but not of its top senior management. In FY20, remuneration to directors (including alternate director) was 2.9% of pretax profit.
- SCGB has been audited by BDO PLT since FY15, at least.
- An Anti-Bribery and Corruption Policy was rolled out in Jan 2020 to all staff and business associates. Also, SCGB had in 2020 established an Anti-Money Laundering Policy, which is linked to its pre-existing Code of Conduct & Business Ethics, and Whistleblowing Policy & Procedures.
- Transactions with related parties within the Sunway Group have been on terms and conditions not materially different from those with unrelated parties, based on our screening of its FY15-FY20 annual reports.

¹**Risk Rating & Score** - derived by Sustainalytics and assesses the company's exposure to unmanaged ESG risks. Scores range between 0 - 50 in order of increasing severity with low/high scores & ratings representing negligible/significant risk to the company's enterprise value, respectively, from ESG-driven financial impacts. ²**Score Momentum** - indicates changes to the company's score since the last update - a **negative** integer indicates a company's improving risk score; a **positive** integer indicates a deterioration. ³**Controversy Score** - reported periodically by Sustainalytics in the event of material ESG-related incident(s), with the impact severity scores of these events ranging from Category 0-5 (0 - no reports; 1 - negligible risks; ...; 5 - poses serious risks & indicative of potential structural deficiencies at the company).

Fig 1: SCGB's quarterly revenue and profit impacted by various MCO phases



Source: Company data, Maybank KE

Fig 2: Pandemic induced movement restrictions

2020	2021
18 Mar - 3 May → MCO	14 Oct 2020 - 12 Jan → CMCO 2.0
4 May - 9 Jun → Conditional MCO (CMCO)	13 Jan - 4 Mar → MCO 2.0
10 Jun - 13 Oct → Recovery MCO (RMCO)	5 Mar - 5 May → CMCO 3.0
14 Oct - 12 Jan 2021 → CMCO 2.0	6 May - 31 May → MCO 3.0 #
	1 Jun - current → Full MCO (FMCO) cum National Recovery Plan (NRP) Phase 1

Note: The dates above refer to MCO phases in the Klang Valley due to variation in MCO phases nationwide; Source: Compiled by Maybank KE

Fig 3: Key Standard Operating Procedures (SOP) for Construction Industry in 2021

	MCO 2.0 (fr 13 Jan)	CMCO 3.0 (fr 5 Mar)	MCO 3.0 (fr 6 May)	FMCO (fr 1 Jun)	NRP Phs 1 (fr 1 Jun)	NRP Phs 2	PM's sttmt on 15 Aug (fr 16 Aug)
Workers capacity at site	100%	100%	60%	60%	60%	80%	<ul style="list-style-type: none"> 100%, when 80-100% of workforce are fully vaccinated 80%, when 60-79% are fully vaccinated 60%, when 40-59% are fully vaccinated
Permitted works	<ul style="list-style-type: none"> Critical R&M Major public infra Building const # 	ALL	ALL	<ul style="list-style-type: none"> Critical R&M Major public infra Building const ## 	<ul style="list-style-type: none"> Critical R&M Public infra Other const ### 	<ul style="list-style-type: none"> R&M Public infra Other const ### 	Critical and non-critical works (Details are pending)
Movement of workers from one site to another	NO	YES (s.t. COVID-19 test)	NO	NO	NO	NO	(Pending)
Testing of workers before the start of works	YES (foreign)	YES (foreign)	YES (foreign + local)	YES (foreign + local)	YES (foreign + local)	YES (foreign + local)	RTK Antigen tests to be conducted every 2 weeks

R&M = repairs & maintenance

Building construction works (with workers' accommodation on-site/CLQ)

Building construction works (with approved workers' accommodation on-site)

Other construction works (with approved workers' accommodation on-site/approved CLQ)

Note: The dates for the various MCO phases above refer to MCO phases in the Klang Valley due to variation in MCO phases nationwide

Source: SOPs issued by Construction Industry Development Board; PM's statement [link]; Translated & summarised by Maybank KE

Fig 4: SCGB's outstanding orderbook of MYR5b @ end-Mar 2021

As at 31 Mar 2021	Completion	Contract value (MYR m)	Outstanding (MYR m)
Infrastructure			
LRT 3 : Package GS07-08	2Q22	1,295	465
Sentul West Station (MEP) #	4Q21	57	35
KVMRT 2, Chan Sow Lin underground station (MEP) @	4Q21	54	39
Tamil Nadu Highway (Thorapalil Agraharam-Jittandahalli, of NH-844) @	3Q23	508	508
Tamil Nadu Highway (Meensurutti-Chidambarm, of NH-227) @	3Q23	315	315
Jln Tambun #	4Q22	14	14
Building			
Putrajaya Parcel F	Maintenance	1,610	17
TNB HQ Campus #	3Q21	781	449
Petronas Learning Centre #	4Q21	305	168
Oxley Tower (MEP) #	2Q22	68	54
IOI Mall (MEP) #	4Q21	68	28
Internal			
Sunway Medical Centre 4 (2 towers)	3Q22	450	268
Sunway Serene - Kelana Jaya Condo	2Q22	413	162
Sunway Carnival 2 Extension - PDP contract	3Q21	286	122
SunGeo Lake 44 storey residential tower	2Q21	223	13
SMC Seberang Jaya	3Q21	180	104
Sunway Velocity Two	4Q21	352	173
Sunway Velocity 3C4	2Q22	100	50
BigBox Hotel #	2Q21	100	3
Sunway South Key - Parcel CP2 (piling) #	2Q21	119	25
BKE (Seberang Jaya) @	2Q21	4	4
Sunway International School @	4Q22	121	103
Sunway South Quay - Comm mixed devt @	3Q21	344	344
Service apartments at Jln Belfield @	1Q24	403	387
Sunway Resort Hotel & Spa renovation @	2Q21	81	46
Sunway Medical Centre 4 (VO) @	3Q22	162	162
Sunway Velocity Two - 2 blocks of service apartments @	3Q23	253	246
SMC Seberang Jaya - VO #	3Q21	16	16
Sunway International School - VO #	4Q22	15	15
Big Box Office #	2Q22	51	48
Sunway Damansara Medical Centre #	1Q23	180	180
Renewable energy			
Renewable energy - internal @	2021	12	7
Renewable energy - external @	2021	26	26
Precast			
Secured pre 2021	-	331	237
New order in 1Q21 #	-	185	185
Total		9,481	5,006

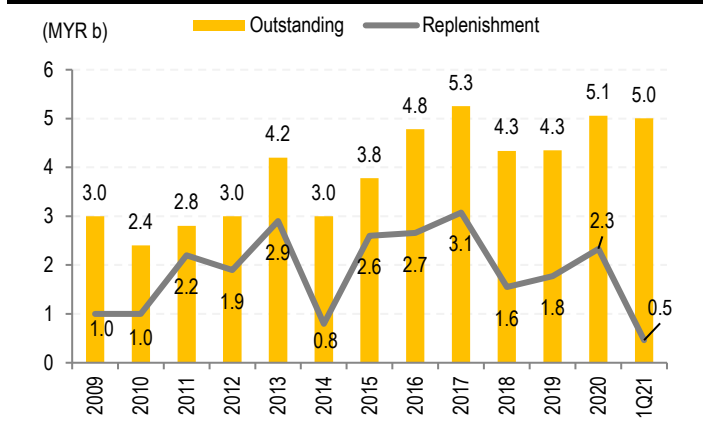
#Secured in 2019; @ Secured in 2020; # Secured in 1Q21; Source: Company

Fig 5: New jobs secured since @ end-Mar 2021

	Duration (months)	Contract value (MYR m)
Sunway Medical Centre Ipoh	27	150
Piling job in Bangsar	6	5
Total		155

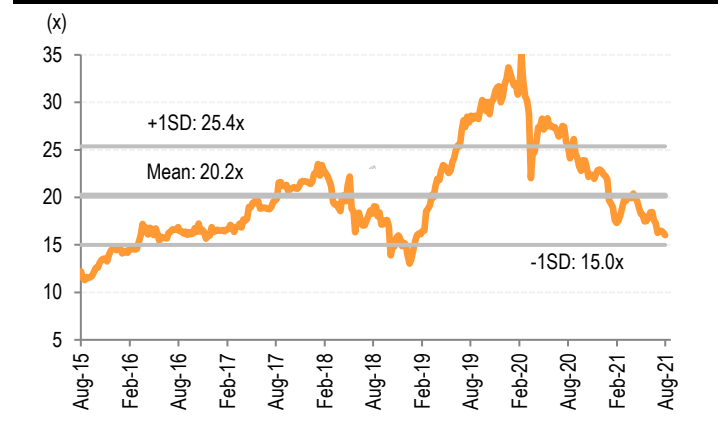
Source: Company

Fig 6: Outstanding orderbook vs. replenishment



Note: Including precast, adjusted for revised value of LRT3 project;
Source: Company data, Maybank KE

Fig 7: 12M forward PER



Source: Company data, Maybank KE

FYE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
Key Metrics					
P/E (reported) (x)	19.1	32.6	18.1	14.8	14.5
Core P/E (x)	19.1	33.3	18.1	14.8	14.5
P/BV (x)	4.0	3.8	3.0	2.8	2.6
P/NTA (x)	4.0	3.8	3.0	2.8	2.6
Net dividend yield (%)	3.7	2.1	3.8	4.5	4.5
FCF yield (%)	7.7	3.5	11.7	6.6	6.8
EV/EBITDA (x)	12.3	20.4	11.3	10.2	10.3
EV/EBIT (x)	15.9	27.9	13.3	12.0	12.4
INCOME STATEMENT (MYR m)					
Revenue	1,768.7	1,552.7	2,396.0	2,698.7	2,752.5
EBITDA	181.3	124.0	174.5	217.9	239.2
Depreciation	(40.3)	(33.4)	(25.9)	(33.1)	(39.3)
EBIT	141.0	90.5	148.6	184.9	199.8
Net interest income / (exp)	11.4	0.9	(0.9)	(2.6)	(9.4)
Associates & JV	5.6	10.1	5.0	5.0	5.0
Exceptionals	0.0	0.0	0.0	0.0	0.0
Pretax profit	157.9	101.5	152.7	187.3	195.5
Income tax	(27.1)	(27.8)	(41.8)	(51.7)	(56.6)
Minorities	(1.5)	(0.9)	0.0	0.0	0.0
Reported net profit	129.3	72.8	110.9	135.6	138.9
Core net profit	129.3	72.8	110.9	135.6	138.9
BALANCE SHEET (MYR m)					
Cash & Short Term Investments	614.6	200.1	338.2	342.4	389.7
Accounts receivable	849.7	904.9	1,079.6	1,178.8	1,208.1
Inventory	25.1	34.3	55.4	62.4	63.2
Property, Plant & Equip (net)	138.5	107.3	165.3	218.6	206.8
Intangible assets	3.9	0.1	0.1	0.1	0.1
Investment in Associates & JVs	48.4	488.9	493.9	498.9	503.9
Other assets	322.2	170.5	190.5	480.5	780.5
Total assets	2,002.3	1,906.1	2,323.1	2,781.7	3,152.3
ST interest bearing debt	233.4	233.7	233.7	233.7	233.7
Accounts payable	868.3	940.0	1,323.5	1,485.7	1,507.7
LT interest bearing debt	52.7	67.2	67.2	317.2	617.2
Other liabilities	125.0	27.0	27.0	28.0	28.0
Total Liabilities	1,279.9	1,267.5	1,651.0	2,064.2	2,386.2
Shareholders Equity	623.0	636.9	670.4	715.8	764.4
Minority Interest	99.5	1.7	1.7	1.7	1.7
Total shareholder equity	722.5	638.6	672.1	717.5	766.1
Total liabilities and equity	2,002.3	1,906.1	2,323.1	2,781.7	3,152.3
CASH FLOW (MYR m)					
Pretax profit	157.9	101.5	152.7	187.3	195.5
Depreciation & amortisation	40.3	33.4	25.9	33.1	39.3
Adj net interest (income)/exp	16.8	1.4	(0.9)	(2.6)	(9.4)
Change in working capital	32.7	(23.7)	187.6	56.1	(8.2)
Cash taxes paid	(38.4)	(28.8)	(41.8)	(51.7)	(56.6)
Other operating cash flow	(15.3)	4.0	(4.1)	(2.4)	4.4
Cash flow from operations	194.1	87.8	319.4	219.8	165.1
Capex	(4.7)	(1.9)	(83.9)	(86.4)	(27.5)
Free cash flow	189.4	85.9	235.5	133.4	137.5
Dividends paid	(90.4)	(61.2)	(77.4)	(90.3)	(90.3)
Change in Debt	167.9	12.0	0.0	250.0	300.0
Other invest/financing cash flow	(394.4)	(266.7)	(20.0)	(289.0)	(300.0)
Net cash flow	(127.5)	(230.0)	138.2	4.2	47.3

FYE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
Key Ratios					
Growth ratios (%)					
Revenue growth	(21.6)	(12.2)	54.3	12.6	2.0
EBITDA growth	(17.2)	(31.6)	40.8	24.9	9.8
EBIT growth	(19.5)	(35.8)	64.2	24.4	8.1
Pretax growth	(13.6)	(35.7)	50.4	22.7	4.4
Reported net profit growth	(10.5)	(43.7)	52.4	22.3	2.4
Core net profit growth	(10.5)	(43.7)	52.4	22.3	2.4
Profitability ratios (%)					
EBITDA margin	10.2	8.0	7.3	8.1	8.7
EBIT margin	8.0	5.8	6.2	6.8	7.3
Pretax profit margin	8.9	6.5	6.4	6.9	7.1
Payout ratio	69.9	70.9	69.8	66.6	65.0
DuPont analysis					
Net profit margin (%)	7.3	4.7	4.6	5.0	5.0
Revenue/Assets (x)	0.9	0.8	1.0	1.0	0.9
Assets/Equity (x)	3.2	3.0	3.5	3.9	4.1
ROAE (%)	21.3	11.6	17.0	19.6	18.8
ROAA (%)	6.6	3.7	5.2	5.3	4.7
Liquidity & Efficiency					
Cash conversion cycle	(38.3)	(42.1)	(39.5)	(56.9)	(62.0)
Days receivable outstanding	180.0	203.4	149.1	150.6	156.1
Days inventory outstanding	7.1	8.3	7.8	9.1	9.5
Days payables outstanding	225.5	253.8	196.3	216.6	227.6
Dividend cover (x)	1.4	1.4	1.4	1.5	1.5
Current ratio (x)	1.6	1.1	1.0	1.0	1.0
Leverage & Expense Analysis					
Asset/Liability (x)	1.6	1.5	1.4	1.3	1.3
Net gearing (%) (incl perps)	net cash	15.8	net cash	29.1	60.2
Net gearing (%) (excl. perps)	net cash	15.8	net cash	29.1	60.2
Net interest cover (x)	na	na	nm	72.1	21.3
Debt/EBITDA (x)	1.6	2.4	1.7	2.5	3.6
Capex/revenue (%)	0.3	0.1	3.5	3.2	1.0
Net debt/ (net cash)	(328.6)	100.8	(37.3)	208.5	461.2

Source: Company; Maybank

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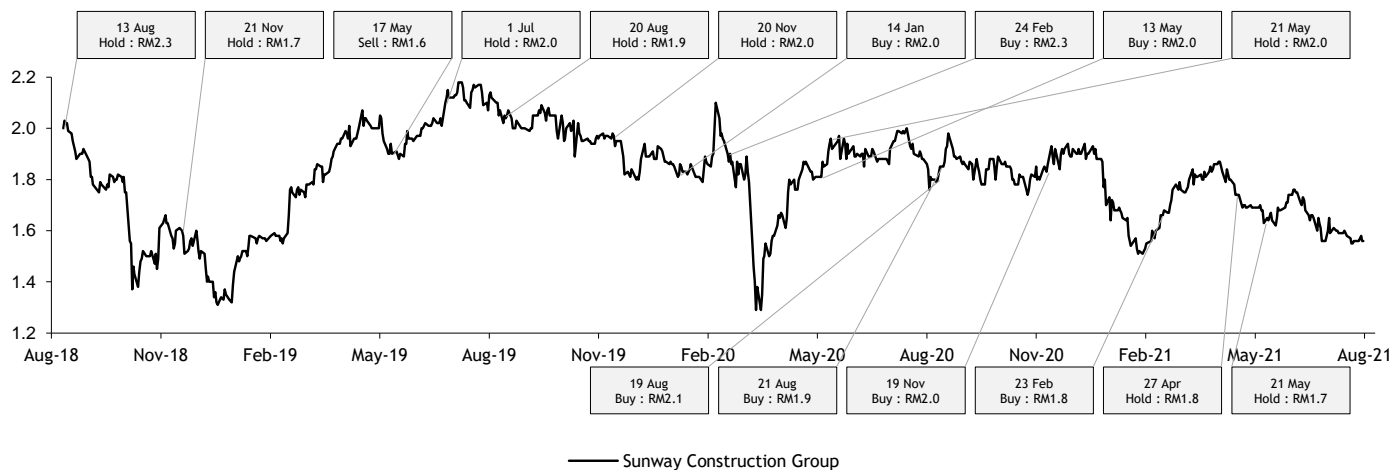
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