



AmInvestment Bank

Company report

SUNWAY CONSTRUCTION

(SCGB MK EQUITY, SCOG.KL)

22 Feb 2023

Growth backed by strong order book

BUY

(Maintained)

AmInvestment Bank

Team Coverage

03-2070 2444

Rationale for report: Company result

Price	RM1.65
Fair Value	RM1.84
52-week High/Low	RM1.74/RM1.41

Key Changes

Fair value	↔
EPS	↔

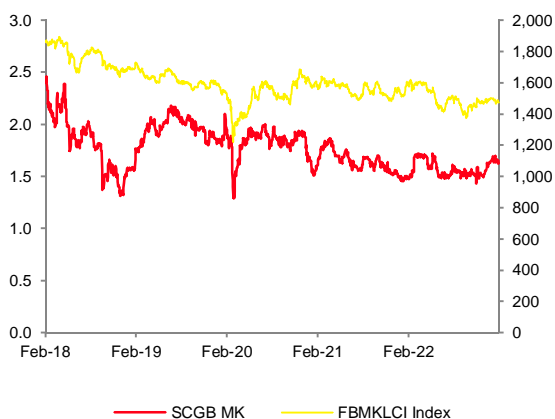
YE to Dec	FY22	FY23F	FY24F	FY25F
Revenue (RM mil)	2,155.2	3,067.7	3,074.0	3,079.9
Core net profit (RM mil)	130.8	164.6	165.3	170.4
FD Core EPS (sen)	10.1	12.8	12.8	13.2
FD Core EPS growth (%)	(9.8)	25.9	0.4	3.1
Consensus Net Profit (RM mil)	125.7	152.8	157.3	n/a
DPS (sen)	5.5	6.4	6.4	6.6
PE (x)	16.3	12.9	12.9	12.5
EV/EBITDA (x)	10.3	7.8	7.6	7.1
Div yield (%)	3.3	3.9	3.9	4.0
ROE (%)	18.8	21.1	19.2	18.0
Net Gearing (%)	nm	nm	nm	nm

Stock and Financial Data

Shares Outstanding (million)	1,289.4
Market Cap (RM mil)	2,127.4
Book Value (RM/share)	0.57
P/BV (x)	2.9
ROE (%)	18.8
Net Gearing (%)	-

Major Shareholders	Sunway Bhd & Cheah family (64.6%) EPF (9.5%) Amanah Saham Nasional (6.0%)
Free Float	19.8
Avg Daily Value (RM mil)	1.1

Price performance	3mth	6mth	12mth
Absolute (%)	13.8	3.1	10.7
Relative (%)	11.8	5.3	18.9



Investment Highlights

- We maintain BUY on Sunway Construction (SunCon) with an unchanged fair value (FV) of RM1.84/share. Our FV is based on 14x FY23F PE, in line with our benchmark for large-cap construction stocks. We also ascribe a 3% premium to reflect our 4-star ESG rating.
- We maintain our FY23F-FY24F earnings as SunCon's FY22 core net profit (CNP) of RM131mil was within expectations, coming at 1% above our forecast and 4% higher than consensus estimates. SunCon has declared a DPS of 2.5 sen for 4QFY22 (4QFY21: 4.0 sen), bringing total DPS to 5.5 sen (FY21: 5.3 sen) for FY22.
- FY22 CNP fell 10% YoY to RM131mil despite revenue growth in the construction (+23%) and precast segments (+48%) due to higher operating cost in its construction segment and weaker JV earnings.
- On a QoQ basis, CNP almost doubled to RM38mil in 4QFY22 mainly due to the recalibration of margin for projects nearing completion and reversal of provision for a withdrawn legal case (RM13mil).
- FY22 order book wins amounted to RM0.9bil. This does not include the RM1.7bil data centre job in Sedenak Tech Park secured on 31 Dec 2022. Including this job, SunCon's outstanding order book grew 12% to RM5.3bil (Construction: RM4.8bil; Precast: RM0.5bil) in FY22. This translates to a decent 1.8x of FY23F revenue.
- SunCon maintains its replenishment target of RM2bil for FY23F, backed by a tender book of almost RM21.3bil. Apart from the MRT3 and Vietnam power plant projects, potential jobs may come from the RTS Link, construction of warehouses and internal building jobs from companies within Sunway group.
- We keep our replenishment assumption of RM2.9bil for FY23F (including the RM1.7bil data centre job). We may raise our earnings estimates if SunCon wins either the MRT3 portion, expected in 2H2023, or the Vietnam power plant project in 2Q2023 (SunCon's portion amounts to RM6bil).

- SunCon's 49%-owned integrated construction and prefabrication hub (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.
- Recall that SunCon obtained approval for 400 Indonesian workers earlier last year. Out of these, 394 have arrived and the remainder will be arriving over the coming weeks. Including these, SunCon's migrant workforce will amount to 600 in total. In comparison, SunCon had a peak of around 900 foreign workers during the construction of MRT2 and LRT3.
- To accommodate the RM1.7bil Sedenak Tech Park contract, SunCon has obtained approval for an additional 300 Indonesian workers. These are estimated to arrive by the end of 1H2023.
- Risks to SunCon include (i) eroding margins from higher-than-expected building material costs and labour shortages; and (ii) shelving of mega projects.
- We believe that SunCon is attractive as it is trading at an undemanding 12.9x FY23F PE, which is below our benchmark of 14x for large-cap construction stocks.

EXHIBIT 1 : QUARTERLY RESULTS

FYE 31 Dec, RM mil	4QFY21	3QFY22	4QFY22	QoQ %	YoY %	FY21	FY22	YoY %
Revenue	626.6	469.3	503.4	7.3	(19.7)	1,729.2	2,155.2	24.6
EBITDA	118.9	39.7	62.3	56.9	(47.6)	199.2	205.9	3.3
EBIT	112.2	33.9	56.7	67.5	(49.5)	171.8	182.1	6.0
Exceptional Items	(27.4)	3.0	7.6	>100.0	>100.0	(32.4)	4.4	>100.0
PBT	91.0	37.6	56.3	49.7	(38.1)	152.2	184.1	20.9
Taxation	(26.0)	(13.6)	(10.8)	(20.9)	(58.5)	(41.5)	(45.3)	9.2
Minority interest	(0.3)	(1.2)	0.1	(>100.0)	>100.0	1.8	(3.6)	(>100.0)
Net Profit	64.7	22.7	45.6	>100.0	(29.5)	112.6	135.2	20.1
Core Net Profit	92.1	19.7	38.0	93.2	(58.7)	145.0	130.8	(9.8)
Core EPS (sen)	7.14	1.53	2.95	93.2	(58.7)	11.24	10.14	(9.8)
DPS (sen)	4.00	-	2.50	-	-	5.25	5.50	4.8
EBITDA Margin %	19.0	8.5	12.4			11.5	9.6	
EBIT Margin %	17.9	7.2	11.3			9.9	8.4	
PBT Margin %	14.5	8.0	11.2			8.8	8.5	
Effective Tax Rate %	28.6	36.3	19.2			27.3	24.6	
Core Net Profit Margin %	14.7	4.2	7.6			8.4	6.1	
Segmental Revenue								
Construction	579.9	418.9	444.0	6.0	(23.4)	1,606.2	1,973.6	22.9
Precast Concrete	46.7	50.3	59.4	18.1	27.3	122.9	181.6	47.7
Segmental PBT								
Construction	88.7	35.1	51.0	45.4	(42.5)	148.8	173.3	16.5
Precast Concrete	2.3	2.5	5.3	>100.0	>100.0	3.5	10.7	>100.0
Segmental PBT Margin								
Construction %	15.3	8.4	11.5			9.3	8.8	
Precast Concrete %	4.9	5.0	8.9			2.8	5.9	

Source: Company, AmlInvestment Bank

EXHIBIT 2 : OUTSTANDING ORDER BOOK AS AT DECEMBER 2022

Type	Order Book	Completion	Outstanding (RM mil)
Internal Building Jobs	South Quay CP2 - Superstructure	2024	515
	Sunway Flora	2025	278
	Sunway Belfield	2024	275
	Sunway Medical Centre Damansara	2023	185
	Sunway Velocity 2B	2023	168
	Sunway Medical Centre 4 + VO	2023	129
	Others	Various	213
JHB1X0 - Data Centre	2024	1,700	
India Highway: Thorapalli - Jittandahalli (TJ)	2023	393	
India Highway: Meensurutti - Chidambaran (MC)	2023	169	
RTS Link Package P2A	2025	104	
LRT 3 : GS06	2023	100	
Precast	Various	481	
Solar	Various	438	
Others	Various	157	
Total			5,305

Source: Company

EXHIBIT 3 : PB BAND CHART



EXHIBIT 4 : PE BAND CHART

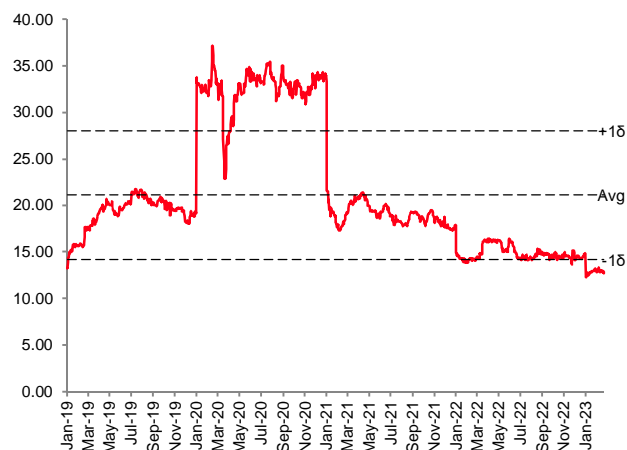
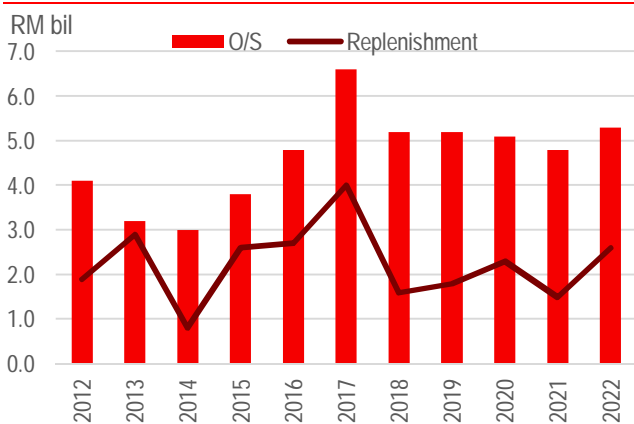


EXHIBIT 5 : ORDER BOOK TREND



Source: Company

EXHIBIT 6 : 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 (RMmil, YE 31 Dec)	FY21	FY22	FY23F	FY24F	FY25F
Revenue	1,729.2	2,155.2	3,067.7	3,074.0	3,079.9
EBITDA	199.2	205.9	249.5	244.0	249.3
Depreciation/Amortisation	(27.4)	(23.8)	(31.8)	(31.7)	(31.5)
Operating income (EBIT)	171.8	182.1	217.7	212.3	217.8
Other income & associates	13.3	1.7	-	-	-
Net interest	(0.4)	(4.2)	(0.4)	4.8	7.6
Exceptional items	(32.4)	4.4	-	-	-
Pretax profit	152.2	184.1	217.3	217.1	225.4
Taxation	(41.5)	(45.3)	(51.2)	(50.4)	(53.4)
Minorities/pref dividends	1.8	(3.6)	(1.5)	(1.4)	(1.6)
Net profit	112.6	135.2	164.6	165.3	170.4
Core net profit	145.0	130.8	164.6	165.3	170.4
Balance Sheet (RMmil, YE 31 Dec)	FY21	FY22	FY23F	FY24F	FY25F
Fixed assets	124.8	107.6	96.1	84.9	73.8
Intangible assets	-	-	-	-	-
Other long-term assets	724.7	491.1	604.4	605.2	605.9
Total non-current assets	849.4	598.7	700.5	690.0	679.7
Cash & equivalent	98.8	491.6	590.2	728.3	862.6
Stock	46.2	53.4	67.0	67.0	67.3
Trade debtors	600.6	677.7	1,293.2	1,292.3	1,298.3
Other current assets	269.2	414.6	302.4	300.7	301.5
Total current assets	1,014.8	1,637.4	2,252.8	2,388.3	2,529.7
Trade creditors	891.4	916.8	1,616.8	1,619.1	1,623.9
Short-term borrowings	92.5	172.2	239.7	263.8	288.7
Other current liabilities	8.1	14.4	20.4	20.5	20.5
Total current liabilities	992.0	1,103.3	1,876.9	1,903.4	1,933.2
Long-term borrowings	145.4	308.5	170.1	187.2	204.9
Other long-term liabilities	2.9	-	-	-	-
Total long-term liabilities	148.3	308.5	170.1	187.2	204.9
Shareholders' funds	699.1	737.1	819.4	902.1	987.3
Minority interests	17.6	83.7	82.2	80.8	79.2
BV/share (RM)	0.54	0.57	0.64	0.70	0.77
Cash Flow (RMmil, YE 31 Dec)	FY21	FY22	FY23F	FY24F	FY25F
Pretax profit	152.2	184.1	217.3	217.1	225.4
Depreciation/Amortisation	27.4	23.8	31.8	31.7	31.5
Net change in working capital	83.3	(382.1)	70.9	3.3	(1.5)
Others	(24.2)	(40.7)	(50.8)	(55.2)	(61.0)
Cash flow from operations	238.7	(215.0)	269.2	196.9	194.3
Capital expenditure	(34.8)	(27.1)	(17.4)	(17.4)	(17.4)
Net investments & sale of fixed assets	3.3	25.2	-	-	-
Others	(142.5)	425.6	-	-	-
Cash flow from investing	(174.0)	423.7	(17.4)	(17.4)	(17.4)
Debt raised/(repaid)	(70.1)	233.4	(71.0)	41.3	42.6
Equity raised/(repaid)	-	-	-	-	-
Dividends paid	(51.8)	(90.3)	(82.3)	(82.7)	(85.2)
Others	(0.5)	(0.4)	-	-	-
Cash flow from financing	(122.4)	142.7	(153.3)	(41.3)	(42.6)
Net cash flow	(57.7)	351.4	98.6	138.1	134.3
Net cash/(debt) b/f	459.7	402.4	749.5	848.1	986.2
Net cash/(debt) c/f	402.4	749.5	848.1	986.2	1,120.5
Key Ratios (YE 31 Dec)	FY21	FY22	FY23F	FY24F	FY25F
Revenue growth (%)	11.4	24.6	42.3	0.2	0.2
EBITDA growth (%)	41.2	3.3	21.2	(2.2)	2.2
Pretax margin (%)	8.8	8.5	7.1	7.1	7.3
Net profit margin (%)	6.5	6.3	5.4	5.4	5.5
Interest cover (x)	399.6	43.9	545.9	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	153	154
Stock turnover (days)	8	8	7	8	8
Creditors turnover (days)	195	153	151	192	192

Source: Company, AmlInvestment Bank Bhd estimates

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