

# SUNWAY CONSTRUCTION

(SCGB MK EQUITY, SCOG.KL)

21 Feb 2024

## Company Report

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**Rationale for report: Company Result**

# BUY

(Maintained)

**Price** RM2.61  
**Fair Value** RM3.59  
 52-week High/Low RM2.73/RM1.53

### Key Changes

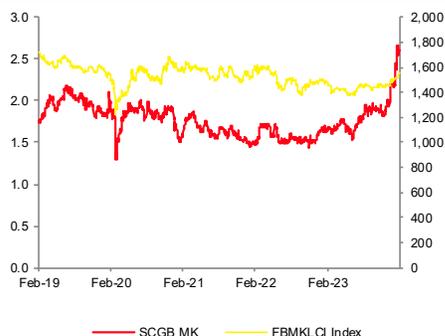
Fair value   
 EPS 

YE to Dec	FY23	FY24F	FY25F	FY26F
Revenue (RM mil)	2,671.2	3,355.7	4,086.1	4,440.4
Core net profit (RM mil)	170.9	185.1	224.5	230.5
FD Core EPS (sen)	13.3	14.4	17.4	17.9
FD Core EPS growth (%)	30.6	8.3	21.3	2.7
Consensus Net Profit (RM mil)	138.3	162.5	175.4	n/a
DPS (sen)	6.0	7.2	8.7	8.9
PE (x)	19.7	18.2	15.0	14.6
EV/EBITDA (x)	14.1	10.5	9.1	8.0
Div yield (%)	2.3	2.8	3.3	3.4
ROE (%)	18.6	21.4	23.2	21.3
Net Gearing (%)	55.5	nm	nm	nm

### Stock and Financial Data

Shares Outstanding (million)	1,289.4
Market Cap (RMmil)	3,365.2
Book Value (RM/Share)	0.64
P/BV (x)	4.1
ROE (%)	18.6
Net Gearing (%)	55.5
Major Shareholders	Sunway Bhd & Cheah family (66.1%) EPF (9.7%) Amanah Saham Nasional (6.4%)
Free Float	17.9
Avg Daily Value (RMmil)	3.6

Price performance	3mth	6mth	12mth
Absolute (%)	35.9	46.6	61.1
Relative (%)	27.4	36.4	52.7



### Investment Highlights

- We maintain BUY on Sunway Construction (SunCon) with a higher fair value (FV) of RM3.59/share (from RM2.66/share previously) on raised earnings forecast and rolled-forward FY25F P/E of 20x, at parity to its 3-year average. We also ascribe a 3% premium to reflect our 4-star ESG rating.
- We increased FY24F-FY25F earnings by 8%-18% on higher order book and expanded margin assumptions as SunCon's FY23 core net profit (CNP) of RM171mil (excluding RM26mil exceptional items, mainly from impairment loss allowance for receivables) exceeded expectations, coming in 22%-24% above our and consensus estimates. Likewise, SunCon has declared a DPS of 3 sen for 4QFY23, bringing FY23 total DPS to 6 sen (+9% YoY), above expectations.
- FY23 CNP rose 31% YoY mainly due to the precast concrete segment with the division's pretax profit surging 75% from new projects, increased production at its integrated construction and prefabrication hub (ICPH) in Johor coupled with improved margins. This was partly offset by a mild 2% contraction in construction pretax profit as margin declined by 1.7%-point to 7.1% due to the previous year benefiting from the finalisation of some projects.
- 4QFY23 core net profit (CNP) doubled sequentially to RM75mil mainly from increased construction progress (+33%) underpinned by multiple sustainable energy projects and 1.2%-point improvement in precast concrete margin to 9% in tandem with reversals of provision for completed projects.
- FY23 order book wins of RM2.5bil drove SunCon's order book increment of 3% QoQ to RM5.3bil (Construction: RM4.8bil; Precast: RM0.5bil) - 1.2x FY24F revenue. The order book could be substantively raised if SunCon wins either a portion of the MRT3 project or finalises the Vietnam coal-fired power plant contract (SunCon's portion amounts to RM6bil).
- Aside from the MRT3 and Vietnam coal-fired power plant projects, potential jobs may arise from construction of data centres, warehouses and internal jobs from companies within the Sunway Group, especially medical centres. We believe SunCon has tendered for multiple data centre jobs which would increase its order book by RM3bil-4bil. For the precast segment, prospects are bullish for ICPH given the 22,780 build-to-order flats launched in 2023 and another 19,600 units this year by the Housing and Development Board in Singapore.
- The stock currently trades at a FY25F PE of 15x, below its 3-year average of 20x with a decent dividend yield of 3%. Risks to SunCon include (i) lower margins due to higher-than-expected building material costs, (ii) slower-than-expected recovery in job flows; and (iii) shelving of mega projects.

## EXHIBIT 1: QUARTERLY RESULTS

FYE 31 Dec	4QFY22	3QFY23	4QFY23	QoQ %	YoY %	FY22	FY23	YoY %
Revenue	503.4	673.5	871.5	29.4	73.1	2,155.2	2,671.2	23.9
<b>EBITDA</b>	<b>62.4</b>	<b>61.5</b>	<b>112.6</b>	<b>83.1</b>	<b>80.5</b>	<b>206.0</b>	<b>271.1</b>	<b>31.6</b>
EBIT	56.8	56.3	107.4	90.7	89.1	182.2	250.1	37.2
Exceptional Items	7.5	(2.2)	(25.6)	>100	(>100)	4.3	(25.8)	(>100)
<b>PBT</b>	<b>56.3</b>	<b>48.1</b>	<b>60.8</b>	<b>26.3</b>	<b>7.9</b>	<b>184.1</b>	<b>188.6</b>	<b>2.5</b>
Taxation	(10.8)	(12.6)	(12.3)	(2.0)	14.3	(45.3)	(42.8)	(5.6)
Minority interest	0.1	(0.5)	0.8	(>100.0)	>100.0	(3.6)	(0.7)	(79.3)
<b>Net Profit</b>	<b>45.6</b>	<b>35.0</b>	<b>49.3</b>	<b>40.7</b>	<b>7.9</b>	<b>135.2</b>	<b>145.1</b>	<b>7.3</b>
<b>Core Net Profit</b>	<b>38.1</b>	<b>37.2</b>	<b>74.9</b>	<b>&gt;100.0</b>	<b>96.4</b>	<b>130.9</b>	<b>170.9</b>	<b>30.6</b>
Core EPS (sen)	2.96	2.89	5.81	>100.0	96.4	10.15	13.26	30.6
DPS (sen)	2.50	-	3.00	-	20.0	5.50	6.00	9.1
EBITDA Margin %	12.4	9.1	12.9			9.6	10.1	
EBIT Margin %	11.3	8.4	12.3			8.5	9.4	
PBT Margin %	11.2	7.1	7.0			8.5	7.1	
Effective Tax Rate %	19.2	26.2	20.3			24.6	22.7	
Core Net Profit Margin %	7.6	5.5	8.6			6.1	6.4	

Source: Company

## EXHIBIT 2: SEGMENTAL BREAKDOWN

FYE 31 Dec	4QFY22	3QFY23	4QFY23	QoQ %	YoY %	FY22	FY23	YoY %
<b>Segmental Revenue</b>								
Construction	444.0	590.6	785.8	33.1	77.0	1,973.6	2,381.0	20.6
Precast Concrete	59.4	83.0	85.7	3.3	44.2	181.6	290.2	59.8
<b>Segmental PBT</b>								
Construction	51.0	41.6	53.0	27.4	4.0	173.3	169.9	(2.0)
Precast Concrete	5.3	6.5	7.7	19.2	46.0	10.7	18.7	74.8
<b>Segmental PBT Margin</b>								
Construction %	11.5	7.0	6.7	(4.3)	(41.3)	8.8	7.1	
Precast Concrete %	8.9	7.8	9.0	15.3	1.2	5.9	6.5	

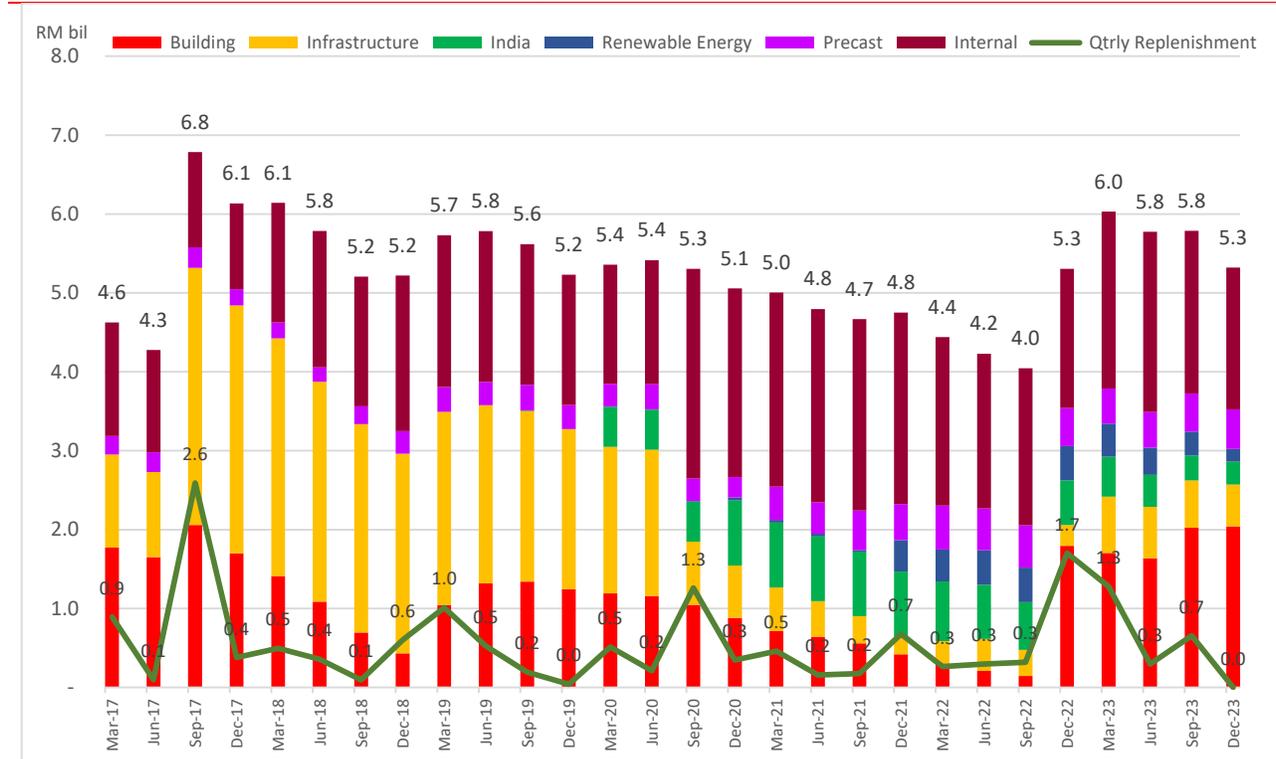
Source: Company

**EXHIBIT 3: OUTSTANDING ORDER BOOK AS AT DEC 2023**

Type	Order Book	Completion	Outstanding (RM mil)
Internal Building Jobs	South Quay CP2 - Superstructure	2024	872
	Sunway Flora	2025	232
	Sunway Belfield	2024	112
	Sunway Medical Centre Ipoh	2024	89
	Sunway Medical Centre Damansara	2023	85
	Sunway Velocity 2B	2023	79
	Sunway Medical Centre 4 + VO	2023	42
	Others	Various	282
JHB1X0 - Data Centre	2024	1,460	
K2-Data Centre + CIMC	2024	259	
RTS Link Package 1B & Package 5	2025	494	
India Highway: Thorapalli - Jittandahalli (TJ)	2023	237	
India Highway: Meensurutti - Chidambaran (MC)	2023	53	
LRT 3: GS06 + GS07-08	2023	38	
Precast	Various	502	
Solar	Various	162	
Others	Various	327	
<b>Total</b>			<b>5,325</b>

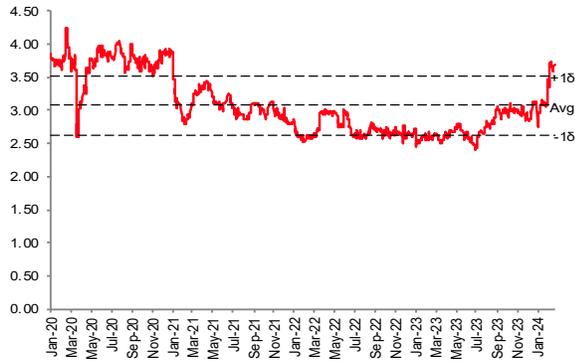
Source: Company

**EXHIBIT 4: QUARTERLY ORDER BOOK TREND**

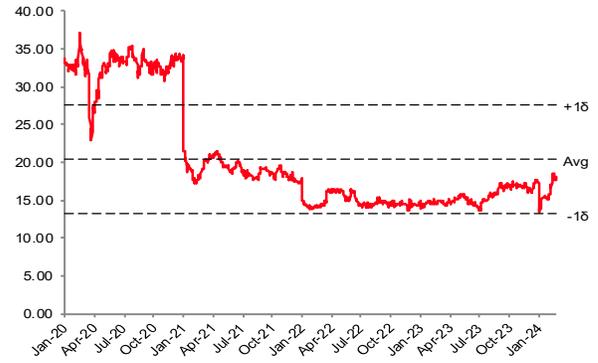


Source: Company

**EXHIBIT 5: PB BAND CHART**



**EXHIBIT 6: PE BAND CHART**



**EXHIBIT 7: ESG RATING**

Overall	★	★	★	★	
Zero-carbon initiatives	★	★	★	★	
Work site safety	★	★	★	★	
Migrant worker welfare	★	★	★	★	
Corporate social responsibility	★	★	★	★	
Pollution control	★	★	★	★	
Supply chain auditing	★	★	★		
Corruption-free pledge	★	★	★	★	
Gender diversity	★	★	★	★	
Accessibility & transparency	★	★	★		

*We accord a discount/premium of -6%, -3%, 0%, +3% and +6% on fundamental fair value based on the overall ESG rating as appraised by us, from 1-star to 5-star*

Source: AmInvestment Bank

## EXHIBIT 8: FINANCIAL DATA

Income Statement (RMmil, YE 31 Dec)	FY22	FY23	FY24F	FY25F	FY26F
Revenue	2,155.2	2,671.2	3,355.7	4,086.1	4,440.4
EBITDA	206.0	271.1	308.1	343.5	373.7
Depreciation/Amortisation	(23.8)	(21.0)	(29.7)	(31.2)	(33.1)
Operating income (EBIT)	182.2	250.1	278.4	312.3	340.6
Other income & associates	1.7	(14.1)	(15.6)	(17.1)	(18.8)
Net interest	(4.2)	(21.5)	(18.8)	0.9	(18.2)
Exceptional items	4.3	(25.8)	-	-	-
<b>Pretax profit</b>	<b>184.1</b>	<b>188.6</b>	<b>244.0</b>	<b>296.2</b>	<b>303.6</b>
Taxation	(45.3)	(42.8)	(57.3)	(69.6)	(71.0)
Minorities/pref dividends	(3.6)	(0.7)	(1.6)	(2.0)	(2.0)
<b>Net profit</b>	<b>135.2</b>	<b>145.1</b>	<b>185.1</b>	<b>224.5</b>	<b>230.5</b>
Core net profit	130.9	170.9	185.1	224.5	230.5
Balance Sheet (RMmil, YE 31 Dec)	FY22	FY23	FY24F	FY25F	FY26F
Fixed assets	107.6	98.6	97.9	92.3	87.0
Intangible assets	-	-	-	-	-
Other long-term assets	491.1	745.1	729.5	712.4	693.5
<b>Total non-current assets</b>	<b>598.7</b>	<b>843.6</b>	<b>827.4</b>	<b>804.7</b>	<b>780.5</b>
Cash & equivalent	491.6	470.4	572.5	756.1	947.0
Stock	53.4	46.4	70.5	86.0	93.5
Trade debtors	677.7	1,241.3	1,358.6	1,658.8	1,802.7
Other current assets	414.6	481.0	505.1	530.3	556.8
<b>Total current assets</b>	<b>1,637.4</b>	<b>2,239.2</b>	<b>2,506.6</b>	<b>3,031.3</b>	<b>3,400.0</b>
Trade creditors	716.2	717.2	1,308.5	1,611.3	1,750.9
Short-term borrowings	172.2	438.2	256.7	288.3	320.7
Other current liabilities	214.9	547.3	574.7	603.3	633.5
<b>Total current liabilities</b>	<b>1,103.3</b>	<b>1,702.8</b>	<b>2,139.9</b>	<b>2,502.9</b>	<b>2,705.1</b>
Long-term borrowings	308.5	487.7	199.6	224.2	249.4
Other long-term liabilities	-	0.3	0.3	0.3	0.3
<b>Total long-term liabilities</b>	<b>308.5</b>	<b>488.1</b>	<b>199.9</b>	<b>224.5</b>	<b>249.7</b>
<b>Shareholders' funds</b>	<b>737.1</b>	<b>820.2</b>	<b>912.7</b>	<b>1,025.0</b>	<b>1,140.2</b>
Minority interests	83.7	71.8	85.4	87.4	89.4
BV/share (RM)	0.57	0.64	0.71	0.79	0.88
Cash Flow (RMmil, YE 31 Dec)	FY22	FY23	FY24F	FY25F	FY26F
Pretax profit	184.1	188.6	244.0	296.2	303.6
Depreciation/Amortisation	23.8	21.0	29.7	31.2	33.1
Net change in working capital	(382.2)	(498.0)	450.1	(13.0)	(11.7)
Others	(40.7)	2.6	(38.5)	(49.1)	(48.6)
<b>Cash flow from operations</b>	<b>(215.0)</b>	<b>(285.8)</b>	<b>685.3</b>	<b>265.2</b>	<b>276.3</b>
Capital expenditure	(27.1)	(17.7)	(21.0)	(25.6)	(27.8)
Net investments & sale of fixed assets	25.2	2.5	-	-	-
Others	411.8	(99.3)	-	-	-
<b>Cash flow from investing</b>	<b>409.9</b>	<b>(114.6)</b>	<b>(21.0)</b>	<b>(25.6)</b>	<b>(27.8)</b>
Debt raised/(repaid)	233.4	420.9	(469.6)	56.1	57.6
Equity raised/(repaid)	-	-	-	-	-
Dividends paid	(90.3)	(71.6)	(92.5)	(112.3)	(115.3)
Others	(0.4)	(0.3)	-	-	-
<b>Cash flow from financing</b>	<b>142.7</b>	<b>349.0</b>	<b>(562.1)</b>	<b>(56.1)</b>	<b>(57.6)</b>
<b>Net cash flow</b>	<b>337.6</b>	<b>(51.4)</b>	<b>102.1</b>	<b>183.6</b>	<b>190.9</b>
<b>Net cash/(debt) b/f</b>	<b>365.9</b>	<b>699.1</b>	<b>648.8</b>	<b>750.9</b>	<b>934.5</b>
<b>Net cash/(debt) c/f</b>	<b>699.1</b>	<b>648.8</b>	<b>750.9</b>	<b>934.5</b>	<b>1,125.4</b>
Key Ratios (YE 31 Dec)	FY22	FY23	FY24F	FY25F	FY26F
Revenue growth (%)	24.6	23.9	25.6	21.8	8.7
EBITDA growth (%)	23.5	31.6	13.6	11.5	8.8
Pretax margin (%)	8.5	7.1	7.3	7.2	6.8
Net profit margin (%)	6.3	5.4	5.5	5.5	5.2
Interest cover (x)	43.9	11.6	14.8	nm	18.7
Effective tax rate (%)	24.6	22.7	23.5	23.5	23.4
Dividend payout (%)	52.5	53.3	50.0	50.0	50.0
Debtors turnover (days)	108	131	141	135	142
Stock turnover (days)	8	7	6	7	7
Creditors turnover (days)	126	98	110	130	138

SOURCE: COMPANY, AMINVESTMENT BANK BHD ESTIMATES

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