

Sunway Construction (SCGB MK)

Robust contract pipelines

MALAYSIA | CONSTRUCTION | UPDATE

- SunCon stands to benefit from some of the newly announced projects including the revival of five LRT 3 stations and Johor BRT
- Management retains its RM2bn annual orderbook replenishment target against our higher RM2.5bn assumption
- Maintain our HOLD rating and RM2.06 target price, pegged to 16x 2024E EPS

Prospects remain positive

Our recent meeting with Sunway Construction (SunCon) reaffirmed our view that 2024 contract pipelines remain robust. We have factored in a RM2.5bn orderbook replenishment assumption in 2024E, higher as compared to management's RM2bn internal forecast. We expect this to be driven by a combination of infrastructure, data centres, warehousing, and internal Sunway Group (NR) jobs. The tender book currently stands at RM27bn consists of several high-profile projects including MRT 3 elevated packages (RM3bn and RM11bn contract value, respectively), and Song Hau 2 thermal power plant (RM6.1bn based on its effective stake). SunCon also stands a good chance to benefit from some recently announced projects currently not included in the tender book such as the revival of five LRT 3 stations (RM4.7bn) and the Johor BRT (RM1.2bn) announced in Budget 2024 and the 12MP Mid-Term Review. We also understand that it is in the midst of tendering for a few data centre jobs. While no exact value was disclosed, we gather that some of these contracts could be in the region of RM1bn individually.

Higher SST on logistic sector has a mild earnings impact

Management highlighted that the proposed hike in services tax on the logistics sector announced in the Budget 2024 may have a negative impact on earnings. This could potentially lead to c.8% increase in logistics costs, which it will only be able to pass on in future contracts. We make no changes to our earnings as logistics cost comprises <10% of total group cost and expected to have a marginal 0.8% impact on our existing forecasts.

Maintain Hold

We reiterate our HOLD rating and unchanged target price at RM2.06, based on a 16x PE multiple on 2024E EPS. Despite the robust contract pipeline, we believe SunCon is fairly valued, trading near its 3-year mean. However, we have yet to include the Vietnam power plant project into our assumption awaiting its financial close. Key risks: slower-than-expected work progress for on-going projects and margin pressures.

Key Financials

Y/E Dec	2021	2022	2023E	2024E	2025E
Revenue (RMm)	1,729.2	2,155.2	2,591.5	3,074.5	3,231.4
EBITDA (RMm)	198.9	218.9	224.4	279.1	285.1
Pretax profit (RMm)	152.2	184.1	184.0	223.0	226.5
Net profit (RMm)	112.6	135.2	136.3	165.9	168.6
EPS (sen)	8.7	10.5	10.6	12.9	13.1
PER (x)	22.0	18.3	18.0	14.8	14.5
Core net profit (RMm)	144.6	143.8	136.3	165.9	168.6
Core EPS (sen)	11.2	11.1	10.6	12.9	13.1
Core EPS growth (%)	57.3	(0.6)	(5.2)	21.8	1.6
Core PER (x)	17.1	17.2	18.0	14.8	14.5
Net DPS (sen)	5.3	5.5	5.5	5.5	6.0
Dividend Yield (%)	2.7	2.9	2.9	2.9	3.2
EV/EBITDA (x)	10.1	11.1	11.3	9.4	9.1
Chg in EPS (%)			-	-	-
Phillip/Consensus (%)			1.0	1.0	1.0

Sources: Company, Phillip Research forecasts

20 October 2023

HOLD (maintain)

LAST CLOSE PRICE	RM1.90
TARGET PRICE	RM2.06
TOTAL RETURN	8.4%

COMPANY DATA

BLOOMBERG TICKER	SCGB MK EQUITY
O/S SHARES (MN)	1,289
MARKET CAP (USD mn / RM mn)	514 / 2450
52 - WK HI/LO (RM)	1.99 / 1.41
3M Average Daily T/O (mn)	0.69
NET CASH/(DEBT) (RMm)	(240.00)

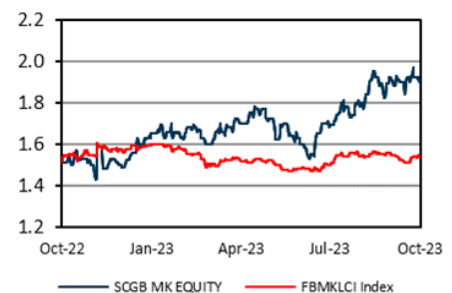
MAJOR SHAREHOLDERS (%)

Sunway Holdings Sdn	54.6%
Sungei Way Corp Sdn	10.1%
Employees Provident	9.8%

PRICE PERFORMANCE (%)

	1MTH	3MTH	YTD
COMPANY	-	16.1	27.0
FBMKLCI RETURN	(0.2)	4.9	0.5

PRICE VS. FBMKLCI

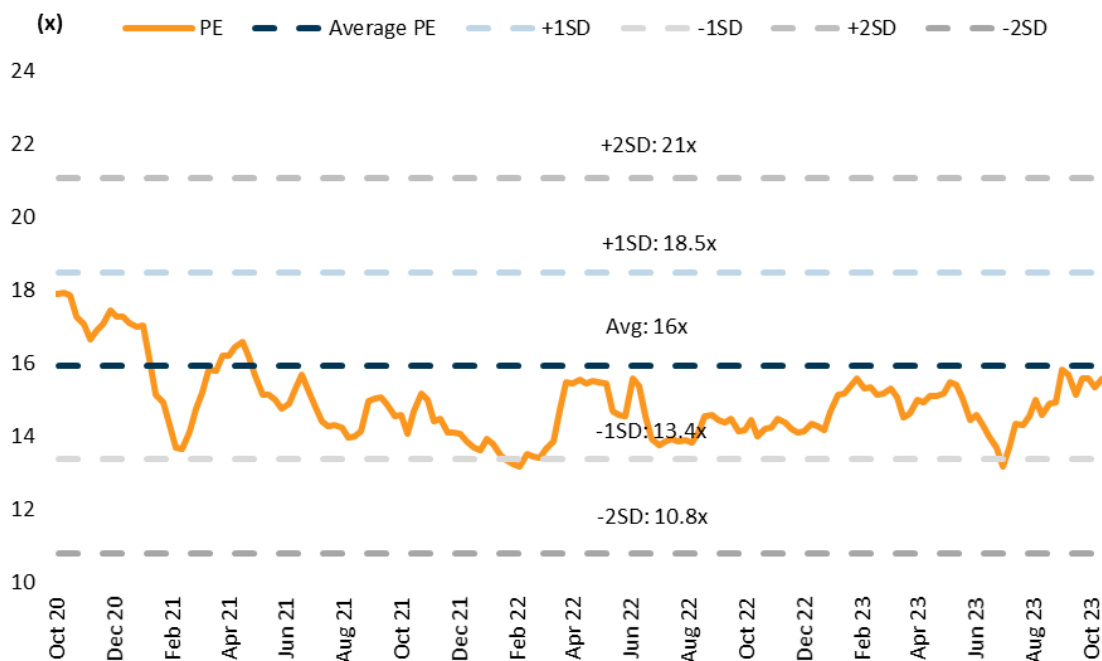


Source: Bloomberg

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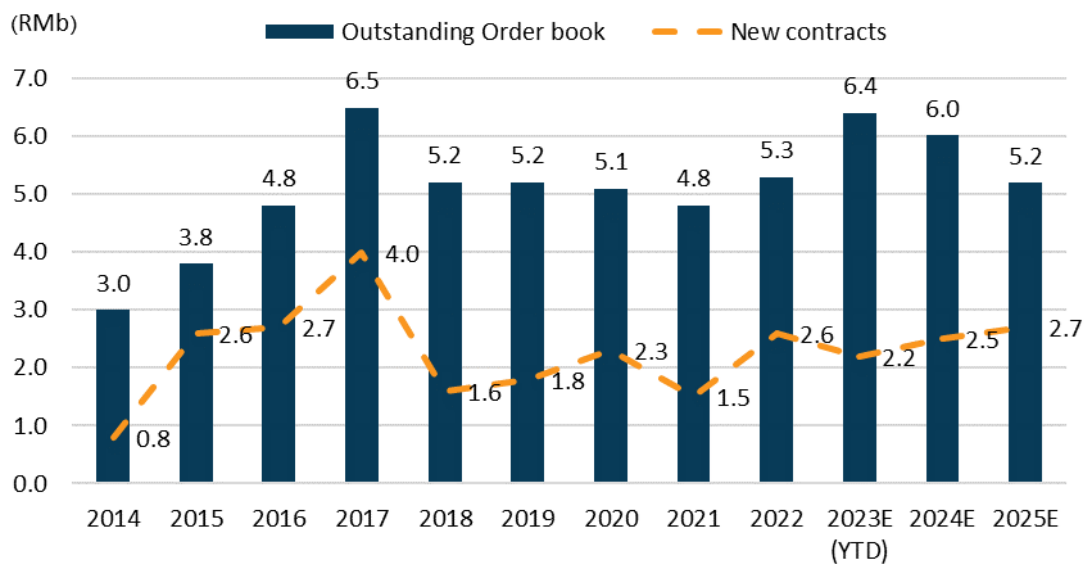
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Table 1: PE Band Chart



Source: Phillip Research forecasts

Table 2: Orderbook replenishment and target new wins



Source: Company, Phillip Research forecasts

FINANCIALS

Income Statement

Y/E Dec (RMm)	2021	2022	2023E	2024E	2025E
Revenue	1,729.2	2,155.2	2,591.5	3,074.5	3,231.4
Operating expenses	(1,530.3)	(1,936.4)	(2,367.1)	(2,795.5)	(2,946.3)
EBITDA	198.9	218.9	224.4	279.1	285.1
Depreciation	(27.4)	(23.8)	(30.3)	(36.8)	(38.3)
EBIT	171.5	195.1	194.1	242.3	246.8
Net int income/(expense)	(0.4)	(4.2)	(11.9)	(21.0)	(21.9)
Associates' contribution	13.3	1.7	1.7	1.7	1.7
Forex gain/(loss)	(0.2)	2.1	0.0	0.0	0.0
Exceptional gain/(loss)	(31.9)	(10.7)	0.0	0.0	0.0
Pretax profit	152.2	184.1	184.0	223.0	226.5
Tax	(41.5)	(45.3)	(44.2)	(53.5)	(54.4)
Minority interest	1.8	(3.6)	(3.6)	(3.6)	(3.6)
Net profit	112.6	135.2	136.3	165.9	168.6

Balance Sheet

Y/E Dec (RMm)	2021	2022	2023E	2024E	2025E
Fixed assets	124.8	107.6	207.4	300.6	292.3
Other long term assets	127.8	491.1	551.3	611.6	671.9
Total non-current assets	252.5	598.7	758.7	912.2	964.2
Cash and equivalents	695.8	535.3	538.1	678.7	675.8
Stocks	46.2	53.4	66.3	75.7	73.6
Debtors	821.4	960.0	1,324.0	1,385.8	1,462.3
Other current assets	48.4	88.6	95.6	111.8	128.9
Total current assets	1,611.7	1,637.4	2,024.1	2,252.0	2,340.5
Creditors	891.4	916.8	1,257.4	1,321.8	1,389.0
Short term borrowings	92.5	172.2	177.1	177.1	159.4
Other current liabilities	8.1	14.4	14.4	14.4	14.4
Total current liabilities	992.0	1,103.3	1,448.9	1,513.3	1,562.8
Long term borrowings	145.4	311.9	447.9	670.1	670.1
Other long term liabilities	10.0	0.0	0.0	0.0	0.0
Total long term liabilities	155.4	311.9	447.9	670.1	670.1
Shareholders' Funds	699.1	737.1	802.3	897.1	988.2
Minority interests	17.6	83.7	83.7	83.7	83.7

Cash Flow Statement

Y/E Dec (RMm)	2021	2022	2023E	2024E	2025E
EBIT	171.5	195.1	194.1	242.3	246.8
Depreciation & amortisation	27.4	23.8	30.3	36.8	38.3
Working capital changes	83.1	(382.1)	(36.2)	(6.8)	(7.1)
Cash tax paid	(28.9)	(50.8)	(44.2)	(53.5)	(54.4)
Others	(14.7)	(0.9)	(22.0)	(40.3)	(42.2)
Cashflow from operation	238.3	(215.0)	122.0	178.5	181.4
Capex	(31.5)	(1.9)	(130.0)	(130.0)	(30.0)
Disposal/(purchases)	(141.8)	425.6	(59.0)	(59.0)	(59.0)
Others	0.0	0.0	0.0	0.0	0.0
Cash flow from investing	(173.4)	423.7	(189.0)	(189.0)	(89.0)
Debt raised/(repaid)	(70.2)	250.0	140.9	222.3	(17.7)
Equity raised/(repaid)	0.0	0.0	0.0	0.0	0.0
Net interest income/(exp)	(0.5)	(0.4)	0.0	0.0	0.0
Dividends paid	(51.8)	(90.3)	(71.1)	(71.1)	(77.6)
Others	112.2	(524.5)	0.0	0.0	0.0
Cash flow from financing	(10.3)	(365.3)	69.8	151.1	(95.3)
Free Cash Flow	206.8	(216.9)	(8.0)	48.5	151.4

Source: Company, Phillip Research forecasts

Financial Ratios and Margins

Y/E Dec (RMm)	2021	2022	2023E	2024E	2025E
Growth					
Revenue (%)	11.4	24.6	20.2	18.6	5.1
EBITDA (%)	38.9	10.0	2.5	24.4	2.1
Core net profit (%)	57.3	(0.6)	(5.2)	21.8	1.6
Profitability					
EBITDA margin (%)	11.5	10.2	8.7	9.1	8.8
PBT margin (%)	8.8	8.5	7.1	7.3	7.0
Net profit margin (%)	6.5	6.3	5.3	5.4	5.2
Effective tax rate (%)	27.3	24.6	24.0	24.0	24.0
ROA (%)	2.8	3.0	2.4	2.4	2.3
Core ROE (%)	21.7	20.0	17.7	19.5	17.9
ROCE (%)	64.5	42.6	24.8	24.9	22.4
Dividend payout ratio (%)	60.3	52.6	52.2	42.9	46.0
Liquidity					
Current ratio (x)	1.6	1.5	1.4	1.5	1.5
Op. cash flow (RMm)	238.3	(215.0)	122.0	178.5	181.4
Free cashflow (RMm)	206.8	(216.9)	(8.0)	48.5	151.4
FCF/share (sen)	16.0	(16.8)	(0.6)	3.7	11.7
Asset management					
Debtors turnover (days)	173.4	162.6	186.5	164.5	165.2
Stock turnover (days)	9.7	9.0	9.3	9.0	8.3
Creditors turnover (days)	188.2	155.3	177.1	156.9	156.9
Capital structure					
Net gearing (%)	(66.5)	(7.4)	10.4	18.4	15.2
Interest cover (x)	NA	NA	NA	NA	NA

Quarterly Profit & Loss

Y/E Dec (RMm)	2Q22	3Q22	4Q22	1Q23	2Q23
Revenue	557.9	469.3	503.4	522.1	604.1
Operating expenses	(504.1)	(424.5)	(433.0)	(477.2)	(552.5)
EBITDA	53.8	44.7	70.4	44.9	51.6
Depreciation	(6.1)	(5.8)	(5.6)	(5.3)	(5.3)
EBIT	47.6	38.9	64.8	39.7	46.3
Net int income/(expense)	(0.0)	0.8	(6.1)	(4.2)	(4.7)
Associates' contribution	0.6	(0.1)	(2.0)	0.0	0.0
Forex gain/(loss)	0.3	0.9	0.9	0.2	0.6
Exceptional items	(5.6)	(2.9)	(1.4)	1.8	0.1
Pretax profit	43.0	37.6	56.3	37.5	42.3
Tax	(9.3)	(13.6)	(10.8)	(8.9)	(9.0)
Minority interest	(1.3)	(1.2)	0.1	(0.8)	(0.3)
Net profit	32.3	22.7	45.6	27.8	33.0
Core net profit	37.6	24.7	46.1	25.8	32.3
Margins (%)					
EBITDA	9.6	9.5	14.0	8.6	8.5
PBT	7.7	8.0	11.2	7.2	7.0
Net profit	5.8	4.8	9.1	5.3	5.5

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 SELL: Total stock return is expected to below 10% over a 12-month period

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 HOLD: Total stock return to be between -10% and +10% over a 12-month period
 SELL: Total stock return is expected to below 10% over a 12-month period

Funds:

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