



AmInvestment Bank

## Company report

# SUNWAY CONSTRUCTION

(SCGB MK EQUITY, SCOG.KL)

09 Jan 2023

Bright prospects ahead

BUY

(Maintained)

## AmInvestment Bank

Team Coverage

03-2070 2444

Rationale for report: Company update

Price	RM1.59
Fair Value	RM1.84
52-week High/Low	RM1.74/RM1.41

## Key Changes

Fair value	↔
EPS	↔

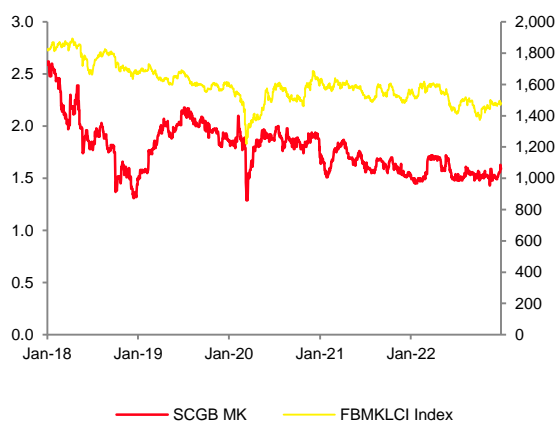
YE to Dec	FY21	FY22F	FY23F	FY24F
Revenue (RM mil)	1,729.2	2,516.2	2,994.4	2,893.6
Core net profit (RM mil)	145.0	129.4	165.0	160.9
FD Core EPS (sen)	11.2	10.0	12.8	12.4
FD Core EPS growth (%)	61.2	(10.8)	27.6	(2.5)
Consensus Net Profit (RM mil)	-	126.5	150.8	158.4
DPS (sen)	5.3	6.0	7.7	7.5
PE (x)	14.2	15.9	12.5	12.8
EV/EBITDA (x)	11.0	10.5	8.2	8.2
Div yield (%)	3.3	3.8	4.8	4.7
ROE (%)	16.9	17.8	21.1	19.0
Net Gearing (%)	19.9	17.5	2.4	nm

## Stock and Financial Data

Shares Outstanding (million)	1,292.9
Market Cap (RM mil)	2,055.7
Book Value (RM/share)	0.54
P/BV (x)	2.9
ROE (%)	16.9
Net Gearing (%)	19.9

Major Shareholders	Sunway & Cheah family (64.6%) EPF (9.4%) Amanah Saham Nasional (6.0%) 19.9
Free Float	19.9
Avg Daily Value (RM mil)	0.8

Price performance	3mth	6mth	12mth
Absolute (%)	1.9	5.3	3.9
Relative (%)	(3.2)	1.4	8.3

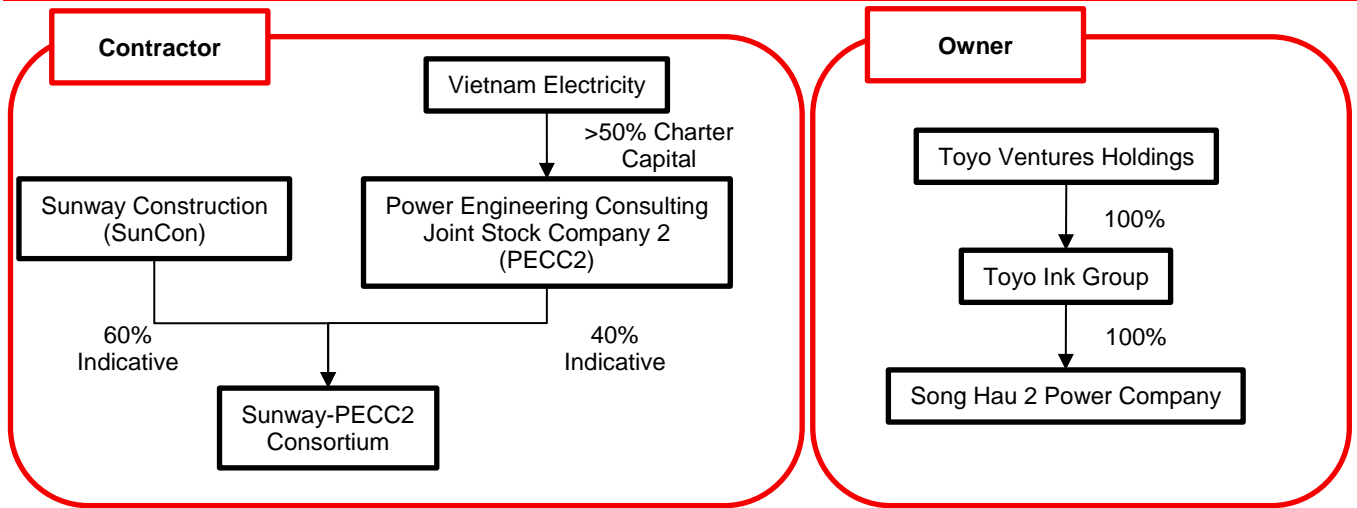


## Investment Highlights

- We maintain BUY on Sunway Construction (SunCon) with an unchanged fair value (FV) of RM1.84/share. Our FV is based on 14x FY23F PE, in line with our benchmark for large-cap construction stocks. We also ascribe a 3% premium to reflect our 4-star ESG rating.
- We keep our earnings estimates following our meeting with SunCon last week. Here are the key takeaways.
  - Recall that SunCon, via Sunway-PECC2 Consortium has entered into an interim engineering procurement and construction (EPC) agreement with Toyo Ink Group (Toyo) and Song Hau 2 Power Company (Song Hau 2) in Dec 2022.
  - The agreement serves as a framework for negotiations and discussions between the parties. It will establish the detailed terms and conditions for Sunway-PECC2's performance of the works. The EPC contract will be executed within 6 months of the date of execution of the interim EPC agreement.
  - As a recap, Song Hau 2 was incorporated in Dec 2020 in Vietnam to undertake the development of 2 units of 1,060 MW coal-fired thermal power plant project in the Song Hau Complex, Hau Giang province, Vietnam. The power plant is estimated to cost US\$3.2bil (RM14bil).
  - On 29 Dec 2020, Toyo and Song Hau 2 entered into a Built-Operate-Transfer (BOT) contract with the Ministry of Industry and Trade of Vietnam (MOIT) to undertake the investment and development of the project on a BOT basis for a concession period of 25 years.
  - The EPC contract is estimated at US\$2.2bil (RM10bil) and will be carried out over 57 months. We expect the project to carry a higher PBT margin of 10% compared to our earlier estimates of 8% to account for the uncertainties involved in overseas ventures.

- SunCon believes the risk involved for the potential EPC contract to be manageable and it is currently conducting an in-depth study on the ESG risks of the project. SunCon also views this project as an opportunity to learn the technical know-how of building a power plant.
- As Sunway-PECC2 is purely an EPC contractor, it is not required to finance the project. Based on the announcement from Toyo Ventures on 30 Dec 2022, EXIM Bank had offered to be the mandated lead arranger, bookrunner and coordinating arranger for the syndicated financing facilities of up to US\$2.4bil for the construction of the power plant. We think the deal will be participated by foreign banks while Malaysian banks may not participate due to ESG concerns.
- We believe execution risk is minimal as SunCon's JV partner, PECC2 is a 51%-owned subsidiary of Vietnam Electricity (EVN) as well as a leading group in Vietnam's power industry and the region. SunCon will be focusing on civil works, piling and procurement of boilers and turbine, while the design and technical aspects will be undertaken by PECC2.
- On its construction order book, SunCon maintains a replenishment target of RM2bil for FY23F. Apart from the MRT3 and the Vietnam power plant project, potential jobs may come from the construction of warehouses and internal building jobs from companies within the Sunway group. We keep our replenishment assumption of RM2.9bil for FY23F. We may raise our earnings estimates if SunCon wins either the MRT3 or the Vietnam power plant project.
- Testing and commissioning of plants and machineries in SunCon's 49%-owned integrated construction and prefabrication hub (ICPH) precast plant in Singapore was completed in Dec 2022. The plant's operation may start as soon as the trial mix testing is complete (targeted completion is Jan 2023). However, we believe the outstanding orders will be filled mainly by the group's existing precast plants in Senai and Iskandar, Johor as the ICPH plant is still new.
- Recall that SunCon obtained approval for 400 Indonesian workers earlier last year. Out of these, 389 have arrived and the remainder will be arriving in the coming weeks. Including these, SunCon's migrant workforce will amount to 500 in total. In comparison, SunCon had a peak of 800 foreign workers during the construction of MRT2 and LRT3.
- To accommodate the substantive contract worth RM1.7bil secured recently to design, develop and construct a data centre in Sedenak Tech Park in Johor for Yellowwood Properties, SunCon is in the midst of applying for an additional 600 Indonesian workers.
- Risks to SunCon include (i) eroding operating margins from rising building material costs and labour shortages; and (ii) delays/cost revisions of mega projects.
- We view the stock as attractive due to the 16% upside to our FV. Also, SunCon is currently trading at an undemanding 12.5x FY23F PE, 11% below our benchmark of 14x for large-cap construction companies.

EXHIBIT 1 CORPORATE STRUCTURE OF PARTIES INVOLVED



Source: Company, AmlInvestment Bank

EXHIBIT 2 PB BAND CHART

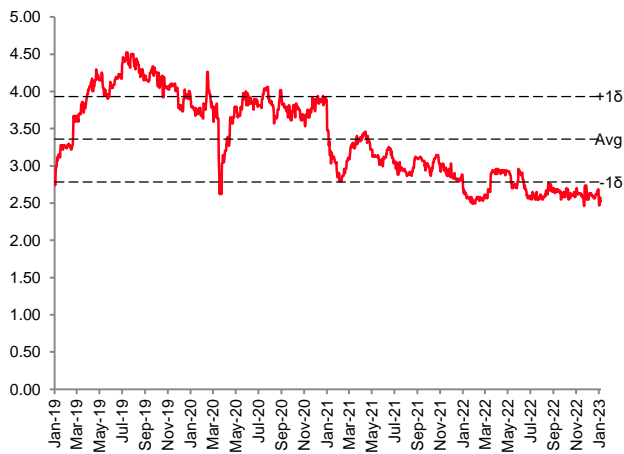


EXHIBIT 3 PE BAND CHART

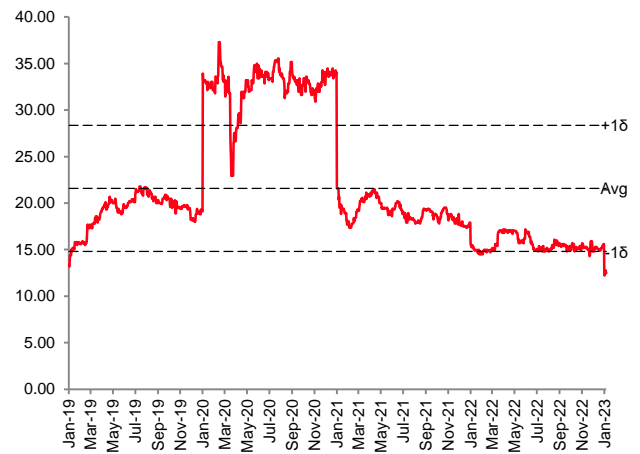


EXHIBIT 4 ESG RATING

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: AmlInvestment Bank

## EXHIBIT 5 FINANCIAL DATA

Income Statement (RMmil, YE 31 Dec)	FY20	FY21	FY22F	FY23F	FY24F
Revenue	1,552.7	1,729.2	2,516.2	2,994.4	2,893.6
<b>EBITDA</b>	<b>141.1</b>	<b>199.2</b>	<b>207.5</b>	<b>254.0</b>	<b>245.1</b>
Depreciation/Amortisation	(33.4)	(27.4)	(34.4)	(33.7)	(33.3)
Operating income (EBIT)	107.7	171.8	173.1	220.4	211.8
Other income & associates	10.1	13.3	-	-	-
Net interest	0.9	(0.4)	(4.1)	(3.8)	(0.4)
Exceptional items	(17.2)	(32.4)	-	-	-
<b>Pretax profit</b>	<b>101.5</b>	<b>152.2</b>	<b>169.1</b>	<b>216.6</b>	<b>211.4</b>
Taxation	(27.8)	(41.5)	(39.5)	(51.2)	(50.1)
Minorities/pref dividends	(0.9)	1.8	(0.2)	(0.3)	(0.3)
<b>Net profit</b>	<b>72.8</b>	<b>112.6</b>	<b>129.4</b>	<b>165.0</b>	<b>160.9</b>
<b>Core net profit</b>	<b>90.0</b>	<b>145.0</b>	<b>129.4</b>	<b>165.0</b>	<b>160.9</b>
Balance Sheet (RMmil, YE 31 Dec)	FY20	FY21	FY22F	FY23F	FY24F
Fixed assets	107.4	124.8	110.8	101.1	91.1
Intangible assets	-	-	-	-	-
Other long-term assets	496.3	724.7	725.1	725.3	725.3
<b>Total non-current assets</b>	<b>603.8</b>	<b>849.4</b>	<b>835.9</b>	<b>826.4</b>	<b>816.3</b>
Cash & equivalent	200.1	98.8	124.1	258.6	350.7
Stock	34.3	46.2	53.4	63.5	61.2
Trade debtors	866.4	600.6	1,217.9	1,449.4	1,396.8
Other current assets	201.6	269.2	270.1	268.0	263.5
<b>Total current assets</b>	<b>1,302.3</b>	<b>1,014.8</b>	<b>1,665.6</b>	<b>2,039.5</b>	<b>2,072.2</b>
Trade creditors	955.2	891.4	1,451.3	1,722.7	1,660.4
Short-term borrowings	233.7	92.5	168.8	183.6	198.1
Other current liabilities	5.1	8.1	11.7	14.0	13.5
<b>Total current liabilities</b>	<b>1,194.0</b>	<b>992.0</b>	<b>1,631.8</b>	<b>1,920.2</b>	<b>1,871.9</b>
Long-term borrowings	67.2	145.4	86.8	94.4	101.8
Other long-term liabilities	0.7	2.9	4.2	5.0	4.8
<b>Total long-term liabilities</b>	<b>67.9</b>	<b>148.3</b>	<b>91.0</b>	<b>99.4</b>	<b>106.6</b>
<b>Shareholders' funds</b>	<b>636.9</b>	<b>699.1</b>	<b>750.9</b>	<b>816.9</b>	<b>881.3</b>
Minority interests	1.7	17.6	17.4	17.1	16.7
BV/share (RM)	0.49	0.54	0.58	0.63	0.68
Cash Flow (RMmil, YE 31 Dec)	FY20	FY21	FY22F	FY23F	FY24F
Pretax profit	101.5	152.2	169.1	216.6	211.4
Depreciation/Amortisation	33.4	27.4	34.4	33.7	33.3
Net change in working capital	(23.7)	83.1	(64.6)	29.7	(7.4)
Others	(23.5)	(24.4)	(35.4)	(47.4)	(49.7)
<b>Cash flow from operations</b>	<b>87.8</b>	<b>238.3</b>	<b>103.4</b>	<b>232.5</b>	<b>187.6</b>
Capital expenditure	(3.4)	(34.8)	(18.1)	(21.5)	(20.8)
Net investments & sale of fixed assets	1.5	3.3	-	-	-
Others	(171.3)	(141.8)	-	-	-
<b>Cash flow from investing</b>	<b>(173.2)</b>	<b>(173.4)</b>	<b>(18.1)</b>	<b>(21.5)</b>	<b>(20.8)</b>
Debt raised/(repaid)	12.0	(70.1)	17.6	22.5	21.9
Equity raised/(repaid)	-	-	-	-	-
Dividends paid	(62.3)	(51.8)	(77.6)	(99.0)	(96.6)
Others	(97.0)	(0.5)	-	-	-
<b>Cash flow from financing</b>	<b>(147.3)</b>	<b>(122.4)</b>	<b>(60.0)</b>	<b>(76.5)</b>	<b>(74.7)</b>
<b>Net cash flow</b>	<b>(232.7)</b>	<b>(57.4)</b>	<b>25.3</b>	<b>134.5</b>	<b>92.1</b>
Net cash/(debt) b/f	692.4	459.7	402.4	427.7	562.2
Net cash/(debt) c/f	459.7	402.4	427.7	562.2	654.3
Key Ratios (YE 31 Dec)	FY20	FY21	FY22F	FY23F	FY24F
Revenue growth (%)	(12.2)	11.4	45.5	19.0	(3.4)
EBITDA growth (%)	(24.1)	41.2	4.1	22.4	(3.5)
Pretax margin (%)	6.5	8.8	6.7	7.2	7.3
Net profit margin (%)	4.7	6.5	5.1	5.5	5.6
Interest cover (x)	nm	399.6	42.7	57.7	474.5
Effective tax rate (%)	27.4	27.3	23.3	23.6	23.7
Dividend payout (%)	7,105.2	6,028.9	6,000.0	6,000.0	6,000.0
Debtors turnover (days)	198	155	132	163	180
Stock turnover (days)	7	8	7	7	8
Creditors turnover (days)	216	195	170	193	213

Source: Company, AmlInvestment Bank Bhd estimates

**DISCLOSURE AND DISCLAIMER**

This report is prepared for information purposes only and it is issued by AmInvestment Bank Berhad (“AmInvestment”) without regard to your individual financial circumstances and objectives. Nothing in this report shall constitute an offer to sell, warranty, representation, recommendation, legal, accounting or tax advice, solicitation or expression of views to influence any one to buy or sell any real estate, securities, stocks, foreign exchange, futures or investment products. AmInvestment recommends that you evaluate a particular investment or strategy based on your individual circumstances and objectives and/or seek financial, legal or other advice on the appropriateness of the particular investment or strategy.

The information in this report was obtained or derived from sources that AmInvestment believes are reliable and correct at the time of issue. While all reasonable care has been taken to ensure that the stated facts are accurate and views are fair and reasonable, AmInvestment has not independently verified the information and does not warrant or represent that they are accurate, adequate, complete or up-to-date and they should not be relied upon as such. All information included in this report constitute AmInvestment’s views as of this date and are subject to change without notice. Notwithstanding that, AmInvestment has no obligation to update its opinion or information in this report. Facts and views presented in this report may not reflect the views of or information known to other business units of AmInvestment’s affiliates and/or related corporations (collectively, “AmBank Group”).

This report is prepared for the clients of AmBank Group and it cannot be altered, copied, reproduced, distributed or republished for any purpose without AmInvestment’s prior written consent. AmInvestment, AmBank Group and its respective directors, officers, employees and agents (“Relevant Person”) accept no liability whatsoever for any direct, indirect or consequential losses, loss of profits and/or damages arising from the use or reliance of this report and/or further communications given in relation to this report. Any such responsibility is hereby expressly disclaimed.

AmInvestment is not acting as your advisor and does not owe you any fiduciary duties in connection with this report. The Relevant Person may provide services to any company and affiliates of such companies in or related to the securities or products and/or may trade or otherwise effect transactions for their own account or the accounts of their customers which may give rise to real or potential conflicts of interest.

This report is not directed to or intended for distribution or publication outside Malaysia. If you are outside Malaysia, you should have regard to the laws of the jurisdiction in which you are located.

If any provision of this disclosure and disclaimer is held to be invalid in whole or in part, such provision will be deemed not to form part of this disclosure and disclaimer. The validity and enforceability of the remainder of this disclosure and disclaimer will not be affected.