

Sunway Construction Group (SCGB MK)

4Q22: Positive surprise

Maintain HOLD with a revised MYR1.58 TP

SCGB's FY22 net profit was 113%/108% of house/street FY22E with the beat coming from strong margins at both construction and precast ops, mainly on margins recalibration and reversal of provisions. We raise FY23/FY24E net profit by 3%/18% post housekeeping and on incorporating its latest MYR1.7b job win. We also introduce FY25 forecasts. Our new TP is MYR1.58 (+5sen) based on unchanged 15x FY22E PER (about -1SD of LT mean).

4Q22 net profit +101% QoQ; 12M +20% YoY

Construction revenue was higher by 6% QoQ on pick up in works recognition while EBIT margin jumped 4.3ppts QoQ to 12.2% on margins recalibration for projects nearing completion and reversal of provision for a withdrawn legal case. Precast revenue rose 18% QoQ while EBIT margin rose 9.8ppts to 17.3% boosted by reversal of provision for completed projects. 4Q22 group net profit of MYR46m (-30% YoY; +101% QoQ) lifted 12M profit to MYR135m (+20% YoY) with the 12M growth largely due a low base where activities were affected by pandemic lockdowns in both MY and SG. A 2nd interim DPS of 2.5sen lifted FY22 DPS to 5.5sen (52% DPR).

MYR5.3b o/s orderbook, MYR21.3b active tender

New jobs secured in FY22 totalled MYR2.58b (FY21: MYR1.5b), bringing the outstanding orderbook to MYR5.3b as at end-2022. The internal job win targets for FY23 are MYR2b (base case) and MYR8b (stretched); we have assumed MYR2.5b. Active tender book presently is MYR21.3b. Besides Song Hau 2 (MYR5.6b), SCGB has tendered for two KVMRT3 civil works main packages (in JVs) and participated in the pre-qualifying for Bayan Lepas LRT. It also targets MYR1.5b precast wins, supported by the start of ops of its new ICPH plant in SG in 1Q23, raising capacity by 60%.

Raising our earnings forecasts

SCGB's MYR2.58b orderbook replenishment in FY22 (of which MYR1.7b was clinched on 31 Dec to build a data centre in Johor) was above our forecast of MYR2b. Our revised earnings forecasts mainly incorporate this. Earnings upside will come from Song Hau 2 (in VN) where SCGB's potential share of the EPC value is MYR5.6b. The project owner is in the midst of securing financing - targeted for end-1Q23 - for a 2,120MW coal-fired power plant. SCGB consortium inked an interim EPC agreement on 28 Dec 2022.

FYE Dec (MYR m)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue	1,729	2,155	3,215	3,246	2,712
EBITDA	167	210	221	230	213
Core net profit	113	135	136	134	118
Core EPS (sen)	8.7	10.5	10.5	10.4	9.1
Core EPS growth (%)	54.7	20.1	0.4	(1.3)	(12.0)
Net DPS (sen)	5.3	5.5	5.5	5.5	5.5
Core P/E (x)	17.9	14.9	15.7	15.9	18.1
P/BV (x)	2.9	2.7	2.7	2.5	2.3
Net dividend yield (%)	3.4	3.5	3.3	3.3	3.3
ROAE (%)	16.9	18.8	17.6	16.1	13.3
ROAA (%)	6.0	6.6	5.0	4.1	3.5
EV/EBITDA (x)	13.0	9.9	11.9	12.0	13.1
Net gearing (%) (incl perps)	19.4	net cash	47.6	57.5	58.9
Consensus net profit	-	-	151	160	na
MIBG vs. Consensus (%)	-	-	(10.2)	(16.1)	na

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HOLD

Share Price	MYR 1.65
12m Price Target	MYR 1.58 (-0%)
Previous Price Target	MYR 1.53

Company Description

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

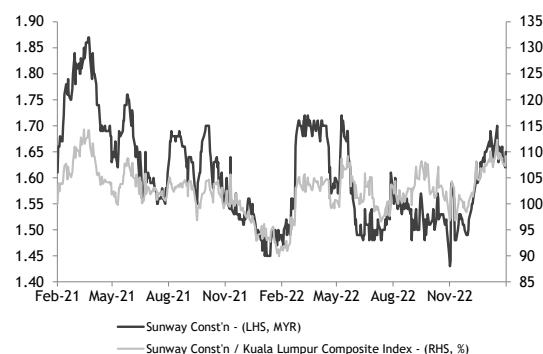
Statistics

52w high/low (MYR)	1.72/1.43
3m avg turnover (USDm)	0.2
Free float (%)	90.5
Issued shares (m)	1,293
Market capitalisation	MYR2.1B USD481M

Major shareholders:

Employees Provident Fund	9.5%
Kenanga Investors Bhd.	0.6%
Principal Asset Management Bhd.	0.3%

Price Performance



	-1M	-3M	-12M
Absolute (%)	0	14	11
Relative to index (%)	2	12	19

Source: FactSet

Abbreviation

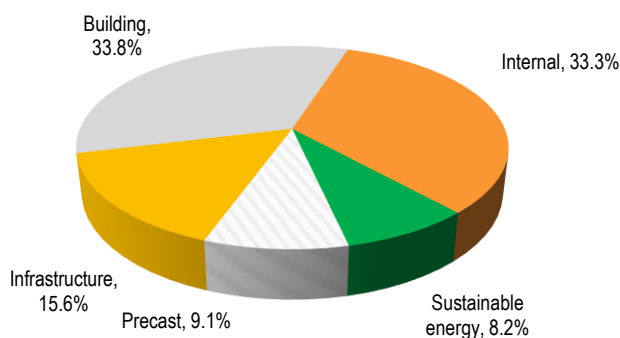
Ops = operations
MY = Malaysia
SG = Singapore
ICPH = Integrated construction & prefabricated hub
EPC = Engineering, procurement and construction

ESG@MAYBANK IBG
Tear Sheet Insert

Value Proposition

- Malaysia's largest pure play construction group with an established brandname having commenced operations in 1981 with a cumulative revenue of >MYR40b.
- 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 [operational 4Q22] - supplying IBS components largely to SG); (vi) sustainable energy services.
- Completed special purpose building projects include KL Convention Centre, Sunway Shopping Mall; completed civil projects include SILK, MEX, SKVE, BRT, KVMRT and KVLRT.
- Experienced senior management team and support from the Sunway Group add onto its value proposition.

MYR5.3b outstanding orderbook as of 31 Dec 2022

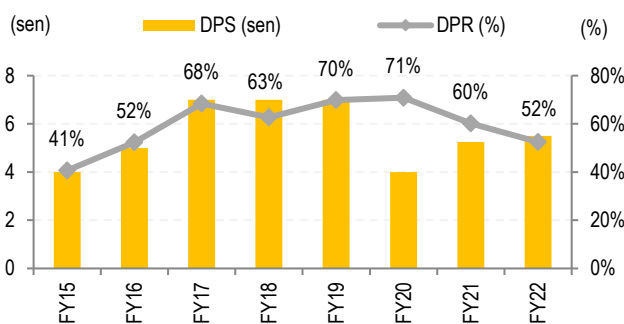


Source: Company

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 work disruption from 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).

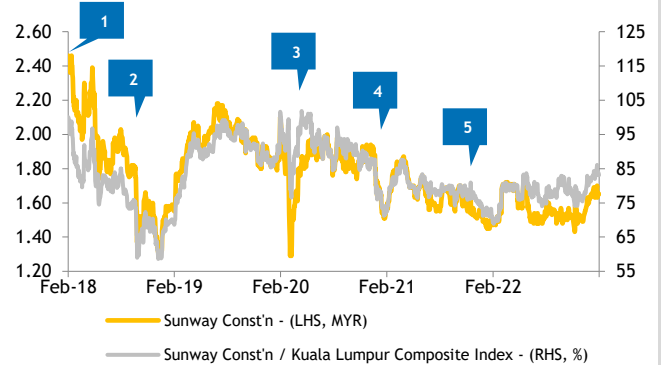
Dividends



Source: Company

Price Drivers

Historical share price trend



Source: Company, Maybank IBG Research

- Secured work packages under KVMRT 2 and KVLRT 3; outstanding orderbook reached another high of MYR6.1b as of end-2017.
- 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.
- MCO 2.0 from 13 Jan 2021.
- More economic activities re-opened in States under the National Recovery Plan Phase 1 (from 16 Aug 2021).

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 reaffirmation on higher usage of IBS in construction as a long-term plan to reduce the country's 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.

Risk Rating & Score ¹	26.3 (Medium)
Score Momentum ²	-4.3
Last Updated	13 Oct 2021
Controversy Score ³ (Updated: 1 Jul 2022)	1 - Business ethics incidents

Business Model & Industry Issues

- As an industry leader, SCGB has built a track record in GBI-certified buildings and it also offers sustainable energy services. SCGB targets to achieve Net Zero Carbon Emissions by 2050 and has established its *Future Value Goals 2030* (in 2021) to measure its ESG performance on a yearly basis.
- On labour matters, SCGB complies with Act 446, which extends to CLQ/workers accommodation of its business partners. To mitigate bribery & corruption risks, its Anti-Bribery and Corruption Policy and Anti-Money Laundering Policy were rolled out in 2020.
- Overall, SCGB's ESG risks are manageable, in our view. As SCGB continues to build on these efforts, its value proposition and investment case should strengthen further.

Material E issues

- SCGB is committed to decarbonisation and targets to achieve Net Zero by 2050. Its *Future Value Goals 2030* was established in 2021 to measure its ESG performance on a yearly basis.
- In 2021, SCGB achieved: (i) 9% YoY reduction in Carbon Emission Intensity (CEI) to 89 tCO₂e/MYRm revenue; (ii) 25% YoY lower Water Use Intensity (WUI) to 189m³/MYRm revenue. It aimed to achieve 10% of waste diversion from the landfills and was in the progress of establishing a baseline.
- SCGB has built a track record in designing Green Building Index (GBI)-certified buildings with 5 completed, 2 ongoing projects. It also offers sustainable (solar, biomass) energy services and has participated in the tender of large scale solar projects.
- In Jan 2021, SCGB signed up as an official supporter of the Task Force on Climate-Related Financial Disclosures (TCFD).
- SCGB achieved zero environmental compounds and fines in 2020 and 2021. All its project sites are certified with ISO 14001:2015 Environmental Management System since 2018, ensuring strict implementation and monitoring.
- In Nov 2020, SCGB ceased to be a FTSE4Good Index constituent after 5 consecutive years as it fell out of the FTSE Index series for not passing the liquidity screening.

Material S issues

- Women made up just 19% of SCGB's workforce in 2021 due to the nature of its operations (26% at the management level). Pay equity was 0.91 (women) : 1.00 (men).
- Employees' learning & development was an avg. 17.5 hours per employee in 2021 (2020: 15.9 hours). SCGB targets 40 hours by 2030 (under its *Future Value Goals 2030*).
- The workplaces of SCGB and the majority of its subsidiaries are ISO 45001/OHSAS 18001 Occupational Health and Safety Management System certified.
- SCGB complies with Act 446 - Workers' Minimum Standards of Housing and Amenities (Amendment) Act 2019 - fully enforced in Sep 2020. This extends to CLQ/workers accommodation of its business partners.
- In 2021, SCGB contributed >MYR1.5m to the community via the Jeffrey Cheah Foundation and SunCon Social Club.

Key G metrics and issues

- SCGB's Board comprises 8 Directors of which 7 are Non-Executive (incl. Chairman). 5 (or 63%) are Independent; each has not served a cumulative term of >9 years. SCGB's Constitution provides for 1/3 of its Board to retire by rotation by each AGM but eligible for re-election.
- There are presently 2 women on SCGB's Board (25% representation), slightly short of the 30% requirement.
- SCGB provides detailed disclosure on remuneration of its directors but not of its top senior management. In FY21, remuneration to directors (including alternate director) was 3.4% of pretax profit.
- SCGB has been audited by BDO PLT since FY15, at least.
- An Anti-Bribery and Corruption Policy was rolled out in Jan 2020 to all staff and business associates. Also, SCGB had, in 2020, established an Anti-Money Laundering Policy, which is linked to its pre-existing Code of Conduct & Business Ethics, and Whistleblowing Policy & Procedures.
- Transactions with related parties within the Sunway Group have been on terms and conditions not materially different from those with unrelated parties, based on our screening of its FY15-FY21 annual reports.

¹**Risk Rating & Score** - derived by Sustainalytics and assesses the company's exposure to unmanaged ESG risks. Scores range between 0 - 50 in order of increasing severity with low/high scores & ratings representing negligible/significant risk to the company's enterprise value, respectively, from ESG-driven financial impacts. ²**Score Momentum** - indicates changes to the company's score since the last update - a **negative** integer indicates a company's improving risk score; a **positive** integer indicates a deterioration. ³**Controversy Score** - reported periodically by Sustainalytics in the event of material ESG-related incident(s), with the impact severity scores of these events ranging from Category 0-5 (0 - no reports; 1 - negligible risks; ...; 5 - poses serious risks & indicative of potential structural deficiencies at the company).

Fig 1: Results summary

FY Dec (MYR m)	Quarterly					Cumulative		
	4Q22	4Q21	% YoY	3Q22	% QoQ	12M22	12M21	% YoY
Revenue	503.4	626.6	(19.7)	469.3	7.3	2,155.2	1,729.2	24.6
EBIT	64.3	84.9	(24.2)	36.9	74.4	186.5	139.4	33.8
Net interest inc/(exp)	(6.1)	(0.0)	>1,000.0	0.8	NM	(4.2)	(0.4)	865.3
Assoc, JV profits	(2.0)	6.2	NM	(0.1)	1,421.7	1.7	13.3	(87.2)
Pre-tax profit	56.3	91.0	(38.1)	37.6	49.7	184.1	152.2	20.9
Tax	(10.8)	(26.0)	(58.5)	(13.6)	(20.9)	(45.3)	(41.5)	9.2
Minority Interests	0.1	(0.3)	NM	(1.2)	NM	(3.6)	1.8	NM
Net profit	45.6	64.7	(29.5)	22.7	101.0	135.2	112.6	20.1
EPS (sen)	3.54	5.02	(29.5)	1.76	101.1	10.49	8.73	20.2
DPS (sen)	2.50	4.00	(37.5)	-	NM	5.50	5.25	4.8
	4Q22	4Q21	+/- ppt	3Q22	+/- ppt	12M22	12M21	+/- ppt
EBIT margin (%)	12.8	13.5	(0.8)	7.9	4.9	8.7	8.1	0.6
Pretax margin (%)	11.2	14.5	(3.3)	8.0	3.2	8.5	8.8	(0.3)
Tax rate (%)	19.2	28.6	(9.4)	36.3	(17.1)	24.6	27.3	(2.6)
Segmental								
Revenue	4Q22	4Q21	% YoY	3Q22	% QoQ	12M22	12M21	% YoY
Construction	444.0	579.9	(23.4)	418.9	6.0	1,973.6	1,606.2	22.9
Precast concrete	59.4	46.7	27.3	50.3	18.1	181.6	122.9	47.7
Total	503.4	626.6	(19.7)	469.3	7.3	2,155.2	1,729.2	24.6
EBIT								
Construction	54.1	82.1	(34.2)	33.1	63.1	168.6	134.9	25.0
Precast concrete	10.3	2.7	275.0	3.8	174.0	17.9	4.6	292.9
Total	64.3	84.9	(24.2)	36.9	74.4	186.5	139.4	33.8
EBIT margin (%)	4Q22	4Q21	+/- ppt	3Q22	+/- ppt	12M22	12M21	+/- ppt
Construction	12.2	14.2	(2.0)	7.9	4.3	8.5	8.4	0.1
Precast concrete	17.3	5.9	11.4	7.5	9.8	9.9	3.7	6.1
Total	12.8	13.5	(0.8)	7.9	4.9	8.7	8.1	0.6

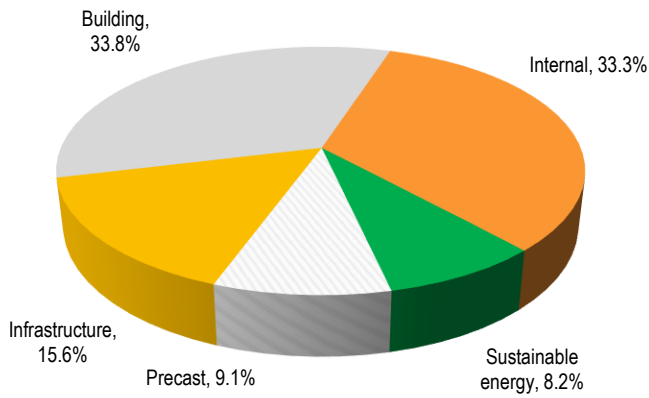
Source: Company, Maybank IBG Research (tabulation)

Fig 2: Outstanding orderbook of e.MYR5.3b @ 31 Dec 2022

	Completion	Contract value (MYR m)	Outstanding (MYR m)
Infrastructure			
LRT 3: Package GS07-08	1Q23	1,295	53
Sentul West KVMRT2 Underground Station (MEP)	Completed	57	1
Tamil Nadu Highway (Thorapalil Agraharam-Jittandahalli, of NH-844)	4Q23	508	393
Tamil Nadu Highway (Meensurutti-Chidambarm, of NH-227)	3Q23	315	169
Jln Tambun, Ipoh	4Q22	14	6
Bangsar Rising (piling)	4Q22	5	1
TASCO #	Completed	9	0
RTS: Package P2A (piling) #	2Q25	112	104
LRT3: GS06 (piling) #	Completed	1	0
KB-Kuala Krai BR1-7 (piling) #	Completed	2	0
LRT3: GS06 #	3Q23	191	100
Building			
Putrajaya Parcel F	Maintenance	1,610	12
TNB HQ Campus	Completed	781	13
Petronas Leadership Centre	Completed	305	15
Oxley Tower (MEP)	4Q24	68	48
IOI Mall (MEP)	Completed	68	5
PNB 118 (MEP) #	1Q23	8	3
JHB1X0 Data Centre #	3Q24	1,700	1,700
Internal			
Sunway Medical Centre 4 (2 towers) + VO	3Q23	612	129
Sunway Serene - Kelana Jaya Condo	4Q22	413	3
Sunway Belfield	4Q24	403	275
Sunway Velocity Two	4Q22	352	17
Sunway South Quay - CP2 (superstructure)	3Q24	557	515
Sunway Carnival 2 Extension - PDP contract	1Q23	286	8
Sunway Velocity Two - 2 blocks of service apartments	4Q23	253	168
Sunway Damansara Medical Centre	3Q23	240	185
SMC Ipoh	1Q24	150	59
Sunway International School	4Q22	140	27
Sunway Velocity 3C4	2Q23	100	27
Big Box Office	4Q22	51	5
Wellness road & drain #	Completed	1	0
Sunway Medical Ipoh VO #	1Q24	67	67
SW Flora #	4Q25	278	278
Sustainable energy			
Sustainable energy - external	-	414	395
Sustainable energy - internal #	-	7	5
Sustainable energy - external #	-	41	39
Precast			
Secured pre 2022	-	504	313
New order in 2022 #	-	168	168
Total @ 31 Dec 2022		12,142	5,305

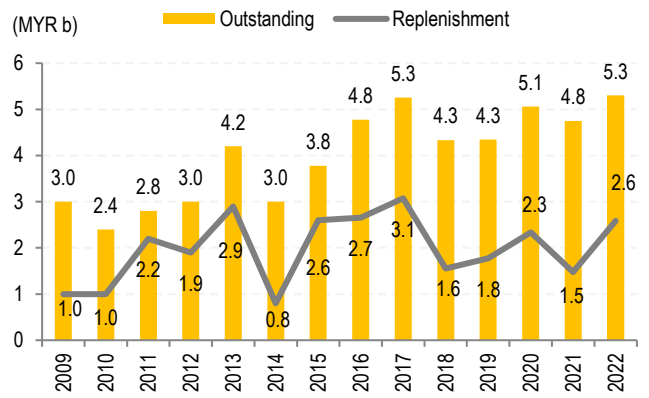
Secured in 2022 - MYR2.58b; Source: Company

Fig 3: Outstanding orderbook of MYR5.3b @ 31 Dec 2022



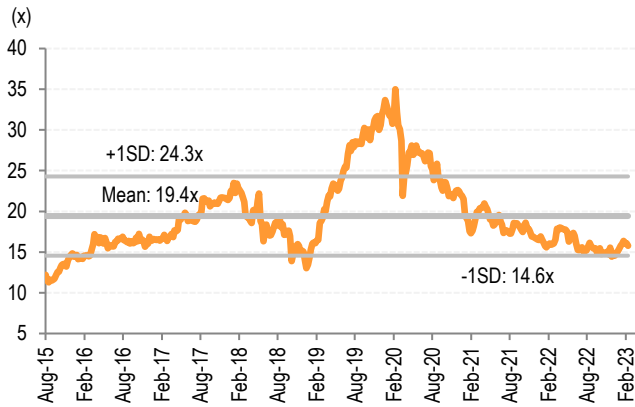
Source: Company data, Maybank IBG Research (chart)

Fig 4: Outstanding orderbook vs. replenishment



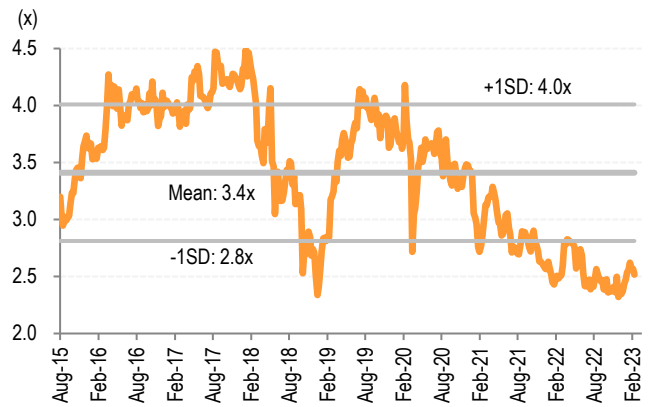
Note: Including precast, adjusted for revised value of LRT3 project;
Source: Company data, Maybank IBG Research (chart)

Fig 5: 12M forward PER



Source: Bloomberg, Company data, Maybank IBG Research

Fig 6: 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	15.7	15.9	18.1
Core P/E (x)	17.9	14.9	15.7	15.9	18.1
P/BV (x)	2.9	2.7	2.7	2.5	2.3
P/NTA (x)	2.9	2.7	2.7	2.5	2.3
Net dividend yield (%)	3.4	3.5	3.3	3.3	3.3
FCF yield (%)	10.3	nm	4.7	5.1	3.3
EV/EBITDA (x)	13.0	9.9	11.9	12.0	13.1
EV/EBIT (x)	15.6	11.2	13.2	13.6	15.4
INCOME STATEMENT (MYR m)					
Revenue	1,729.2	2,155.2	3,215.3	3,246.3	2,712.1
EBITDA	166.8	210.3	221.3	229.6	212.9
Depreciation	(27.4)	(23.8)	(21.5)	(26.9)	(31.2)
EBIT	139.4	186.5	199.8	202.8	181.7
Net interest income / (exp)	(0.4)	(4.2)	(25.5)	(31.0)	(31.7)
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	179.3	176.8	155.0
Income tax	(41.5)	(45.3)	(43.6)	(42.9)	(37.2)
Minorities	1.8	(3.6)	0.0	0.0	0.0
Reported net profit	112.6	135.2	135.7	133.9	117.8
Core net profit	112.6	135.2	135.7	133.9	117.8
BALANCE SHEET (MYR m)					
Cash & Short Term Investments	98.8	491.6	520.6	558.7	557.6
Accounts receivable	660.8	988.7	1,385.9	1,394.4	1,201.6
Inventory	46.2	53.4	84.8	85.4	70.0
Property, Plant & Equip (net)	124.7	107.5	134.3	156.1	165.6
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	371.5	833.0	994.5	1,034.9
Total assets	1,864.2	2,236.0	3,186.8	3,422.4	3,267.8
ST interest bearing debt	92.5	172.2	172.2	172.2	172.2
Accounts payable	860.8	916.8	1,341.3	1,352.3	1,110.6
LT interest bearing debt	145.4	308.5	770.0	931.5	971.9
Other liabilities	49.0	18.0	18.0	18.0	18.0
Total Liabilities	1,147.4	1,415.3	2,301.3	2,473.8	2,272.4
Shareholders Equity	699.1	737.1	801.9	864.9	911.8
Minority Interest	17.6	83.7	83.7	83.7	83.7
Total shareholder equity	716.8	820.8	885.5	948.5	995.4
Total liabilities and equity	1,864.2	2,236.0	3,186.8	3,422.4	3,267.8
CASH FLOW (MYR m)					
Pretax profit	152.2	184.1	179.3	176.8	155.0
Depreciation & amortisation	27.4	23.8	21.5	26.9	31.2
Adj net interest (income)/exp	0.1	(3.7)	(25.5)	(31.0)	(31.7)
Change in working capital	83.3	(382.1)	(4.0)	1.9	(33.5)
Cash taxes paid	(26.6)	(50.8)	(43.6)	(42.9)	(37.2)
Other operating cash flow	2.3	13.8	20.5	26.0	26.7
Cash flow from operations	238.7	(215.0)	148.1	157.7	110.5
Capex	(31.5)	(1.9)	(48.2)	(48.7)	(40.7)
Free cash flow	207.2	(216.9)	99.9	109.0	69.8
Dividends paid	(51.6)	(90.3)	(70.9)	(70.9)	(70.9)
Change in Debt	(70.1)	233.4	461.5	161.5	40.4
Other invest/financing cash flow	(139.4)	450.8	(461.5)	(161.5)	(40.4)
Net cash flow	(53.8)	377.1	29.0	38.1	(1.1)

FYE 31 Dec	FY21A	FY22A	FY23E	FY24E	FY25E
Key Ratios					
Growth ratios (%)					
Revenue growth	11.4	24.6	49.2	1.0	(16.5)
EBITDA growth	34.6	26.0	5.2	3.8	(7.3)
EBIT growth	54.0	33.8	7.1	1.5	(10.4)
Pretax growth	50.0	20.9	(2.6)	(1.4)	(12.3)
Reported net profit growth	54.7	20.1	0.4	(1.3)	(12.0)
Core net profit growth	54.7	20.1	0.4	(1.3)	(12.0)
Profitability ratios (%)					
EBITDA margin	9.6	9.8	6.9	7.1	7.9
EBIT margin	8.1	8.7	6.2	6.2	6.7
Pretax profit margin	8.8	8.5	5.6	5.4	5.7
Payout ratio	60.1	52.5	52.3	53.0	60.2
DuPont analysis					
Net profit margin (%)	6.5	6.3	4.2	4.1	4.3
Revenue/Assets (x)	0.9	1.0	1.0	0.9	0.8
Assets/Equity (x)	2.7	3.0	4.0	4.0	3.6
ROAE (%)	16.9	18.8	17.6	16.1	13.3
ROAA (%)	6.0	6.6	5.0	4.1	3.5
Liquidity & Efficiency					
Cash conversion cycle	(62.8)	(31.1)	(1.5)	(4.6)	(5.0)
Days receivable outstanding	163.0	137.8	132.9	154.2	172.3
Days inventory outstanding	10.6	10.0	8.8	10.7	11.9
Days payables outstanding	236.4	178.9	143.2	169.5	189.2
Dividend cover (x)	1.7	1.9	1.9	1.9	1.7
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	1.4	1.4
Net gearing (%) (incl perps)	19.4	net cash	47.6	57.5	58.9
Net gearing (%) (excl. perps)	19.4	net cash	47.6	57.5	58.9
Net interest cover (x)	nm	44.9	7.8	6.5	5.7
Debt/EBITDA (x)	1.4	2.3	4.3	4.8	5.4
Capex/revenue (%)	1.8	0.1	1.5	1.5	1.5
Net debt/ (net cash)	139.1	(10.9)	421.6	545.0	586.5

Source: Company; Maybank IBG Research

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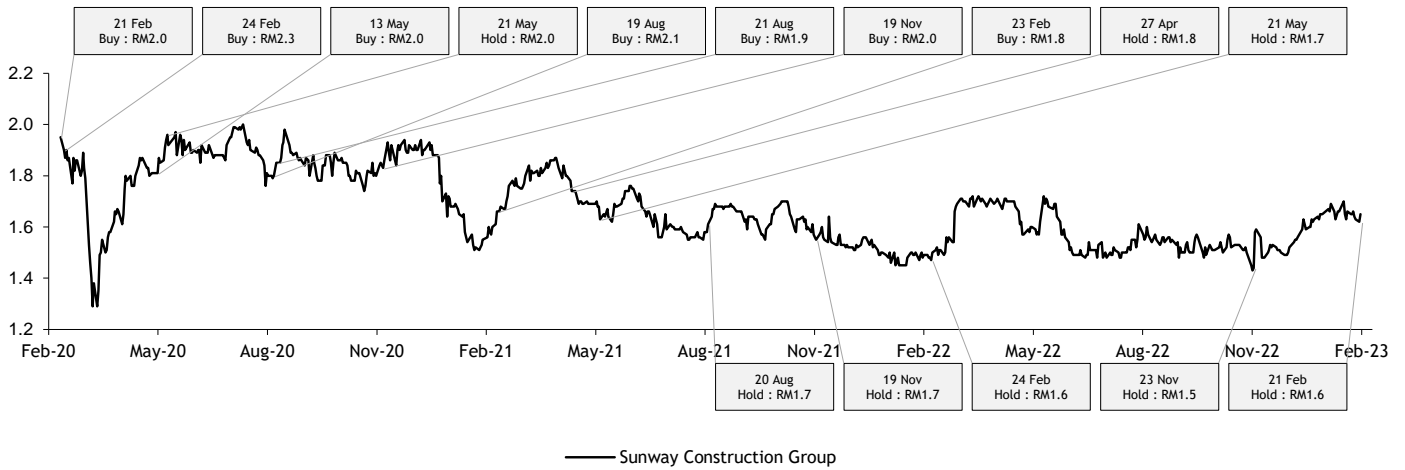
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