

22 November 2023

Construction & Engineering | Construction

## Sunway Construction (SCGB MK)

**Buy** (Maintained)

### Regaining Its Pace; Keep BUY

Target Price (Return): MYR2.22 (18%)  
 Price (Market Cap): MYR1.89 (USD524m)  
 ESG score: 3.3 (out of 4)  
 Avg Daily Turnover (MYR/USD) 1.09m/0.23m

- **Still BUY with MYR2.22 TP, 18% upside and c.4% FY24F yield.** Sunway Construction's 9M23 core profit of MYR96.1m (-2% YoY) was broadly in-line with our estimates but trailed the Street's projections – at 71% and 68% of full-year projections. We view that 4Q23 would be a stronger quarter as new jobs, ie Daiso warehouse and K2 data centre (both awarded in early October), have started works. We project earnings growth in FY24 and FY25 to be between 10% and 20% – backed by steady job awards from its parent plus fast turnaround industrial jobs.
- **SCGB posted MYR48m (+28% YoY) PBT in 3Q23**, with the construction segment reporting a 19% YoY increase in PBT for the same quarter due to accelerated progress in newer projects. Meanwhile, its precast segment recorded a 3Q23 PBT of MYR6.5m (3Q22: MYR2.6m), supported by better progress in projects related to the Integrated Construction and Prefabrication Hub (ICPH). The PBT margin of the precast segment was also higher at 7.8% in 3Q23 (3Q22: 5.2%) due to reversal of provisions for completed projects in the quarter.
- **Prospects.** SCGB's construction orderbook stood at MYR5.8bn as at end-3Q23 (end-3Q22: MYR4.1bn) with MYR2.2bn orders secured – vs our FY23 job replenishment target of MYR2.5bn backed by a MYR26bn tenderbook. We expect higher billings in the remaining quarters as progress of projects move higher along the S-curve. We expect job replenishment to remain steady, backed by its parent which contributed c.40% of YTD job wins while SCGB continues to participate in tenders related to warehousing and semiconductor facilities. Moreover, the Song Hau 2 power plant project in Vietnam worth MYR6bn is awaiting financial close – likely by 1Q24 in our view, which may potentially boost FY24-25F earnings by 30-35%. SCGB's success in securing a 29.9MW quota under the Corporate Green Power Programme creates a new source of recurring income.
- **No changes to our earnings estimates** as we expect 4Q23 to record higher progress billings of ongoing projects. Hence, our TP remains at MYR2.22, imputing a 6% premium to our intrinsic valuation based on our ESG scoring methodology. Our unchanged valuation target of 17x (above Bursa Malaysia Construction's 5-year mean P/E of 12.6x) – pegged to our FY24F EPS is justified based on SCGB's steady job flows varying from renewable energy, infrastructure, commercial, and industrial buildings. SCGB's portfolio of data centre jobs may enable the group to leverage on the Southeast Asian data centre construction market, which is expected to grow USD3.6bn from 2021-2025. We think the counter still has further upside owing to its rail credentials – enabling it to clinch upcoming rail projects eg Mass Rapid Transit 3 and Bayan Lepas Light Rail Transit. Key risks include project delays and a prolonged period of high material costs.

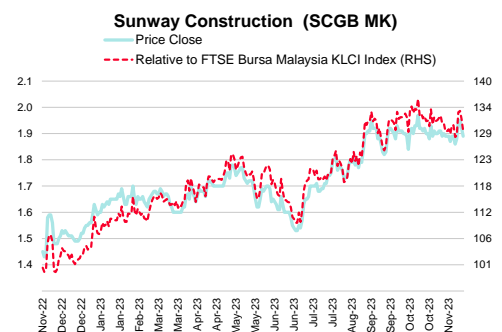
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#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	21.2	(0.5)	5.0	9.9	30.3
Relative	23.4	(2.1)	4.1	7.5	29.2
52-wk Price low/high (MYR)	1.43 – 1.97				



Source: Bloomberg

Forecasts and Valuation	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Total turnover (MYRm)	1,729	2,155	2,666	2,809	3,279
Recurring net profit (MYRm)	145	144	135	159	180
Recurring net profit growth (%)	57.1	(0.5)	(6.1)	17.8	13.3
Recurring P/E (x)	16.86	16.95	18.05	15.32	13.52
P/B (x)	3.5	3.3	3.1	2.9	2.6
P/CF (x)	10.22	na	17.86	11.82	14.01
Dividend Yield (%)	2.8	2.9	3.3	3.9	4.4
EV/EBITDA (x)	11.26	10.50	9.09	8.71	7.80
Return on average equity (%)	16.9	18.8	17.7	19.3	20.2
Net debt to equity (%)	20.4	net cash	6.7	net cash	net cash

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/RM million.

##### 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.

## Financial Exhibits

<b>Asia</b>	<b>Financial summary (MYR)</b>	<b>Dec-21</b>	<b>Dec-22</b>	<b>Dec-23F</b>	<b>Dec-24F</b>	<b>Dec-25F</b>
Malaysia	Recurring EPS	0.11	0.11	0.10	0.12	0.14
Construction & Engineering	DPS	0.05	0.05	0.06	0.07	0.08
<b>Sunway Construction</b>	BVPS	0.54	0.57	0.61	0.66	0.72
SCGB MK	Return on average equity (%)	16.9	18.8	17.7	19.3	20.2
Buy						
<b>Valuation basis</b>	<b>Valuation metrics</b>	<b>Dec-21</b>	<b>Dec-22</b>	<b>Dec-23F</b>	<b>Dec-24F</b>	<b>Dec-25F</b>
We value the company based on FY23F P/E of 15.5x. Sunway Construction's minimal net debt position allows it to gear up for more jobs moving forward.	Recurring P/E (x)	16.86	16.95	18.05	15.32	13.52
	P/B (x)	3.5	3.3	3.1	2.9	2.6
	FCF Yield (%)	8.4	(9.9)	3.3	6.2	4.9
	Dividend Yield (%)	2.8	2.9	3.3	3.9	4.4
	EV/EBITDA (x)	11.26	10.50	9.09	8.71	7.80
	EV/EBIT (x)	13.46	11.84	11.33	10.44	9.36
<b>Key drivers</b>	<b>Income statement (MYRm)</b>	<b>Dec-21</b>	<b>Dec-22</b>	<b>Dec-23F</b>	<b>Dec-24F</b>	<b>Dec-25F</b>
Sunway Construction's earnings are backed by:	Total turnover	1,729	2,155	2,666	2,809	3,279
i. An outstanding order backlog of MYR4.7bn, of which >90% is from construction, which would keep the firm busy for the next three years;	Gross profit	358	375	510	511	648
ii. Recurring orders from its parent company.	EBITDA	167	210	259	251	277
	Depreciation and amortisation	(27)	(24)	(51)	(42)	(46)
	Operating profit	139	186	208	209	231
	Net interest	(0)	(4)	(38)	(17)	(12)
	Pre-tax profit	152	184	175	201	228
	Taxation	(41)	(45)	(36)	(39)	(44)
	Reported net profit	113	135	135	159	180
	Recurring net profit	145	144	135	159	180
<b>Key risks</b>	<b>Cash flow (MYRm)</b>	<b>Dec-21</b>	<b>Dec-22</b>	<b>Dec-23F</b>	<b>Dec-24F</b>	<b>Dec-25F</b>
Project delays and a prolonged period of high material costs.	Change in working capital	153	(382)	(54)	2	(55)
	Cash flow from operations	238	(215)	136	206	174
	Capex	(35)	(27)	(55)	(55)	(55)
	Cash flow from investing activities	(174)	424	(55)	(54)	(53)
	Dividends paid	(52)	(90)	(81)	(95)	(108)
	Cash flow from financing activities	(122)	143	(25)	(29)	(40)
	Cash at beginning of period	200	99	492	469	592
	Net change in cash	(58)	351	56	124	81
	Ending balance cash	143	450	548	592	674
<b>Company Profile</b>	<b>Balance sheet (MYRm)</b>	<b>Dec-21</b>	<b>Dec-22</b>	<b>Dec-23F</b>	<b>Dec-24F</b>	<b>Dec-25F</b>
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	99	576	553	677	758
	Tangible fixed assets	125	108	269	183	191
	Total investments	724	223	223	223	223
	Total assets	1,864	2,236	2,523	2,612	2,906
	Short-term debt	93	172	211	261	311
	Total long-term debt	153	312	400	310	320
	Total liabilities	1,147	1,415	1,652	1,680	1,906
	Total equity	717	821	871	931	1,000
	Total liabilities & equity	1,864	2,236	2,523	2,612	2,906
	<b>Key metrics</b>	<b>Dec-21</b>	<b>Dec-22</b>	<b>Dec-23F</b>	<b>Dec-24F</b>	<b>Dec-25F</b>
	Revenue growth (%)	11.4	24.6	23.7	5.4	16.7
	Recurrent EPS growth (%)	57.3	(0.5)	(6.1)	17.8	13.3
	Gross margin (%)	20.7	17.4	19.1	18.2	19.8
	Operating EBITDA margin (%)	9.6	9.7	9.7	8.9	8.4
	Net profit margin (%)	6.5	6.3	5.1	5.7	5.5
	Dividend payout ratio (%)	60.1	52.6	60.0	60.0	60.0
	Capex/sales (%)	2.0	1.3	2.1	2.0	1.7
	Interest cover (x)	30.4	10.3	3.9	5.9	8.5

Source: Company data, RHB

## Results At a Glance

Figure 1: SCGB's results review

FYE Dec (MYRm)	3Q22	2Q23	3Q23	QoQ (%)	YoY (%)	9M22	9M23	YoY (%)	Comments
<b>Revenue</b>	469.3	604.1	673.5	11.5	43.5	1,651.8	1,799.7	9.0	Better progress billings for ongoing projects
<b>EBIT</b>	36.9	46.7	54.1	15.9	46.7	122.2	142.5	16.6	
<i>EBIT margin (%)</i>	7.9	7.7	8.0			7.4	7.9		
Interest expense	(3.2)	(11.5)	(13.0)	13.8	>100	(7.6)	(32.8)	>100	
Interest income	4.1	6.7	7.0	4.5	72.7	9.5	17.8	88.6	
JV/Associates	(0.1)	0.3	0.0	>-100	>-100	3.7	0.3	(91.4)	
El/Others	(2.1)	0.7	(2.9)	>-100	36.6	(10.7)	(0.3)	(97.5)	
<b>Pretax profit</b>	37.6	42.3	48.1	13.8	27.9	127.8	127.9	0.1	
<i>Pretax margin (%)</i>	8.0	7.0	7.1			7.7	7.1		
Tax	(13.6)	(9.0)	(12.6)	40.1	(7.7)	(34.5)	(30.5)	(11.8)	
<i>Effective tax rate (%)</i>	(2.9)	(21.4)	(26.2)			(27.8)	(23.9)		
Minority interest	(1.2)	(0.3)	(0.5)	88.4	(59.6)	(3.7)	(1.6)	(57.2)	
<b>Net profit</b>	22.7	33.0	35.0	6.1	54.1	89.5	95.8	7.0	
<b>Core profit</b>	24.8	32.3	37.9	17.3	52.7	97.9	96.1	(1.8)	Broadly in line with expectations
<i>Core net margin (%)</i>	5.3	5.3	5.6			5.9	5.3		

Source: Company data, RHB

## Emissions And ESG

### Trend analysis

While total emissions have been increasing, the Scope 1 emissions have eased to 7,167 tonnes in FY22 from 9,713 tonnes in FY20.

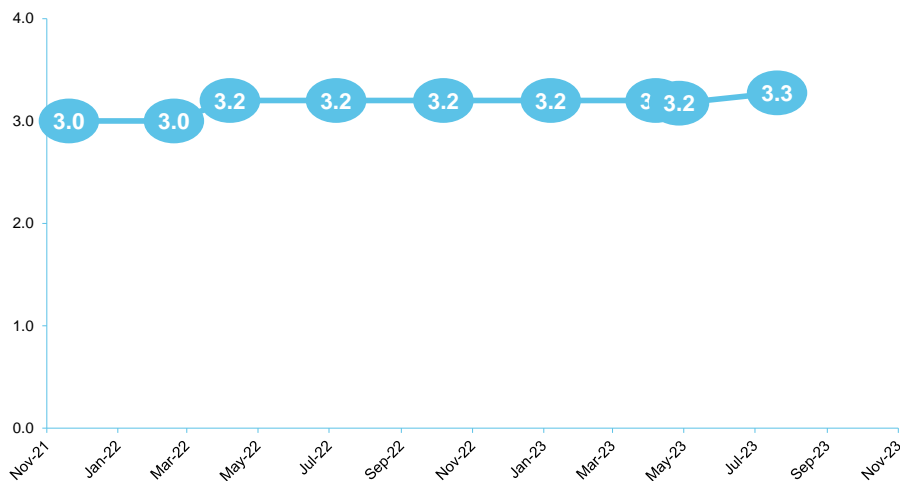
Emissions (tCO2e)	Dec-20	Dec-21	Dec-22
Scope 1	9,713	6,104	7,167
Scope 2	2,793	3,863	4,504
Scope 3	139,395	144,401	168,888
Total emissions	151,901	154,368	180,559

Source: Company data, RHB

## Latest ESG-Related Developments

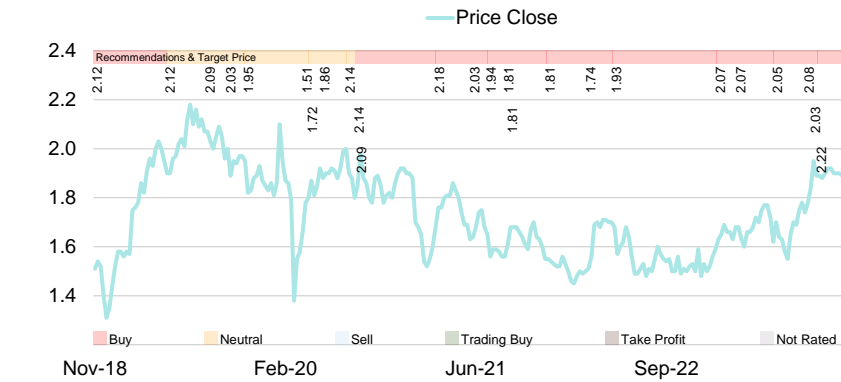
- Through SunCon’s Sustainable Energy Services division, the group continues to be in the forefront of ongoing efforts to enable the transition towards a greener economy.
- In FY2022, the division completed 18 rooftop solar panel installation projects with a cumulative clean energy generating capacity of 17,866 kWp.

## ESG Rating History



Source: RHB

## Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
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
2023-05-16	Buy	2.07	1.72
2023-04-05	Buy	2.07	1.69
2023-03-02	Buy	2.07	1.69
2023-02-22	Buy	2.07	1.66
2023-01-25	Buy	2.07	1.67
2023-01-04	Buy	2.07	1.63
2022-11-22	Buy	1.93	1.43
2022-11-02	Buy	1.93	1.57
2022-08-24	Buy	1.93	1.56

Source: RHB, Bloomberg

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<b>Buy:</b>	Share price may exceed 10% over the next 12 months
<b>Trading Buy:</b>	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
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<b>Take Profit:</b>	Target price has been attained. Look to accumulate at lower levels
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-	-

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