

Sunway Construction (SCGB MK)

On track to meet its replenishment target

MALAYSIA | CONSTRUCTION | UPDATE

22 February 2024

HOLD (maintain)

LAST CLOSE PRICE	RM2.61
TARGET PRICE	RM2.46
TOTAL RETURN	-5.7%

COMPANY DATA

BLOOMBERG TICKER	SCGB MK EQUITY
O/S SHARES (MN) :	1,289
MARKET CAP (USD mn / RM mn) :	701 / 3365
52 - WK HI/LO (RM) :	2.73 / 1.53
3M Average Daily T/O (mn) :	1.52
NET CASH/(DEBT) (RMm)	(405.60)

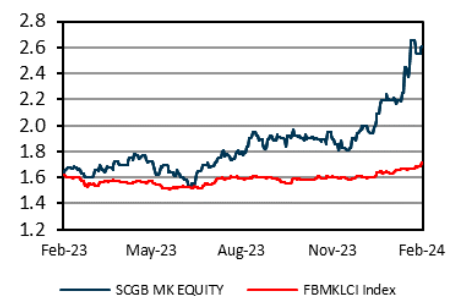
MAJOR SHAREHOLDERS (%)

Sunway Holdings Sdn	54.6%
Sungei Way Corp Sdn	10.1%
EPF	9.0%

PRICE PERFORMANCE (%)

	1MTH	3MTH	YTD
COMPANY	19.2	35.9	34.5
FBMKLCI RETURN	4.7	7.0	7.0

PRICE VS. FBMKLCI



Source: Bloomberg

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- SunCon clinched a RM721m contract from Sunway, bringing YTD new wins to RM831m. This represents 33% of our existing full-year 2024 replenishment assumption
- This brings the current outstanding orderbook to RM6.2bn (2.3x its 2023 revenue), providing earnings visibility until 2027
- Maintain our HOLD rating and RM2.46 target price, pegged to 18x 2024E EPS

Secured RM721m contract from Sunway

Sunway Construction (SunCon) announced that it has accepted a letter of award (LOA) from Sunway Group's indirect subsidiary, Sunway Lost World Water Park Sdn Bhd for the piling, earthworks, sub-structure and main building works of a proposed 6-storey Sunway Ipoh Mall. This contract is valued at RM721m, for a period of 34 months and slated to be completed by 1Q27.

Contract win falls under our replenishment target

Inclusive of this win, YTD contracts secured to-date amount to RM831m, representing 33% of our RM2.5bn full-year 2024 orderbook replenishment assumption. This brings its outstanding order book to an estimated RM6.2bn (equivalent to 2.3x its 2023 revenue), providing revenue visibility until 2027. We estimate this contract to contribute total c.RM50m PBT across the contract period, assuming 7% PBT margin. We expect contract win momentum to remain strong driven by its robust tender book of RM26.2bn relating to data centres, production facilities, infrastructure, and internal Sunway Group jobs.

Maintain HOLD

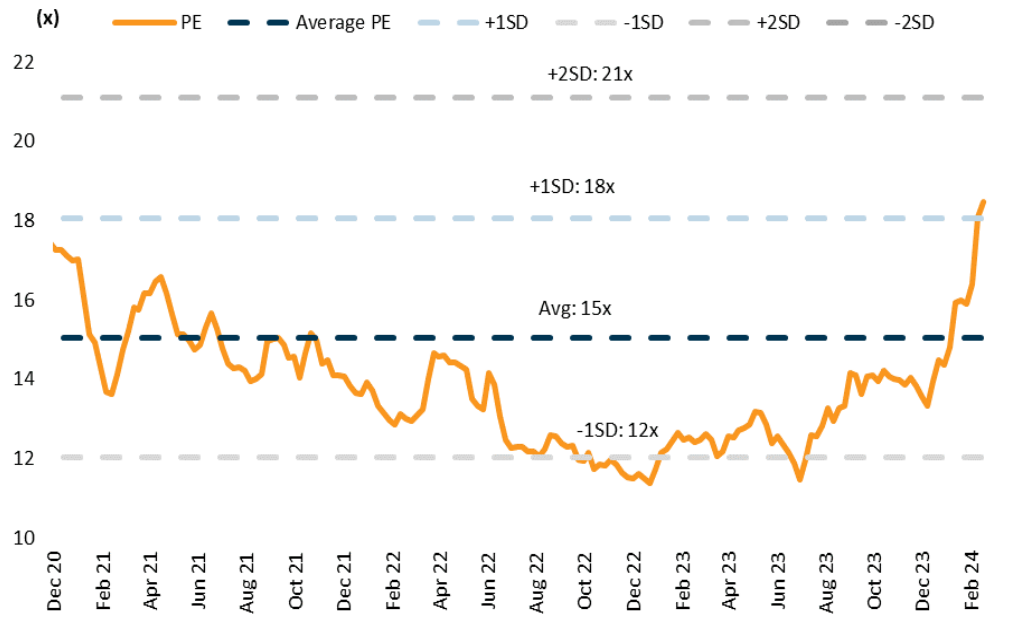
We make no changes to our earnings as this contract fall under our replenishment assumption. We reiterate our HOLD rating and 12-month target price of RM2.46, based on target 18x PE multiple on 2024E EPS. We believe current valuation is fair with the stock trading at forward 19x PE, close to +1SD its 3-year mean. Key re-rating catalysts include securing the Song Hau 2 Vietnam power plant project valued at RM6.2bn (based on its 55% stake) and quicker rollout of data centre related contracts. Key risks include any delay in mega infrastructure project rollouts, slower-than-expected orderbook recognition and margin pressures.

Key Financials

Y/E Dec	2022	2023	2024E	2025E	2026E
Revenue (RMm)	2,155.2	2,671.2	3,214.2	3,434.5	3,527.8
EBITDA (RMm)	218.9	270.4	286.4	313.3	328.2
Pretax profit (RMm)	184.1	188.6	232.9	259.0	273.6
Net profit (RMm)	135.2	145.1	176.3	196.1	207.2
EPS (sen)	10.5	11.2	13.7	15.2	16.1
PER (x)	24.9	23.2	19.1	17.2	16.3
Core net profit (RMm)	143.8	170.2	176.3	196.1	207.2
Core EPS (sen)	11.1	13.2	13.7	15.2	16.1
Core EPS growth (%)	(0.6)	18.4	3.6	11.3	5.7
Core PER (x)	23.4	19.8	19.1	17.2	16.3
Net DPS (sen)	5.5	6.0	6.0	6.0	7.0
Dividend Yield (%)	2.1	2.3	2.3	2.3	2.7
EV/EBITDA (x)	15.2	13.9	13.3	12.1	11.4
Chg in EPS (%)	-	-	-	-	-
Phillip/Consensus (%)	-	-	1.0	1.0	1.0

Sources: Company, Bloomberg, Phillip Research forecasts

Table 1: SunCon's 3-year PE



Source: Bloomberg, Phillip Research forecasts

FINANCIALS

Income Statement

Y/E Dec (RMm)	2022	2023	2024E	2025E	2026E
Revenue	2,155.2	2,671.2	3,214.2	3,434.5	3,527.8
Operating expenses	(1,936.4)	(2,400.9)	(2,927.8)	(3,121.2)	(3,199.7)
EBITDA	218.9	270.4	286.4	313.3	328.2
Depreciation	(23.8)	(21.0)	(23.5)	(24.0)	(24.5)
EBIT	195.1	249.3	262.9	289.3	303.6
Net int income/(expense)	(4.2)	(21.5)	(31.0)	(31.3)	(31.0)
Associates' contribution	1.7	(14.1)	1.0	1.0	1.0
Forex gain/(loss)	2.1	(1.7)	0.0	0.0	0.0
Exceptional gain/(loss)	(10.7)	(23.4)	0.0	0.0	0.0
Pretax profit	184.1	188.6	232.9	259.0	273.6
Tax	(45.3)	(42.8)	(55.9)	(62.2)	(65.7)
Minority interest	(3.6)	(0.7)	(0.7)	(0.7)	(0.7)
Net profit	135.2	145.1	176.3	196.1	207.2
Core net profit	143.8	170.2	176.3	196.1	207.2

Balance Sheet

Y/E Dec (RMm)	2022	2023	2024E	2025E	2026E
Fixed assets	107.6	98.6	125.0	111.0	96.5
Other long term assets	491.1	745.1	804.8	864.6	924.3
Total non-current assets	598.7	843.6	929.9	975.6	1,020.8
Cash and equivalents	535.3	540.7	494.9	466.2	514.0
Stocks	53.4	46.4	76.9	54.9	80.4
Debtors	960.0	1,595.6	1,398.5	1,800.7	1,485.4
Other current assets	88.6	56.4	108.1	122.0	133.1
Total current assets	1,637.4	2,239.2	2,078.3	2,443.8	2,213.0
Creditors	916.8	1,242.5	1,047.1	1,399.4	1,113.5
Short term borrowings	172.2	438.2	438.2	394.4	394.4
Other current liabilities	14.4	21.0	21.0	21.0	21.0
Total current liabilities	1,103.3	1,701.8	1,506.3	1,814.9	1,529.0
Long term borrowings	311.9	488.7	488.7	488.7	488.7
Other long term liabilities	0.0	0.3	0.3	0.3	0.3
Total long term liabilities	311.9	489.1	489.1	489.1	489.1
Shareholders' Funds	737.1	820.2	918.9	1,037.4	1,154.2
Minority interests	83.7	71.8	71.8	71.8	71.8

Cash Flow Statement

Y/E Dec (RMm)	2022	2023	2024E	2025E	2026E
EBIT	195.1	249.3	262.9	289.3	303.6
Depreciation & amortisation	23.8	21.0	23.5	24.0	24.5
Working capital changes	(382.1)	(302.8)	(28.8)	(27.9)	3.9
Cash tax paid	(50.8)	(42.8)	(55.9)	(62.2)	(65.7)
Others	(0.9)	(82.2)	(61.0)	(61.5)	(60.0)
Cashflow from operation	(215.0)	(157.4)	140.7	161.7	206.3
Capex	(1.9)	(77.0)	(50.0)	(10.0)	(10.0)
Disposal/(purchases)	425.6	(59.0)	(59.0)	(59.0)	(59.0)
Others	0.0	0.0	0.0	0.0	0.0
Cash flow from investing	423.7	(136.0)	(109.0)	(69.0)	(69.0)
Debt raised/(repaid)	250.0	445.2	0.0	(43.8)	0.0
Equity raised/(repaid)	0.0	0.0	0.0	0.0	1.0
Net interest income/(exp)	(0.4)	0.0	0.0	0.0	0.0
Dividends paid	(90.3)	(77.6)	(77.6)	(77.6)	(90.5)
Others	(524.5)	0.0	0.0	0.0	0.0
Cash flow from financing	(365.3)	367.7	(77.6)	(121.4)	(89.5)
Free Cash Flow	(216.9)	(234.3)	90.7	151.7	196.3

Source: Company, Phillip Research forecasts

Financial Ratios and Margins

Y/E Dec (RMm)	2022	2023	2024E	2025E	2026E
Growth					
Revenue (%)	24.6	23.9	20.3	6.9	2.7
EBITDA (%)	10.0	23.5	5.9	9.4	4.7
Core net profit (%)	(0.6)	18.4	3.6	11.3	5.7
Profitability					
EBITDA margin (%)	10.2	10.1	8.9	9.1	9.3
PBT margin (%)	8.5	7.1	7.2	7.5	7.8
Net profit margin (%)	6.3	5.4	5.5	5.7	5.9
Effective tax rate (%)	24.6	24.0	24.0	24.0	24.0
ROA (%)	3.0	2.4	2.5	2.7	2.7
Core ROE (%)	20.0	21.9	20.3	20.1	18.9
ROCE (%)	42.6	26.4	20.6	20.6	20.4
Dividend payout ratio (%)	52.6	53.5	44.0	39.6	43.7
Liquidity					
Current ratio (x)	1.5	1.3	1.4	1.3	1.4
Op. cash flow (RMm)	(215.0)	(157.4)	140.7	161.7	206.3
Free cashflow (RMm)	(216.9)	(234.3)	90.7	151.7	196.3
FCF/share (sen)	(16.8)	(18.1)	7.0	11.7	15.2
Asset management					
Debtors turnover (days)	162.6	218.0	158.8	191.4	153.7
Stock turnover (days)	9.0	6.3	8.7	5.8	8.3
Creditors turnover (days)	155.3	169.8	118.9	148.7	115.2
Capital structure					
Net gearing (%)	(7.4)	47.0	46.9	40.1	31.9
Interest cover (x)	NA	NA	NA	NA	NA

Quarterly Profit & Loss

Y/E Dec (RMm)	4Q22	1Q23	2Q23	3Q23	4Q23
Revenue	503.4	522.1	604.1	673.5	871.5
Operating expenses	(433.0)	(477.2)	(552.5)	(611.3)	(759.7)
EBITDA	70.4	44.9	51.6	62.2	111.8
Depreciation	(5.8)	(5.6)	(5.3)	(5.3)	(5.2)
EBIT	64.8	39.7	46.3	57.0	106.6
Net int income/(expense)	(6.1)	(4.2)	(4.7)	(6.0)	(6.6)
Associates' contribution	(2.0)	0.0	0.0	0.0	(14.5)
Forex gain/(loss)	0.9	0.2	0.6	(0.9)	(1.6)
Exceptional items	(1.4)	1.8	0.1	(2.0)	(23.2)
Pretax profit	56.3	37.5	42.3	48.1	60.8
Tax	(10.8)	(8.9)	(9.0)	(12.6)	(12.3)
Minority interest	0.1	(0.8)	(0.3)	(0.5)	0.8
Net profit	45.6	27.8	33.0	35.0	49.3
Core net profit	46.1	25.8	32.3	37.9	74.1
Margins (%)					
EBITDA	14.0	8.6	8.5	9.2	12.8
PBT	11.2	7.2	7.0	7.1	7.0
Net profit	9.1	5.3	5.5	5.2	5.7

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 SELL: Total stock return is expected to below 10% over a 12-month period

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 HOLD: Total stock return to be between -10% and +10% over a 12-month period
 SELL: Total stock return is expected to below 10% over a 12-month period

Funds:

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