

23 November 2022

Construction & Engineering | Construction

Sunway Construction (SCGB MK)

Buy (Maintained)

Continues To Chart Growth; Keep BUY

Target Price (Return): MYR1.93 (+35%)
Price (Market Cap): MYR1.43 (USD403m)
ESG score: 3.20 (out of 4)
Avg Daily Turnover (MYR/USD) 0.21m/0.05m

- **Still BUY and MYR1.93 TP, 35% upside and c.5% FY23F yield.** Sunway Construction's 9M22 core net profit met our and Street expectations – accounting for 72% and 76% of full year projections. Its listed parent should continue to support earnings visibility whereby 49% of its outstanding orderbook comes from internal building contracts. This is in addition to its diverse portfolio of jobs comprising overseas highways in India, solar energy infrastructure and various purpose-built buildings.
- **Results review.** SCGB reported a stronger 3Q22 core net profit of MYR26.9m, which was 12% YoY higher, underpinned by the 73% YoY expansion in revenue to reach MYR469.3m (3Q21: MYR272m). In terms of PBT, the construction segment reported a 30% YoY growth amid normalisation of works to full capacity. Meanwhile, its precast segment recorded 3Q22 PBT of MYR2.6m compared to a loss-before-tax of MYR2.4m in 3Q21 as the pre-cast plants in Johor were affected by the MCO and only recommenced operations towards end-Sep 2021. Cumulatively, the group recorded 9M22 core net profit of MYR100.2m (+94% YoY), translating into a core net margin of 6.1% (9M21: 4.7%).
- **Prospects.** SCGB's construction orderbook stood at MYR4.1bn as at end-3Q22 (end-2Q22: MYR4.2bn). New YTD job wins currently stand at MYR881m (vs our FY22 job replenishment target of MYR1.5bn). Despite the highly possible delay of the award for Mass Rapid Transit 3 (MRT3) civil work packages to 1Q23 (from 4Q22), we believe that our FY22F replenishment target of MYR1.5bn could likely be met. This is backed by the group's MYR17.7bn active tender book size which includes factories and data centres, amongst others. Moreover, its listed parent should continue to support earnings visibility whereby c.40% of the total new job wins in FY22 thus far were internal. Its Integrated Construction and Prefabrication Hub (ICPH) plant in Singapore is likely to begin operations in early FY23 – expanding the precast product range to include large panel slabs, precast walls and tunnels from just mainly prefab bathroom units.
- **Forecasts and valuation.** We make no changes to our earnings forecasts as results were within expectations. Our valuation target P/E of 15.5x, which is pegged to our FY23F EPS, remains unchanged. The valuation target is above the KLCON Index's 5-year mean of 12x – to reflect SCGB's commendable orderbook/revenue cover of c.2.3x, backed by a robust balance sheet with a net cash position. All in, our TP of MYR1.93 remains unchanged after imputing a 4% premium to our intrinsic valuation based on our proprietary ESG scoring methodology. Valuation appears undemanding as the stock is trading at 12.2x FY23F P/E, or -1.5SD from its 5-year mean.
- **Key risks** include project delays and prolonged period of high material costs.

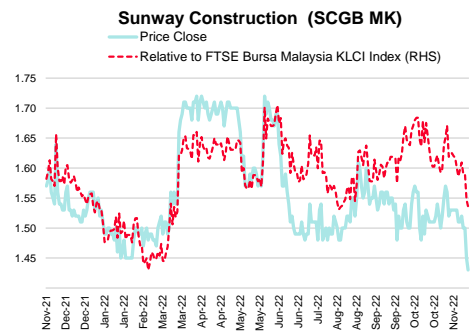
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(8.3)	(5.3)	(8.9)	(10.6)	(8.9)
Relative	(0.2)	(4.9)	(5.8)	(3.6)	(3.3)
52-wk Price low/high (MYR)	1.43 – 1.72				



Source: Bloomberg

Overall ESG Score: 3.20 (out of 4)

E: EXCELLENT

Implemented rooftop solar panels at its Sunway Precast Industries plant at Senai, Johor, to reduce the carbon emissions of site operations. With this, 98.6MWh of energy can be consumed via solar generation at this Senai plant, avoiding 57.7 tonnes of carbon emissions. In FY21, the group guided that its carbon emission intensity per unit revenue has declined from 98 tonnes carbon dioxide/MYRm.

S: GOOD

The group ensures the safety and health of all its employees, and public areas surrounding the construction sites, via various training and safety programmes. Apart from up-to-standard health & safety policies, we see active community engagement and efforts to uplift employee relations.

G: EXCELLENT

57% of its board members are independent, with full disclosure on director remuneration, including salaries and bonuses. The group has an in-house investor relations team. Accessibility to investor relations is excellent, and the team mostly helps to deal with investor queries.

Note:

Small cap stocks are defined as companies with a market capitalisation of less than USD0.5bn.

Forecasts and Valuation	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Total turnover (MYRm)	1,553	1,729	2,354	2,737	2,687
Recurring net profit (MYRm)	92	110	141	151	154
Recurring net profit growth (%)	(31.6)	19.9	27.7	7.4	1.8
Recurring P/E (x)	20.10	16.76	13.13	12.23	12.01
P/B (x)	2.9	2.6	2.4	2.3	2.1
P/CF (x)	8.78	15.51	22.30	9.05	9.79
Dividend Yield (%)	2.8	3.7	4.6	4.9	5.0
EV/EBITDA (x)	11.84	7.76	5.85	5.11	5.21
Return on average equity (%)	11.6	17.2	19.4	19.3	18.2
Net debt to equity (%)	16.7	21.1	32.4	20.2	11.8

Source: Company data, RHB

See important disclosures at the end of this report

Market Dateline / PP 19489/05/2019 (035080)

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Financial Exhibits

Asia	Financial summary (MYR)	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Malaysia	Recurring EPS	0.07	0.09	0.11	0.12	0.12
Construction & Engineering	DPS	0.04	0.05	0.07	0.07	0.07
Sunway Construction	BVPS	0.49	0.54	0.58	0.63	0.68
SCGB MK	Return on average equity (%)	11.6	17.2	19.4	19.3	18.2
Buy						
	Valuation metrics	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Valuation basis	Recurring P/E (x)	20.10	16.76	13.13	12.23	12.01
We value the company based on FY23F P/E of 15.5x.	P/B (x)	2.9	2.6	2.4	2.3	2.1
Sunway Construction's minimal net debt position allows it to gear up for more jobs moving forward.	FCF Yield (%)	11.2	4.6	1.5	8.1	7.2
	Dividend Yield (%)	2.8	3.7	4.6	4.9	5.0
	EV/EBITDA (x)	11.84	7.76	5.85	5.11	5.21
	EV/EBIT (x)	16.21	9.28	7.64	6.73	6.56
Key drivers						
Sunway Construction's earnings are backed by:	Income statement (MYRm)	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
i. An outstanding order backlog of MYR4.1bn, which would keep the firm busy for the next two years;	Total turnover	1,553	1,729	2,354	2,737	2,687
ii. Recurring orders from its parent company.	Gross profit	270	358	416	463	491
	EBITDA	124	167	234	254	238
	Depreciation and amortisation	(33)	(27)	(55)	(61)	(49)
	Operating profit	91	139	179	193	189
	Net interest	1	(0)	(8)	(8)	(7)
	Pre-tax profit	102	155	177	190	191
	Taxation	(28)	(41)	(36)	(39)	(37)
	Reported net profit	73	115	141	151	154
	Recurring net profit	92	110	141	151	154
Key risks						
i. Project delays;	Cash flow (MYRm)	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
ii. Prolonged period of high material costs.	Change in working capital	104	(36)	(113)	(8)	(14)
	Cash flow from operations	211	119	83	204	189
	Capex	(3)	(35)	(55)	(55)	(55)
	Cash flow from investing activities	(173)	(174)	(55)	(55)	(54)
	Dividends paid	(62)	(52)	(84)	(91)	(92)
	Cash flow from financing activities	(147)	(122)	(10)	(16)	(18)
	Cash at beginning of period	615	200	99	78	211
	Net change in cash	(110)	(177)	18	133	117
	Ending balance cash	505	23	117	211	328
Company Profile						
Sunway Construction is one of the largest construction companies in Malaysia. Apart from civil & infrastructure construction services, the company also provides the more specialised: i) Foundation & geotechnical engineering services, ii) mechanical, electrical & plumbing (MEP) services. In addition, it runs a highly profitable precast concrete product manufacturing operation in Malaysia and Singapore. Aside from fulfilling local requirements, it also largely supplies hose concrete products for Housing & Development Board (HDB) projects in the island republic.	Balance sheet (MYRm)	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
	Total cash and equivalents	200	99	78	211	328
	Tangible fixed assets	107	130	130	124	130
	Total investments	489	724	724	724	724
	Total assets	1,906	1,869	1,997	2,251	2,335
	Short-term debt	234	93	143	193	243
	Total long-term debt	73	158	163	173	183
	Total liabilities	1,267	1,153	1,296	1,489	1,512
	Total equity	639	717	701	761	823
	Total liabilities & equity	1,906	1,869	1,997	2,251	2,335
	Key metrics	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
	Revenue growth (%)	(12.2)	11.4	36.1	16.3	(1.8)
	Recurrent EPS growth (%)	(31.6)	19.9	27.7	7.4	1.8
	Gross margin (%)	17.4	20.7	17.7	16.9	18.3
	Operating EBITDA margin (%)	8.0	9.6	9.9	9.3	8.9
	Net profit margin (%)	4.7	6.6	6.0	5.5	5.7
	Dividend payout ratio (%)	70.9	58.9	60.0	60.0	60.0
	Capex/sales (%)	0.2	2.0	2.3	2.0	2.0
	Interest cover (x)	13.0	30.4	16.7	14.7	12.2

Source: Company data, RHB

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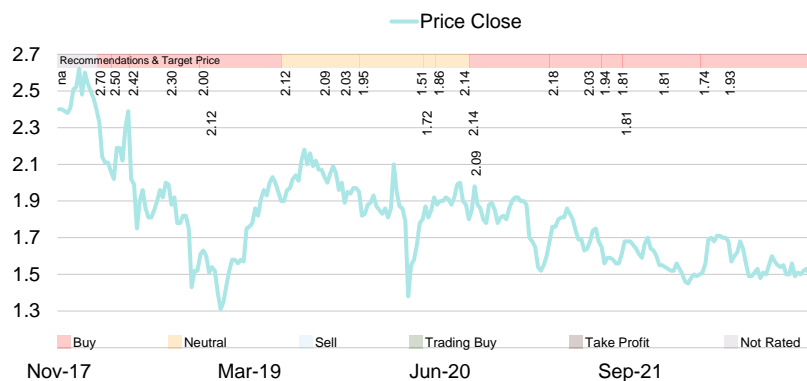
Results At a Glance

Figure 1: SCGB's results review

FYE Dec (MYRm)	3Q21	2Q22	3Q22	QoQ (%)	YoY (%)	9M21	9M22	YoY (%)	Comments
Revenue	272.1	557.9	469.3	(15.9)	72.5	1,102.5	1,651.8	49.8	Better progress billings due to normalisation to full work capacity
EBIT	26.1	36.3	32.7	(10.0)	25.2	50.8	111.5	119.3	
<i>EBIT margin (%)</i>	9.6	6.5	7.0			4.6	6.7		
Interest expense	(0.9)	(3.2)	(3.2)	1.4	249.5	(3.5)	(7.6)	115.7	
Interest income	1.0	3.2	4.1	28.1	315.7	3.1	9.5	204.6	
JV/Associates	2.4	0.6	(0.1)	(120.5)	(105.5)	7.1	3.7	(48.3)	
EI/Others	4.7	6.1	4.2	(30.3)	(10.8)	3.7	10.7	188.0	Impairment of receivables
Pretax profit	24.5	43.0	37.6	(12.5)	53.6	61.2	127.8	108.6	
<i>Pretax margin (%)</i>	9.0	7.7	8.0			5.6	7.7		
Tax	(5.0)	(9.3)	(13.6)	46.0	175.1	(15.5)	(34.5)	123.0	
<i>Effective tax rate (%)</i>	(22.4)	(22.1)	(36.2)			(28.6)	(27.8)		
Minority interest	(0.2)	(1.3)	(1.2)	(6.5)	457.8	2.1	(3.7)	(275.9)	
Net profit	19.3	32.3	22.7	(29.7)	17.7	47.9	89.5	87.1	
Core profit	24.0	38.4	26.9	(29.8)	12.1	51.6	100.2	94.3	Within expectations
<i>Core net margin (%)</i>	8.8	6.9	5.7			4.7	6.1		

Source: Company data, RHB

Recommendation Chart

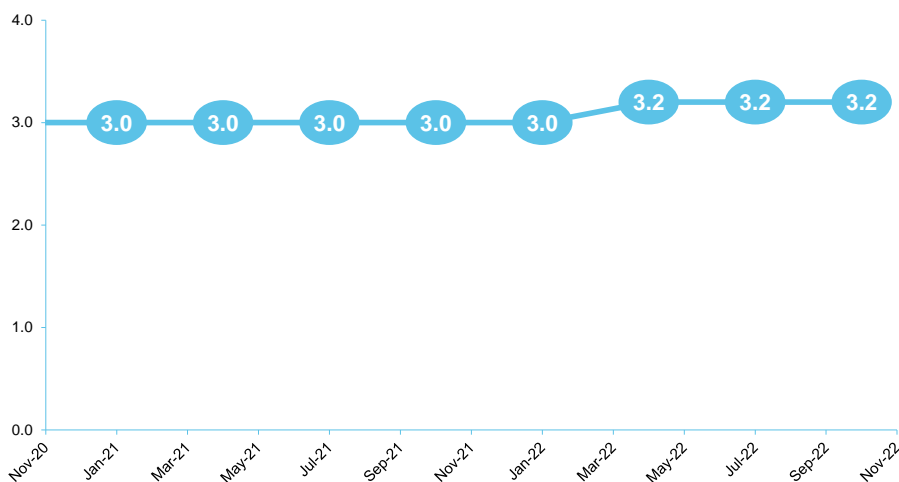


Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2022-11-02	Buy	1.93	1.57
2022-08-24	Buy	1.93	1.56
2022-07-21	Buy	1.93	1.50
2022-05-26	Buy	1.93	1.57
2022-04-26	Buy	1.93	1.69
2022-02-24	Buy	1.74	1.47
2021-11-19	Buy	1.81	1.55
2021-08-20	Buy	1.81	1.61
2021-08-11	Buy	1.81	1.58
2021-06-29	Buy	1.94	1.64
2021-05-21	Buy	2.03	1.63
2021-04-22	Buy	2.18	1.80
2021-02-24	Buy	2.18	1.66
2020-11-19	Buy	2.09	1.83
2020-10-29	Buy	2.09	1.81

Source: RHB, Bloomberg

ESG Rating History



Source: RHB

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Market Dateline / PP 19489/05/2019 (035080)

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Trading Buy:	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
Neutral:	Share price may fall within the range of +/- 10% over the next 12 months
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