



AmInvestment Bank

Company report

SUNWAY CONSTRUCTION

(SCGB MK EQUITY, SCOG.KL)

05 Apr 2023

Secures additional works on South Quay project

BUY

(Maintained)

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Rationale for report: Company update

Price	RM1.66
Fair Value	RM1.92
52-week High/Low	RM1.74/RM1.41

Key Changes

Fair value	⬆️
EPS	⬆️

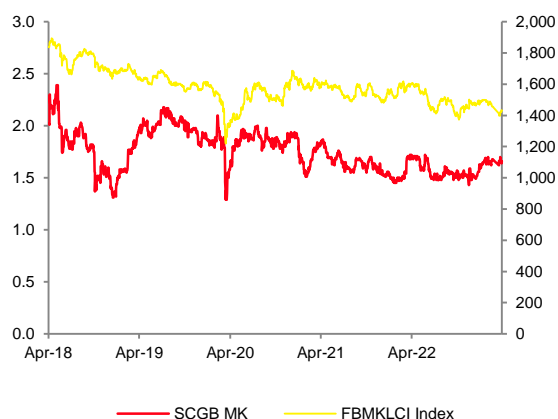
YE to Dec	FY22	FY23F	FY24F	FY25F
Revenue (RM mil)	2,155.2	3,187.7	3,244.0	3,229.9
Core net profit (RM mil)	130.8	171.4	174.9	178.9
FD Core EPS (sen)	10.1	13.3	13.6	13.9
FD Core EPS growth (%)	(9.8)	31.0	2.1	2.3
Consensus Net Profit (RM mil)		152.7	159.6	165.9
DPS (sen)	5.5	6.6	6.8	6.9
PE (x)	16.4	12.5	12.2	12.0
EV/EBITDA (x)	10.3	7.5	7.2	6.7
Div yield (%)	3.3	4.0	4.1	4.2
ROE (%)	18.8	22.0	20.2	18.7
Net Gearing (%)	nm	nm	nm	nm

Stock and Financial Data

Shares Outstanding (million)	1,289.4
Market Cap (RM mil)	2,140.3
Book Value (RM/share)	0.57
P/BV (x)	2.9
ROE (%)	18.8
Net Gearing (%)	-

Major Shareholders	Sunway & Cheah family (64.6%) EPF (9.5%) Amanah Saham Nasional (6.0%) 19.8
Free Float	19.8
Avg Daily Value (RM mil)	0.7

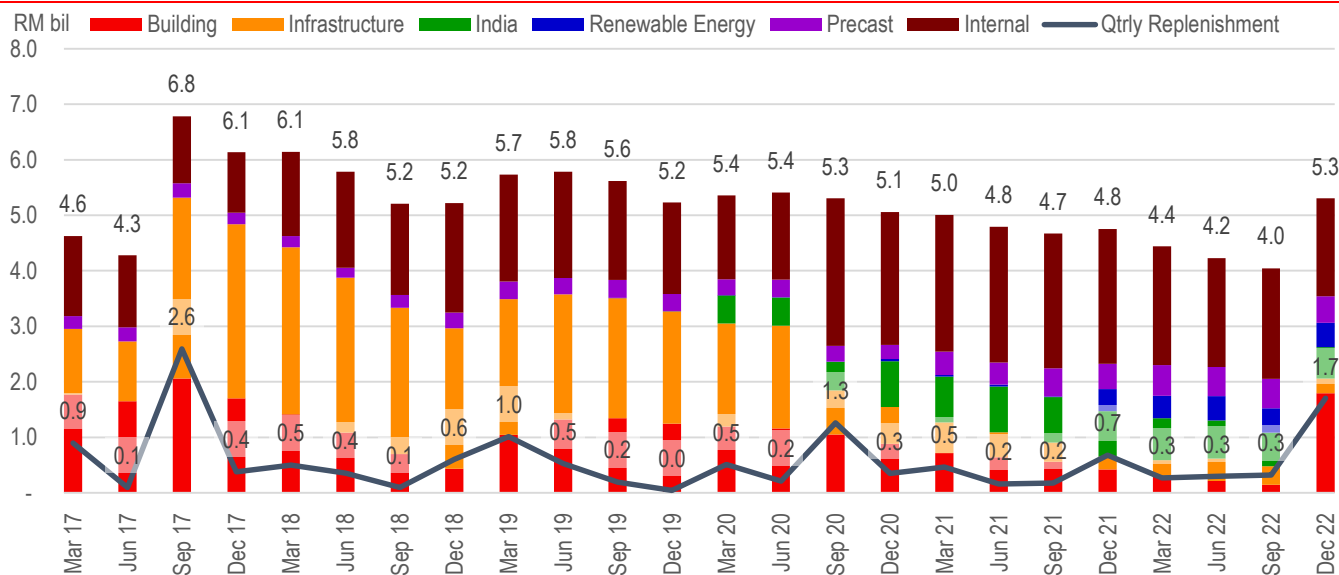
Price performance	3mth	6mth	12mth
Absolute (%)	1.8	7.8	(2.9)
Relative (%)	4.7	6.3	8.6



Investment Highlights

- We maintain BUY on Sunway Construction (SunCon) with a higher fair value (FV) of RM1.92/share (vs RM1.84/share previously). 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.
- As YTD new job wins have exceeded our replenishment assumption of RM1.2bil (excluding the RM1.7bil data centre job), we raise our replenishment assumption to RM2.0bil for FY23F. This increases our earnings forecast for FY23F by 4%, FY24F by 6%, and FY25F by 5%.
- SunCon has signed a second supplemental agreement to include additional scope of works, i.e. main building works for the construction of commercial mixed development with car parks and amenities at Parcel CP2, Jalan Lagoon Selatan, Sunway South Quay, Bandar Sunway.
- The additional contract sum of RM607mil will be carried out over a period of 31 months until Oct 2025. We estimate the accretion to SunCon's EBIT to be RM18mil per year (or 8% of FY24F group EBIT).
- YTD new project wins have risen above our earlier FY23F assumption to RM1.3bil, raising its estimated order book to RM6.0bil, +13% from RM5.3bil as at Dec 2022. Major contracts secured during the year included Package 1B and Package 5 for RTS Link worth RM605mil.
- We may raise our earnings estimates further if (i) SunCon wins the main package for MRT3, which is expected to be awarded in 2H2023; or (ii) Vietnam power plant project (RM6bil) that SunCon will commence after Toyo achieves financial close.
- Risks include (i) eroding margins from higher-than-expected building material costs and labour shortages; and (ii) shelving of mega projects.
- SunCon currently trades at an attractive FY23F PE of 13x, which is 24% below its 5-year average of 17x.

EXHIBIT 1: QUARTERLY ORDER BOOK TREND



Source: Company

EXHIBIT 2: PB BAND CHART



EXHIBIT 3: PE BAND CHART

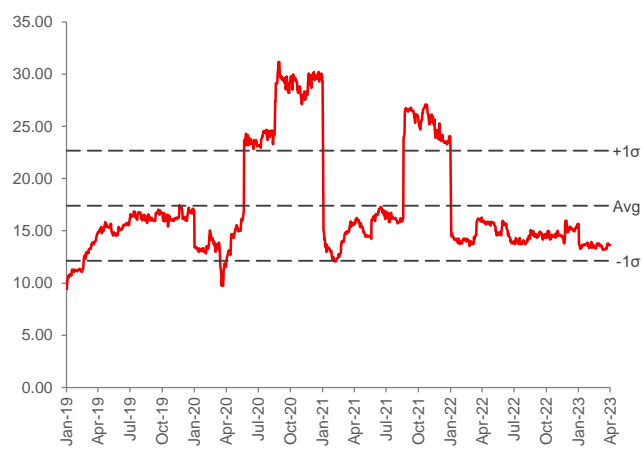


EXHIBIT 4: ESG RATING

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 (RMmil, YE 31 Dec)	FY21	FY22	FY23F	FY24F	FY25F
Revenue	1,729.2	2,155.2	3,187.7	3,244.0	3,229.9
EBITDA	199.2	205.9	258.5	256.4	260.0
Depreciation/Amortisation	(27.4)	(23.8)	(31.8)	(31.7)	(31.6)
Operating income (EBIT)	171.8	182.1	226.7	224.7	228.4
Other income & associates	13.3	1.7	-	-	-
Net interest	(0.4)	(4.2)	(0.4)	5.2	8.3
Exceptional items	(32.4)	4.4	-	-	-
Pretax profit	152.2	184.1	226.3	229.9	236.7
Taxation	(41.5)	(45.3)	(53.4)	(53.5)	(56.1)
Minorities/pref dividends	1.8	(3.6)	(1.6)	(1.5)	(1.7)
Net profit	112.6	135.2	171.4	174.9	178.9
Core net profit	145.0	130.8	171.4	174.9	178.9
Balance Sheet (RMmil, YE 31 Dec)	FY21	FY22	FY23F	FY24F	FY25F
Fixed assets	124.8	107.6	96.8	86.5	76.1
Intangible assets	-	-	-	-	-
Other long-term assets	724.7	491.1	619.3	626.3	624.5
Total non-current assets	849.4	598.7	716.1	712.7	700.7
Cash & equivalent	98.8	491.6	605.1	753.8	891.5
Stock	46.2	53.4	69.6	70.7	70.5
Trade debtors	600.6	677.7	1,343.8	1,363.8	1,361.6
Other current assets	269.2	414.6	288.4	281.0	284.6
Total current assets	1,014.8	1,637.4	2,306.9	2,469.2	2,608.3
Trade creditors	891.4	916.8	1,680.4	1,709.2	1,703.8
Short-term borrowings	92.5	172.2	240.6	266.2	292.4
Other current liabilities	8.1	14.4	21.2	21.6	21.5
Total current liabilities	992.0	1,103.3	1,942.3	1,997.1	2,017.7
Long-term borrowings	145.4	308.5	170.8	188.9	207.5
Other long-term liabilities	2.9	-	-	-	-
Total long-term liabilities	148.3	308.5	170.8	188.9	207.5
Shareholders' funds	699.1	737.1	822.8	910.3	999.7
Minority interests	17.6	83.7	82.1	80.6	79.0
BV/share (RM)	0.54	0.57	0.64	0.71	0.78
Cash Flow (RMmil, YE 31 Dec)	FY21	FY22	FY23F	FY24F	FY25F
Pretax profit	152.2	184.1	226.3	229.9	236.7
Depreciation/Amortisation	27.4	23.8	31.8	31.7	31.6
Net change in working capital	83.3	(382.1)	81.4	7.8	(3.1)
Others	(24.2)	(40.7)	(53.0)	(58.6)	(64.4)
Cash flow from operations	238.7	(215.0)	286.6	210.7	200.8
Capital expenditure	(34.8)	(27.1)	(18.0)	(18.4)	(18.3)
Net investments & sale of fixed assets	3.3	25.2	-	-	-
Others	(142.5)	425.6	-	-	-
Cash flow from investing	(174.0)	423.7	(18.0)	(18.4)	(18.3)
Debt raised/(repaid)	(70.1)	233.4	(69.3)	43.7	44.7
Equity raised/(repaid)	-	-	-	-	-
Dividends paid	(51.8)	(90.3)	(85.7)	(87.5)	(89.5)
Others	(0.5)	(0.4)	-	-	-
Cash flow from financing	(122.4)	142.7	(155.0)	(43.7)	(44.7)
Net cash flow	(57.7)	351.4	113.5	148.6	137.8
Net cash/(debt) b/f	459.7	402.4	749.5	863.0	1,011.7
Net cash/(debt) c/f	402.4	749.5	863.0	1,011.7	1,149.4
Key Ratios (YE 31 Dec)	FY21	FY22	FY23F	FY24F	FY25F
Revenue growth (%)	11.4	24.6	47.9	1.8	(0.4)
EBITDA growth (%)	41.2	3.3	25.6	(0.8)	1.4
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	568.5	nm	nm
Effective tax rate (%)	27.3	24.6	23.6	23.3	23.7
Dividend payout (%)	60.1	52.5	50.0	50.0	50.0
Debtors turnover (days)	155	108	116	152	154
Stock turnover (days)	8	8	7	8	8
Creditors turnover (days)	195	153	149	191	193

Source: Company, AmlInvestment Bank Bhd estimates

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