



SUNWAY CONSTRUCTION

(SCGB MK EQUITY, SCOG.KL)

22 Nov 2023

Company Report

Stronger contribution from precast segment

BUY

(Maintained)

AmInvestment Bank

Team coverage

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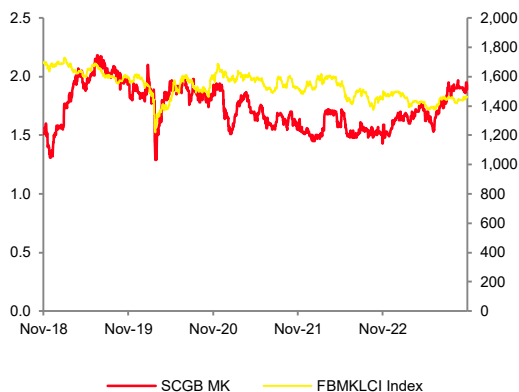
Rationale for Report: Company Result

Price	RM1.89			
Fair Value	RM2.18			
52-week High/Low	RM1.99/RM1.41			
Key Changes				
Fair value	⬇️			
EPS	⬇️			
YE to Dec	FY22	FY23F	FY24F	FY25F
Revenue (RM mil)	2,155.2	2,841.8	3,280.5	3,644.3
Core net profit (RM mil)	135.2	140.1	170.9	189.8
FD Core EPS (sen)	10.5	10.9	13.3	14.7
FD Core EPS growth (%)	20.1	3.6	22.0	11.0
Consensus Net Profit (RM mil)	-	140.4	161.6	172.9
DPS (sen)	5.5	5.4	6.6	7.4
PE (x)	18.0	17.4	14.3	12.8
EV/EBITDA (x)	11.5	11.1	9.1	7.9
Div yield (%)	2.9	2.9	3.5	3.9
ROE (%)	18.8	18.1	20.1	20.2
Net Gearing (%)	nm	nm	nm	nm

Stock and Financial Data

Shares Outstanding (million)	1,289.4
Market Cap (RM mil)	2,436.9
Book Value (RM/share)	0.57
P/BV (x)	3.3
ROE (%)	18.8
Net Gearing (%)	-
Major Shareholders	Sunway Bhd & Cheah family (64.6%) EPF (10.0%) Amanah Saham Nasional (6.4%)
Free Float	19.0
Avg Daily Value (RM mil)	1.1

Price performance	3mth	6mth	12mth
Absolute (%)	5.0	9.9	30.3
Relative (%)	4.1	7.3	29.0



Investment Highlights

- We maintain BUY on Sunway Construction (SunCon) with a lower fair value (FV) of RM2.18/share (vs. RM2.20/share previously), based on a FY24F PE of 16x, which is 0.5 standard deviation below its 5-year average of 18x. Our fair value includes a 3% premium to reflect the group's unchanged 4-star ESG rating.
- We slightly lowered SunCon's FY23F-FY24F core net profit (CNP) by 1%-6% due to lower construction margin assumptions. SunCon's 9MFY23 results were below our expectation but within consensus, accounting for 64% of our forecast and 68% of street's. As a comparison, 9MFY22 accounted for 69% of FY22 core net profit.
- We expect the group's net profit to improve in the coming quarters on the back of a higher recognition of construction progress billings and larger contribution from precast segment.
- 9MFY23 core net profit (CNP) increased 4% YoY to RM96mil mainly due to 9% rise in revenue and a 13% decline in depreciation expense. Growth in the construction segment was driven mainly by maturing stages of works in India and higher contribution from sustainable energy projects.
- The precast division's 9MFY23 revenue increased by 67% YoY to RM205mil on the back of increased development in Integrated Construction & Prefabrication Hub (ICPH) projects. These consist mainly of 17,000 flats launched by the Housing and Development Board (HDB) in Singapore and RM180mil precast orders secured this year.
- On a sequential basis, 3QFY23 CNP saw a 15% increase supported by a 10% expansion in the construction division. The growth was driven by solar projects and 21% jump in the precast segment with an improvement in profit margins from reversal of provisions for completed projects.
- YTD order book wins amounted to RM2.2bil. SunCon's outstanding order book was flat QoQ at RM5.8bil (Construction: RM5.3bil; Precast: RM0.5bil) as at end-September 2023. This translates to a decent 2.1x of FY23F revenue. SunCon maintains its FY23F replenishment target of RM2bil, backed by a tender book of RM26bil.

- Potential jobs may come from Bayan Lepas LRT, construction of warehouses/data centres and internal building jobs from companies within Sunway group, especially medical centres.
- Although we are maintaining our FY23F replenishment assumption of RM2bil, our earnings estimates may be raised if SunCon wins either the MRT3 contracts or the Vietnam power plant project (SunCon's portion amounts to RM6bil).
- While precast orders will be driven by existing plants in Senai and Iskandar, a requirement that HDB contractors must use local precast supplies for development projects in Singapore is expected to benefit SunCon, which launched a 49%-owned JV ICPH plant with Hong Leong Asia in 1HFY23. Going into 4QFY23, we believe that contribution from the precast segment will ramp up due to the launch of 6,000 units of flats by the HDB in December 2023. Precast plant utilisation rate YTD stood at 40% of its maximum capacity.
- Risks to SunCon include (i) lower margins due to higher-than-expected building material costs and labour shortages, and (ii) shelving of mega projects.
- The stock currently trades at an undemanding 14x FY24F PE, significantly below its 5-year average of 18x and offers decent dividend yield of 3%.

EXHIBIT 1: QUARTERLY RESULTS

FYE 31 Dec	3QFY22	2QFY23	3QFY23	QoQ %	YoY %	9MFY22	9MFY23	YoY %
Revenue	469.3	604.1	673.5	11.5	43.5	1,651.8	1,799.7	9.0
EBITDA	39.7	51.3	61.5	19.9	54.8	143.6	158.5	10.4
EBIT	33.9	46.0	56.3	22.5	66.1	125.4	142.7	13.8
Exceptional Items	3.0	0.7	(2.2)	(>100.0)	(>100.0)	(3.2)	(0.2)	(94.1)
PBT	37.6	42.3	48.1	13.8	27.9	127.8	127.9	0.1
Taxation	(13.6)	(9.0)	(12.6)	40.1	(7.7)	(34.5)	(30.5)	(11.8)
Minority interest	(1.2)	(0.3)	(0.5)	88.8	(59.5)	(3.7)	(1.6)	(57.1)
Net Profit	22.7	33.0	35.0	6.1	54.1	89.5	95.8	7.0
Core Net Profit	19.7	32.3	37.2	15.2	88.7	92.8	96.0	3.5
Core EPS (sen)	1.53	2.50	2.89	15.2	88.7	7.19	7.45	3.5
DPS (sen)	-	3.00	-			3.00	3.00	-
EBITDA Margin %	8.5	8.5	9.1			8.7	8.8	
EBIT Margin %	7.2	7.6	8.4			7.6	7.9	
PBT Margin %	8.0	7.0	7.1			7.7	7.1	
Effective Tax Rate %	36.3	21.3	26.2			27.0	23.8	
Core Net Profit Margin %	4.2	5.3	5.5			5.6	5.3	

Source: Company

EXHIBIT 2: SEGMENTAL BREAKDOWN

FYE 31 Dec	3QFY22	2QFY23	3QFY23	QoQ %	YoY %	9MFY22	9MFY23	YoY %
Segmental Revenue								
Construction	418.9	535.6	590.6	10.3	41.0	1,529.7	1,595.2	4.3
Precast Concrete	50.3	68.5	83.0	21.0	64.8	122.1	204.5	67.4
Segmental PBT								
Construction	35.1	39.0	41.6	6.6	18.7	122.3	116.9	(4.5)
Precast Concrete	2.5	3.2	6.5	>100.0	>100.0	5.4	11.0	>100.0
Segmental PBT Margin								
Construction %	8.4	7.3	7.0	(3.3)	(15.8)	8.0	7.3	
Precast Concrete %	5.0	4.7	7.8	66.5	55.5	4.4	5.4	

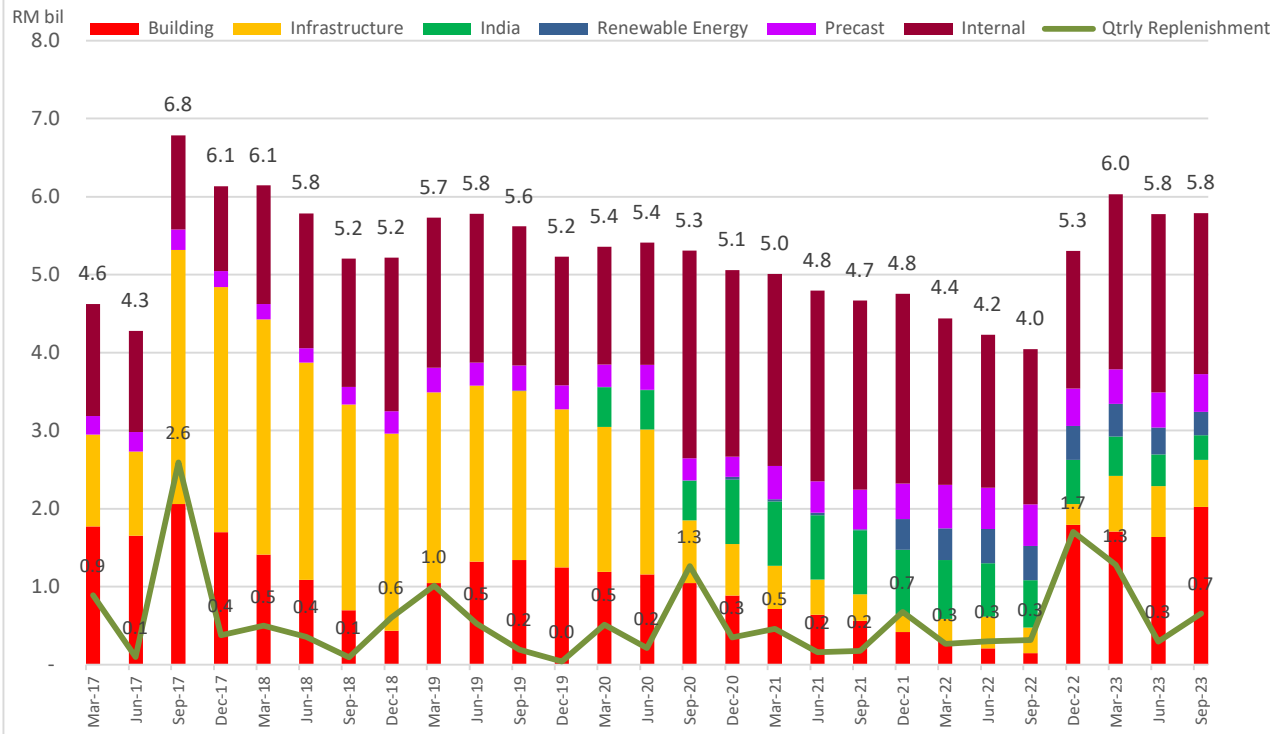
Source: Company

EXHIBIT 3: OUTSTANDING ORDER BOOK AS AT SEPT 2023

Type	Order Book	Completion	Outstanding (RM mil)
Internal Building Jobs	South Quay CP2 - Superstructure	2024	964
	Sunway Flora	2025	250
	Sunway Belfield	2024	162
	Sunway Medical Centre Ipoh	2024	141
	Sunway Medical Centre Damansara	2023	126
	Sunway Velocity 2B	2023	91
	Sunway Medical Centre 4 + VO	2023	62
	Others	Various	265
	JHB1X0 - Data Centre	2024	1,500
K2-Data Centre	2024	190	
RTS Link Package 1B & Package 5	2025	551	
India Highway: Thorapalli - Jittandahalli (TJ)	2023	255	
India Highway: Meensurutti - Chidambaran (MC)	2023	63	
LRT 3: GS06	2023	35	
Precast	Various	486	
Solar	Various	300	
Others	Various	348	
Total			5,789

Source: Company

EXHIBIT 4: QUARTERLY ORDER BOOK TREND



Source: Company

EXHIBIT 5: PB BAND CHART

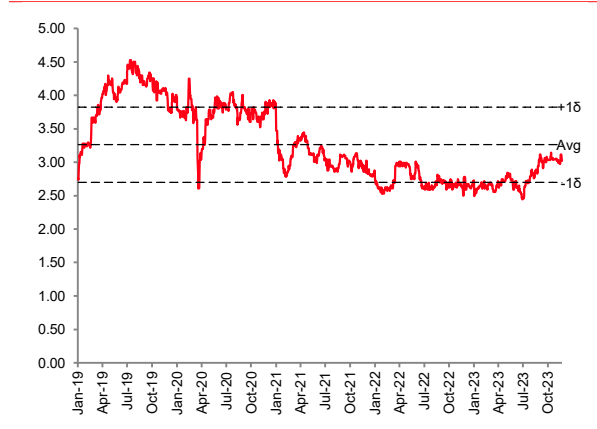


EXHIBIT 6: PE BAND CHART

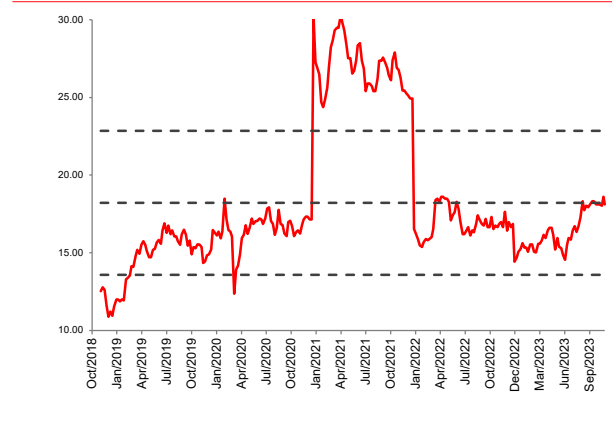


EXHIBIT 7: ESG RATING

Overall	★	★	★		
Zero-carbon initiatives	★				
Work site safety	★	★	★	★	
Migrant worker welfare	★	★	★		
Corporate social responsibility	★	★	★	★	
Pollution control	★	★			
Supply chain auditing	★	★			
Corruption-free pledge	★	★	★		
Gender diversity	★	★			
Accessibility & transparency	★	★	★		

We accord a discount/premium of -6%, -3%, 0%, +3% and +6% on fundamental fair value based on the overall ESG rating as appraised by us, from 1-star to 5-star

Source: AmInvestment Bank

EXHIBIT 8: FINANCIAL DATA

Income Statement (RM mil, YE 31 Dec)	FY21	FY22	FY23F	FY24F	FY25F
Revenue	1,729.2	2,155.2	2,841.8	3,280.5	3,644.3
EBITDA	166.8	210.3	211.3	249.5	274.5
Depreciation/Amortisation	(27.4)	(23.8)	(31.8)	(33.1)	(34.6)
Operating income (EBIT)	139.4	186.5	179.4	216.4	239.9
Other income & associates	13.3	1.7	5.7	6.3	6.9
Net interest	(0.4)	(4.2)	(0.4)	2.0	4.3
Exceptional items	-	-	-	-	-
Pretax profit	152.2	184.1	184.7	224.6	251.1
Taxation	(41.5)	(45.3)	(43.4)	(52.2)	(59.6)
Minorities/pref dividends	1.8	(3.6)	(1.2)	(1.5)	(1.8)
Net profit	112.6	135.2	140.1	170.9	189.8
Core net profit	112.6	135.2	140.1	170.9	189.8
Balance Sheet (RM mil, YE 31 Dec)	FY21	FY22	FY23F	FY24F	FY25F
Fixed assets	124.8	107.6	91.9	77.3	63.4
Intangible assets	-	-	-	-	-
Other long-term assets	724.7	491.1	496.8	503.0	509.9
Total non-current assets	849.4	598.7	588.6	580.4	573.3
Cash & equivalent	98.8	491.6	489.7	612.9	752.5
Stock	46.2	53.4	62.1	71.5	79.6
Trade debtors	600.6	677.7	1,198.0	1,379.1	1,536.3
Other current assets	269.2	414.6	435.3	457.1	479.9
Total current assets	1,014.8	1,637.4	2,185.1	2,520.5	2,848.3
Trade creditors	766.7	716.2	1,248.9	1,435.2	1,600.0
Short-term borrowings	92.5	172.2	236.1	261.1	288.8
Other current liabilities	132.8	214.9	225.7	237.0	248.8
Total current liabilities	992.0	1,103.3	1,710.7	1,933.2	2,137.6
Long-term borrowings	145.4	308.5	167.5	185.3	205.0
Other long-term liabilities	2.9	-	-	-	-
Total long-term liabilities	148.3	308.5	167.5	185.3	205.0
Shareholders' funds	699.1	737.1	807.2	892.7	987.5
Minority interests	17.6	83.7	84.9	86.4	88.1
BV/share (RM)	0.54	0.57	0.63	0.69	0.77
Cash Flow (RM mil, YE 31 Dec)	FY21	FY22	FY23F	FY24F	FY25F
Pretax profit	152.2	184.1	184.7	224.6	251.1
Depreciation/Amortisation	27.4	23.8	31.8	33.1	34.6
Net change in working capital	83.3	(382.2)	3.8	(4.3)	(0.5)
Others	(24.2)	(40.7)	(59.1)	(68.9)	(77.4)
Cash flow from operations	238.7	(215.0)	161.4	184.4	207.7
Capital expenditure	(34.8)	(27.1)	(16.1)	(18.6)	(20.6)
Net investments & sale of fixed assets	3.3	25.2	-	-	-
Others	(146.6)	411.8	-	-	-
Cash flow from investing	(178.2)	409.9	(16.1)	(18.6)	(20.6)
Debt raised/(repaid)	(70.1)	233.4	(77.1)	42.7	47.4
Equity raised/(repaid)	-	-	-	-	-
Dividends paid	(51.8)	(90.3)	(70.1)	(85.5)	(94.9)
Others	(0.5)	(0.4)	-	-	-
Cash flow from financing	(122.4)	142.7	(147.2)	(42.7)	(47.4)
Net cash flow	(61.8)	337.6	(1.9)	123.1	139.7
Net cash/(debt) b/f	427.3	365.9	699.1	697.2	820.3
Net cash/(debt) c/f	365.9	699.1	697.2	820.3	960.0
Key Ratios (YE 31 Dec)	FY21	FY22	FY23F	FY24F	FY25F
Revenue growth (%)	11.4	24.6	31.9	15.4	11.1
EBITDA growth (%)	34.6	26.0	0.5	18.1	10.0
Pretax margin (%)	8.8	8.5	6.5	6.8	6.9
Net profit margin (%)	6.5	6.3	4.9	5.2	5.2
Interest cover (x)	324.2	44.9	450.0	nm	nm
Effective tax rate (%)	27.3	24.6	23.5	23.2	23.7
Dividend payout (%)	60.1	52.5	50.0	50.0	50.0
Debtors turnover (days)	155	108	120	143	146
Stock turnover (days)	8	8	7	7	8
Creditors turnover (days)	169	126	126	149	152

Source: Company, AmlInvestment Bank Bhd estimates

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