



AmInvestment Bank

SUNWAY CONSTRUCTION

(SCGB MK EQUITY, SCOG.KL)

06 October 2023

Exceeded order book replenishment target

Company report

BUY

(Maintained)

AmInvestment Bank

Team Coverage

+603-2036 2280

Rationale for Report: Company Update

| | |
|------------------|---------------|
| Price | RM1.91 |
| Fair Value | RM2.20 |
| 52-week High/Low | RM1.98/RM1.41 |

Key Changes

| | |
|------------|---|
| Fair value | 📈 |
| EPS | 📈 |

| YE to Dec | FY22 | FY23F | FY24F | FY25F |
|-------------------------------|---------|---------|---------|---------|
| Revenue (RM mil) | 2,155.2 | 3,107.7 | 3,377.0 | 3,621.9 |
| Core net profit (RM mil) | 135.2 | 150.0 | 172.5 | 201.5 |
| FD Core EPS (sen) | 10.5 | 11.6 | 13.4 | 15.6 |
| FD Core EPS growth (%) | 20.1 | 11.0 | 15.0 | 16.8 |
| Consensus Net Profit (RM mil) | - | - | 160.1 | 155.2 |
| DPS (sen) | 5.5 | 5.8 | 6.7 | 7.8 |
| PE (x) | 18.1 | 16.3 | 14.2 | 12.2 |
| EV/EBITDA (x) | 11.6 | 10.5 | 9.0 | 7.5 |
| Div yield (%) | 2.9 | 3.1 | 3.5 | 4.1 |
| ROE (%) | 18.8 | 19.4 | 20.2 | 21.2 |
| Net Gearing (%) | nm | nm | nm | nm |

Stock and Financial Data

| | |
|------------------------------|---------|
| Shares Outstanding (million) | 1,289.4 |
| Market Cap (RM mil) | 2,449.8 |
| Book Value (RM/share) | 0.57 |
| P/BV (x) | 3.3 |
| ROE (%) | 18.8 |
| Net Gearing (%) | - |

| | |
|--------------------------|-----------------------------------|
| Major Shareholders | Sunway Bhd & Cheah family (64.6%) |
| | EPF (9.8%) |
| | Amanah Saham Nasional (6.4%) |
| Free Float | 19.2 |
| Avg Daily Value (RM mil) | 1.1 |

| Price performance | 3mth | 6mth | 12mth |
|-------------------|------|------|-------|
| Absolute (%) | 22.6 | 14.5 | 26.7 |
| Relative (%) | 18.9 | 14.8 | 24.5 |



— SCGB MK — FBMKLCI Index

Investment Highlights

- We maintain BUY on Sunway Construction (SunCon) with a higher fair value (FV) of RM2.20/share (vs. RM2.08/share previously), based on a rolled-forward FY24F PE of 16x, which is 0.5 standard deviation above the 5-year average. Our fair value includes a 3% premium rating to reflect the group's 4-star ESG rating.
- As YTD new job wins have exceeded our replenishment assumption of RM2.0bil, we raise our replenishment assumption for SunCon to RM2.5bil for FY23F. While we retain FY23F net profit as the new contracts will only begin contributing next year, we increase FY24F-25F earnings by 6%-14%.
- SunCon has secured 2 substantive contracts worth RM785mil (25% of FY23F revenue) as follows:
 - RM595mil contract from Daiso Malaysia Group to design and construct the Daiso Global Distribution Center Warehouse in Pulau Indah, Port Klang, Selangor via a 50:50 joint venture with Kajima (Malaysia). The warehouse is expected to be completed in 2QFY26.
 - RM190mil contract from K2 Strategic Infrastructure Malaysia for the proposed development of a data centre in Johor, scheduled to be completed in 4QFY24.
- The construction works for both contracts are expected to commence in the 1QFY24, with estimated accretion to SunCon's net profit (NP) at RM13mil per year (or 8% of FY24F NP).
- The award of the above contracts raises new order book replenishment by 55% to RM2.2bil and outstanding order book by 12% to RM6.4bil. Hence, SunCon exceeded its own replenishment target of RM2bil in FY23F.
- Looking ahead, we believe that more contracts will be awarded before the end of FY23F. These may include Mass Rapid Transit 3, Johor Bahru–Singapore Rapid Transit System, Vietnam power plant projects, some semiconductor factories, data centres and precast projects.

- Risks are (i) weaker-than-expected recovery of job flows; (ii) eroding profit margins from rising costs, and (iii) shelving of mega projects.
- We believe that the stock is undervalued as it is currently trading at a FY24F PE of 14x, significantly below its 5-year average of 20x. SunCon also offers a decent dividend yield of 3.5% for FY24F.

EXHIBIT 1: 2023 NEW AWARDS

| Projects | Duration | Contract Sum (RM mil) |
|--|----------|-----------------------|
| Bidadari C17-LPS | Dec-23 | 3.9 |
| Precast-Watertanks (various projects) | Various | 9.4 |
| Heliosel Solar PV System-Package L3 | Dec-23 | 34.0 |
| Heliosel Solar PV System-Package L2 | Oct-23 | 10.5 |
| RTS Package 1B and Package 5 | Jun-25 | 604.9 |
| South Quay Square Mix Development-2nd SA | Oct-25 | 606.6 |
| Oxley Tower VO | Feb-24 | 8.5 |
| Kallang Whampoa C23A | Dec-25 | 63.0 |
| Carnival Mall Refurbishment | Aug-24 | 253.0 |
| Daiso Global Distribution Center Warehouse | Q2 2026 | 297.7 |
| K2 Data Centre (Johor) | Q4 2024 | 190.0 |
| Corporate Green Power Programme (CGPP)* | Dec-25 | 120.0 |
| Bishan East C36 | Sep-24 | 1.2 |
| Total secured as at 3Q 2023 | | 2,202.7 |

Source: Company

*CGPP is an investment project undertaken by SunCon, hence no revenue recognition for construction works due to intergroup elimination.

EXHIBIT 2: PB BAND CHART

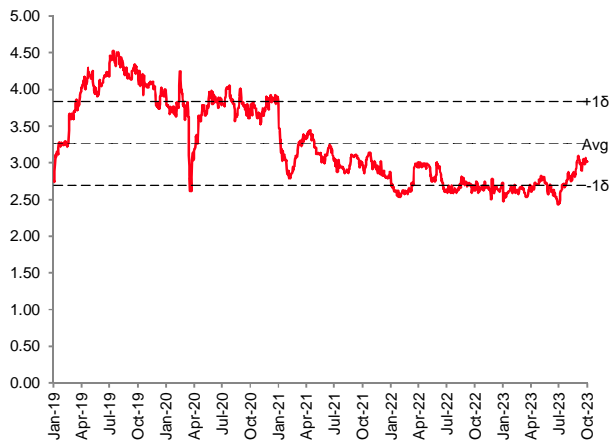


EXHIBIT 3: PE BAND CHART



EXHIBIT 4: 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 | ★ | ★ | | | |
| Accessibility & transparency | ★ | ★ | ★ | | |

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

EXHIBIT 5: FINANCIAL DATA

| Income Statement (RM mil, YE 31 Dec) | FY21 | FY22 | FY23F | FY24F | FY25F |
|--|----------------|----------------|----------------|----------------|----------------|
| Revenue | 1,729.2 | 2,155.2 | 3,107.7 | 3,377.0 | 3,621.9 |
| EBITDA | 166.8 | 210.3 | 224.5 | 251.1 | 289.4 |
| Depreciation/Amortisation | (27.4) | (23.8) | (31.8) | (33.2) | (34.7) |
| Operating income (EBIT) | 139.4 | 186.5 | 192.6 | 217.9 | 254.6 |
| Other income & associates | 13.3 | 1.7 | 5.7 | 6.3 | 6.9 |
| Net interest | (0.4) | (4.2) | (0.4) | 2.4 | 5.1 |
| Exceptional items | - | - | - | - | - |
| Pretax profit | 152.2 | 184.1 | 197.9 | 226.6 | 266.6 |
| Taxation | (41.5) | (45.3) | (46.5) | (52.7) | (63.3) |
| Minorities/pref dividends | 1.8 | (3.6) | (1.3) | (1.5) | (1.9) |
| Net profit | 112.6 | 135.2 | 150.0 | 172.5 | 201.5 |
| Core net profit | 112.6 | 135.2 | 150.0 | 172.5 | 201.5 |
| Balance Sheet (RM mil, YE 31 Dec) | FY21 | FY22 | FY23F | FY24F | FY25F |
| Fixed assets | 124.8 | 107.6 | 93.4 | 79.3 | 65.0 |
| Intangible assets | - | - | - | - | - |
| Other long-term assets | 724.7 | 491.1 | 496.8 | 503.0 | 509.9 |
| Total non-current assets | 849.4 | 598.7 | 590.1 | 582.3 | 574.9 |
| Cash & equivalent | 98.8 | 491.6 | 507.8 | 642.3 | 792.2 |
| Stock | 46.2 | 53.4 | 67.9 | 73.6 | 79.1 |
| Trade debtors | 600.6 | 677.7 | 1,310.1 | 1,419.7 | 1,526.8 |
| Other current assets | 269.2 | 414.6 | 414.6 | 414.6 | 414.6 |
| Total current assets | 1,014.8 | 1,637.4 | 2,300.4 | 2,550.1 | 2,812.7 |
| Trade creditors | 766.7 | 716.2 | 1,369.0 | 1,480.1 | 1,582.3 |
| Short-term borrowings | 92.5 | 172.2 | 237.5 | 262.7 | 292.2 |
| Other current liabilities | 132.8 | 214.9 | 214.9 | 214.9 | 214.9 |
| Total current liabilities | 992.0 | 1,103.3 | 1,821.4 | 1,957.7 | 2,089.4 |
| Long-term borrowings | 145.4 | 308.5 | 168.6 | 186.5 | 207.4 |
| Other long-term liabilities | 2.9 | - | - | - | - |
| Total long-term liabilities | 148.3 | 308.5 | 168.6 | 186.5 | 207.4 |
| Shareholders' funds | 699.1 | 737.1 | 812.2 | 898.4 | 999.1 |
| Minority interests | 17.6 | 83.7 | 85.0 | 86.5 | 88.3 |
| BV/share (RM) | 0.54 | 0.57 | 0.63 | 0.70 | 0.77 |
| Cash Flow (RM mil, YE 31 Dec) | FY21 | FY22 | FY23F | FY24F | FY25F |
| Pretax profit | 152.2 | 184.1 | 197.9 | 226.6 | 266.6 |
| Depreciation/Amortisation | 27.4 | 23.8 | 31.8 | 33.2 | 34.7 |
| Net change in working capital | 83.3 | (382.2) | 5.9 | (4.2) | (10.5) |
| Others | (24.2) | (40.7) | (51.8) | (61.4) | (75.3) |
| Cash flow from operations | 238.7 | (215.0) | 183.8 | 194.3 | 215.6 |
| Capital expenditure | (34.8) | (27.1) | (17.6) | (19.1) | (20.5) |
| Net investments & sale of fixed assets | 3.3 | 25.2 | - | - | - |
| Others | (146.6) | 411.8 | - | - | - |
| Cash flow from investing | (178.2) | 409.9 | (17.6) | (19.1) | (20.5) |
| Debt raised/(repaid) | (70.1) | 233.4 | (74.6) | 43.1 | 50.4 |
| Equity raised/(repaid) | - | - | - | - | - |
| Dividends paid | (51.8) | (90.3) | (75.0) | (86.2) | (100.7) |
| Others | (0.5) | (0.4) | (15.1) | (12.8) | (14.2) |
| Cash flow from financing | (122.4) | 142.7 | (164.8) | (55.9) | (64.5) |
| Net cash flow | (61.8) | 337.6 | 1.5 | 119.3 | 130.6 |
| Net cash/(debt) b/f | 427.3 | 365.9 | 699.1 | 700.6 | 819.8 |
| Net cash/(debt) c/f | 365.9 | 699.1 | 700.6 | 819.8 | 950.4 |
| Key Ratios (YE 31 Dec) | FY21 | FY22 | FY23F | FY24F | FY25F |
| Revenue growth (%) | 11.4 | 24.6 | 44.2 | 8.7 | 7.3 |
| EBITDA growth (%) | 34.6 | 26.0 | 6.7 | 11.9 | 15.2 |
| Pretax margin (%) | 8.8 | 8.5 | 6.4 | 6.7 | 7.4 |
| Net profit margin (%) | 6.5 | 6.3 | 4.8 | 5.1 | 5.6 |
| Interest cover (x) | 324.2 | 44.9 | 483.1 | nm | nm |
| Effective tax rate (%) | 27.3 | 24.6 | 23.5 | 23.2 | 23.7 |
| Dividend payout (%) | 60.1 | 52.5 | 50.0 | 50.0 | 50.0 |
| Debtors turnover (days) | 155 | 108 | 117 | 148 | 148 |
| Stock turnover (days) | 8 | 8 | 7 | 8 | 8 |
| Creditors turnover (days) | 169 | 126 | 122 | 154 | 154 |

Source: Company, AmlInvestment Bank Bhd estimates

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