



AmInvestment Bank

SUNWAY CONSTRUCTION

(SCGB MK EQUITY, SCOG.KL)

26 May 2022

Company report

QoQ earnings drop within expectations

HOLD

(Maintained)

AmInvestment Bank

Team Coverage

03-2070 2444

Rationale for report: Company results

Price	RM1.58
Fair Value	RM1.69
52-week High/Low	RM1.76/RM1.44

Key Changes

Fair value	↔
EPS	↔

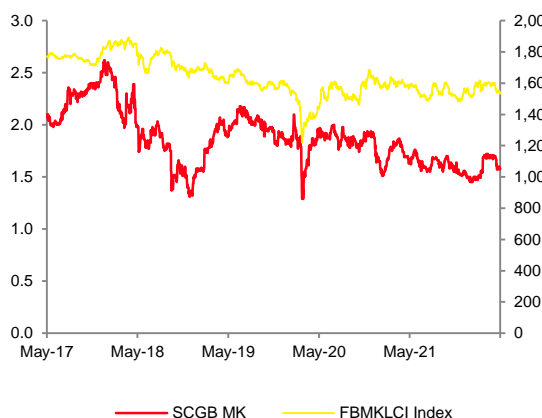
YE to Dec	FY21	FY22F	FY23F	FY24F
Revenue (RM mil)	1,729.2	2,784.5	2,801.2	2,819.2
Core net profit (RM mil)	145.0	151.2	151.3	153.9
FD Core EPS (sen)	11.2	11.7	11.7	11.9
FD Core EPS growth (%)	61.2	4.3	0.1	1.7
Consensus Net Profit (RM mil)	-	134.0	145.8	146.0
DPS (sen)	5.3	7.0	7.0	7.1
PE (x)	18.1	13.5	13.5	13.3
EV/EBITDA (x)	11.0	9.1	8.8	8.4
Div yield (%)	3.3	4.4	4.4	4.5
ROE (%)	16.9	20.7	19.2	18.1
Net Gearing (%)	20.9	12.5	1.9	nm

Stock and Financial Data

Shares Outstanding (million)	1,292.9
Market Cap (RMmil)	2,042.8
Book Value (RM/share)	0.54
P/BV (x)	2.92
ROE (%)	16.9
Net Gearing (%)	20.9

Major Shareholders	Sunway & Cheah family (64.6%) EPF (9.2%) Amanah Saham Nasional (5.5%)
Free Float	20.6
Avg Daily Value (RMmil)	0.7

Price performance	3mth	6mth	12mth
Absolute (%)	5.3	1.3	(3.7)
Relative (%)	9.2	0.1	(1.0)



Investment Highlights

- We maintain HOLD on Sunway Construction (SunCon) with 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.
- SunCon's core net profit of RM35.5mil in 1QFY22 was within expectations, accounting for 24% of our FY22F earnings and 27% of consensus estimates. We make no changes to our FY22F–24F earnings.
- 1QFY22 core net profit improved 74% YoY to RM35.5mil due to higher contribution from the construction segment (+96% YoY) which more than offset lower earnings from the precast segment (-72% YoY). The higher contribution from was supported by the resumption of economic activities after Covid-19 lockdowns and higher margins from completed projects. On the other hand, earnings from the precast segment was weak due to higher steel bar prices.
- Core net profit decreased 62% QoQ to RM35.5mil in 1QFY22 due to the recalibration of margins for certain construction projects which are nearing completion and have certainty of better margin in the preceding quarter (-48% QoQ) and lower contribution from the precast segment due to higher steel bar prices (-56% QOQ).
- SunCon's internal target of job wins (including the supply of precast products) is RM2bil in FY22F. So far, SunCon has won new projects worth RM266mil, bringing its total outstanding order book to RM4.4bil (construction RM3.9bil; precast RM0.6bil), which translates to 2.6x on FY21 revenue. Notable job wins include the RTS Link Package P2A worth RM112mil which will last till 2QFY25.
- Despite achieving only 13% of its targeted job wins, we maintain our overall order book replenishment assumption of RM1.7bil annually in FY22–24F. We believe that SunCon is a strong contender for infrastructure projects moving forward given its proven ability to compete under open bidding and strong balance sheet. Potential replenishment includes internal building jobs from its parent and sister companies under the Sunway Group and the above-ground portion of the MRT3 in 4QFY22.
- SunCon is aiming for the elevated portions for the MRT3, which include Civil Package 1 (6km elevated section and main depot) and Civil Package 2 (27km elevated and 1.2km ground tunnel), with greater emphasis on the latter. We estimate RM1.8bil jobs for Civil Package 1 and RM9.6bil jobs for Civil Package 2, which could be awarded in 4QFY22. If there are no delays in the land acquisition and sukuk issuance by MRT Corp to fund the project, advanced works could commence as early as 1QFY23.

- Meanwhile, steel prices remain high at RM3,600/tonne in May 2022, exceeding the previous peak of RM3,300/tonne. We expect steel prices to be elevated given the prolonged Ukraine-Russia war.
- Challenges faced by SunCon are: (i) rising building material costs led by an escalation/prolonged Ukraine-Russia war; and ii) delays or shelving of mega projects.
- We view the stock as fairly valued with limited upside at forward PE of 13x–14x.

EXHIBIT 1: QUARTERLY RESULTS

RM mil, FYE 31 Dec	1QFY21	2QFY21	3QFY21	4QFY21	1QFY22	QoQ %	YoY %
Revenue	455.2	375.3	272.1	626.6	624.7	(0.3)	37.2
EBITDA	34.3	11.7	34.3	118.9	50.1	(57.9)	45.9
EBIT	26.2	5.9	27.4	112.2	43.9	(60.9)	67.4
PBT	27.2	9.5	24.5	91.0	47.2	(48.2)	73.1
Taxation	(6.9)	(3.6)	(5.0)	(26.0)	(11.5)		
Minority interest	(0.1)	2.4	(0.2)	(0.3)	(1.1)		
Net Profit	20.2	8.3	19.3	64.7	34.5	(46.7)	70.5
Exceptional Items	(0.1)	0.5	(5.4)	(27.4)	(0.9)		
Core Net Profit	20.3	7.9	24.7	92.1	35.5	(61.5)	74.3
Core EPS (sen)	1.57	0.61	1.91	7.12	2.74	(61.5)	74.3
DPS (sen)	-	1.25	-	4.00	-		
						<u>bps</u>	<u>bps</u>
EBITDA Margin	7.5%	3.1%	12.6%	19.0%	8.0%	(10.9)	0.5
EBIT Margin	5.8%	1.6%	10.1%	17.9%	7.0%	(10.9)	1.3
PBT Margin	6.0%	2.5%	9.0%	14.5%	7.6%	(7.0)	1.6
Effective Tax Rate	25.5%	37.7%	20.3%	28.6%	24.4%	(4.1)	(1.0)
Core Net Profit Margin	4.5%	2.1%	9.1%	14.7%	5.7%	(9.0)	1.2
Segmental Revenue							
Construction	421.3	349.2	255.8	579.9	587.8	1.4	39.5
Precast Concrete	33.9	26.1	16.3	46.7	36.9	(21.0)	8.9
Segmental PBT							
Construction	23.6	9.5	26.9	88.7	46.2	(48.0)	95.5
Precast Concrete	3.6	(0.0)	(2.4)	2.3	1.0	(55.8)	(72.3)

Source: Company, AmlInvestment Bank Bhd

EXHIBIT 2: OUTSTANDING ORDER BOOK AS AT MARCH 2022

Type	Order Book	Completion	Outstanding (RM mil)
Internal Building Jobs	South Quay CP2 - Superstructure + VO	2024	555
	Sunway Belfield	2024	346
	Sunway Medical Centre 4 + VO	2023	265
	Sunway Medical Centre Damansara	2023	222
	Sunway Velocity 2B	2023	213
	Sunway Medical Centre Ipoh	2024	142
	Other Internal Building Jobs	2022	395
			<hr/>
India Highway: Thorapalli - Jittandahalli (TJ)	2023	488	
India Highway: Meensurutti - Chidambaran (MC)	2023	266	
TNB HQ Campus (Ph 2)	2022	197	
LRT3: Package GS07-08	2022	137	
RTS Link Package P2A	2025	112	
Precast	Various	555	
Solar	Various	406	
Others	Various	141	
Total			<hr/> 4,441

Source: Company, AmlInvestment Bank Bhd

EXHIBIT 3: PB BAND CHART

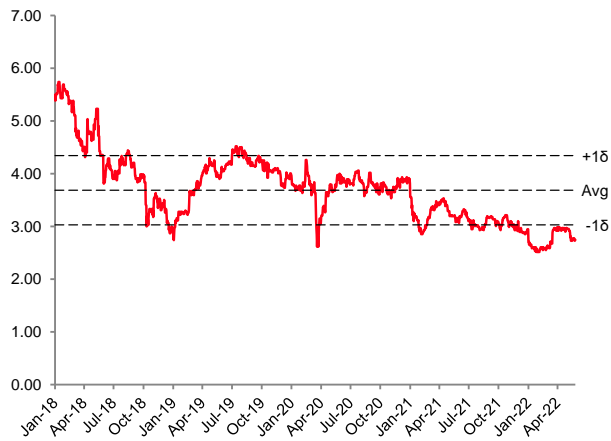


EXHIBIT 4: PE BAND CHART

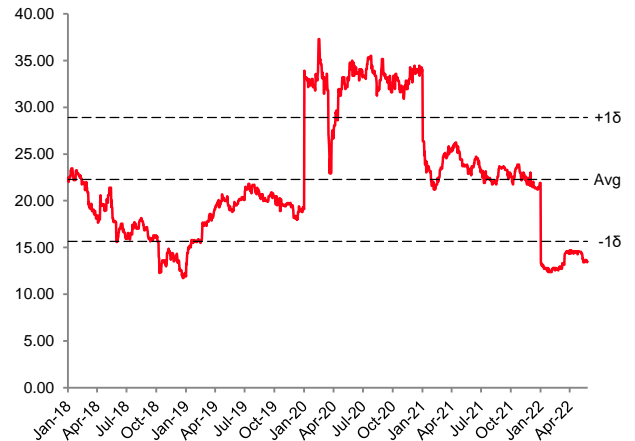


EXHIBIT 5 : ESG RATING

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: AmInvestment Bank Bhd

EXHIBIT 6: FINANCIAL DATA

Income Statement (RM mil, FYE 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)
Minority interests	(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 (RM mil, FYE 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	150.0	229.4	305.6
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	1,740.1	1,821.9	1,903.7
Trade creditors	955.2	891.4	1,545.3	1,556.2	1,566.7
Short-term borrowings	233.7	92.5	92.5	92.5	92.5
Other current liabilities	5.1	8.1	8.1	8.1	8.1
Total current liabilities	1,194.0	992.0	1,645.8	1,656.8	1,667.2
Long-term borrowings	72.7	152.5	152.5	152.5	152.5
Other long-term liabilities	0.7	2.9	2.9	2.9	2.9
Total long-term liabilities	73.5	155.4	155.4	155.4	155.4
Shareholders' funds	636.9	699.1	759.6	820.1	881.7
Minority interests & perpetual bond	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 (RM mil, FYE 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)	(47.7)
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)	-	-	-
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)	(90.7)	(90.8)	(92.4)
Net cash flow	(232.7)	(57.4)	51.1	79.4	76.3
Net cash/(debt) b/f	692.4	459.7	402.4	453.5	532.9
Net cash/(debt) c/f	459.7	402.4	453.5	532.9	609.2
Key Ratio (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	79.6	1,431.6
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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