

4 January 2023

Construction & Engineering | Construction

# Sunway Construction (SCGB MK)

**Buy** (Maintained)

Ended CY22 With a Surprise; Keep BUY

Target Price (Return): MYR2.07 (+30%)  
 Price (Market Cap): MYR1.59 (USD465m)  
 ESG score: 3.20 (out of 4)  
 Avg Daily Turnover (MYR/USD) 0.72m/0.16m

- **Keep BUY, with new MYR2.07 TP from MYR1.93, 30% upside and c.5% yield.** Sunway Construction secured a contract on 31 Dec 2022 from Yellowwood Properties to carry out general contractor services (ie main building architecture works) for a data centre in Sedenak Tech Park (STeP) in Johor. The contract value is c.MYR1.7bn and would commence from 31 Dec 2022 and be completed by 3Q24. The latest job win indicates SCGB's efforts to diversify its job base from infrastructure and internal jobs.
- **Further details on the job win.** Profitability wise, we gathered that the PAT margin for the data centre project may range between 7-8%. The latest job win brings SCGB's estimated total outstanding orderbook to c.MYR5.7bn, representing a healthy 3.3x orderbook/revenue cover ratio (higher than peer average of 3x). In terms of FY22 new job wins, the latest contract secured brings SCGB's FY22 job wins to MYR2.6bn – exceeding our total FY22 orderbook replenishment assumption of MYR2.3bn (construction: MYR2bn, precast: MYR300m). Given the contract was awarded on 31 Dec 2022, earnings accretion would only occur from FY23F.
- **Prospects.** Despite the possible delay or cost review for the Mass Rapid Transit 3 (MRT3) civil work packages, we believe the risks of slow job replenishment from this project could be mitigated by the group's >MYR10bn active tenderbook size, which includes factories and data centres, amongst others. Moreover, its listed parent should continue to support earnings visibility whereby c.40% of the new job wins (excluding the latest job win) in FY22 were internal. Its Integrated Construction and Prefabrication Hub (ICPH) plant in Singapore is likely to begin operations in early FY23 – expanding the precast product range to include large panel slabs and precast walls from just mainly prefab bathroom units.
- **Forecasts.** We revise our FY23F-24F earnings by +10% and +14% as we factor in the latest job win and increase our job replenishment assumptions to MYR2.5bn from MYR2bn for FY23 and to MYR2.5bn from MYR1.5bn for FY24. Meanwhile, we leave our job FY22 earnings unchanged as the latest data centre job was awarded on 31 Dec 2022 and we view that revenue recognition of some jobs may have picked up in 4Q22 in light of normalising operating conditions. Further earnings upside could come from the interim agreement with Toyo Ink Group and Song Hau 2 Power Company to develop a power plant in Vietnam if it is finalised by end-1H23 – contributing an additional orderbook of MYR6bn to SCGB.
- **Post earnings revision, we derive a new TP of MYR2.07** with an unchanged 15.5x target P/E pegged to FY23F EPS after imputing a 4% premium to our intrinsic valuation based on our ESG scoring methodology. The valuation target is above the KL Construction Index's (KLCON) 5-year mean of 12x – to reflect SCGB's commendable orderbook/revenue cover of c.3.3x, backed by a manageable balance sheet.
- **Key risks:** Project delays and prolonged period of high material costs.

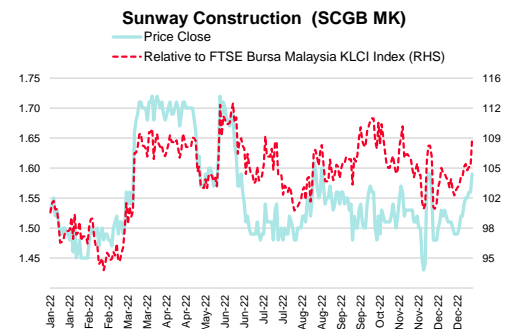
### Analyst

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### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	1.9	7.4	6.0	6.7	3.9
Relative	3.3	7.9	0.5	5.0	8.8
52-wk Price low/high (MYR)	1.43 – 1.72				



Source: Bloomberg

### Overall ESG Score: 3.20 (out of 4)

#### E: EXCELLENT

Implemented rooftop solar panels at its Sunway Precast Industries plant at Senai, Johor, to reduce the carbon emissions of site operations. With this, 98.6MWh of energy can be consumed via solar generation at this Senai plant, avoiding 57.7 tonnes of carbon emissions. In FY21, the group guided that its carbon emission intensity per unit revenue has declined from 98 tonnes carbon dioxide/MYRm.

#### S: GOOD

The group ensures the safety and health of all its employees, and public areas surrounding the construction sites, via various training and safety programmes. Apart from up-to-standard health & safety policies, we see active community engagement and efforts to uplift employee relations.

#### G: EXCELLENT

57% of its board members are independent, with full disclosure on director remuneration, including salaries and bonuses. The group has an in-house investor relations team. Accessibility to investor relations is excellent, and the team mostly helps to deal with investor queries.

#### Note:

Small cap stocks are defined as companies with a market capitalisation of less than USD0.5bn.

Forecasts and Valuation	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Total turnover (MYRm)	1,553	1,729	2,264	3,304	3,620
Recurring net profit (MYRm)	92	110	141	166	176
Recurring net profit growth (%)	(31.6)	19.9	27.4	18.3	6.0
Recurring P/E (x)	22.34	18.64	14.63	12.36	11.66
P/B (x)	3.2	2.9	2.7	2.5	2.3
P/CF (x)	9.76	17.25	34.41	11.19	10.14
Dividend Yield (%)	2.5	3.3	4.1	4.9	5.1
EV/EBITDA (x)	13.51	9.00	6.60	5.72	5.61
Return on average equity (%)	11.6	17.2	19.3	21.1	20.6
Net debt to equity (%)	16.7	21.1	35.7	26.9	17.8

Source: Company data, RHB

See important disclosures at the end of this report

Market Dateline / PP 19489/05/2019 (035080)

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## Financial Exhibits

Asia	Financial summary (MYR)	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Malaysia	Recurring EPS	0.07	0.09	0.11	0.13	0.14
Construction & Engineering	DPS	0.04	0.05	0.07	0.08	0.08
<b>Sunway Construction</b>	BVPS	0.49	0.54	0.58	0.64	0.69
SCGB MK	Return on average equity (%)	11.6	17.2	19.3	21.1	20.6
Buy						
<b>Valuation basis</b>	<b>Valuation metrics</b>	<b>Dec-20</b>	<b>Dec-21</b>	<b>Dec-22F</b>	<b>Dec-23F</b>	<b>Dec-24F</b>
We value the company based on FY23F P/E of 15.5x. Sunway Construction's minimal net debt position allows it to gear up for more jobs moving forward.	Recurring P/E (x)	22.34	18.64	14.63	12.36	11.66
	P/B (x)	3.2	2.9	2.7	2.5	2.3
	FCF Yield (%)	10.1	4.1	0.2	6.3	7.2
	Dividend Yield (%)	2.5	3.3	4.1	4.9	5.1
	EV/EBITDA (x)	13.51	9.00	6.60	5.72	5.61
	EV/EBIT (x)	18.50	10.77	8.53	7.38	6.86
<b>Key drivers</b>	<b>Income statement (MYRm)</b>	<b>Dec-20</b>	<b>Dec-21</b>	<b>Dec-22F</b>	<b>Dec-23F</b>	<b>Dec-24F</b>
Sunway Construction's earnings are backed by:	Total turnover	1,553	1,729	2,264	3,304	3,620
i. An outstanding order backlog of c.MYR5.7bn, of which >60% is from construction, which would keep the firm busy for the next three years;	Gross profit	270	358	461	616	679
ii. Recurring orders from its parent company.	EBITDA	124	167	242	272	267
	Depreciation and amortisation	(33)	(27)	(55)	(61)	(49)
	Operating profit	91	139	187	211	219
	Net interest	1	(0)	(14)	(10)	(9)
	Pre-tax profit	102	155	177	209	219
	Taxation	(28)	(41)	(36)	(43)	(43)
	Reported net profit	73	115	141	166	176
	Recurring net profit	92	110	141	166	176
<b>Key risks</b>	<b>Cash flow (MYRm)</b>	<b>Dec-20</b>	<b>Dec-21</b>	<b>Dec-22F</b>	<b>Dec-23F</b>	<b>Dec-24F</b>
i. Project delays;	Change in working capital	104	(36)	(136)	(44)	(22)
ii. Prolonged period of high material costs	Cash flow from operations	211	119	60	184	203
	Capex	(3)	(35)	(55)	(55)	(55)
	Cash flow from investing activities	(173)	(174)	(55)	(55)	(54)
	Dividends paid	(62)	(52)	(84)	(100)	(106)
	Cash flow from financing activities	147	(122)	(10)	(25)	(31)
	Cash at beginning of period	615	200	99	55	158
	Net change in cash	(110)	(177)	(5)	103	117
	Ending balance cash	505	23	94	158	276
<b>Company Profile</b>	<b>Balance sheet (MYRm)</b>	<b>Dec-20</b>	<b>Dec-21</b>	<b>Dec-22F</b>	<b>Dec-23F</b>	<b>Dec-24F</b>
Sunway Construction is one of the largest construction companies in Malaysia. Apart from civil & infrastructure construction services, the company also provides the more specialised: i. Foundation & geotechnical engineering services; ii. Mechanical, electrical & plumbing (MEP) services. In addition, it runs a highly profitable precast concrete product manufacturing operation in Malaysia and Singapore. Aside from fulfilling local requirements, it also largely supplies hose concrete products for Housing & Development Board (HDB) projects in the island republic.	Total cash and equivalents	200	99	55	158	276
	Tangible fixed assets	107	130	130	124	130
	Total investments	489	724	724	724	724
	Total assets	1,906	1,869	1,931	2,454	2,705
	Short-term debt	234	93	143	193	243
	Total long-term debt	73	158	163	173	183
	Total liabilities	1,267	1,153	1,230	1,687	1,868
	Total equity	639	717	701	767	838
	Total liabilities & equity	1,906	1,869	1,931	2,454	2,705
	<b>Key metrics</b>	<b>Dec-20</b>	<b>Dec-21</b>	<b>Dec-22F</b>	<b>Dec-23F</b>	<b>Dec-24F</b>
	Revenue growth (%)	(12.2)	11.4	30.9	46.0	9.6
	Recurrent EPS growth (%)	(31.6)	19.9	27.4	18.3	6.0
	Gross margin (%)	17.4	20.7	20.3	18.6	18.7
	Operating EBITDA margin (%)	8.0	9.6	10.7	8.2	7.4
	Net profit margin (%)	4.7	6.6	6.2	5.0	4.9
	Dividend payout ratio (%)	70.9	58.9	60.0	60.0	60.0
	Capex/sales (%)	0.2	2.0	2.4	1.7	1.5
	Interest cover (x)	13.0	30.4	11.6	16.1	14.1

Source: Company data, RHB

## Recommendation Chart

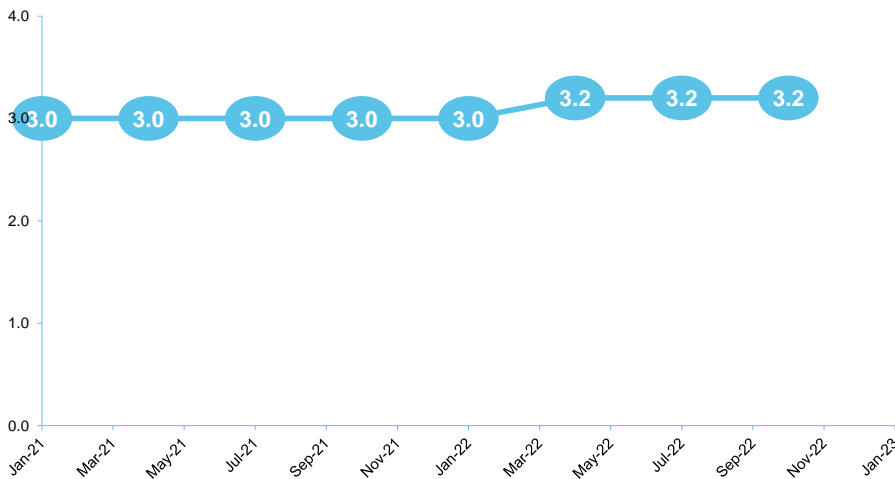


Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2022-11-22	Buy	1.93	1.43
2022-11-02	Buy	1.93	1.57
2022-08-24	Buy	1.93	1.56
2022-07-21	Buy	1.93	1.50
2022-05-26	Buy	1.93	1.57
2022-04-26	Buy	1.93	1.69
2022-02-24	Buy	1.74	1.47
2021-11-19	Buy	1.81	1.55
2021-08-20	Buy	1.81	1.61
2021-08-11	Buy	1.81	1.58
2021-06-29	Buy	1.94	1.64
2021-05-21	Buy	2.03	1.63
2021-04-22	Buy	2.18	1.80
2021-02-24	Buy	2.18	1.66
2020-11-19	Buy	2.09	1.83

Source: RHB, Bloomberg

## ESG Rating History



Source: RHB

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<b>Trading Buy:</b>	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
<b>Neutral:</b>	Share price may fall within the range of +/- 10% over the next 12 months
<b>Take Profit:</b>	Target price has been attained. Look to accumulate at lower levels
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<b>Not Rated:</b>	Stock is not within regular research coverage

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