



AmInvestment Bank

SUNWAY CONSTRUCTION

(SCGB MK EQUITY, SCOG.KL)

24 Aug 2022

Company report

Operating margins stabilising

HOLD

(Maintained)

AmInvestment Bank

Team Coverage
03-2070 2444

Rationale for report: Company results

Price	RM1.55
Fair Value	RM1.69
52-week High/Low	RM1.74/RM1.44

Key Changes

Fair value	↔
EPS	↔

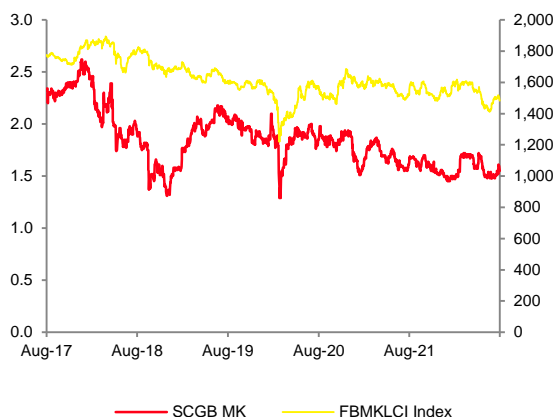
YE to Dec	FY21	FY22F	FY23F	FY24F
Revenue (RM mil)	1,729.2	2,784.5	2,801.2	2,819.2
Core net profit (RM mil)	145.0	151.2	151.3	153.9
FD Core EPS (sen)	11.2	11.7	11.7	11.9
FD Core EPS growth (%)	61.2	4.3	0.1	1.7
Consensus Net Profit (RM mil)	-	132.4	146.5	148.0
DPS (sen)	0.1	0.1	0.1	0.1
PE (x)	13.8	13.3	13.2	13.0
EV/EBITDA (x)	10.8	8.9	8.6	8.2
Div yield (%)	-	-	-	-
ROE (%)	16.9	20.7	19.2	18.1
Net Gearing (%)	19.9	11.6	1.0	nm

Stock and Financial Data

Shares Outstanding (million)	1,292.9
Market Cap (RM mil)	2,004.0
Book Value (RM/share)	0.54
P/BV (x)	2.9
ROE (%)	16.9
Net Gearing (%)	19.9

Major Shareholders	Sunway Bhd & Cheah family (64.6%) EPF (9.2%) Amanah Saham Nasional (6.0%)
Free Float	20.1
Avg Daily Value (RM mil)	0.2

Price performance	3mth	6mth	12mth
Absolute (%)	(2.5)	4.7	(5.5)
Relative (%)	1.4	12.0	(2.9)



Investment Highlights

- We maintain HOLD on Sunway Construction (SunCon) with an unchanged fair value of RM1.69/share based on a 14x FY23F PE. This is in line with our benchmark PE for large-cap construction stocks. We also ascribe a 3% premium to reflect our 4-star ESG rating.
- We make no changes to our FY22F–24F earnings as SunCon's core net profit (CNP) of RM72mil for 1HFY22 was within expectations, accounting for 48% of our forecast and 55% of consensus estimates. SunCon also declared first interim dividend of 3 sen/share, which makes up 43% of our FY22F DPS of 7 sen/share.
- 1HFY22 CNP improved 2.6x YoY to RM72mil mainly due to a rebound in the construction segment (+2.6x YoY). The higher earnings from the construction division was supported by the resumption of economic activities after Covid-19 lockdowns and contribution from the Indian division. Meanwhile, 1HFY22 earnings from the precast segment fell by 20% YoY due to the impact of high steel bar prices.
- On a quarterly basis, CNP improved 3% to RM37mil in 2QFY22. Earnings from the precast segment recovered by 87% to RM2mil in 2QFY22 on easing steel bar prices. On the other hand, 2QFY22 construction earnings slipped 11% QoQ in tandem with a similar decline in revenue due to the completion of some of the construction projects.
- SunCon's FY22F internal job win target (including supply of precast products) remains at RM2bil. So far, SunCon has won new projects worth RM563mil, bringing its total outstanding order book to RM4.2bil (construction: RM3.7bil; precast: RM0.5bil). This translates to an unexciting 1.5x of FY22F revenue. Notable job wins were the LRT3: GS06 worth RM191mil (until 3QFY23) and the RTS Link Package P2A worth RM112mil (until 2QFY25).
- Despite achieving only 27% of its targeted job wins, we are keeping our order book replenishment assumption of RM1.7bil annually for SunCon from FY22F to FY24F. Potential replenishment may come from the construction of data centres and semi-conductor manufacturing plants, internal building jobs from related companies within the Sunway Group and the above ground portion of the MRT3.
- Also, we expect operating margins to stabilise as labour shortages gradually ease. SunCon has obtained approval for 400 Indonesian workers, of which 100 will be arriving in Sep 2022 and the remaining 300 by Dec 2022. Meanwhile, steel prices have slid 9% from the peak in Apr/May 2022.

- 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 fairly valued with a limited upside of 9%, based on a forward PE of 14x.

EXHIBIT 1 QUARTERLY RESULTS

RM mil, FYE 31 Dec	2QFY21	3QFY21	4QFY21	1QFY22	2QFY22	QoQ %	YoY %	6MFY21	6MFY22	YoY %
Revenue	375.3	272.1	626.6	624.7	557.9	(10.7)	48.7	830.5	1,182.5	42.4
EBITDA	11.7	34.3	118.9	50.1	52.8	5.4	>100.0	46.1	102.9	>100.0
EBIT	5.9	27.4	112.2	43.9	46.7	6.5	>100.0	32.1	90.6	>100.0
PBT	9.5	24.5	91.0	47.2	43.0	(8.9)	>100.0	36.8	90.1	>100.0
Taxation	(3.6)	(5.0)	(26.0)	(11.5)	(9.3)			(10.5)	(20.9)	
Minority interest	2.4	(0.2)	(0.3)	(1.1)	(1.3)			2.3	(2.5)	
Net Profit	8.3	19.3	64.7	34.5	32.3	(6.4)	>100.0	28.6	66.8	>100.0
Exceptional Items	0.5	(5.4)	(27.4)	(0.9)	(4.4)			0.3	(5.3)	
Core Net Profit	7.9	24.7	92.1	35.5	36.7	3.4	>100.0	28.2	72.1	>100.0
Core EPS (sen)	0.61	1.91	7.12	2.74	2.84	3.4	>100.0	2.18	5.58	>100.0
DPS (sen)	1.25	-	4.00	-	-			1.25	-	
						<u>bps</u>	<u>bps</u>			<u>bps</u>
EBITDA Margin	3.1%	12.6%	19.0%	8.0%	9.5%	1.4	6.3	5.5%	8.7%	3.2
EBIT Margin	1.6%	10.1%	17.9%	7.0%	8.4%	1.3	6.8	3.9%	7.7%	3.8
PBT Margin	2.5%	9.0%	14.5%	7.6%	7.7%	0.2	5.2	4.4%	7.6%	3.2
Effective Tax Rate	37.7%	20.3%	28.6%	24.4%	21.7%	(2.7)	(16.0)	28.6%	23.2%	(5.5)
Core Net Profit Margin	2.1%	9.1%	14.7%	5.7%	6.6%	0.9	4.5	3.4%	6.1%	2.7
Segmental Revenue										
Construction	349.2	255.8	579.9	587.8	523.0	(11.0)	49.8	770.5	1,110.7	44.2
Precast Concrete	26.1	16.3	46.7	36.9	34.9	(5.4)	33.8	59.9	71.8	19.8
Segmental PBT										
Construction	9.5	26.9	88.7	46.2	41.1	(11.0)	>100.0	33.2	87.3	>100.0
Precast Concrete	(0.0)	(2.4)	2.3	1.0	1.9	86.7	(>100.0)	3.6	2.9	(20.1)

Source: Company, AmlInvestment Bank

EXHIBIT 2 OUTSTANDING ORDER BOOK AS AT JUNE 2022

Type	Order Book	Completion	Outstanding (RM mil)
Internal Building Jobs	South Quay CP2 (Superstructure)	2024	551
	Sunway Belfield	2024	332
	Sunway Medical Centre Damansara	2023	213
	Sunway Velocity 2B	2023	208
	Sunway Medial Centre 4 + VO	2023	205
	Sunway Medial Centre Ipoh + VO	2024	203
	Other Internal Building Jobs	2022	247
India Highway: Thorapalli - Jittandahalli (TJ)		2023	458
India Highway: Meensurutti - Chidambaran (MC)		2023	228
LRT 3 : GS06		2023	191
TNB HQ Campus (Ph 2)		2022	116
RTS Link Package P2A		2025	104
Precast		Various	530
Solar		Various	438
Others		Various	205
Total			4,229

Source: Company

EXHIBIT 3 PB BAND CHART

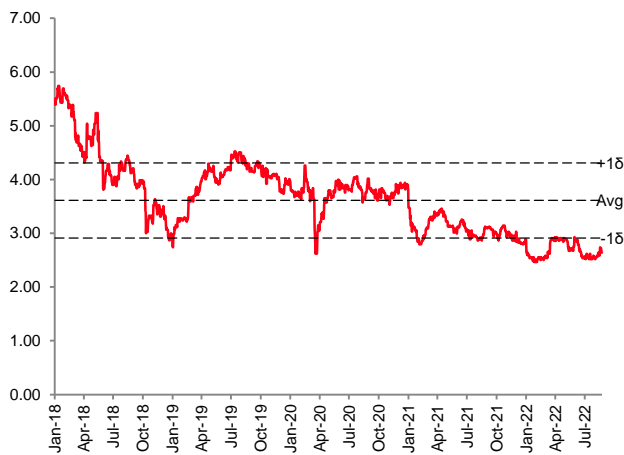


EXHIBIT 4 PE BAND CHART

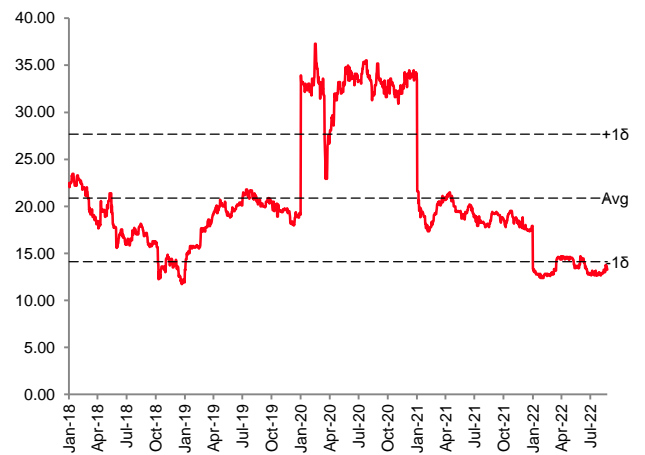


EXHIBIT 5 ESG RATING

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	235.6	234.1	234.9
Depreciation/Amortisation	(33.4)	(27.4)	(33.7)	(33.2)	(32.7)
Operating income (EBIT)	107.7	171.8	201.9	201.0	202.2
Other income & associates	10.1	13.3	-	-	-
Net interest	0.9	(0.4)	(4.1)	(2.5)	(0.1)
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	170.5	270.5	367.8
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	262.2	256.7	253.5
Total current assets	1,302.3	1,014.8	1,760.7	1,863.1	1,965.8
Trade creditors	955.2	891.4	1,545.3	1,556.2	1,566.7
Short-term borrowings	233.7	92.5	170.7	184.3	198.2
Other current liabilities	5.1	8.1	8.1	8.1	8.1
Total current liabilities	1,194.0	992.0	1,724.1	1,748.6	1,772.9
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	(27.4)	3.0	1.9
Others	(23.5)	(24.4)	(42.3)	(44.3)	(47.8)
Cash flow from operations	87.8	238.3	161.8	190.3	188.9
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)	71.7	100.0	97.2
Net cash/(debt) b/f	692.4	459.7	402.4	474.1	574.1
Net cash/(debt) c/f	459.7	402.4	474.1	574.1	671.3
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	18.2	(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	49.8	80.0	1,665.5
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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