

Sunway Construction Group (SCGB MK)

2Q22: In-line

Maintain HOLD and MYR1.58 TP

2Q22 net profit was in-line. QoQ, net profit was lower by 6% as 1Q22's higher billings (due to projects nearing completion) and higher margins (due to finalisation of accounts for completed projects) did not recur in 2Q22. We make no change to our earnings forecasts and MYR1.58 TP which is based on 15x FY22E PER (about -1SD of LT mean).

1H22 net profit up 134% YoY

2Q22 net profit of MYR32m (+288% YoY, -6% QoQ) lifted 1H22 to MYR67m (+134% YoY), at 49%/50% of our/consensus FY22E. QoQ, construction/precast revenue were down 11%/5%. Construction EBIT was also lower by 4% QoQ but precast EBIT rose 73% QoQ, recovering from the impact of higher steel bar prices. 1H22 construction/precast revenue improved on resumption of full activities compared to 1H21 which was affected by pandemic restrictions. While 1H22 construction EBIT also recovered, precast EBIT was lower due to higher steel bar prices. An interim DPS of 3sen will go ex-date on 12 Sep, representing 58% DPR.

MYR4.2b o/s orderbook; MYR17.4b active tender

Jobs secured in 1H22 totaled MYR563m (2021: MYR1.5b), bringing the outstanding orderbook to MYR4.2b as at end-Jun 2022. The internal job win target for 2022 is unchanged at MYR2b; we have assumed the same. Active tender book presently is MYR17.4b, and management sees an improved sector outlook on the back of ongoing tender for the KVMRT3 civil works main packages and pre-qualification for the Bayan Lepas LRT. SCGB's quota for 400 new foreign workers in Jun 2022 (1st batch of 100 to arrive by early-Sep) and easing of steel bar prices to c.MYR2,700/t in Jul 2022 (from c.MYR3,500/t in Mar 2022) would help ease cost pressure.

ICPH plant operational in 2H22

SCGB's ICPH plant in SG (SGD85m capex) is on target to be operational by YE 2022. This is timely amid SG HDB's plans to launch up to 23,000 new build-to-order flats each year for 2022/23 (2021: 17,109 units). Supply to HDB flats make up >90% of SCGB's precast sales. Management foresees its precast segment will contribute more, going forward.

FYE Dec (MYR m)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	1,553	1,729	2,608	2,873	2,354
EBITDA	124	167	221	212	172
Core net profit	73	113	136	132	102
Core EPS (sen)	5.6	8.7	10.5	10.3	7.9
Core EPS growth (%)	(43.7)	54.7	20.6	(2.6)	(22.7)
Net DPS (sen)	4.0	5.3	7.0	7.0	5.0
Core P/E (x)	33.3	17.9	14.7	15.1	19.5
P/BV (x)	3.8	2.9	2.7	2.5	2.4
Net dividend yield (%)	2.1	3.4	4.5	4.5	3.2
ROAE (%)	11.6	16.9	18.8	17.3	12.7
ROAA (%)	3.7	6.0	6.0	4.5	3.4
EV/EBITDA (x)	20.4	13.0	10.3	11.8	15.0
Net gearing (%) (incl perps)	15.8	19.4	33.7	59.0	66.0
Consensus net profit	-	-	131	149	154
MKE vs. Consensus (%)	-	-	3.6	(11.3)	(33.6)

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HOLD

Share Price	MYR 1.55
12m Price Target	MYR 1.58 (+6%)
Previous Price Target	MYR 1.58

Company Description

Sunway Construction Group offers integrated construction services and has precast concrete business in Singapore.

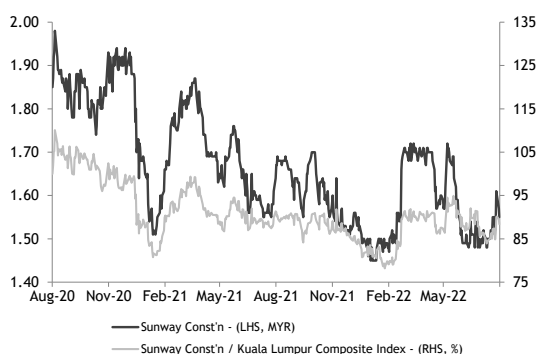
Statistics

52w high/low (MYR)	1.72/1.45
3m avg turnover (USDm)	0.0
Free float (%)	23.9
Issued shares (m)	1,293
Market capitalisation	MYR2.0B USD446M

Major shareholders:

Sunway Bhd.	54.4%
Active Equity Sdn. Bhd.	10.1%
Employees Provident Fund	9.2%

Price Performance



	-1M	-3M	-12M
Absolute (%)	5	(3)	(5)
Relative to index (%)	3	1	(3)

Source: FactSet

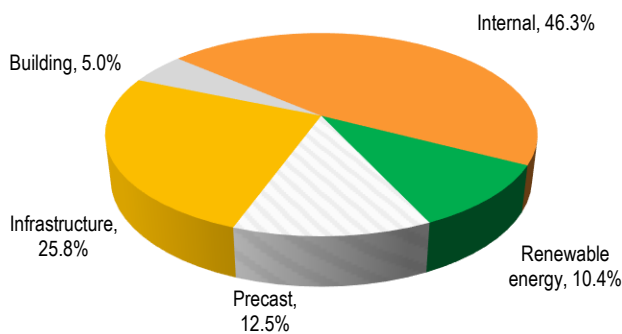
Abbreviation

ICPH = Integrated construction & prefabricated hub
HDB = Housing Development Board

Value Proposition

- Malaysia's largest pure play construction group with an established brandname having commenced operations in 1981 with a cumulative revenue of MYR30b.
- Operates on a fully integrated business model with 6 core ops: (i) building construction; (ii) civil/infrastructure, (iii) foundation & geotechnics; (iv) mechanical, electrical & plumbing; (v) precast concrete (two existing plants in Johor, 3rd under construction in SG [operational 2H22] - supplying IBS components largely to SG); (vi) renewable energy.
- Completed special purpose building projects include KL Convention Centre, Sunway Shopping Mall; completed civil projects include SILK, MEX, SKVE, BRT, KVMRT and KVLRT.
- Experienced senior management team and support from the Sunway Group add onto its value proposition.

MYR4.2b outstanding orderbook as of 30 Jun 2022

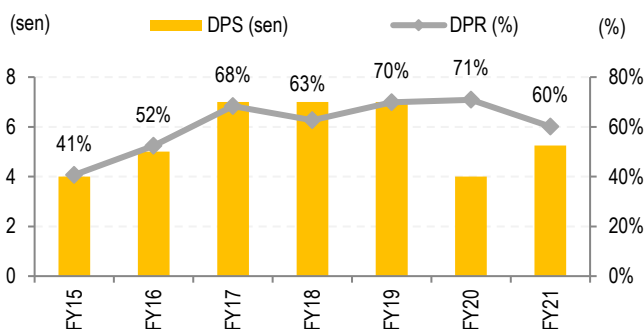


Source: Company

Financial Metrics

- Two main earning growth drivers are rising orderbook and higher margins which may come from value engineering.
- ROEs of >20% since its relisting in 2015 were above peers, but this suffered a set-back in FY20/FY21 due to work disruption from the COVID-19 pandemic.
- Balance sheet is strong with a net cash of MYR327m as of 30 Jun 2022.
- DPR is a minimum 35% of PATMI; since its relisting (on 28 Jul 2015), SCGB had paid up to 71% (FY20).

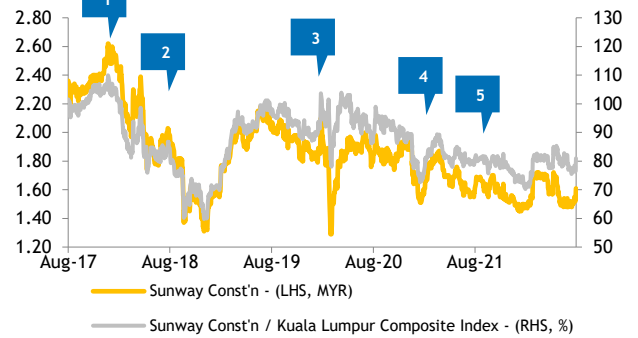
Dividends



Source: Company

Price Drivers

Historical share price trend



Source: Company, Maybank IBG Research

- Secured work packages under KVMRT 2 and KVLRT 3; outstanding orderbook reached another high of MYR6.1b as of end-2017.
- Post GE14 (9 May 2018) concerns, as the new Government sought to review the cost of major infra projects awarded during the previous Government.
- Malaysia's Movement Control Order (MCO) from 18 Mar 2020 led to work disruption at all of SCGB's projects.
- MCO 2.0 from 13 Jan 2021.
- More economic activities re-opened in states under National Recovery Plan Phase 1 (from 16 Aug 2021).

Swing Factors

Upside

- Larger-than-expected orderbook replenishment could lift sentiment on the stock although the earnings impact will only be felt in full at least a year later.
- Significant margin expansion for its existing orderbook coming from value engineering breakthrough.
- Government's policy reaffirmation on higher usage of IBS in construction as a long-term plan to reduce the country's over-reliance on foreign labour; this will be positive for SCGB's precast concrete business.

Downside

- Slower-than-expected work progress at existing projects will affect the timing of earnings recognition.
- The timing of mega infrastructure project roll-outs by the Government could affect orderbook replenishment.
- At the precast segment, significant increase in steel prices and stiffer competition could affect margins.

Fig 1: Results summary

FY Dec (MYR m)	Quarterly					Cumulative		
	2Q22	2Q21	% YoY	1Q22	% QoQ	6M22	6M21	% YoY
Revenue	557.9	375.3	48.7	624.7	(10.7)	1,182.5	830.5	42.4
EBIT	42.4	6.4	563.5	42.9	(1.4)	85.3	32.5	162.5
Net interest inc/(exp)	(0.0)	0.4	NM	1.1	NM	1.1	(0.5)	NM
Assoc, JV profits	0.6	2.8	(77.1)	3.2	(80.1)	3.8	4.7	(19.8)
Pre-tax profit	43.0	9.5	351.7	47.2	(8.9)	90.1	36.8	145.2
Tax	(9.3)	(3.6)	160.4	(11.5)	(19.0)	(20.9)	(10.5)	98.4
Minority Interests	(1.3)	2.4	NM	(1.1)	18.6	(2.5)	2.3	NM
Net profit	32.3	8.3	288.1	34.5	(6.4)	66.8	28.6	133.9
EPS (sen)	2.51	0.65	286.2	2.68	(6.3)	5.19	2.22	133.8
DPS (sen)	3.00	1.25	140.0	-	NM	3.00	1.25	140.0
	2Q22	2Q21	+/- ppt	1Q22	+/- ppt	6M22	6M21	+/- ppt
EBIT margin (%)	7.6	1.7	5.9	6.9	0.7	7.2	3.9	3.3
Pretax margin (%)	7.7	2.5	5.2	7.6	0.2	7.6	4.4	3.2
Tax rate (%)	21.7	37.7	(16.0)	24.4	(2.7)	23.2	28.6	(5.5)
Segmental								
Revenue	2Q22	2Q21	% YoY	1Q22	% QoQ	6M22	6M21	% YoY
Construction	523.0	349.2	49.8	587.8	(11.0)	1,110.7	770.5	44.2
Precast concrete	34.9	26.1	33.8	36.9	(5.4)	71.8	59.9	19.8
Total	557.9	375.3	48.7	624.7	(10.7)	1,182.5	830.5	42.4
EBIT								
Construction	39.9	6.2	546.0	41.5	(3.9)	81.4	28.5	185.5
Precast concrete	2.4	0.2	1,088.3	1.4	72.9	3.9	4.0	(2.6)
Total	42.4	6.4	563.5	42.9	(1.4)	85.3	32.5	162.5
EBIT margin (%)	2Q22	2Q21	+/- ppt	1Q22	+/- ppt	6M22	6M21	+/- ppt
Construction	7.6	1.8	5.9	7.1	0.6	7.3	3.7	3.6
Precast concrete	7.0	0.8	6.2	3.8	3.2	5.4	6.6	(1.2)
Total	7.6	1.7	5.9	6.9	0.7	7.2	3.9	3.3

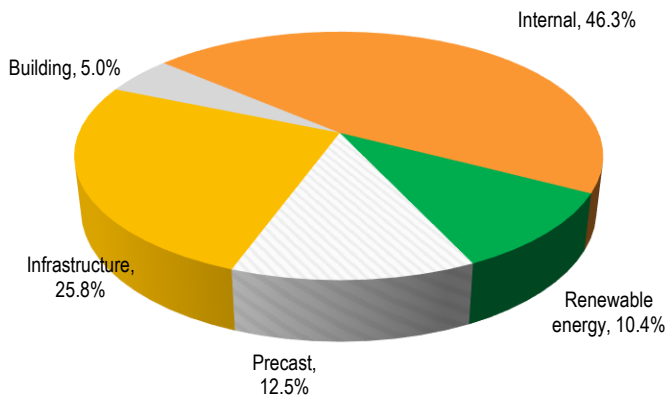
Source: Company, Maybank IBG Research (tabulation)

Fig 2: Outstanding orderbook of MYR4.2b @ 30 Jun 2022

As at 30 Jun 2022	Completion	Contract value (MYR m)	Outstanding (MYR m)
Infrastructure			
LRT 3: Package GS07-08	4Q22	1,295	87
Sentul West Station (MEP)	3Q22	57	3
KVMRT 2, Chan Sow Lin underground station (MEP)	3Q22	54	2
Tamil Nadu Highway (Thorapatil Agraharam-Jittandahalli, of NH-844)	4Q23	508	458
Tamil Nadu Highway (Meensurutti-Chidambarm, of NH-227)	3Q23	315	228
Jln Tambun, Ipoh	4Q22	14	12
Bangsar Rising (piling)	3Q22	5	4
TASCO #	3Q22	9	0
RTS: Package P2A (piling) #	2Q25	112	104
LRT3: GS06 #	2Q22	1	0
KB-Kuala Krai BR1-7 (piling) #	4Q22	2	2
LRT3: GS06 #	3Q23	191	191
Building			
Putrajaya Parcel F	Maintenance	1,610	5
TNB HQ Campus	3Q22	781	116
Petronas Learning Centre	Completed	305	25
Oxley Tower (MEP)	4Q24	68	52
IOI Mall (MEP)	3Q22	68	7
PNB 118 (MEP) #	3Q22	8	6
Internal			
Sunway Medical Centre 4 (2 towers) + VO	3Q23	612	205
Sunway Serene - Kelana Jaya Condo	4Q22	413	41
Service apartments at Jln Belfield	4Q24	403	332
Sunway Velocity Two	4Q22	352	51
Sunway South Quay - CP2 (superstructure)	3Q24	557	551
Sunway Carnival 2 Extension - PDP contract	3Q22	286	23
Sunway Velocity Two - 2 blocks of service apartments	4Q23	253	208
Sunway Damansara Medical Centre	3Q23	240	213
SMC Seberang Jaya	3Q22	196	9
SMC Ipoh	1Q24	150	136
Sunway International School	4Q22	140	20
Sunway South Key - CP2 (piling)	4Q22	198	19
Sunway Velocity 3C4	3Q22	100	55
Sunway Hotel renovation	3Q22	81	11
Big Box Office	3Q22	51	14
Butterworth-Kulim Expressway	3Q22	4	2
Drainage works	4Q22	1	1
Wellness road & drain #	3Q22	1	1
Sunway Medical Ipoh VO #	1Q24	67	67
Renewable energy			
Renewable energy - external	-	414	392
Renewable energy - internal	-	4	1
Renewable energy - internal #	-	8	8
Renewable energy - external #	-	38	38
Precast			
Secured pre 2022	-	531	402
New order in 1Q22 #	-	128	128
Total		10,631	4,230

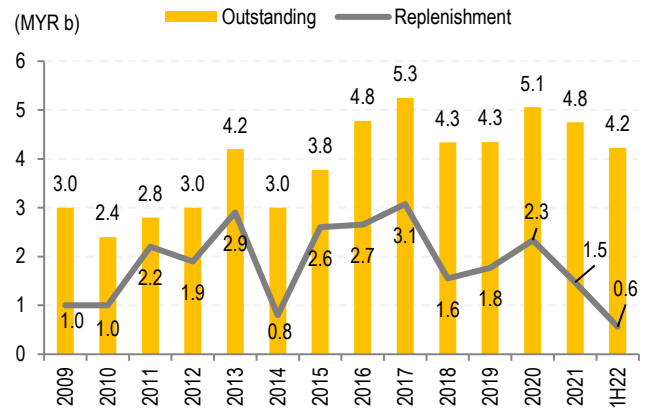
Secured in 2022 YTD - MYR563m; Source: Company

Fig 3: Outstanding orderbook of MYR4.2b @ 30 Jun 2022



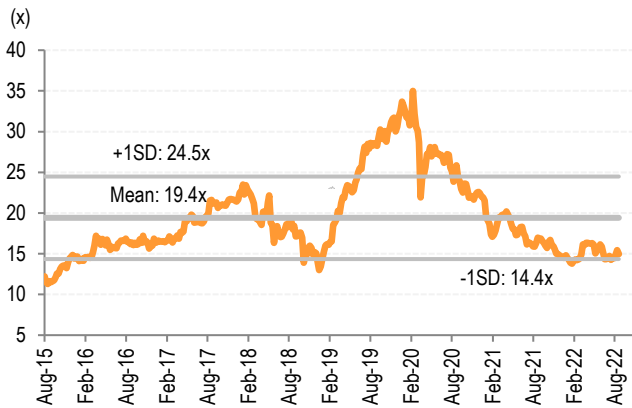
Source: Company data, Maybank IBG Research (chart)

Fig 4: Outstanding orderbook vs. replenishment



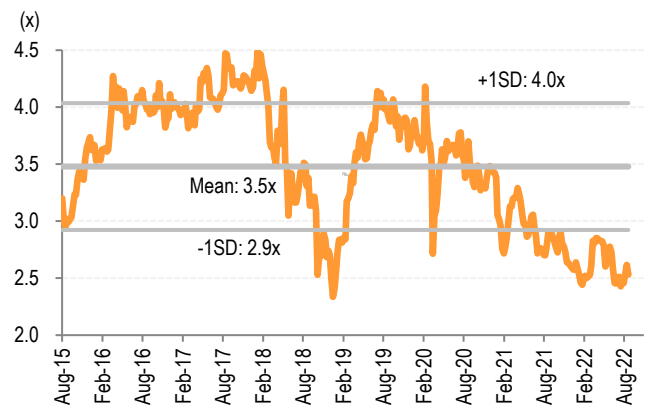
Note: Including precast, adjusted for revised value of LRT3 project;
Source: Company data, Maybank IBG Research (chart)

Fig 5: 12M forward PER



Source: Bloomberg, Company data, Maybank IBG Research

Fig 6: 12M forward P/B



Source: Bloomberg, Company data, Maybank IBG Research

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Key Metrics					
P/E (reported) (x)	32.6	19.0	14.7	15.1	19.5
Core P/E (x)	33.3	17.9	14.7	15.1	19.5
P/BV (x)	3.8	2.9	2.7	2.5	2.4
P/NTA (x)	3.8	2.9	2.7	2.5	2.4
Net dividend yield (%)	2.1	3.4	4.5	4.5	3.2
FCF yield (%)	3.5	10.3	12.2	8.6	nm
EV/EBITDA (x)	20.4	13.0	10.3	11.8	15.0
EV/EBIT (x)	27.9	15.6	11.6	13.5	18.3
INCOME STATEMENT (MYR m)					
Revenue	1,552.7	1,729.2	2,608.1	2,872.9	2,354.2
EBITDA	124.0	166.8	220.5	211.8	171.5
Depreciation	(33.4)	(27.4)	(24.9)	(27.8)	(30.8)
EBIT	90.5	139.4	195.6	184.1	140.7
Net interest income / (exp)	0.9	(0.4)	(7.4)	(10.6)	(8.9)
Associates & JV	10.1	13.3	5.0	5.0	5.0
Exceptionals	0.0	0.0	0.0	0.0	0.0
Pretax profit	101.5	152.2	193.2	178.5	136.8
Income tax	(27.8)	(41.5)	(57.4)	(46.3)	(34.5)
Minorities	(0.9)	1.8	0.0	0.0	0.0
Reported net profit	72.8	112.6	135.8	132.2	102.2
Core net profit	72.8	112.6	135.8	132.2	102.2
BALANCE SHEET (MYR m)					
Cash & Short Term Investments	200.1	98.8	231.3	313.2	232.5
Accounts receivable	904.9	660.9	1,005.5	1,093.6	936.7
Inventory	34.3	46.2	74.8	83.9	68.0
Property, Plant & Equip (net)	107.3	124.7	138.8	154.2	158.6
Intangible assets	0.1	0.1	0.1	0.1	0.1
Investment in Associates & JVs	488.9	723.5	728.5	733.5	738.5
Other assets	170.5	210.1	481.8	781.8	781.8
Total assets	1,906.1	1,864.2	2,660.9	3,160.2	2,916.3
ST interest bearing debt	233.7	92.5	92.5	92.5	92.5
Accounts payable	940.0	876.0	1,376.2	1,533.6	1,251.8
LT interest bearing debt	67.2	145.4	395.4	695.4	695.4
Other liabilities	27.0	34.0	35.0	35.0	35.0
Total Liabilities	1,267.5	1,147.4	1,898.6	2,356.0	2,074.3
Shareholders Equity	636.9	699.1	744.6	786.6	824.4
Minority Interest	1.7	17.6	17.6	17.6	17.6
Total shareholder equity	638.6	716.8	762.3	804.2	842.0
Total liabilities and equity	1,906.1	1,864.2	2,660.9	3,160.2	2,916.3
CASH FLOW (MYR m)					
Pretax profit	101.5	152.2	193.2	178.5	136.8
Depreciation & amortisation	33.4	27.4	24.9	27.8	30.8
Adj net interest (income)/exp	1.4	0.1	(7.4)	(10.6)	(8.9)
Change in working capital	(23.7)	83.1	126.9	60.2	(109.0)
Cash taxes paid	(28.8)	(26.6)	(57.4)	(46.3)	(34.5)
Other operating cash flow	4.0	2.1	2.4	5.6	3.9
Cash flow from operations	87.8	238.3	282.6	215.2	19.1
Capex	(1.9)	(31.5)	(39.1)	(43.1)	(35.3)
Free cash flow	85.9	206.8	243.4	172.1	(16.2)
Dividends paid	(61.2)	(51.6)	(90.3)	(90.3)	(64.5)
Change in Debt	12.0	(70.1)	250.0	300.0	0.0
Other invest/financing cash flow	(266.7)	(138.7)	(270.7)	(300.0)	0.0
Net cash flow	(230.0)	(53.6)	132.5	81.9	(80.7)

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Key Ratios					
Growth ratios (%)					
Revenue growth	(12.2)	11.4	50.8	10.2	(18.1)
EBITDA growth	(31.6)	34.6	32.2	(3.9)	(19.0)
EBIT growth	(35.8)	54.0	40.3	(5.9)	(23.6)
Pretax growth	(35.7)	50.0	26.9	(7.6)	(23.4)
Reported net profit growth	(43.7)	54.7	20.6	(2.6)	(22.7)
Core net profit growth	(43.7)	54.7	20.6	(2.6)	(22.7)
Profitability ratios (%)					
EBITDA margin	8.0	9.6	8.5	7.4	7.3
EBIT margin	5.8	8.1	7.5	6.4	6.0
Pretax profit margin	6.5	8.8	7.4	6.2	5.8
Payout ratio	70.9	60.1	66.5	68.3	63.1
DuPont analysis					
Net profit margin (%)	4.7	6.5	5.2	4.6	4.3
Revenue/Assets (x)	0.8	0.9	1.0	0.9	0.8
Assets/Equity (x)	3.0	2.7	3.6	4.0	3.5
ROAE (%)	11.6	16.9	18.8	17.3	12.7
ROAA (%)	3.7	6.0	6.0	4.5	3.4
Liquidity & Efficiency					
Cash conversion cycle	(42.1)	(62.9)	(56.1)	(65.4)	(77.5)
Days receivable outstanding	203.4	163.0	115.0	131.5	155.2
Days inventory outstanding	8.3	10.5	9.7	11.4	13.4
Days payables outstanding	253.8	236.3	180.9	208.3	246.2
Dividend cover (x)	1.4	1.7	1.5	1.5	1.6
Current ratio (x)	1.1	1.0	1.0	1.0	1.1
Leverage & Expense Analysis					
Asset/Liability (x)	1.5	1.6	1.4	1.3	1.4
Net gearing (%) (incl perps)	15.8	19.4	33.7	59.0	66.0
Net gearing (%) (excl. perps)	15.8	19.4	33.7	59.0	66.0
Net interest cover (x)	na	nm	26.4	17.4	15.8
Debt/EBITDA (x)	2.4	1.4	2.2	3.7	4.6
Capex/revenue (%)	0.1	1.8	1.5	1.5	1.5
Net debt/ (net cash)	100.8	139.1	256.6	474.8	555.4

Source: Company; Maybank IBG Research

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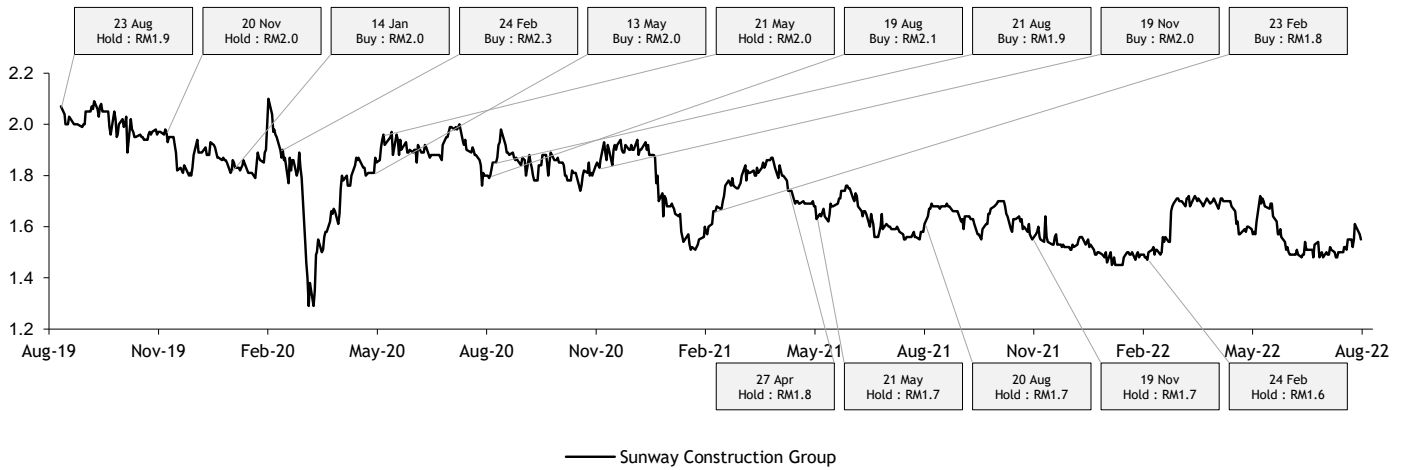
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