



AmInvestment Bank

SUNWAY CONSTRUCTION

(SCGB MK EQUITY, SCOG.KL)

8 July 2022

Company report

Job flows to recover in 2H

HOLD

(Maintained)

AmInvestment Bank

Team Coverage

03-2070 2444

Rationale for report: Company update

Price	RM1.49
Fair Value	RM1.69
52-week High/Low	RM1.74/RM1.44

Key Changes

Fair value	↔
EPS	↔

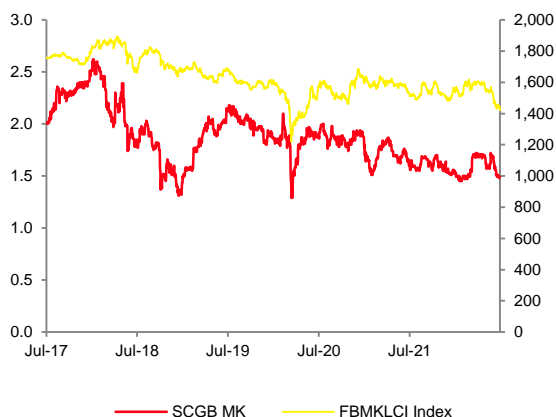
YE to Dec	FY21	FY22F	FY23F	FY24F
Revenue (RM mil)	1,729.2	2,784.5	2,801.2	2,819.2
Core net profit (RM mil)	145.0	151.2	151.3	153.9
FD Core EPS (sen)	11.2	11.7	11.7	11.9
FD Core EPS growth (%)	61.2	4.3	0.1	1.7
Consensus Net Profit (RM mil)		133.8	145.3	146.1
DPS (sen)	0.1	0.1	0.1	0.1
PE (x)	13.3	12.7	12.7	12.5
EV/EBITDA (x)	10.4	8.5	8.2	7.8
Div yield (%)	-	-	-	-
ROE (%)	16.9	20.7	19.2	18.1
Net Gearing (%)	19.9	11.5	nm	nm

Stock and Financial Data

Shares Outstanding (million)	1,292.9
Market Cap (RM mil)	1,926.4
Book Value (RM/share)	0.54
P/BV (x)	2.8
ROE (%)	16.9
Net Gearing (%)	19.9

Major Shareholders	Sunway Bhd & Cheah family (64.6%) EPF (9.2%) Amanah Saham Nasional (5.5%)
Free Float	20.6
Avg Daily Value (RM mil)	0.3

Price performance	3mth	6mth	12mth
Absolute (%)	(12.9)	(2.0)	(9.7)
Relative (%)	(1.6)	5.8	(2.7)



Investment Highlights

- We maintain HOLD on Sunway Construction (SunCon) with an unchanged fair value (FV) of RM1.69/share 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.
- During our recent engagement with the company, SunCon reiterated that most of its ongoing construction projects are at the post-structural intensive stage, hence the impact from elevated building material costs is manageable. For newer tenders, the higher costs are being priced in through increased contract value. SunCon also expects labour shortages to ease in the coming months.
- According to the Ministry of International Trade and Industry (MITI), the steel bar price has tapered off by 9% from the peak of RM3,525/tonne in April to RM3,205/tonne in early July 2022. On the other hand, cement prices rose 11% to RM19 per 50kg in June 2022 from RM17 per 50kg in June 2021.
- SunCon also said that the commissioning of its 49%-owned integrated construction and prefabrication hub's (ICPH) precast plant in Singapore is on track, tentatively in August 2022. The commissioning of the ICPH plant will increase SunCon's annual precast capacity to 200m³ from 126m³. We expect the plant to contribute positively to SunCon's earnings from FY23F.
- According to Singapore's Housing and Development Board, the supply of new build-to-order flats is projected to be ramped up to 23K per year in 2022F and 2023F, from 17K in 2021.
- We maintain our order book replenishment of RM1.7bil annually in FY22F–24F on expectations of job flows recovering in 2HFY22. Potential replenishment could come from:
 - internal building jobs from its parent and sister companies under the Sunway Group, which is targeting new launches of RM2.3bil in FY22F.
 - elevated portions of the MRT3, which include CMC301 (estimated at RM2.1bil) or CMC302 (estimated at RM9.7bil). We believe SunCon is a strong contender due to its strong balance sheet and proven track record.
 - higher precast orders from the ICPH plant; and
 - warehouse & data centres.
- Challenges faced by SunCon include: (i) rising building material costs; and (ii) delays or shelving of mega projects.
- We view the stock as fairly valued with limited upside at a forward PE of 13x vs. our benchmark for large-cap construction stocks of 14x.

EXHIBIT 1 PB BAND CHART

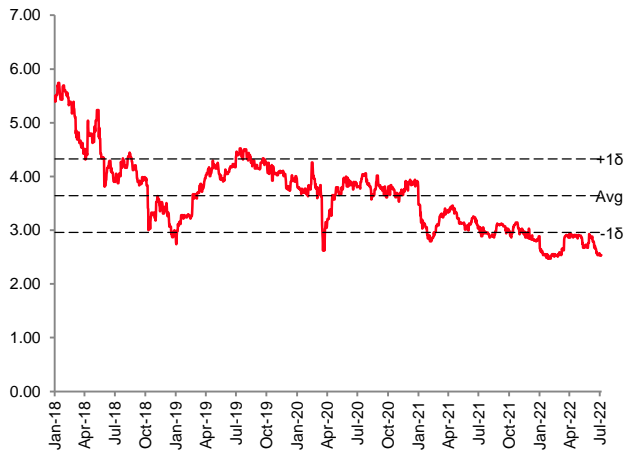


EXHIBIT 2 PE BAND CHART

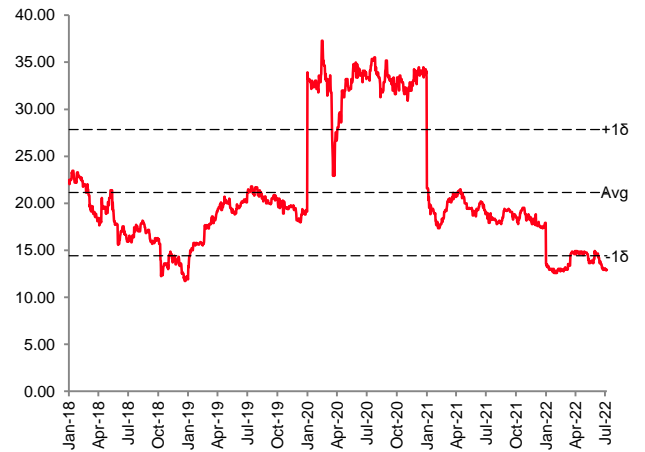
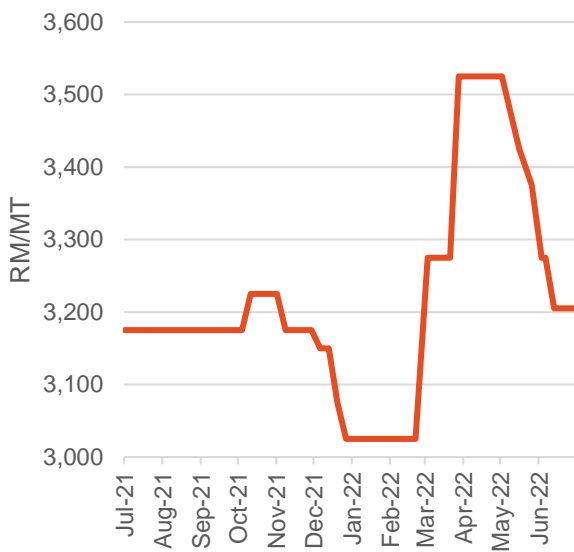
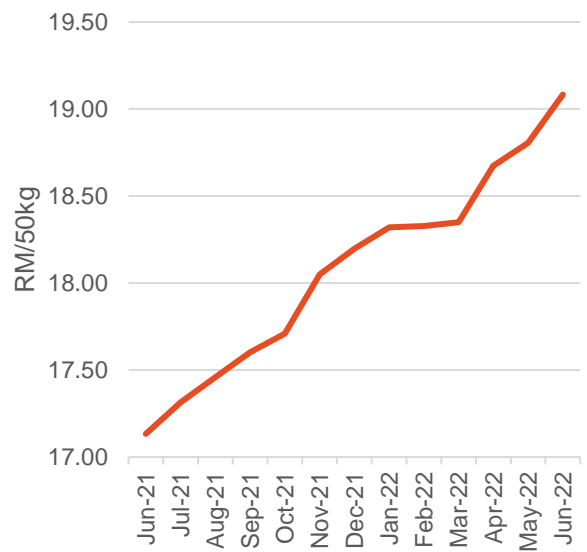


EXHIBIT 3 AVG STEEL BAR PRICE



Source: AmlInvestment Bank, MITI

EXHIBIT 4 AVG CEMENT PRICE IN PENINSULAR M'SIA



Source: AmlInvestment Bank, DOSM

EXHIBIT 5 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	★	★			

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 6 FINANCIAL DATA

Income Statement (RMmil, YE 31 Dec)	FY20	FY21	FY22F	FY23F	FY24F
Revenue	1,552.7	1,729.2	2,784.5	2,801.2	2,819.2
EBITDA	141.1	199.2	236.2	234.7	235.5
Depreciation/Amortisation	(33.4)	(27.4)	(33.7)	(33.2)	(32.7)
Operating income (EBIT)	107.7	171.8	202.5	201.6	202.8
Other income & associates	10.1	13.3	-	-	-
Net interest	0.9	(0.4)	(4.7)	(3.1)	(0.7)
Exceptional items	(17.2)	(32.4)	-	-	-
Pretax profit	101.5	152.2	197.8	198.4	202.1
Taxation	(27.8)	(41.5)	(46.3)	(46.8)	(47.9)
Minorities/pref dividends	(0.9)	1.8	(0.3)	(0.3)	(0.3)
Net profit	72.8	112.6	151.2	151.3	153.9
Core net profit	90.0	145.0	151.2	151.3	153.9
Balance Sheet (RMmil, YE 31 Dec)	FY20	FY21	FY22F	FY23F	FY24F
Fixed assets	107.4	124.8	113.4	102.8	92.8
Intangible assets	-	-	-	-	-
Other long-term assets	496.3	724.7	724.7	724.7	724.7
Total non-current assets	603.8	849.4	838.1	827.5	817.5
Cash & equivalent	200.1	98.8	170.8	271.4	369.2
Stock	34.3	46.2	58.4	58.8	59.2
Trade debtors	866.4	600.6	1,269.6	1,277.1	1,285.4
Other current assets	201.6	269.2	261.6	242.5	224.6
Total current assets	1,302.3	1,014.8	1,760.4	1,849.8	1,938.4
Trade creditors	955.2	891.4	1,544.9	1,555.8	1,566.3
Short-term borrowings	233.7	92.5	170.7	170.7	170.7
Other current liabilities	5.1	8.1	8.1	8.1	8.1
Total current liabilities	1,194.0	992.0	1,723.7	1,734.6	1,745.1
Long-term borrowings	67.2	145.4	87.8	94.8	101.9
Other long-term liabilities	0.7	2.9	2.9	2.9	2.9
Total long-term liabilities	67.9	148.3	90.6	97.6	104.8
Shareholders' funds	636.9	699.1	759.6	820.1	881.7
Minority interests	1.7	17.6	17.3	17.1	16.7
BV/share (RM)	0.49	0.54	0.59	0.63	0.68
Cash Flow (RMmil, YE 31 Dec)	FY20	FY21	FY22F	FY23F	FY24F
Pretax profit	101.5	152.2	197.8	198.4	202.1
Depreciation/Amortisation	33.4	27.4	33.7	33.2	32.7
Net change in working capital	(23.7)	83.1	(27.7)	3.0	1.9
Others	(23.5)	(24.4)	(41.7)	(43.7)	(47.2)
Cash flow from operations	87.8	238.3	162.1	190.9	189.5
Capital expenditure	(3.4)	(34.8)	(20.0)	(20.1)	(20.3)
Net investments & sale of fixed assets	1.5	3.3	-	-	-
Others	(171.3)	(141.8)	-	-	-
Cash flow from investing	(173.2)	(173.4)	(20.0)	(20.1)	(20.3)
Debt raised/(repaid)	12.0	(70.1)	20.6	20.6	21.0
Equity raised/(repaid)	-	-	-	-	-
Dividends paid	(62.3)	(51.8)	(90.7)	(90.8)	(92.4)
Others	(97.0)	(0.5)	-	-	-
Cash flow from financing	(147.3)	(122.4)	(70.1)	(70.2)	(71.4)
Net cash flow	(232.7)	(57.4)	71.9	100.6	97.8
Net cash/(debt) b/f	692.4	459.7	402.4	474.3	574.9
Net cash/(debt) c/f	459.7	402.4	474.3	574.9	672.8
Key Ratios (YE 31 Dec)	FY20	FY21	FY22F	FY23F	FY24F
Revenue growth (%)	(12.2)	11.4	61.0	0.6	0.6
EBITDA growth (%)	(24.1)	41.2	18.5	(0.6)	0.3
Pretax margin (%)	6.5	8.8	7.1	7.1	7.2
Net profit margin (%)	4.7	6.5	5.4	5.4	5.5
Interest cover (x)	nm	399.6	43.4	64.7	283.9
Effective tax rate (%)	27.4	27.3	23.4	23.6	23.7
Dividend payout (%)	71.1	60.3	60.0	60.0	60.0
Debtors turnover (days)	198	155	123	166	166
Stock turnover (days)	7	8	7	8	8
Creditors turnover (days)	216	195	160	202	202

Source: Company, AmlInvestment Bank Bhd estimates

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