

Sunway Construction Group (SCGB MK)

3Q23: In-line

Maintain HOLD with a higher MYR1.85 TP

SCGB's 3Q/9M23 core net profit (CNP) was in-line; the latter at 71% of our FY23E and 68% of consensus. We expect earnings to pick up further in 4Q; no change to our FY23E earnings. We however raise FY24/FY25E CNP by 7%/8% on updating for YTD orderbook wins, incorporating the respective projects' run-rates. Our revised TP is MYR1.85 (+12sen) on rolling forward valuation to FY24E but on an unchanged 16.5x PER peg (-0.5SD of LT mean). We continue to like SCGB for its strong execution capability. However, the stock is fairly valued, trading at 16.9x 12M fwd PER.

3Q23 CNP +6% QoQ, 9M +7% YoY

3Q23 construction revenue rose 10% QoQ on accelerated progress in the newer projects; EBIT margin, at 7.6%, was stable QoQ. 3Q precast revenue climbed 21% QoQ on contribution from its new ICPH plant; EBIT margin expanded by 2.2ppts QoQ to 11.4%, aided by reversal of provisions for completed projects. 9M23 construction revenue rose 4% YoY; EBIT margin, at 7.7%, was stable YoY (+0.2ppts). 9M precast revenue jumped 67% YoY; EBIT margin expanded YoY to 9.7% (+3.4ppts).

MYR5.8b o/s orderbook, MYR26b active tender

Contracts wins YTD totalled MYR2.23b, bringing the outstanding orderbook to MYR5.8b (56 projects) as at 30 Sep. The YTD wins are in-line with our assumption of MYR2.5b for 2023. Notable wins include a 2nd package for the JB-SG RTS (MYR605m), a 2nd data centre contract in Johor (MYR190m), and Daiso's global distribution centre warehouse in Pulau Indah, in JV with Kajima (M) (MYR298m, being SCGB's 50% share). The active tender book is MYR26b; this should include two KVMRT3 civil works main packages (in JVs), Bayan Lepas LRT, and Song Hau 2 (MYR5.6b).

Early monetisation of HAM projects?

Group net gearing has risen to 0.31x due to 1) two Hybrid Annuity Model (HAM) projects in India where 60% of the receivables will be paid after construction completion and over 15 years, and 2) two LSS4 jobs which are on deferred payment. Positively, the Meensurutti-Chidambaram Highway HAM project will achieve commercial operations in Dec 2023; SCGB should be able to monetise this project ahead of the end of its annuity period.

FYE Dec (MYR m)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue	1,729	2,155	2,961	3,480	2,550
EBITDA	167	210	218	241	217
Core net profit	113	135	135	145	136
Core EPS (sen)	8.7	10.5	10.5	11.2	10.6
Core EPS growth (%)	54.7	20.1	0.2	7.0	(6.0)
Net DPS (sen)	5.3	5.5	5.5	5.5	5.5
Core P/E (x)	17.9	14.9	18.0	16.8	17.9
P/BV (x)	2.9	2.7	3.0	2.8	2.6
Net dividend yield (%)	3.4	3.5	2.9	2.9	2.9
ROAE (%)	16.9	18.8	17.6	17.3	15.0
ROAA (%)	6.0	6.6	5.0	4.1	3.9
EV/EBITDA (x)	13.0	9.9	13.9	13.2	13.0
Net gearing (%) (incl perps)	19.4	net cash	56.0	70.4	29.5
Consensus net profit	-	-	141	160	179
MIBG vs. Consensus (%)	-	-	(3.8)	(9.6)	(23.7)

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HOLD

Share Price	MYR 1.89
12m Price Target	MYR 1.85 (+2%)
Previous Price Target	MYR 1.73

Company Description

Sunway Construction Group offers integrated construction services and has precast concrete business in Singapore.

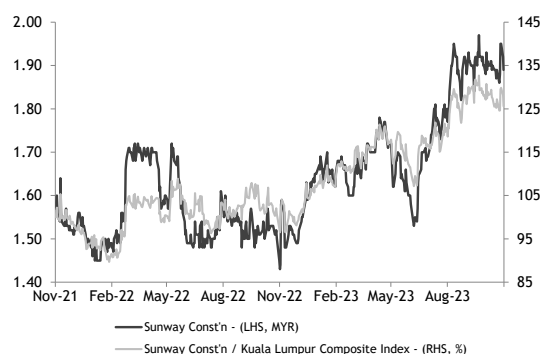
Statistics

52w high/low (MYR)	1.97/1.43
3m avg turnover (USDm)	0.2
Free float (%)	14.2
Issued shares (m)	1,293
Market capitalisation	MYR2.4B
	USD525M

Major shareholders:

Active Equity Sdn Bhd	64.6%
Employees Provident Fund	9.7%
Amanah Saham Bumiputera	6.0%

Price Performance



	-1M	-3M	-12M
Absolute (%)	(1)	5	30
Relative to index (%)	(2)	5	30

Source: FactSet

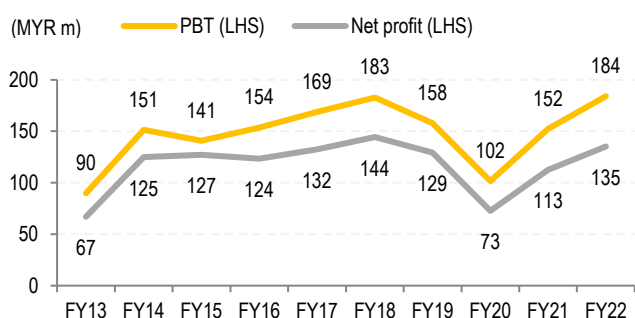
Abbreviation

ICPH = Integrated construction & prefabricated hub
RTS = Rapid Transit System
KVMRT = Klang Valley Mass Rapid Transit
LRT = Light Rapid Transit
LSS = Large Scale Solar

Value Proposition

- Malaysia's largest pure play construction group with an established brandname having commenced operations in 1981 with a cumulative revenue of >MYR34b.
- Operates on a fully integrated business model with 6 core ops: (i) building construction; (ii) civil & infrastructure; (iii) foundation & geotechnics; (iv) mechanical, electrical & plumbing; (v) precast concrete products manufacturing (two plants in Johor, 3rd in SG [commissioned in Dec 2022] of total 200,000m3 in capacity - supplying IBS components largely to SG); (vi) sustainable energy.
- Completed special purpose building projects include KL Convention Centre, Sunway Shopping Mall; completed civil projects include SILK, MEX, SKVE, BRT, KVMRT 1&2 and KVLRT.
- Experienced senior management team and support from the Sunway Group add onto its value proposition.

Profits (relisted on 28 Jul 2015)

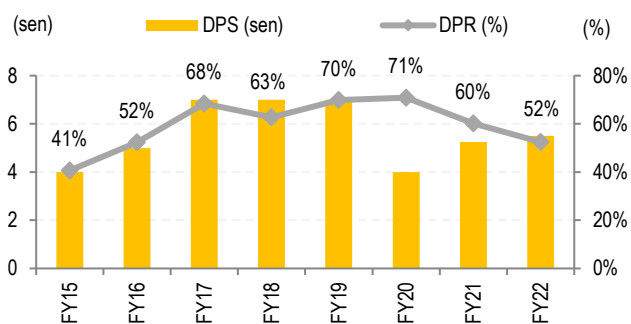


Source: Company

Financial Metrics

- Two main earning growth drivers are rising orderbook and higher margins which may come from value engineering.
- ROEs of >20% since its relisting in 2015 were above peers, but this suffered a set-back in FY20/FY21 due to the COVID-19 pandemic. ROE rebounded to 18.8% in FY22.
- DPR is a minimum 35% of PATMI; since its relisting (on 28 Jul 2015), SCGB had paid up to 71% (FY20).

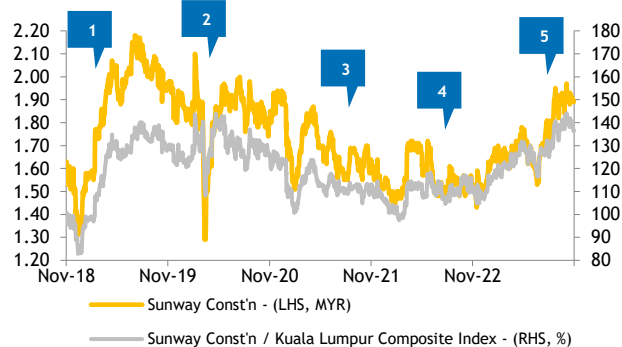
Dividends



Source: Company

Price Drivers

Historical share price trend



Source: Company, Maybank IBG Research

- Post GE14 (9 May 2018) concerns, as the new Government sought to review the cost of major infra projects awarded during the previous Government.
- Malaysia's COVID-induced movement control order (MCO) from 18 Mar 2020 led to work disruption at all of SCGB's projects.
- More economic activities re-opened in States under the National Recovery Plan Phase 1 (from 16 Aug 2021).
- Secured MYR2.58b new orderbook in 2022 (2021: MYR1.47b).
- Secured MYR2.2b new orderbook in 2023-YTD.

Swing Factors

Upside

- Larger-than-expected orderbook replenishment could lift sentiment on the stock although the earnings impact will only be felt in full at least a year later.
- Significant margin expansion for its existing orderbook coming from value engineering breakthrough.
- Government's policy on high usage of IBS in construction to reduce over-reliance on foreign labour; this will be positive for SCGB's precast concrete products operation.

Downside

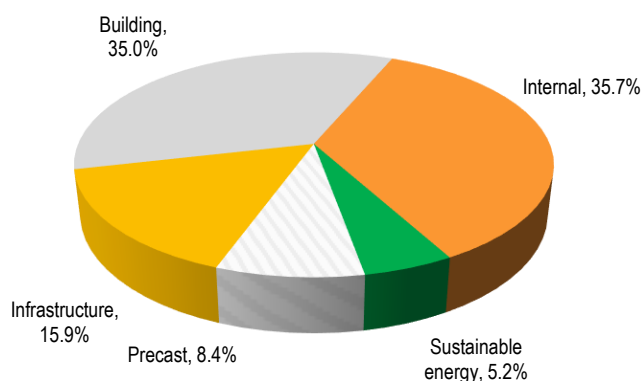
- Slower-than-expected work progress at existing projects will affect the timing of earnings recognition.
- The timing of mega infrastructure project roll-outs by the Government could affect orderbook replenishment.
- At the precast segment, significant increase in steel prices and stiffer competition could affect margins.

Fig 1: Results summary

	Quarterly					Cumulative		
	3Q23	3Q22	% YoY	2Q23	% QoQ	9M23	9M22	% YoY
FY Dec (MYR m)								
Revenue	673.5	469.3	43.5	604.1	11.5	1,799.7	1,651.8	9.0
EBIT	54.1	36.9	46.7	46.7	15.9	142.5	122.2	16.6
Net interest inc/(exp)	(6.0)	0.8	NM	(4.7)	27.0	(14.9)	1.9	NM
Assoc, JV profits	-	(0.1)	NM	0.3	NM	0.3	3.7	(91.4)
Pre-tax profit	48.1	37.6	27.9	42.3	13.8	127.9	127.8	0.1
Tax	(12.6)	(13.6)	(7.7)	(9.0)	40.1	(30.5)	(34.5)	(11.8)
Minority Interests	(0.5)	(1.2)	(59.5)	(0.3)	88.8	(1.6)	(3.7)	(57.1)
Net profit	35.0	22.7	54.1	33.0	6.1	95.8	89.5	7.0
EPS (sen)	2.71	1.76	54.0	2.56	5.9	7.43	6.95	6.9
DPS (sen)	-	-	NM	3.00	NM	3.00	3.00	-
	3Q23	3Q22	+/- ppt	2Q23	+/- ppt	9M23	9M22	+/- ppt
EBIT margin (%)	8.0	7.9	0.2	7.7	0.3	7.9	7.4	0.5
Pretax margin (%)	7.1	8.0	(0.9)	7.0	0.1	7.1	7.7	(0.6)
Tax rate (%)	26.2	36.3	(10.1)	21.3	4.9	23.8	27.0	(3.2)
Segmental								
Revenue	3Q23	3Q22	% YoY	2Q23	% QoQ	9M23	9M22	% YoY
Construction	590.6	418.9	41.0	535.6	10.3	1,595.2	1,529.7	4.3
Precast concrete	83.0	50.3	64.8	68.5	21.0	204.5	122.1	67.4
Total	673.5	469.3	43.5	604.1	11.5	1,799.7	1,651.8	9.0
EBIT								
Construction	44.7	33.1	34.8	40.4	10.5	122.7	114.6	7.1
Precast concrete	9.5	3.8	152.0	6.3	50.7	19.8	7.6	159.8
Total	54.1	36.9	46.7	46.7	15.9	142.5	122.2	16.6
EBIT margin (%)	3Q23	3Q22	+/- ppt	2Q23	+/- ppt	9M23	9M22	+/- ppt
Construction	7.6	7.9	(0.3)	7.5	0.0	7.7	7.5	0.2
Precast concrete	11.4	7.5	3.9	9.1	2.2	9.7	6.2	3.4
Total	8.0	7.9	0.2	7.7	0.3	7.9	7.4	0.5

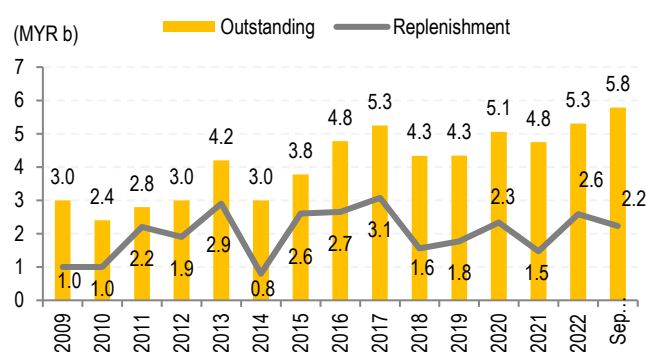
Source: Company, Maybank IBG Research (tabulation)

Fig 2: Outstanding orderbook of MYR5.8b @ 30 Sep 2023



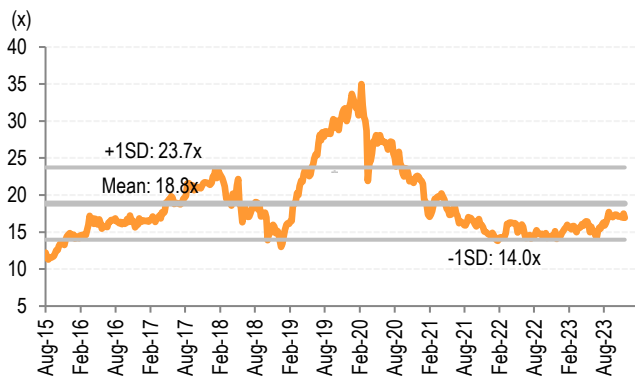
Source: Company data, Maybank IBG Research (chart)

Fig 3: Outstanding orderbook vs. replenishment



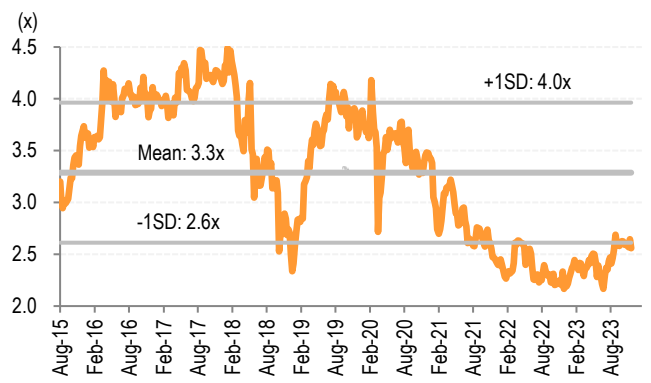
Note: Including precast, adjusted for revised value of KVLRT3 project;
Source: Company data, Maybank IBG Research (chart)

Fig 4: 12M forward PER



Source: Bloomberg, Company data, Maybank IBG Research

Fig 5: 12M forward P/B



Source: Bloomberg, Company data, Maybank IBG Research

FYE 31 Dec	FY21A	FY22A	FY23E	FY24E	FY25E
Key Metrics					
P/E (reported) (x)	19.0	14.8	18.0	16.8	17.9
Core P/E (x)	17.9	14.9	18.0	16.8	17.9
P/BV (x)	2.9	2.7	3.0	2.8	2.6
P/NTA (x)	2.9	2.7	3.0	2.8	2.6
Net dividend yield (%)	3.4	3.5	2.9	2.9	2.9
FCF yield (%)	10.3	nm	1.1	7.1	1.9
EV/EBITDA (x)	13.0	9.9	13.9	13.2	13.0
EV/EBIT (x)	15.6	11.2	15.4	14.6	14.7
INCOME STATEMENT (MYR m)					
Revenue	1,729.2	2,155.2	2,961.4	3,480.2	2,550.2
EBITDA	166.8	210.2	217.8	241.3	217.0
Depreciation	(27.4)	(23.7)	(21.5)	(23.1)	(25.5)
EBIT	139.4	186.5	196.3	218.2	191.6
Net interest income / (exp)	(0.4)	(4.2)	(22.2)	(32.8)	(17.0)
Associates & JV	13.3	1.7	5.0	5.0	5.0
Exceptionals	0.0	0.0	0.0	0.0	0.0
Pretax profit	152.2	184.1	179.1	190.4	179.6
Income tax	(41.5)	(45.3)	(43.6)	(45.5)	(43.3)
Minorities	1.8	(3.6)	0.0	0.0	0.0
Reported net profit	112.6	135.2	135.5	144.9	136.3
Core net profit	112.6	135.2	135.5	144.9	136.3
BALANCE SHEET (MYR m)					
Cash & Short Term Investments	98.8	491.6	491.0	635.5	611.9
Accounts receivable	660.8	813.3	1,293.6	1,479.4	1,142.7
Inventory	46.2	53.4	77.3	92.0	65.0
Property, Plant & Equip (net)	124.7	107.5	115.6	127.3	127.3
Intangible assets	0.1	0.1	0.1	0.1	0.1
Investment in Associates & JVs	723.5	223.1	228.1	233.1	238.1
Other assets	210.1	547.0	1,011.1	1,292.4	895.8
Total assets	1,864.2	2,236.0	3,216.9	3,859.9	3,081.0
ST interest bearing debt	92.5	172.2	172.2	172.2	172.2
Accounts payable	860.8	886.0	1,295.8	1,541.2	1,093.5
LT interest bearing debt	145.4	308.5	815.0	1,138.7	742.1
Other liabilities	49.0	49.0	49.0	49.0	49.0
Total Liabilities	1,147.4	1,415.3	2,331.5	2,900.6	2,056.2
Shareholders Equity	699.1	737.1	801.7	875.7	941.1
Minority Interest	17.6	83.7	83.7	83.7	83.7
Total shareholder equity	716.8	820.8	885.4	959.4	1,024.7
Total liabilities and equity	1,864.2	2,236.0	3,216.9	3,859.9	3,081.0
CASH FLOW (MYR m)					
Pretax profit	152.2	184.1	179.1	190.4	179.6
Depreciation & amortisation	27.4	23.7	21.5	23.1	25.5
Adj net interest (income)/exp	0.1	(3.7)	(22.2)	(32.8)	(17.0)
Change in working capital	83.3	(382.1)	(94.4)	44.8	(83.9)
Cash taxes paid	(26.6)	(50.8)	(43.6)	(45.5)	(43.3)
Other operating cash flow	2.3	13.9	17.2	27.8	12.0
Cash flow from operations	238.7	(215.0)	57.6	207.8	72.8
Capex	(31.5)	(1.9)	(29.6)	(34.8)	(25.5)
Free cash flow	207.2	(216.9)	28.0	173.0	47.3
Dividends paid	(51.6)	(90.3)	(70.9)	(70.9)	(70.9)
Change in Debt	(70.1)	233.4	506.5	323.7	(396.6)
Other invest/financing cash flow	(139.4)	450.8	(464.1)	(281.3)	396.6
Net cash flow	(53.8)	377.1	(0.6)	144.5	(23.6)

FYE 31 Dec	FY21A	FY22A	FY23E	FY24E	FY25E
Key Ratios					
Growth ratios (%)					
Revenue growth	11.4	24.6	37.4	17.5	(26.7)
EBITDA growth	34.6	26.0	3.6	10.8	(10.1)
EBIT growth	54.0	33.8	5.3	11.1	(12.2)
Pretax growth	50.0	20.9	(2.7)	6.3	(5.7)
Reported net profit growth	54.7	20.1	0.2	7.0	(6.0)
Core net profit growth	54.7	20.1	0.2	7.0	(6.0)
Profitability ratios (%)					
EBITDA margin	9.6	9.8	7.4	6.9	8.5
EBIT margin	8.1	8.7	6.6	6.3	7.5
Pretax profit margin	8.8	8.5	6.0	5.5	7.0
Payout ratio	60.1	52.5	52.3	48.9	52.0
DuPont analysis					
Net profit margin (%)	6.5	6.3	4.6	4.2	5.3
Revenue/Assets (x)	0.9	1.0	0.9	0.9	0.8
Assets/Equity (x)	2.7	3.0	4.0	4.4	3.3
ROAE (%)	16.9	18.8	17.6	17.3	15.0
ROAA (%)	6.0	6.6	5.0	4.1	3.9
Liquidity & Efficiency					
Cash conversion cycle	(62.8)	(42.6)	(14.6)	(12.3)	(19.7)
Days receivable outstanding	163.0	123.1	128.1	143.4	185.1
Days inventory outstanding	10.6	10.0	9.1	9.9	13.0
Days payables outstanding	236.3	175.7	151.7	165.6	217.8
Dividend cover (x)	1.7	1.9	1.9	2.0	1.9
Current ratio (x)	1.0	1.5	1.4	1.4	1.5
Leverage & Expense Analysis					
Asset/Liability (x)	1.6	1.6	1.4	1.3	1.5
Net gearing (%) (incl perps)	19.4	net cash	56.0	70.4	29.5
Net gearing (%) (excl. perps)	19.4	net cash	56.0	70.4	29.5
Net interest cover (x)	nm	44.9	8.8	6.7	11.3
Debt/EBITDA (x)	1.4	2.3	4.5	5.4	4.2
Capex/revenue (%)	1.8	0.1	1.0	1.0	1.0
Net debt/ (net cash)	139.1	(10.9)	496.2	675.4	302.4

Source: Company; Maybank IBG Research

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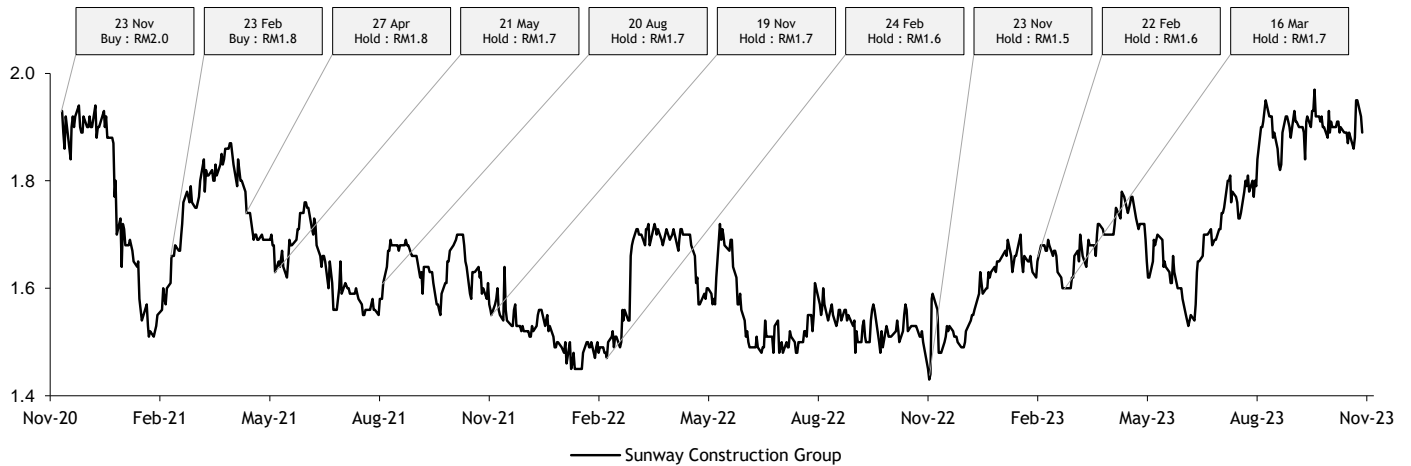
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