



AmInvestment Bank

## Company report

## SUNWAY CONSTRUCTION

(SCGB MK EQUITY, SCOG.KL)

3 Jan 2023

Wins RM1.7bil job in Sedenak Tech Park, Johor

BUY

(Upgraded)

## AmInvestment Bank

Team Coverage

03-2070 2444

Rationale for report: Company update

Price	RM1.56
Fair Value	RM1.84
52-week High/Low	RM1.74/RM1.41

## Key Changes

Fair value	⬆️
EPS	⬆️

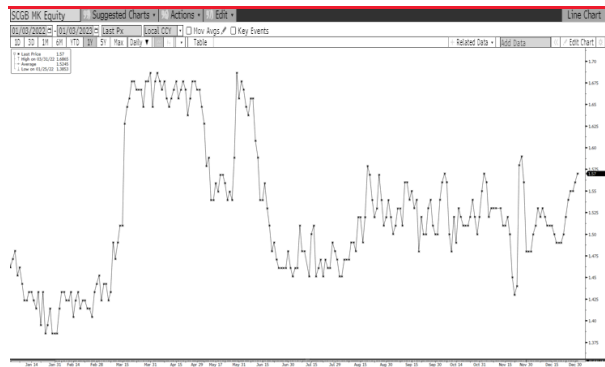
YE to Dec	FY21	FY22F	FY23F	FY24F
Revenue (RM mil)	1,729.2	2,539.3	2,996.5	2,917.3
Core net profit (RM mil)	145.0	130.6	164.9	162.0
FD Core EPS (sen)	11.2	10.1	12.8	12.5
FD Core EPS growth (%)	61.2	(10.0)	26.3	(1.7)
Consensus Net Profit (RM mil)	-	127.3	142.8	146.8
DPS (sen)	5.3	6.1	7.7	7.5
PE (x)	17.9	15.4	12.2	12.4
EV/EBITDA (x)	10.8	10.3	8.0	8.0
Div yield (%)	3.4	3.9	4.9	4.8
ROE (%)	16.9	18.0	21.0	19.1
Net Gearing (%)	19.9	17.2	2.3	nm

## Stock and Financial Data

Shares Outstanding (million)	1,292.9
Market Cap (RM mil)	2,016.9
Book Value (RM/share)	0.54
P/BV (x)	2.9
ROE (%)	16.9
Net Gearing (%)	19.9

Major Shareholders	Sunway Bhd & Cheah family (64.6%) EPF (9.4%) Amanah Saham Nasional (6.0%)
Free Float	20.0
Avg Daily Value (RM mil)	0.2

Price performance	3mth	6mth	12mth
Absolute (%)	(8.9)	(10.6)	(8.9)
Relative (%)	(6.0)	(3.9)	(3.5)

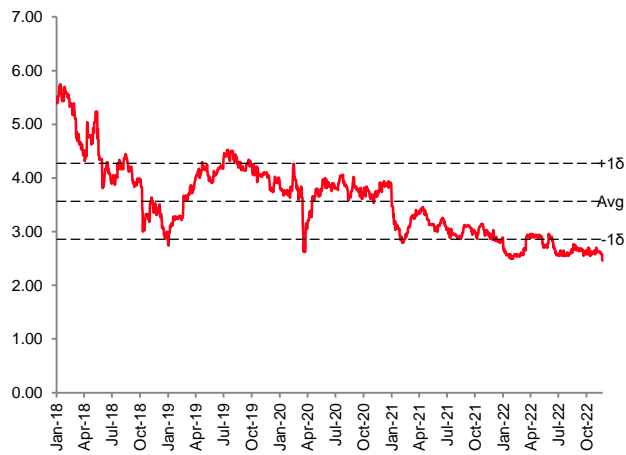


## Investment Highlights

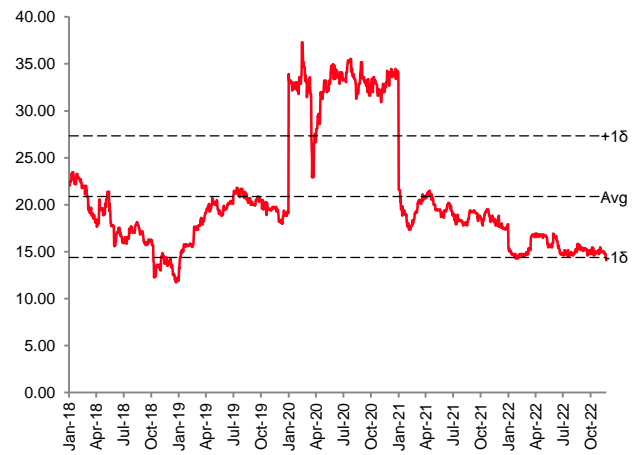
- We upgrade Sunway Construction (SunCon) to BUY with a higher fair value (FV) of RM1.84/share (vs. RM1.51/share previously). Our FV is based on 14x FY23F PE, in line with our benchmark PE for large-cap construction stocks. We also ascribe a 3% premium to reflect our 4-star ESG rating.
- SunCon has secured a substantive contract worth RM1.7bil to design, develop and construct a data centre in Sedenak Tech Park in Johor for Yellowwood Properties. The contract is expected to be completed in 3QFY24.
- Excluding this award, total projects secured by SunCon in FY22 amounted to RM0.9bil, lower than our replenishment assumption of RM1.2bil for the year. With this new contract, we are now assuming an order book replenishment assumption of RM2.9bil for FY23F vs. RM2.0bil previously.
- Based on SunCon's estimated share of PBT from the contract at RM64mil in FY23F, or 39% of FY23F net profit, we raise SunCon's net profit by 22% for FY23F and 15% for FY24F to account for the higher order book replenishment assumption.
- Potential replenishments may come from the construction of semi-conductor plants and internal building jobs from companies within the Sunway group. We also believe that SunCon is well positioned to secure MRT3 jobs due to its strong balance sheet and proven track records in MRT1 and MRT2.
- We may also raise our earnings estimates further if the huge engineering, procurement and construction (EPC) contract worth RM10bil with Toyo Ink Group (Toyo) and Song Hau 2 Power Company (Song Hau 2) is executed in FY23F.
- As a recap, SunCon, via Sunway-PECC2 Consortium has entered into an interim EPC agreement with Toyo and Song Hau 2. The agreement serves as a framework for negotiations and discussions between the parties to establish SunCon's performance of works for the development of 2 units of 1,060 MW coal-fired thermal power plant project in Vietnam.

- Risks include (i) eroding operating margins from rising building material costs and labour shortages; and (ii) delays/cost revisions of mega projects.
- We view the stock as attractive given its 18% upside to our revised fair value. Also, SunCon is currently trading at an undemanding FY23F PE of 12x, which is 13% below our benchmark of 14x for large-cap construction companies.

**EXHIBIT 1: PB BAND CHART**



**EXHIBIT 2: PE BAND CHART**



**EXHIBIT 3: 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 4: FINANCIAL DATA

Income Statement (RMmil, YE 31 Dec)	FY20	FY21	FY22F	FY23F	FY24F
Revenue	1,552.7	1,729.2	2,539.3	2,996.5	2,917.3
<b>EBITDA</b>	141.1	199.2	209.0	253.8	246.5
Depreciation/Amortisation	(33.4)	(27.4)	(34.4)	(33.7)	(33.3)
Operating income (EBIT)	107.7	171.8	174.7	220.1	213.2
Other income & associates	10.1	13.3	-	-	-
Net interest	0.9	(0.4)	(4.1)	(3.8)	(0.4)
Exceptional items	(17.2)	(32.4)	-	-	-
<b>Pretax profit</b>	<b>101.5</b>	<b>152.2</b>	<b>170.6</b>	<b>216.3</b>	<b>212.8</b>
Taxation	(27.8)	(41.5)	(39.8)	(51.1)	(50.4)
Minorities/pref dividends	(0.9)	1.8	(0.2)	(0.3)	(0.3)
<b>Net profit</b>	<b>72.8</b>	<b>112.6</b>	<b>130.6</b>	<b>164.9</b>	<b>162.0</b>
<b>Core net profit</b>	<b>90.0</b>	<b>145.0</b>	<b>130.6</b>	<b>164.9</b>	<b>162.0</b>
Balance Sheet (RMmil, YE 31 Dec)	FY20	FY21	FY22F	FY23F	FY24F
Fixed assets	107.4	124.8	111.0	101.3	91.4
Intangible assets	-	-	-	-	-
Other long-term assets	496.3	724.7	725.1	725.3	725.3
<b>Total non-current assets</b>	<b>603.8</b>	<b>849.4</b>	<b>836.1</b>	<b>826.6</b>	<b>816.7</b>
Cash & equivalent	200.1	98.8	126.5	259.4	353.5
Stock	34.3	46.2	53.9	63.6	61.7
Trade debtors	866.4	600.6	1,229.2	1,450.4	1,408.2
Other current assets	201.6	269.2	270.3	268.1	263.8
<b>Total current assets</b>	<b>1,302.3</b>	<b>1,014.8</b>	<b>1,679.8</b>	<b>2,041.4</b>	<b>2,087.3</b>
Trade creditors	955.2	891.4	1,464.9	1,724.1	1,674.3
Short-term borrowings	233.7	92.5	168.9	183.7	198.3
Other current liabilities	5.1	8.1	11.9	14.0	13.6
<b>Total current liabilities</b>	<b>1,194.0</b>	<b>992.0</b>	<b>1,645.6</b>	<b>1,921.8</b>	<b>1,886.2</b>
Long-term borrowings	67.2	145.4	86.8	94.4	101.9
Other long-term liabilities	0.7	2.9	4.2	5.0	4.9
<b>Total long-term liabilities</b>	<b>67.9</b>	<b>148.3</b>	<b>91.0</b>	<b>99.4</b>	<b>106.8</b>
<b>Shareholders' funds</b>	<b>636.9</b>	<b>699.1</b>	<b>751.4</b>	<b>817.3</b>	<b>882.1</b>
Minority interests	1.7	17.6	17.4	17.1	16.7
BV/share (RM)	0.49	0.54	0.58	0.63	0.68
Cash Flow (RMmil, YE 31 Dec)	FY20	FY21	FY22F	FY23F	FY24F
Pretax profit	101.5	152.2	170.6	216.3	212.8
Depreciation/Amortisation	33.4	27.4	34.4	33.7	33.3
Net change in working capital	(23.7)	83.1	(62.8)	28.3	(5.8)
Others	(23.5)	(24.4)	(35.7)	(47.4)	(50.0)
<b>Cash flow from operations</b>	<b>87.8</b>	<b>238.3</b>	<b>106.5</b>	<b>230.9</b>	<b>190.3</b>
Capital expenditure	(3.4)	(34.8)	(18.2)	(21.5)	(21.0)
Net investments & sale of fixed assets	1.5	3.3	-	-	-
Others	(171.3)	(141.8)	-	-	-
<b>Cash flow from investing</b>	<b>(173.2)</b>	<b>(173.4)</b>	<b>(18.2)</b>	<b>(21.5)</b>	<b>(21.0)</b>
Debt raised/(repaid)	12.0	(70.1)	17.8	22.4	22.1
Equity raised/(repaid)	-	-	-	-	-
Dividends paid	(62.3)	(51.8)	(78.3)	(98.9)	(97.2)
Others	(97.0)	(0.5)	-	-	-
<b>Cash flow from financing</b>	<b>(147.3)</b>	<b>(122.4)</b>	<b>(60.6)</b>	<b>(76.5)</b>	<b>(75.2)</b>
<b>Net cash flow</b>	<b>(232.7)</b>	<b>(57.4)</b>	<b>27.6</b>	<b>132.9</b>	<b>94.2</b>
<b>Net cash/(debt) b/f</b>	<b>692.4</b>	<b>459.7</b>	<b>402.4</b>	<b>430.1</b>	<b>562.9</b>
<b>Net cash/(debt) c/f</b>	<b>459.7</b>	<b>402.4</b>	<b>430.1</b>	<b>562.9</b>	<b>657.1</b>
Key Ratios (YE 31 Dec)	FY20	FY21	FY22F	FY23F	FY24F
Revenue growth (%)	(12.2)	11.4	46.9	18.0	(2.6)
EBITDA growth (%)	(24.1)	41.2	4.9	21.4	(2.9)
Pretax margin (%)	6.5	8.8	6.7	7.2	7.3
Net profit margin (%)	4.7	6.5	5.1	5.5	5.6
Interest cover (x)	nm	399.6	43.1	58.7	498.5
Effective tax rate (%)	27.4	27.3	23.3	23.6	23.7
Dividend payout (%)	71.1	60.3	60.0	60.0	60.0
Debtors turnover (days)	198	155	132	163	179
Stock turnover (days)	7	8	7	7	8
Creditors turnover (days)	216	195	169	194	213

Source: Company, AmlInvestment Bank Bhd estimates

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