

Sunway Construction Group (SCGB MK)

3Q22: Shortfall

Maintain HOLD with a trimmed TP

SCGB's 9M22 net profit was 66%/68% of our/consensus FY22E with the miss, relative to our expectation, due to slower construction recognition in 3Q. We lower FY22/FY23E net profit by 12%/1% but raise FY24E by 10%. We also roll forward valuation base year to FY23E (from FY22E) to derive a trimmed TP of MYR1.53 (-5sen), based on unchanged 15x FY22E PER (about -1SD of LT mean). HOLD.

3Q22 net profit down 30% QoQ

Construction revenue was lower by 20% QoQ as work recognition slowed, with 2Q driven by projects nearing completion. Positively, construction EBIT margin was stable at 7.9% in 3Q (2Q: 7.6%). 3Q22 group net profit of MYR23m (-30% QoQ) brought 9M net profit to MYR90m (+87% YoY) with the 9M earnings growth largely due a low base where activities were affected by various levels of pandemic lockdowns in both Malaysia and Singapore. No further interim DPS was declared after a 1st interim 3sen, consistent with past practices.

MYR4b o/s orderbook, MYR17.7b active tender

Jobs secured in 9M22 totalled MYR882m (2021: MYR1.5b), bringing the outstanding orderbook to MYR4b as at end-Sep 2022. The internal job win target for 2022 is unchanged at MYR2b; we have assumed the same. Active tender book presently is MYR17.7b; we believe SCGB is eyeing the KVMRT3 civil works main package and Bayan Lepas LRT. SCGB's quota for 400 new foreign workers in Jun 2022 (342 workers have since arrived) and easing of steel bar prices to c.MYR2,600/t in Oct 2022 (from c.MYR3,500/t in Mar 2022) would help ease cost pressure.

Revising our forecasts; ICPH plant to start ops

Our revised forecasts are based on expectation for works recognition for projects secured since 2021 to pick up meaningfully only from 2023. Elsewhere, SCGB's new ICPH plant in Singapore is targeted to commission by Dec 2022. SCGB foresees its precast segment to contribute more to group earnings (9M22: 6% to group EBIT), moving forward.

FYE Dec (MYR m)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	1,553	1,729	2,228	2,873	2,654
EBITDA	124	167	198	211	186
Core net profit	73	113	120	131	113
Core EPS (sen)	5.6	8.7	9.3	10.2	8.8
Core EPS growth (%)	(43.7)	54.7	6.5	9.3	(13.5)
Net DPS (sen)	4.0	5.3	5.5	6.0	5.0
Core P/E (x)	33.3	17.9	15.4	14.1	16.3
P/BV (x)	3.8	2.9	2.5	2.3	2.2
Net dividend yield (%)	2.1	3.4	3.8	4.2	3.5
ROAE (%)	11.6	16.9	16.6	16.9	13.7
ROAA (%)	3.7	6.0	5.6	4.7	3.6
EV/EBITDA (x)	20.4	13.0	11.1	11.0	12.5
Net gearing (%) (incl perps)	15.8	19.4	43.6	55.4	53.0
Consensus net profit	-	-	131	143	154
MKE vs. Consensus (%)	-	-	(8.5)	(8.3)	(26.3)

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HOLD

Share Price	MYR 1.43
12m Price Target	MYR 1.53 (+11%)
Previous Price Target	MYR 1.58

Company Description

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

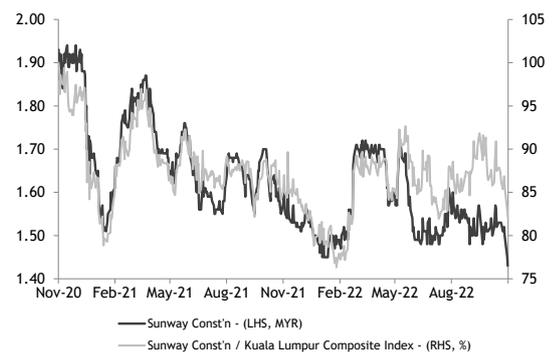
Statistics

52w high/low (MYR)	1.72/1.43
3m avg turnover (USDm)	0.0
Free float (%)	23.9
Issued shares (m)	1,293
Market capitalisation	MYR1.8B USD404M

Major shareholders:

Sunway Bhd.	54.4%
Active Equity Sdn. Bhd.	10.1%
Employees Provident Fund	9.3%

Price Performance



	-1M	-3M	-12M
Absolute (%)	(5)	(9)	(9)
Relative to index (%)	(5)	(6)	(4)

Source: FactSet

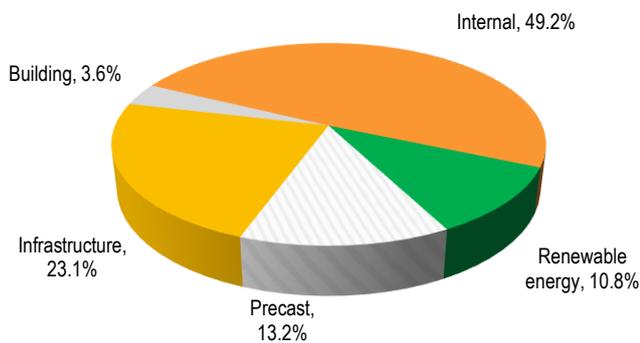
Abbreviation

ICPH = Integrated construction & prefabricated hub

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.

MYR4.0b outstanding orderbook as of 30 Sep 2022

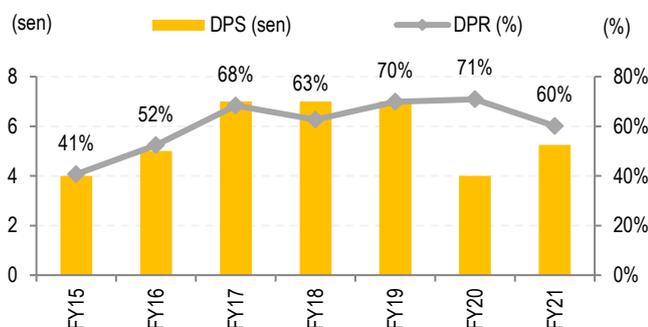


Source: Company

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 MYR104m as of 30 Sep 2022.
- DPR is a minimum 35% of PATMI; since its relisting (on 28 Jul 2015), SCGB had paid up to 71% (FY20).

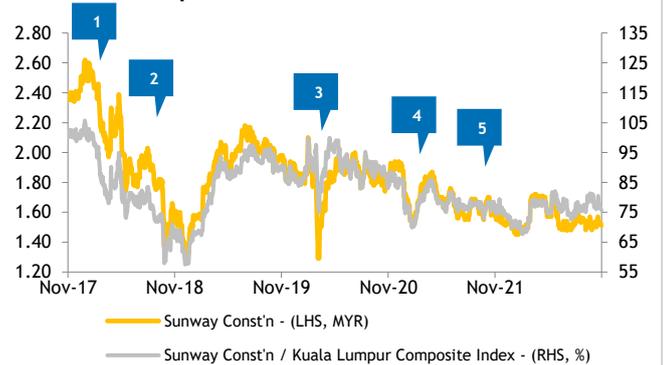
Dividends



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

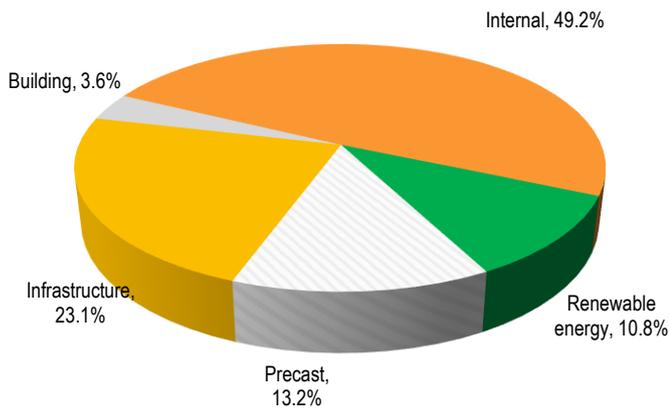
- Slower-than-expected work progress at existing projects will affect the timing of earnings recognition.
- The timing of mega infrastructure project roll-outs by the Government could affect orderbook replenishment.
- At the precast segment, significant increase in steel prices and stiffer competition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

Fig 1: Results summary

FY Dec (MYR m)	Quarterly					Cumulative		
	3Q22	3Q21	% YoY	2Q22	% QoQ	9M22	9M21	% YoY
Revenue	469.3	272.1	72.5	557.9	(15.9)	1,651.8	1,102.5	49.8
EBIT	36.9	22.1	67.2	42.4	(12.9)	122.2	54.5	124.0
Net interest inc/(exp)	0.8	0.1	1,407.1	(0.0)	NM	1.9	(0.4)	NM
Assoc, JV profits	(0.1)	2.4	NM	0.6	NM	3.7	7.1	(48.3)
Pre-tax profit	37.6	24.5	53.6	43.0	(12.5)	127.8	61.2	108.6
Tax	(13.6)	(5.0)	175.1	(9.3)	46.0	(34.5)	(15.5)	123.0
Minority Interests	(1.2)	(0.2)	458.3	(1.3)	(6.4)	(3.7)	2.1	NM
Net profit	22.7	19.3	17.7	32.3	(29.7)	89.5	47.9	87.1
EPS (sen)	1.76	1.49	18.1	2.51	(29.9)	6.95	3.71	87.3
DPS (sen)	-	-	NM	3.00	NM	3.00	1.25	140.0
	3Q22	3Q21	+/- ppt	2Q22	+/- ppt	9M22	9M21	+/- ppt
EBIT margin (%)	7.9	8.1	(0.2)	7.6	0.3	7.4	4.9	2.4
Pretax margin (%)	8.0	9.0	(1.0)	7.7	0.3	7.7	5.6	2.2
Tax rate (%)	36.3	20.3	16.0	21.7	14.5	27.0	25.3	1.7
Segmental								
Revenue	3Q22	3Q21	% YoY	2Q22	% QoQ	9M22	9M21	% YoY
Construction	418.9	255.8	63.8	523.0	(19.9)	1,529.7	1,026.3	49.0
Precast concrete	50.3	16.3	209.5	34.9	44.2	122.1	76.2	60.3
Total	469.3	272.1	72.5	557.9	(15.9)	1,651.8	1,102.5	49.8
EBIT								
Construction	33.1	24.2	36.8	39.9	(17.0)	114.6	52.7	117.2
Precast concrete	3.8	(2.2)	NM	2.4	53.2	7.6	1.8	320.0
Total	36.9	22.1	67.2	42.4	(12.9)	122.2	54.5	124.0
EBIT margin (%)	3Q22	3Q21	+/- ppt	2Q22	+/- ppt	9M22	9M21	+/- ppt
Construction	7.9	9.5	(1.6)	7.6	0.3	7.5	5.1	2.4
Precast concrete	7.5	(13.2)	20.7	7.0	0.4	6.2	2.4	3.9
Total	7.9	8.1	(0.2)	7.6	0.3	7.4	4.9	2.4

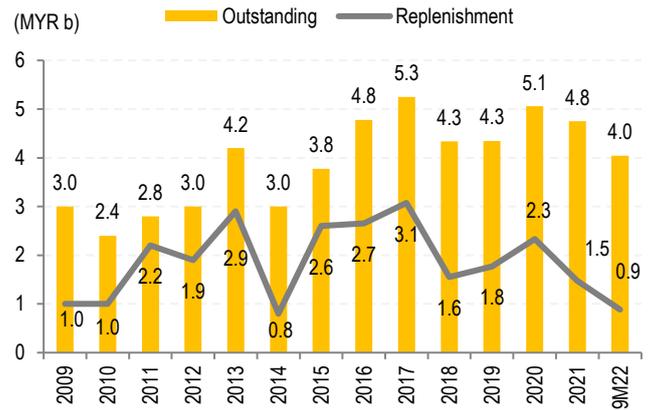
Source: Company, Maybank IBG Research (tabulation)

Fig 2: Outstanding orderbook of MYR4b @ 30 Sep 2022



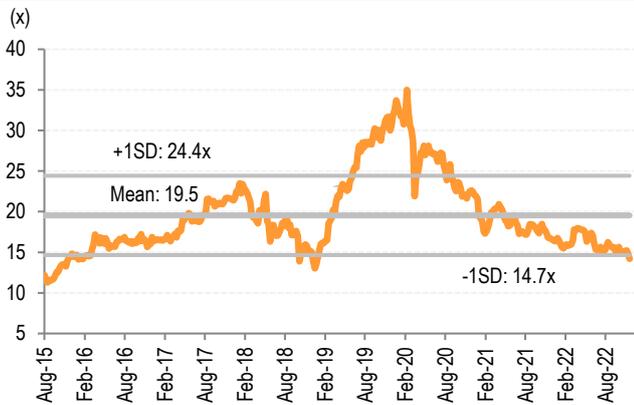
Source: Company data, Maybank IBG Research (chart)

Fig 3: Outstanding orderbook vs. replenishment



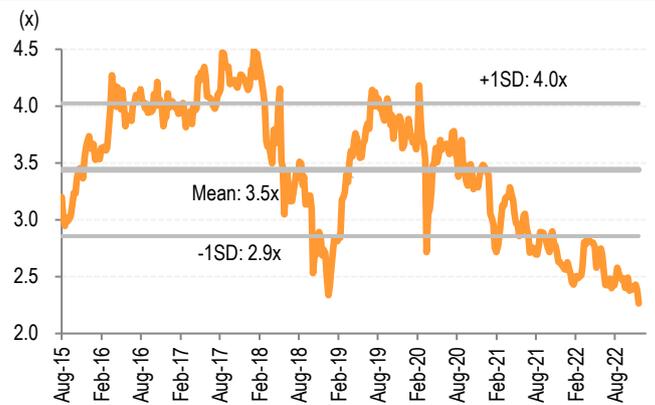
Note: Including precast, adjusted for revised value of LRT3 project;
Source: Company data, Maybank IBG Research (chart)

Fig 4: 12M forward PER



Source: Bloomberg, Company data, Maybank IBG Research

Fig 5: 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	15.4	14.1	16.3
Core P/E (x)	33.3	17.9	15.4	14.1	16.3
P/BV (x)	3.8	2.9	2.5	2.3	2.2
P/NTA (x)	3.8	2.9	2.5	2.3	2.2
Net dividend yield (%)	2.1	3.4	3.8	4.2	3.5
FCF yield (%)	3.5	10.3	8.0	13.9	3.2
EV/EBITDA (x)	20.4	13.0	11.1	11.0	12.5
EV/EBIT (x)	27.9	15.6	12.7	12.6	14.9
INCOME STATEMENT (MYR m)					
Revenue	1,552.7	1,729.2	2,228.1	2,872.9	2,654.2
EBITDA	124.0	166.8	198.3	210.7	185.6
Depreciation	(33.4)	(27.4)	(24.9)	(26.6)	(29.9)
EBIT	90.5	139.4	173.4	184.1	155.7
Net interest income / (exp)	0.9	(0.4)	(7.4)	(12.1)	(8.5)
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	171.0	177.0	152.2
Income tax	(27.8)	(41.5)	(51.1)	(45.9)	(38.8)
Minorities	(0.9)	1.8	0.0	0.0	0.0
Reported net profit	72.8	112.6	119.9	131.1	113.4
Core net profit	72.8	112.6	119.9	131.1	113.4
BALANCE SHEET (MYR m)					
Cash & Short Term Investments	200.1	98.8	154.0	333.5	327.8
Accounts receivable	904.9	660.9	894.4	1,093.6	1,024.4
Inventory	34.3	46.2	62.9	84.0	77.5
Property, Plant & Equip (net)	107.3	124.7	133.1	149.6	159.5
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	2,454.9	3,176.0	3,109.7
ST interest bearing debt	233.7	92.5	92.5	92.5	92.5
Accounts payable	940.0	876.0	1,166.7	1,534.1	1,418.8
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	1,689.1	2,356.5	2,241.3
Shareholders Equity	636.9	699.1	748.1	801.9	850.8
Minority Interest	1.7	17.6	17.6	17.6	17.6
Total shareholder equity	638.6	716.8	765.8	819.5	868.4
Total liabilities and equity	1,906.1	1,864.2	2,454.9	3,176.0	3,109.7
CASH FLOW (MYR m)					
Pretax profit	101.5	152.2	171.0	177.0	152.2
Depreciation & amortisation	33.4	27.4	24.9	26.6	29.9
Adj net interest (income)/exp	1.4	0.1	(7.4)	(12.1)	(8.5)
Change in working capital	(23.7)	83.1	40.4	147.2	(39.7)
Cash taxes paid	(28.8)	(26.6)	(51.1)	(45.9)	(38.8)
Other operating cash flow	4.0	2.1	2.4	7.1	3.5
Cash flow from operations	87.8	238.3	180.3	299.9	98.6
Capex	(1.9)	(31.5)	(33.4)	(43.1)	(39.8)
Free cash flow	85.9	206.8	146.8	256.8	58.8
Dividends paid	(61.2)	(51.6)	(70.9)	(77.4)	(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)	55.2	179.5	(5.7)

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Key Ratios					
Growth ratios (%)					
Revenue growth	(12.2)	11.4	28.9	28.9	(7.6)
EBITDA growth	(31.6)	34.6	18.9	6.2	(11.9)
EBIT growth	(35.8)	54.0	24.4	6.1	(15.4)
Pretax growth	(35.7)	50.0	12.3	3.5	(14.0)
Reported net profit growth	(43.7)	54.7	6.5	9.3	(13.5)
Core net profit growth	(43.7)	54.7	6.5	9.3	(13.5)
Profitability ratios (%)					
EBITDA margin	8.0	9.6	8.9	7.3	7.0
EBIT margin	5.8	8.1	7.8	6.4	5.9
Pretax profit margin	6.5	8.8	7.7	6.2	5.7
Payout ratio	70.9	60.1	59.1	59.0	56.9
DuPont analysis					
Net profit margin (%)	4.7	6.5	5.4	4.6	4.3
Revenue/Assets (x)	0.8	0.9	0.9	0.9	0.9
Assets/Equity (x)	3.0	2.7	3.3	4.0	3.7
ROAE (%)	11.6	16.9	16.6	16.9	13.7
ROAA (%)	3.7	6.0	5.6	4.7	3.6
Liquidity & Efficiency					
Cash conversion cycle	(42.1)	(62.9)	(59.1)	(58.2)	(72.7)
Days receivable outstanding	203.4	163.0	125.6	124.6	143.6
Days inventory outstanding	8.3	10.5	10.4	10.5	12.5
Days payables outstanding	253.8	236.3	195.2	193.2	228.9
Dividend cover (x)	1.4	1.7	1.7	1.7	1.8
Current ratio (x)	1.1	1.0	1.0	1.0	1.1
Leverage & Expense Analysis					
Asset/Liability (x)	1.5	1.6	1.5	1.3	1.4
Net gearing (%) (incl perps)	15.8	19.4	43.6	55.4	53.0
Net gearing (%) (excl. perps)	15.8	19.4	43.6	55.4	53.0
Net interest cover (x)	na	nm	23.4	15.2	18.3
Debt/EBITDA (x)	2.4	1.4	2.5	3.7	4.2
Capex/revenue (%)	0.1	1.8	1.5	1.5	1.5
Net debt/ (net cash)	100.8	139.1	333.9	454.4	460.1

Source: Company; Maybank IBG Research

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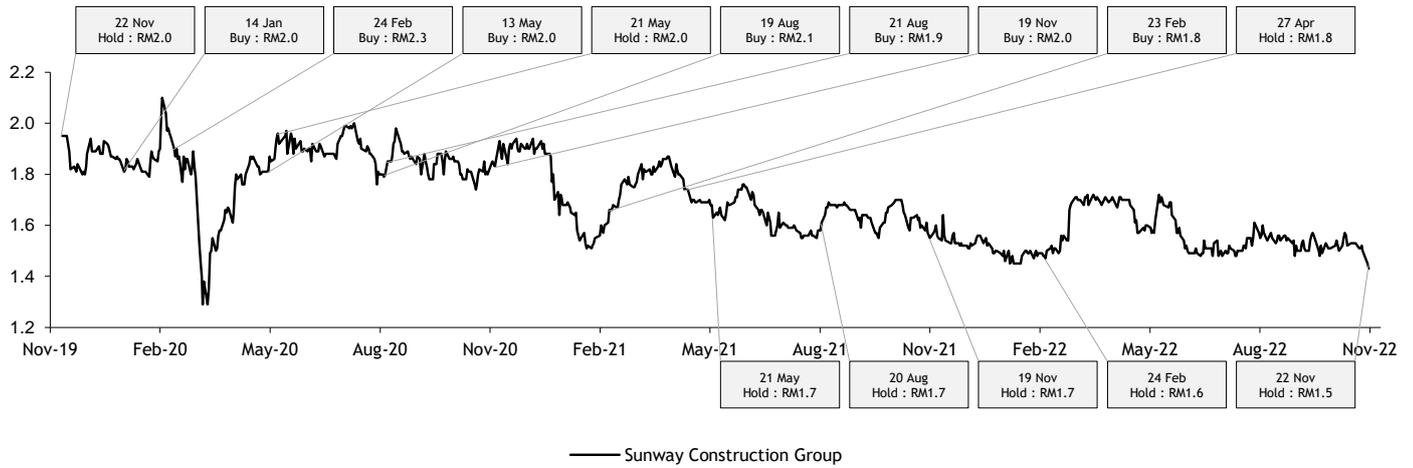
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