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Malaysia Infrastructure

Reuters SCOG.KL
Bloomberg SCGB MK

Priced on 30 December 2022
KLSE Comp @ 1,495.5

12M hi/lo RM1.72/1.43

12M price target RM1.92
±% potential +23%

Shares in issue 1,292.9m
Free float (est.) 45.6%

Market cap US\$457m

3M ADV US\$0.2m

Foreign s'holding 1.0%

Major shareholders

Sunway Berhad 54.4%
Sungei Way Corp Sdn Bhd 10.1%

Blended ESG Score (%)*

Overall 75.9

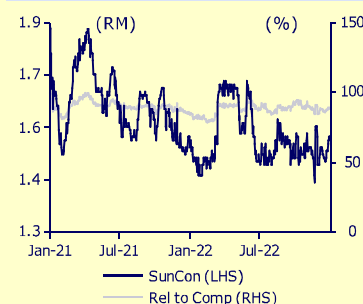
Country average 71.0

GEM sector average 75.3

*Click to visit company page on cls.com for details

Stock performance (%)

	1M	3M	12M
Absolute	5.4	4.0	0.0
Relative	4.4	(3.0)	4.8
Abs (US\$)	5.0	9.5	(5.4)



Source: Bloomberg

A piece of the data centre action

Maiden foray into data centre construction helps SunCon exceed target

SunCon announced a RM1.7 bn job for data centre construction with Yellowwood Properties on the last day of the year. This catapulted wins in 2022 to RM2.5 bn, SunCon's largest annual haul since 2017, exceeding management guidance and CLSA forecast (RM 2bn). We view this contract win positively as SunCon leverages its existing expertise and also moves into a new area of data centre. We continue to like SunCon as a laggard play (BUY) and raise our TP to RM1.92 (from RM1.72).

First foray into data centre; this project would be close to a third of order book

The construction project, located in Sedenak Tech Park in Johor, is SunCon's first foray into the data centre construction, and the RM1.7 bn award pushes outstanding order book to around RM5.7 bn, by our estimate. This award is not a surprise, given SunCon had earlier hinted its interest in the data centre space, though the value of the award is larger than we had anticipated. On this, we understand contract would also involve procurement of data centre equipment, and its other undertaking requirements (fig 1) also play to SunCon's strength, including involving pre-cast, piling, and mechanical and electrical engineering.

Revenue and earnings impact seen to be fast-tracked

A fixed-price lump sum contract, the requirement to deliver by 3Q24 translates into a relatively higher revenue contribution over two years, but also carries some execution risk. To this end, we draw comfort that SunCon has now 400 total foreign workers available, with plans to secure 600 more (planning to take total foreign worker force to 1,000 ie exceeding pre-pandemic of 800). Margin guidance on project is at higher end of typical 5-8% margin (we assume 7%). This adds RM12 mn PATMI on average for 2023/2024CL, explaining the 7/8% uplift to our 2023/2024 estimates, though lowered slightly for 2022 due to the back-loaded nature and timing of award. For this, we also considered higher overtime pay wages on Employment Act changes; our FY23/24 pre-tax margin forecast is 7.3/7.8%.

Retain BUY on SunCon, a laggard play, with a higher TP of RM1.92

SunCon is our sector top pick, which we like as laggard play. We have pencilled in RM2.2 bn of order wins in the pipeline for 2023. We continue to see SunCon deserving to trade at 1sd over KLCON index 10-year mean PE, which is now 14.0x PE (previously 15.2x), on account of its order book flow which has the benefit of internal jobs. Rolling over also to FY24 earnings base, we raise our TP to RM1.92 (from RM1.72).

Financials

Year to 31 December	20A	21A	22CL	23CL	24CL
Revenue (RMm)	1,553	1,729	2,241	2,911	2,974
Rev forecast change (%)	-	-	(1.8)	12.1	12.4
Net profit (RMm)	73	113	126	157	178
NP forecast change (%)	-	-	(7.9)	7.1	8.1
EPS (sen)	5.6	8.7	9.8	12.1	13.7
CL/consensus (12) (EPS%)	-	-	96	106	115
EPS growth (% YoY)	(43.7)	54.7	11.9	24.4	13.3
PE (x)	27.7	17.9	16.0	12.9	11.4
Dividend yield (%)	2.6	3.4	4.5	4.5	4.8
ROE (%)	11.6	16.9	17.5	20.3	20.9
Net debt/equity (%)	(53.1)	(63.9)	(24.2)	0.8	(1.3)

Source: www.cls.com

Change in target price

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Financials at a glance

Year to 31 December	2020A	2021A	2022CL	(% YoY)	2023CL	2024CL
Profit & Loss (RMm)						
Revenue	1,553	1,729	2,241	29.6	2,911	2,974
Cogs (ex-D&A)	(1,429)	(1,566)	(2,033)		(2,655)	(2,682)
Gross Profit (ex-D&A)	124	164	207	26.8	256	292
SG&A and other expenses	-	-	-		-	-
Op Ebitda	124	164	207	26.8	256	292
Depreciation/amortisation	(33)	(27)	(35)		(43)	(51)
Op Ebit	91	136	173	26.9	213	241
Net interest inc/(exp)	10	11	2	(83.6)	(7)	(14)
Other non-Op items	0	5	5	7	5	5
Profit before tax	101	152	180	18	211	233
Taxation	(28)	(41)	(45)		(42)	(47)
Profit after tax	73	111	135	21.7	169	186
Minority interest	(1)	2	(9)		(12)	(9)
Net profit	73	113	126	11.9	157	178
Adjusted profit	73	113	126	11.9	157	178
Cashflow (RMm)						
Operating profit	91	136	173	26.9	213	241
Depreciation/amortisation	33	27	35	26.3	43	51
Working capital changes	(29)	83	(282)		(206)	(16)
Other items	(23)	(29)	(45)		(42)	(47)
Net operating cashflow	72	218	(120)		8	229
Capital expenditure	0	(35)	(50)		(100)	(100)
Free cashflow	72	183	(170)		(92)	129
M&A/Others	17	(19)	17		14	13
Net investing cashflow	17	(54)	(33)		(86)	(87)
Increase in loans	(85)	(71)	150		150	150
Dividends	(62)	(52)	(97)		(98)	(102)
Net equity raised/other	-	-	-		0	-
Net financing cashflow	(147)	(122)	53		52	48
Incr/(decr) in net cash	(58)	42	(99)		(25)	191
Exch rate movements	4	14	(24)		(16)	(22)
Balance sheet (RMm)						
Cash & equivalents	640	696	573	(17.7)	531	700
Accounts receivable	1,048	850	1,244	46.3	1,756	1,785
Other current assets	54	66	88	33.8	100	109
Fixed assets	104	125	140	12.3	197	247
Investments	49	127	127	0	127	127
Intangible assets	4	0	0		0	0
Other non-current assets	7	1	1	0	1	1
Total assets	1,906	1,864	2,172	16.5	2,712	2,969
Short-term debt	234	93	93	0	93	93
Accounts payable	955	891	1,003	12.5	1,309	1,322
Other current liabs	6	8	8	0	8	8
Long-term debt/CBs	67	145	295	103.2	445	595
Provisions/other LT liabs	6	10	10	0	10	10
Shareholder funds	637	699	737	5.4	809	893
Minorities/other equity	2	18	26	49.5	39	47
Total liabs & equity	1,906	1,864	2,172	16.5	2,712	2,969
Ratio analysis						
Revenue growth (% YoY)	(12.2)	11.4	29.6		29.9	2.2
Ebitda margin (%)	8.0	9.5	9.3		8.8	9.8
Ebit margin (%)	5.8	7.9	7.7		7.3	8.1
Net profit growth (%)	(43.7)	54.7	11.9		24.4	13.3
Op cashflow growth (% YoY)	(54.3)	201.1	(155.0)		nm	2,737.9
Capex/sales (%)	0.0	2.0	2.2		3.4	3.4
Net debt/equity (%)	(53.1)	(63.9)	(24.2)		0.8	(1.3)
Net debt/Ebitda (x)	-	-	-		0.0	-
ROE (%)	11.6	16.9	17.5		20.3	20.9
ROIC (%)	24.6	49.8	42.9		28.5	24.9

Source: www.clsa.com

Find CLSA research on Bloomberg, Thomson Reuters, FactSet and CapitalIQ - and profit from our evalu@tor proprietary database at clsa.com



A piece of the data-center action

Figure 1

Scope of works for the project

- i) Design and build for piling and structural precast concrete works
- ii) Data centre main building architecture works
- iii) Mechanical and electric services, telecommunications, control and security installation and associated works, including primary plant; and
- iv) External ancillary works consisting of roads, surface water drainage, sewer drainage, external water reticulation, external mechanical and electrical services, fencing, gates and landscape

Source: CLSA, SunCon

Figure 2

Valuations: SunCon

PE method of valuation	Remarks	
Earnings (24CL)	14.0x, ie 1sd above KLCON PE (10 year mean)	178
Multiple applied		14 Previously 15.2
Total		2,486
Number of shares (unit million)		1,293
Value per share (RM)		1.92
Target price		1.92 Previously RM1.72

Source: CLSA

Figure 3

Summary of earnings changes

		Dec20A	Dec21A	Dec22CL	Dec23CL	Dec24CL
Revenue (RMm)	Previous	1,553	1,729	2,281	2,597	2,645
	Revised	1,553	1,729	2,241	2,911	2,974
Net profit (RMm)	Previous	73	113	137	146	164
	Revised	73	113	126	157	178
				(8%)	7%	8%

Source: CLSA

Valuation details

Our target price is derived from 14.0x 24CL earnings, one standard deviation above the 10-year mean PE for the KL Construction index. We accord an above-sector average PE, given the company's flow of internal jobs and strong balance sheet.

Investment risks

The main concern is construction risk. Specific risks include lower-than-expected margins (below 5-8%) or if the amount of projects secured falls below our



expectation, either due to an inability to secure projects or project rollout delays. Higher-than-expected steel price increases could cut into margins as SunCon hedges steel needs for a future six-month period. On the precast segment, another risk is margin recovery timing, currently in the doldrums due to competition. Prolonged Covid-19 could also reduce operating efficiency.

Detailed financials

Profit & Loss (RMm)

Year to 31 December	2018A	2019A	2020A	2021A	2022CL	2023CL	2024CL
Revenue	2,257	1,769	1,553	1,729	2,241	2,911	2,974
Cogs (ex-D&A)	(2,042)	(1,587)	(1,429)	(1,566)	(2,033)	(2,655)	(2,682)
Gross Profit (ex-D&A)	215	181	124	164	207	256	292
Research & development costs	-	-	-	-	-	-	-
Selling & marketing expenses	-	-	-	-	-	-	-
Other SG&A	-	-	-	-	-	-	-
Other Op Expenses ex-D&A	-	-	-	-	-	-	-
Op Ebitda	215	181	124	164	207	256	292
Depreciation/amortisation	(53)	(40)	(33)	(27)	(35)	(43)	(51)
Op Ebit	162	141	91	136	173	213	241
Interest income	16	25	17	16	17	14	13
Interest expense	(8)	(13)	(7)	(5)	(16)	(22)	(28)
Net interest inc/(exp)	8	12	10	11	2	(7)	(14)
Associates/investments	-	4	0	5	5	5	5
Forex/other income	-	-	-	-	-	-	-
Asset sales/other cash items	-	-	-	-	-	-	-
Provisions/other non-cash items	-	-	-	-	-	-	-
Asset revaluation/Exceptional items	-	-	-	-	-	-	-
Profit before tax	170	157	101	152	180	211	233
Taxation	(38)	(27)	(28)	(41)	(45)	(42)	(47)
Profit after tax	132	130	73	111	135	169	186
Preference dividends	-	-	-	-	-	-	-
Profit for period	132	130	73	111	135	169	186
Minority interest	0	(1)	(1)	2	(9)	(12)	(9)
Net profit	131	129	73	113	126	157	178
Extraordinaries/others	0	0	0	0	0	0	0
Profit available to ordinary shares	131	129	73	113	126	157	178
Dividends	(90)	(90)	(52)	(68)	(90)	(90)	(97)
Retained profit	41	39	21	45	36	66	81
Adjusted profit	131	129	73	113	126	157	178
EPS (sen)	10.2	10.0	5.6	8.7	9.8	12.1	13.7
Adj EPS [pre excep] (sen)	10.2	10.0	5.6	8.7	9.8	12.1	13.7
Core EPS (sen)	10.2	10.0	5.6	8.7	9.8	12.1	13.7
DPS (sen)	7.0	7.0	4.0	5.3	7.0	7.0	7.5

Profit & loss ratios

Year to 31 December	2018A	2019A	2020A	2021A	2022CL	2023CL	2024CL
Growth (%)							
Revenue growth (% YoY)	8.7	(21.6)	(12.2)	11.4	29.6	29.9	2.2
Ebitda growth (% YoY)	6.0	(15.5)	(31.6)	32.0	26.8	23.4	14.1
Ebit growth (% YoY)	(1.9)	(12.9)	(35.8)	50.5	26.9	23.4	13.2
Net profit growth (%)	(3.5)	(1.5)	(43.7)	54.7	11.9	24.4	13.3
EPS growth (% YoY)	(3.5)	(1.5)	(43.7)	54.7	11.9	24.4	13.3
Adj EPS growth (% YoY)	(3.5)	(1.5)	(43.7)	54.7	11.9	24.4	13.3
DPS growth (% YoY)	0.0	0.0	(42.9)	31.3	33.3	0.0	7.1
Core EPS growth (% YoY)	(3.5)	(1.5)	(43.7)	54.7	11.9	24.4	13.3
Margins (%)							
Gross margin (%)	9.5	10.2	8.0	9.5	9.3	8.8	9.8
Ebitda margin (%)	9.5	10.2	8.0	9.5	9.3	8.8	9.8
Ebit margin (%)	7.2	8.0	5.8	7.9	7.7	7.3	8.1
Net profit margin (%)	5.8	7.3	4.7	6.5	5.6	5.4	6.0
Core profit margin	5.8	7.3	4.7	6.5	5.6	5.4	6.0
Op cashflow margin	7.1	9.0	4.7	12.6	(5.3)	0.3	7.7
Returns (%)							
ROE (%)	22.9	21.3	11.6	16.9	17.5	20.3	20.9
ROA (%)	6.8	6.3	3.4	5.3	6.4	7.0	6.8
ROIC (%)	52.1	42.4	24.6	49.8	42.9	28.5	24.9
ROCE (%)	76.4	64.1	35.0	48.8	41.3	29.8	27.1
Other key ratios (%)							
Effective tax rate (%)	22.4	17.2	27.5	27.3	25.0	20.0	20.0
Ebitda/net int exp (x)	-	-	-	-	-	35.5	20.5
Exceptional or extraord. inc/PBT (%)	0.0	0.0	-	-	-	-	-
Dividend payout (%)	68.9	70.0	71.0	60.3	71.8	57.7	54.6

Source: www.clsa.com



Balance sheet (RMm)

Year to 31 December	2018A	2019A	2020A	2021A	2022CL	2023CL	2024CL
Cash & equivalents	485	693	640	696	573	531	700
Accounts receivable	885	818	1,048	850	1,244	1,756	1,785
Inventories	30	25	34	46	46	46	46
Other current assets	198	174	20	20	42	54	63
Current assets	1,597	1,710	1,742	1,612	1,904	2,387	2,594
Fixed assets	164	139	104	125	140	197	247
Investments	45	49	49	127	127	127	127
Goodwill	4	4	4	0	0	0	0
Other intangible assets	0	0	0	0	0	0	0
Other non-current assets	3	4	7	1	1	1	1
Total assets	1,812	1,905	1,906	1,864	2,172	2,712	2,969
Short term loans/OD	114	233	234	93	93	93	93
Accounts payable	995	885	955	891	1,003	1,309	1,322
Accrued expenses	-	-	-	-	-	-	-
Taxes payable	14	1	4	7	7	7	7
Other current liabs	0	0	2	1	1	1	1
Current liabilities	1,123	1,120	1,195	992	1,103	1,410	1,423
Long-term debt/leases/other	-	53	67	145	295	445	595
Convertible bonds	-	-	-	-	-	-	-
Provisions/other LT liabs	97	107	6	10	10	10	10
Total liabilities	1,220	1,280	1,267	1,147	1,409	1,865	2,028
Share capital	259	259	259	259	259	259	259
Retained earnings	361	399	410	471	509	580	665
Reserves/others	(28)	(35)	(31)	(30)	(30)	(30)	(30)
Shareholder funds	591	623	637	699	737	809	893
Minorities/other equity	1	2	2	18	26	39	47
Total equity	593	625	639	717	764	847	940
Total liabs & equity	1,812	1,905	1,906	1,864	2,172	2,712	2,969
Total debt	114	286	301	238	388	538	688
Net debt	(371)	(407)	(339)	(458)	(185)	7	(12)
Adjusted EV	1,602	1,563	1,630	1,449	1,731	1,935	1,924
BVPS (sen)	45.7	48.2	49.3	54.1	57.0	62.6	69.1

Balance sheet ratios

Year to 31 December	2018A	2019A	2020A	2021A	2022CL	2023CL	2024CL
Key ratios							
Current ratio (x)	1.4	1.5	1.5	1.6	1.7	1.7	1.8
Growth in total assets (% YoY)	(3.9)	5.1	0.1	(2.2)	16.5	24.9	9.4
Growth in capital employed (% YoY)	9.4	(1.2)	37.0	(13.6)	123.6	47.6	8.7
Net debt to operating cashflow (x)	-	-	-	-	-	0.8	-
Gross debt to operating cashflow (x)	0.7	1.8	4.2	1.1	(3.2)	66.5	3.0
Gross debt to Ebitda (x)	0.5	1.6	2.4	1.5	1.9	2.1	2.4
Net debt/Ebitda (x)	-	-	-	-	-	0.0	-
Gearing							
Net debt/equity (%)	(62.7)	(65.0)	(53.1)	(63.9)	(24.2)	0.8	(1.3)
Gross debt/equity (%)	19.2	45.8	47.1	33.2	50.8	63.5	73.2
Interest cover (x)	21.4	12.6	15.6	33.2	12.3	10.6	9.3
Debt cover (x)	1.4	0.6	0.2	0.9	(0.3)	0.0	0.3
Net cash per share (sen)	28.7	31.5	26.2	35.4	14.3	(0.5)	1.0
Working capital analysis							
Inventory days	4.9	6.3	7.6	9.4	8.3	6.3	6.3
Debtor days	157.7	175.7	219.4	200.4	170.5	188.1	217.3
Creditor days	194.7	216.1	235.1	215.3	170.0	158.9	179.1
Working capital/Sales (%)	4.6	7.4	9.1	1.0	14.3	18.5	18.9
Capital employed analysis							
Sales/Capital employed (%)	1,019.8	809.4	518.5	668.0	387.2	340.9	320.5
EV/Capital employed (%)	723.8	715.4	544.3	559.9	299.1	226.6	207.4
Working capital/Capital employed (%)	46.5	59.7	47.2	6.4	55.5	63.1	60.7
Fixed capital/Capital employed (%)	74.0	63.5	34.7	48.2	24.2	23.1	26.6
Other ratios (%)							
PB (x)	3.4	3.2	3.2	2.9	2.7	2.5	2.3
EV/Ebitda (x)	7.5	8.6	13.1	8.9	8.3	7.6	6.6
EV/OCF (x)	10.0	9.9	22.5	6.7	(14.5)	239.4	8.4
EV/FCF (x)	15.5	10.2	22.5	7.9	(10.2)	(21.0)	14.9
EV/Sales (x)	0.7	0.9	1.0	0.8	0.8	0.7	0.6
Capex/depreciation (%)	106.6	11.7	0.0	127.0	144.4	234.6	197.6

Source: www.clsa.com

Cashflow (RMm)

Year to 31 December	2018A	2019A	2020A	2021A	2022CL	2023CL	2024CL
Operating profit	162	141	91	136	173	213	241
Operating adjustments	0	0	12	0	0	0	0
Depreciation/amortisation	53	40	33	27	35	43	51
Working capital changes	(11)	28	(29)	83	(282)	(206)	(16)
Interest paid / other financial expenses	(8)	(13)	(6)	(4)	0	0	0
Tax paid	(37)	(38)	(29)	(29)	(45)	(42)	(47)
Other non-cash operating items	1	1	0	4	0	0	0
Net operating cashflow	159	158	72	218	(120)	8	229
Capital expenditure	(56)	(5)	0	(35)	(50)	(100)	(100)
Free cashflow	103	154	72	183	(170)	(92)	129
Acq/inv/disposals	26	(47)	-	(53)	-	-	-
Int, invt & associate div	(28)	25	17	34	17	14	13
Net investing cashflow	(58)	(26)	17	(54)	(33)	(86)	(87)
Increase in loans	(21)	162	(85)	(71)	150	150	150
Dividends	(97)	(91)	(62)	(52)	(97)	(98)	(102)
Net equity raised/others	-	-	-	-	-	0	-
Net financing cashflow	(118)	72	(147)	(122)	53	52	48
Incr/(decr) in net cash	(16)	204	(58)	42	(99)	(25)	191
Exch rate movements	13	6	4	14	(24)	(16)	(22)
Opening cash	487	484	693	640	696	573	531
Closing cash	484	693	640	696	573	531	700
OCF PS (sen)	12.3	12.3	5.6	16.8	(9.3)	0.6	17.8
FCF PS (sen)	8.0	11.9	5.6	14.2	(13.1)	(7.1)	10.0

Cashflow ratio analysis

Year to 31 December	2018A	2019A	2020A	2021A	2022CL	2023CL	2024CL
Growth (%)							
Op cashflow growth (% YoY)	238.7	(0.7)	(54.3)	201.1	(155.0)	nm	2,737.9
FCF growth (% YoY)	-	48.8	(52.9)	152.9	(192.8)	-	-
Capex growth (%)	2.7	(91.6)	(100.0)	-	43.6	100.0	0.0
Other key ratios (%)							
Capex/sales (%)	2.5	0.3	0.0	2.0	2.2	3.4	3.4
Capex/op cashflow (%)	35.2	3.0	0.0	16.0	(41.8)	1,237.2	43.6
Operating cashflow payout ratio (%)	56.7	57.1	71.5	31.2	-	1,119.1	42.2
Cashflow payout ratio (%)	56.7	57.1	71.5	31.2	-	1,119.1	42.2
Free cashflow payout ratio (%)	87.6	58.9	71.5	37.1	-	-	74.9

DuPont analysis

Year to 31 December	2018A	2019A	2020A	2021A	2022CL	2023CL	2024CL
Ebit margin (%)	7.2	8.0	5.8	7.9	7.7	7.3	8.1
Asset turnover (x)	1.2	1.0	0.8	0.9	1.1	1.2	1.0
Interest burden (x)	1.0	1.1	1.1	1.1	1.0	1.0	1.0
Tax burden (x)	0.8	0.8	0.7	0.7	0.7	0.8	0.8
Return on assets (%)	6.8	6.3	3.4	5.3	6.4	7.0	6.8
Leverage (x)	3.2	3.1	3.0	2.8	2.7	3.0	3.2
ROE (%)	22.9	21.3	11.6	16.9	17.5	20.3	20.9

EVA® analysis

Year to 31 December	2018A	2019A	2020A	2021A	2022CL	2023CL	2024CL
Ebit adj for tax	126	117	66	99	130	171	193
Average invested capital	241	275	266	199	302	599	774
ROIC (%)	52.1	42.4	24.6	49.8	42.9	28.5	24.9
Cost of equity (%)	10.9	10.9	10.9	10.9	10.9	10.9	10.9
Cost of debt (adj for tax)	3.9	4.1	3.6	3.6	3.8	4.0	4.0
Weighted average cost of capital (%)	10.9	10.9	10.9	10.9	10.9	10.9	10.9
EVA/IC (%)	41.2	31.5	13.7	38.9	32.0	17.6	14.0
EVA (RMm)	99	87	37	77	97	105	109

Source: www.clsa.com



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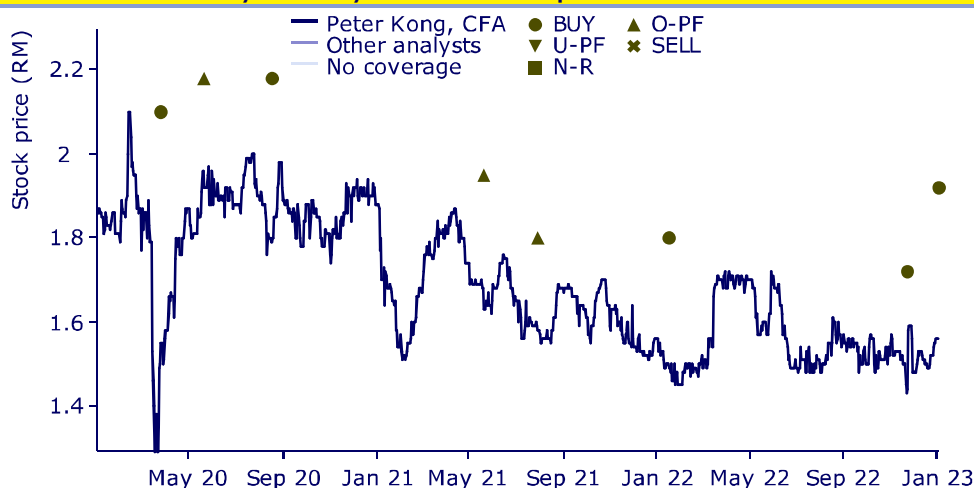
SunCon (SCGB MK - RM1.56 - BUY)
Yellowwood Properties (N-R)

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Important disclosures

Recommendation history of Sunway Construction Group Bhd SCGB MK



Date	Rec	Target	Date	Rec	Target
LATEST	BUY	1.92	21 May 2021	O-PF	1.95
23 Nov 2022	BUY	1.72	19 Aug 2020	BUY	2.18
17 Jan 2022	BUY	1.80	22 May 2020	O-PF	2.18
30 Jul 2021	O-PF	1.80	27 Mar 2020	BUY	2.10

Source: CLSA

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