



AmInvestment Bank

Company report

SUNWAY CONSTRUCTION

(SCGB MK EQUITY, SCOG.KL)

23 May 2023

Progress billings to accelerate going forward

BUY

(Maintained)

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Rationale for Report: Company Result

Price	RM1.72
Fair Value	RM1.92
52-week High/Low	RM1.79/RM1.41

Key Changes

Fair value	↔
EPS	↔

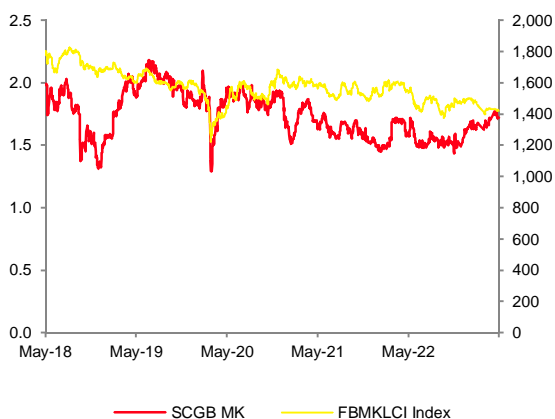
YE to Dec	FY22	FY23F	FY24F	FY25F
Revenue (RM mil)	2,155.2	3,107.7	3,198.0	3,175.9
Core net profit (RM mil)	135.2	171.4	173.2	176.3
FD Core EPS (sen)	10.5	13.3	13.4	13.7
FD Core EPS growth (%)	20.1	26.8	1.1	1.8
Consensus Net Profit (RM mil)	-	153.2	160.4	167.0
DPS (sen)	5.5	6.6	6.7	6.8
PE (x)	16.4	12.9	12.8	12.6
EV/EBITDA (x)	10.5	8.2	7.8	7.3
Div yield (%)	3.2	3.9	3.9	4.0
ROE (%)	18.8	22.0	20.0	18.5
Net Gearing (%)	nm	nm	nm	nm

Stock and Financial Data

Shares Outstanding (million)	1,289.4
Market Cap (RM mil)	2,217.7
Book Value (RM/share)	0.57
P/BV (x)	3.0
ROE (%)	18.8
Net Gearing (%)	-

Major Shareholders	Sunway & Cheah family (64.6%) EPF (9.7%) Amanah Saham Nasional (6.0%)
Free Float	19.6
Avg Daily Value (RM mil)	0.6

Price performance	3mth	6mth	12mth
Absolute (%)	3.6	20.3	7.5
Relative (%)	6.9	22.2	17.4



Investment Highlights

- We maintain BUY on Sunway Construction (SunCon) with an unchanged fair value (FV) of RM1.92/share. Our FV is based on FY23F PE of 14x, in line with our benchmark for large-cap construction stocks. We also ascribe a 3% premium to reflect the group's 4-star ESG rating.
- We deem SunCon's 1QFY23 results to be within expectations although it accounts for only 15%-17% of our FY23F core net profit and consensus'. We expect the group's net profit to improve over the following quarters on the back of a higher recognition of construction progress billings.
- 1QFY23 CNP fell 25% YoY to RM27mil as progress billings for existing construction projects have yet to pick up. This resulted in a lower segment contribution (-22% YoY). Furthermore, revenue and PBT were higher back in 1QFY22 as construction projects were expedited for completion by June 2022.
- Despite the 44% YoY growth in revenue to RM469mil in 1QFY23, PBT of precast segment only inched up by RM0.3mil to RM1.3mil. The division suffered higher depreciation expense as the new plant in Singapore's Integrated Construction & Prefabrication Hub (ICPH) commenced operation in 1QFY23.
- On a sequential basis, 1QFY23 CNP came down by 30% mainly due to recalibration of margins for construction projects that were nearing completion.
- YTD order book wins amounted to RM1.3bil, which expanded SunCon's outstanding order book by 14% QoQ to RM6.0bil (Construction: RM5.6bil; Precast: RM0.4bil) as at end-Mar 2023. This translates to a decent 1.9x of FY23F revenue.
- SunCon maintains its replenishment target of RM2.0bil for FY23F, backed by a tender book of RM23bil. Apart from the MRT3 and Vietnam power plant projects, potential jobs may come from Bayan Lepas LRT, construction of warehouses and internal building jobs from companies within Sunway group.

- While maintaining our replenishment assumption of RM2.0bil for FY23F, we may raise our earnings estimates if SunCon bags either the MRT3 project or the Vietnam power plant project (SunCon's portion amounts to RM6bil).
- SunCon's 49%-owned ICPH precast plant in Singapore began operations at the end of Jan 2023. However, we believe that orders will be driven mainly by the group's existing precast plants in Senai and Iskandar, Johor as the ICPH plant is still new.
- SunCon has a migrant workforce of 600 currently. The group has obtained approval for an additional 300 Indonesian workers which can be deployed at ongoing construction projects and potential new wins. In comparison, at the peak, SunCon had a workforce of around 900 foreign workers during the construction of MRT2 and LRT3.
- Risks to SunCon include (i) eroding margins from higher-than-expected building material costs and labour shortages; and (ii) shelving of mega projects.
- The stock currently trades at an undemanding 12.9x FY23F PE, 8% below our large-cap construction stock benchmark of 14x.

EXHIBIT 1: QUARTERLY RESULTS

FYE 31 Dec	1QFY22	4QFY22	1QFY23	QoQ %	YoY %
Revenue	624.7	503.4	522.1	3.7	(16.4)
EBITDA	50.1	62.4	45.7	(26.8)	(8.9)
EBIT	43.9	56.8	40.4	(28.9)	(7.9)
Exceptional Items	(0.9)	7.5	1.3	(83.0)	(>100.0)
PBT	47.2	56.3	37.5	(33.4)	(20.5)
Taxation	(11.5)	(10.8)	(8.9)	(17.8)	(23.0)
Minority interest	(1.1)	0.1	(0.8)	(>100.0)	(27.5)
Net Profit	34.5	45.6	27.8	(39.0)	(19.4)
Core Net Profit	35.5	38.1	26.5	(30.4)	(25.1)
Core EPS (sen)	2.75	2.96	2.06	(30.4)	(25.1)
DPS (sen)	-	2.50	-		
EBITDA Margin %	8.0	12.4	8.7		
EBIT Margin %	7.0	11.3	7.7		
PBT Margin %	7.6	11.2	7.2		
Effective Tax Rate %	24.4	19.2	23.7		
Core Net Profit Margin %	5.7	7.6	5.1		

Source: Company

EXHIBIT 2: SEGMENTAL BREAKDOWN

FYE 31 Dec	1QFY22	4QFY22	1QFY23	QoQ %	YoY %
Segmental Revenue					
Construction	587.8	444.0	469.1	5.7	(20.2)
Precast Concrete	36.9	59.4	53.0	(10.8)	43.6
Segmental PBT					
Construction	46.2	51.0	36.2	(29.0)	(21.5)
Precast Concrete	1.0	5.3	1.3	(75.6)	28.4
Segmental PBT Margin					
Construction %	7.9	11.5	7.7		
Precast Concrete %	2.7	8.9	2.4		

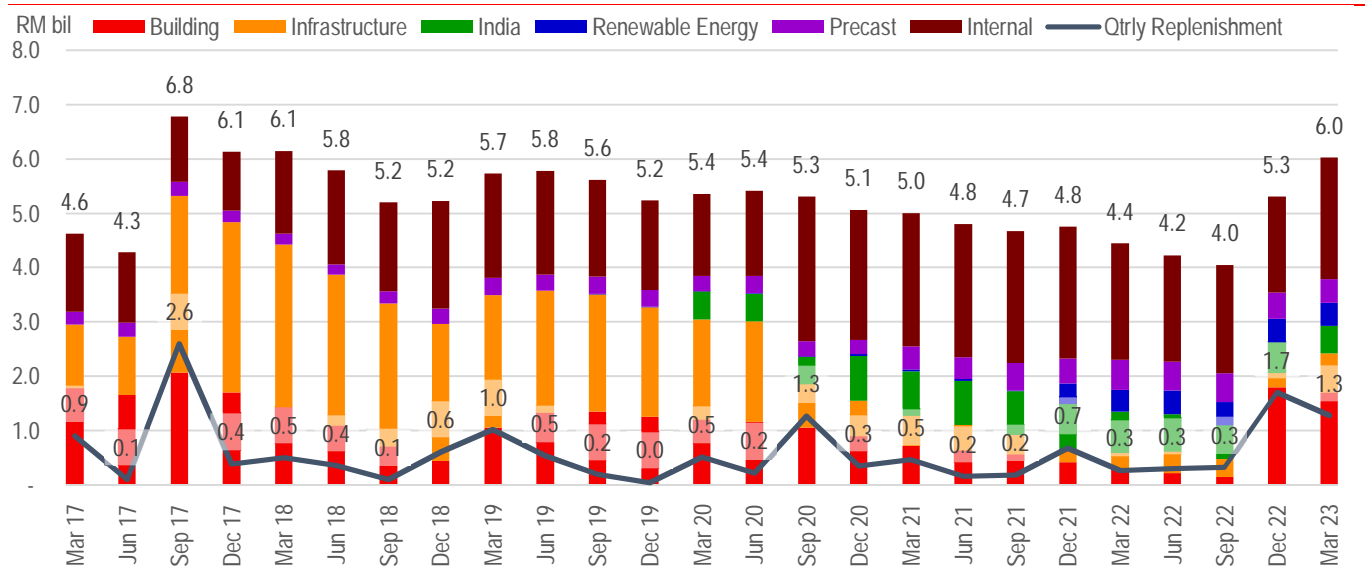
Source: Company

EXHIBIT 3: OUTSTANDING ORDER BOOK AS AT MARCH 2023

Type	Order Book	Completion	Outstanding (RM mil)
Internal Building Jobs	South Quay CP2 - Superstructure	2024	1,079
	Sunway Flora	2025	273
	Sunway Belfield	2024	236
	Sunway Medical Centre Ipoh	2024	181
	Sunway Medical Centre Damansara	2023	174
	Sunway Velocity 2B	2023	146
	Sunway Medical Centre 4 + VO	2023	102
	Others	Various	49
JHB1X0 - Data Centre	2024	1,656	
RTS Link Package 1B & Package 5	2025	605	
India Highway: Thorapalli - Jittandahalli (TJ)	2023	363	
India Highway: Meensurutti - Chidambaran (MC)	2023	144	
LRT 3: GS06	2023	73	
Precast	Various	443	
Solar	Various	420	
Others	Various	87	
Total			6,030

Source: Company

EXHIBIT 4: QUARTERLY ORDER BOOK TREND



Source: Company

EXHIBIT 5: PB BAND CHART

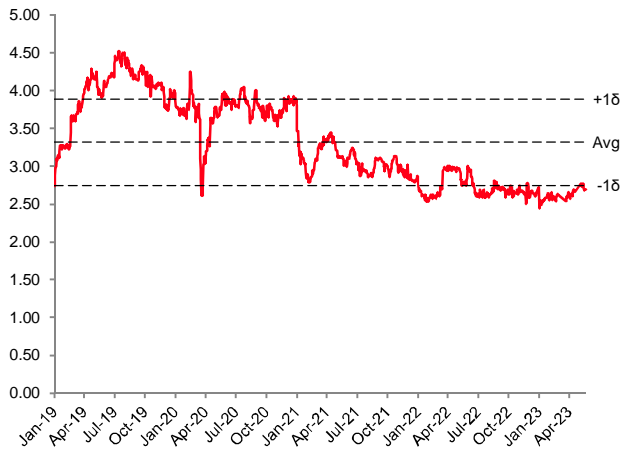


EXHIBIT 6: PE BAND CHART

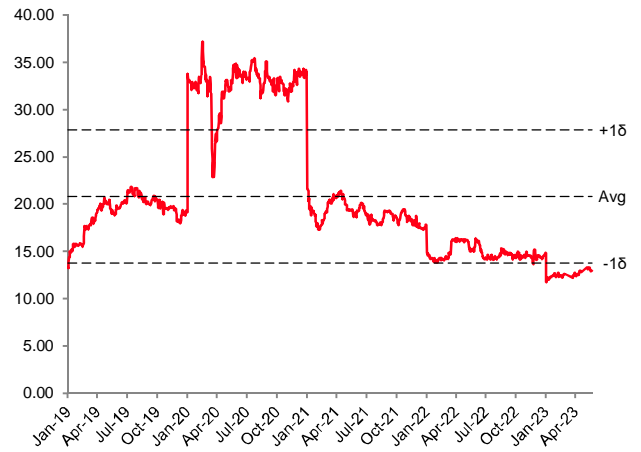


EXHIBIT 7: ESG RATING

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 8: FINANCIAL DATA

Income Statement (RM mil, YE 31 Dec)	FY21	FY22	FY23F	FY24F	FY25F
Revenue	1,729.2	2,155.2	3,107.7	3,198.0	3,175.9
EBITDA	166.8	210.3	258.5	258.4	262.3
Depreciation/Amortisation	(27.4)	(23.8)	(31.8)	(33.2)	(34.6)
Operating income (EBIT)	139.4	186.5	226.7	225.2	227.6
Other income & associates	13.3	1.7	-	-	-
Net interest	(0.4)	(4.2)	(0.4)	2.4	5.6
Exceptional items	-	-	-	-	-
Pretax profit	152.2	184.1	226.3	227.6	233.2
Taxation	(41.5)	(45.3)	(53.4)	(52.9)	(55.3)
Minorities/pref dividends	1.8	(3.6)	(1.6)	(1.5)	(1.6)
Net profit	112.6	135.2	171.4	173.2	176.3
Core net profit	112.6	135.2	171.4	173.2	176.3
Balance Sheet (RM mil, YE 31 Dec)	FY21	FY22	FY23F	FY24F	FY25F
Fixed assets	124.8	107.6	93.4	78.3	61.6
Intangible assets	-	-	-	-	-
Other long-term assets	724.7	491.1	491.1	491.1	491.1
Total non-current assets	849.4	598.7	584.4	569.3	552.7
Cash & equivalent	98.8	491.6	513.6	663.0	811.0
Stock	46.2	53.4	67.9	69.7	69.4
Trade debtors	600.6	677.7	1,310.1	1,344.4	1,338.8
Other current assets	269.2	414.6	414.6	414.6	414.6
Total current assets	1,014.8	1,637.4	2,306.1	2,491.7	2,633.7
Trade creditors	766.7	716.2	1,352.8	1,391.9	1,383.4
Short-term borrowings	92.5	172.2	240.6	266.0	291.8
Other current liabilities	132.8	214.9	214.9	214.9	214.9
Total current liabilities	992.0	1,103.3	1,808.4	1,872.8	1,890.0
Long-term borrowings	145.4	308.5	170.8	188.7	207.0
Other long-term liabilities	2.9	-	-	-	-
Total long-term liabilities	148.3	308.5	170.8	188.7	207.0
Shareholders' funds	699.1	737.1	822.8	909.4	997.6
Minority interests	17.6	83.7	85.2	86.7	88.3
BV/share (RM)	0.54	0.57	0.64	0.71	0.77
Cash Flow (RM mil, YE 31 Dec)	FY21	FY22	FY23F	FY24F	FY25F
Pretax profit	152.2	184.1	226.3	227.6	233.2
Depreciation/Amortisation	27.4	23.8	31.8	33.2	34.6
Net change in working capital	83.3	(382.2)	(10.2)	2.9	(2.6)
Others	(24.2)	(40.7)	(53.0)	(55.4)	(60.8)
Cash flow from operations	238.7	(215.0)	194.9	208.4	204.4
Capital expenditure	(34.8)	(27.1)	(17.6)	(18.1)	(18.0)
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)	(18.1)	(18.0)
Debt raised/(repaid)	(70.1)	233.4	(69.3)	43.3	44.1
Equity raised/(repaid)	-	-	-	-	-
Dividends paid	(51.8)	(90.3)	(85.7)	(86.6)	(88.1)
Others	(0.5)	(0.4)	(15.1)	(13.0)	(14.3)
Cash flow from financing	(122.4)	142.7	(170.1)	(56.3)	(58.4)
Net cash flow	(61.8)	337.6	7.2	134.1	128.0
Net cash/(debt) b/f	427.3	365.9	699.1	706.3	840.3
Net cash/(debt) c/f	365.9	699.1	706.3	840.3	968.4
Key Ratios (YE 31 Dec)	FY21	FY22	FY23F	FY24F	FY25F
Revenue growth (%)	11.4	24.6	44.2	2.9	(0.7)
EBITDA growth (%)	34.6	26.0	22.9	-	1.5
Pretax margin (%)	8.8	8.5	7.3	7.1	7.3
Net profit margin (%)	6.5	6.3	5.5	5.4	5.6
Interest cover (x)	324.2	44.9	568.5	nm	nm
Effective tax rate (%)	27.3	24.6	23.6	23.2	23.7
Dividend payout (%)	60.1	52.5	50.0	50.0	50.0
Debtors turnover (days)	155	108	117	151	154
Stock turnover (days)	8	8	7	8	8
Creditors turnover (days)	169	126	122	157	159

Source: Company, AmlInvestment Bank Bhd estimates

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