

Sunway Construction Group (SCGB MK)

Earnings positively surprised, but ...

Valuations have run ahead; D/G to SELL

SCGB's 4Q23 core net profit (CNP) positively surprised on stronger margins at the precast ops. On incorporating the latest margin and higher job win assumptions, we raise FY24E/FY25E CNP by 7%/25%. Amid positive job wins prospect, we peg on a higher 19x PER (mean) on FY24E earnings (previously 16.5x or -0.5SD of mean), leading to a higher TP of MYR2.30 (+24%). While we continue to like SCGB for its strong execution capability, valuations have run ahead with the stock now trading at 22x FY24E PER. D/G to SELL.

4Q23 CNP +41% QoQ, 12M +7% YoY

4Q23 CNP rose 41% QoQ to MYR49m, contributed by both the construction and precast ops. Construction revenue picked up (+33% QoQ) on higher progress from newer projects, while margins sustained. Precast revenue was flattish QoQ, but margins jumped, contributed by reversal of provision for completed projects. 12M23 CNP of MYR145m (+7% YoY) was a result of higher revenue at both construction and precast ops, and 5.7ppts higher EBIT margin at the precast ops. 12M23 CNP was 107% of our/consensus FY23E. A 2nd interim 3sen DPS takes FY23 DPS to 6sen (53% DPR).

MYR5.3b o/s orderbook, targets MYR2.5b-MYR3b

Job wins in FY23 totalled MYR2.5b (in-line with our expectation), bringing the outstanding orderbook to MYR5.3b as at end-FY23. Notable wins were Package 1B & 5 of the JB-SG RTS (MYR605m), a 2nd data centre job 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 internal replenishment target for FY24 is a range of MYR2.5b to MYR3b (we have incorporated MYR3b). Major infra projects that SCGB could be eyeing are the KVLRT3's revived 5 stations, Bayan Lepas LRT, and KVMRT3.

Optimistic on growth for FY24E

SCGB highlighted on possible operational cost impact from the government's proposed diesel subsidy rationalization and changes in the sales and services tax, as outlined in Budget 2024. Nonetheless, it is optimistic on positive earnings growth in FY24E based on its existing orderbook. We forecast +6% CNP growth in FY24E.

FYE Dec (MYR m)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue	2,155	2,671	3,560	3,342	2,921
EBITDA	210	245	258	260	225
Core net profit	135	145	154	170	165
Core EPS (sen)	10.5	11.3	12.0	13.2	12.8
Core EPS growth (%)	20.1	7.3	6.4	9.9	(2.5)
Net DPS (sen)	5.5	6.0	6.0	6.0	6.0
Core P/E (x)	14.9	17.2	21.8	19.8	20.3
P/BV (x)	2.7	3.0	3.8	3.4	3.1
Net dividend yield (%)	3.5	3.1	2.3	2.3	2.3
ROAE (%)	18.8	18.6	18.0	18.0	16.0
ROAA (%)	6.6	5.5	4.4	4.5	5.0
EV/EBITDA (x)	9.9	12.3	16.8	14.8	14.5
Net gearing (%) (incl perps)	net cash	51.1	92.8	38.3	net cash
Consensus net profit	-	-	163	180	na
MIBG vs. Consensus (%)	-	-	(5.5)	(5.7)	na

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SELL

[Prior:HOLD]

Share Price MYR 2.61
12m Price Target MYR 2.30 (-8%)
Previous Price Target MYR 1.85

Company Description

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

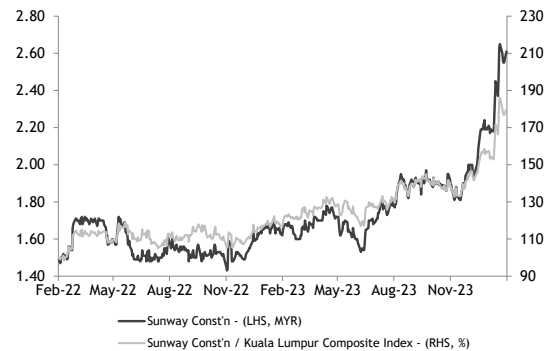
Statistics

52w high/low (MYR)	2.65/1.53
3m avg turnover (USDm)	0.7
Free float (%)	14.2
Issued shares (m)	1,293
Market capitalisation	MYR3.4B USD703M

Major shareholders:

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

Price Performance



	-1M	-3M	-12M
Absolute (%)	19	36	61
Relative to index (%)	15	29	54

Source: FactSet

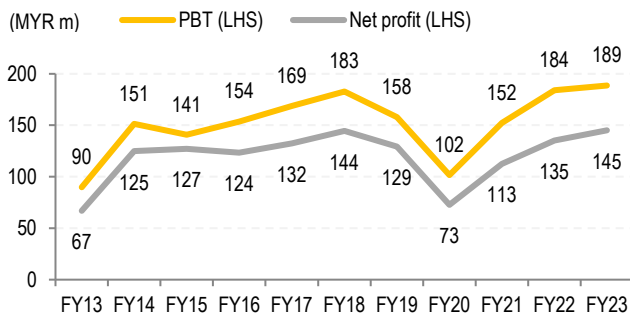
Abbreviation

RTS = Rapid Transit System
KVMRT = Klang Valley Mass Rapid Transit
LRT = Light Rapid Transit

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 (since relisting on 28 Jul 2015)

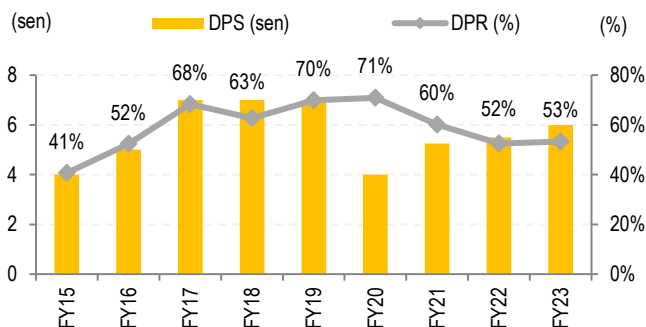


Source: Company

Financial Metrics

- Two main earning growth drivers are major orderbook replenishment 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, 18.6% in FY23.
- DPR is a minimum 35% of PATMI; since its relisting (on 28 Jul 2015), SCGB had paid up to 71% (FY20).

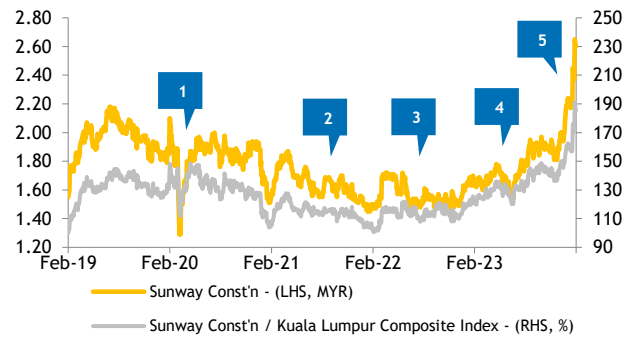
Dividends



Source: Company

Price Drivers

Historical share price trend



Source: Company, Maybank IBG Research

- 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 MYR2.5b new orderbook in 2023.
- Expectation for sizeable orderbook replenishment, from major infrastructure projects pending award in 2024.

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

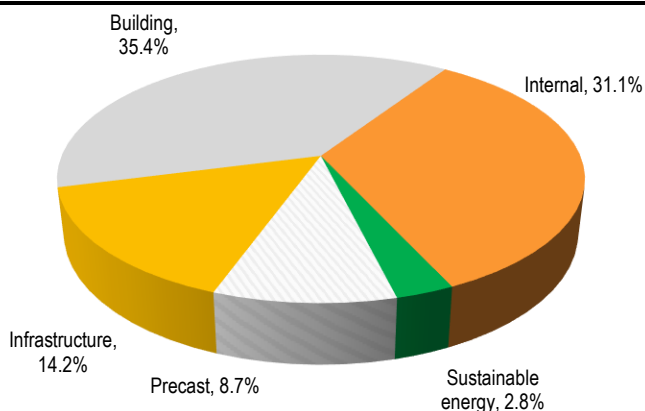
- Slower-than-expected work progress at existing projects will affect the timing of earnings recognition.
- The timing of mega infrastructure project roll-outs by the Government could affect orderbook replenishment.
- At the precast segment, significant increase in steel prices and stiffer competition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

Fig 1: Results summary

FY Dec (MYR m)	Quarterly					Cumulative		
	4Q23	4Q22	% YoY	3Q23	% QoQ	12M23	12M22	% YoY
Revenue	871.5	503.4	73.1	673.5	29.4	2,671.2	2,155.2	23.9
EBIT	81.8	64.3	27.1	54.1	51.1	224.3	186.5	20.2
Net interest inc/(exp)	(6.6)	(6.1)	8	(6.0)	9.4	(21.5)	(4.2)	417.3
Assoc, JV profits	(14.5)	(2.0)	636.8	-	NM	(14.1)	1.7	NM
Pre-tax profit	60.8	56.3	7.9	48.1	26.3	188.6	184.1	2.5
Tax	(12.3)	(10.8)	14.3	(12.6)	(2.0)	(42.8)	(45.3)	(5.6)
Minority Interests	0.8	0.1	513.0	(0.5)	NM	(0.7)	(3.6)	(79.3)
Net profit	49.3	45.6	7.9	35.0	40.7	145.1	135.2	7.3
EPS (sen)	3.82	3.53	8.2	2.71	41.0	11.25	10.48	7.3
DPS (sen)	3.00	2.50	20.0	-	NM	6.00	5.50	9.1
	4Q23	4Q22	+/- ppt	3Q23	+/- ppt	12M23	12M22	+/- ppt
EBIT margin (%)	9.4	12.8	(3.4)	8.0	1.3	8.4	8.7	(0.3)
Pretax margin (%)	7.0	11.2	(4.2)	7.1	(0.2)	7.1	8.5	(1.5)
Tax rate (%)	20.3	19.2	1.1	26.2	(5.9)	22.7	24.6	(1.9)
Segmental								
Revenue	4Q23	4Q22	% YoY	3Q23	% QoQ	12M23	12M22	% YoY
Construction	785.8	444.0	77.0	590.6	33.1	2,381.0	1,973.6	20.6
Precast concrete	85.7	59.4	44.2	83.0	3.3	290.2	181.6	59.8
Total	871.5	503.4	73.1	673.5	29.4	2,671.2	2,155.2	23.9
EBIT								
Construction	56.5	54.1	4.6	44.7	26.5	179.2	168.6	6.3
Precast concrete	25.3	10.3	145.9	9.5	167.4	45.1	17.9	151.8
Total	81.8	64.3	27.1	54.1	51.1	224.3	186.5	20.2
EBIT margin (%)								
Construction	7.2	12.2	(5.0)	7.6	(0.4)	7.5	8.5	(1.0)
Precast concrete	29.5	17.3	12.2	11.4	18.1	15.5	9.9	5.7
Total	9.4	12.8	(3.4)	8.0	1.3	8.4	8.7	(0.3)

Source: Company, Maybank IBG Research (tabulation)

Fig 2: Outstanding orderbook of MYR5.3b @ 31 Dec 2023



Source: Company data, Maybank IBG Research (chart)

Fig 3: Outstanding orderbook vs. replenishment

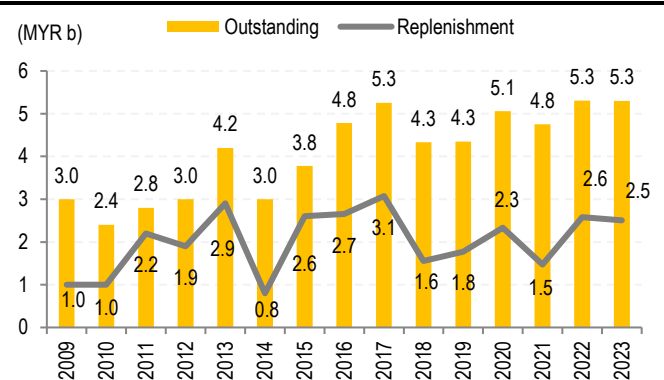
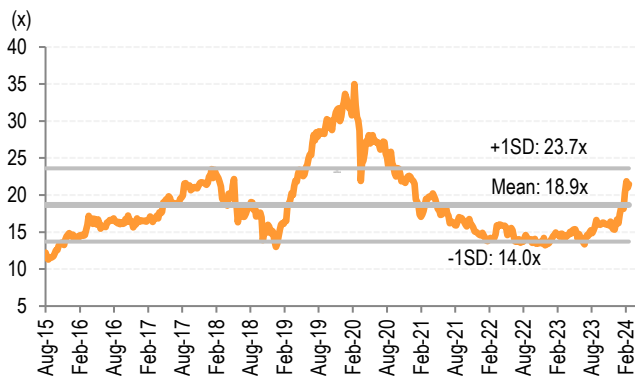
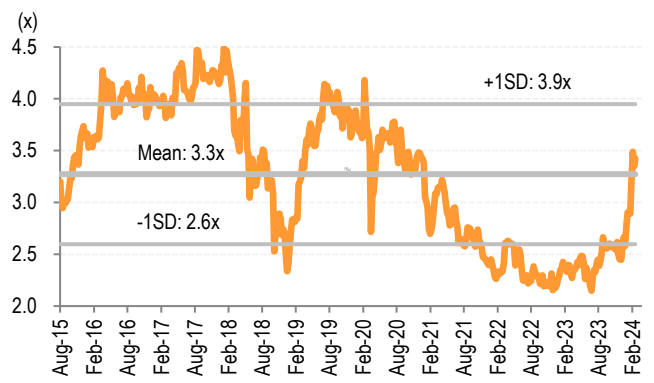
Note: Including precast, adjusted for revised value of KVLRT3 project;
Source: Company data, Maybank IBG Research (chart)

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	FY22A	FY23A	FY24E	FY25E	FY26E
Key Metrics					
P/E (reported) (x)	14.8	15.6	21.8	19.8	20.3
Core P/E (x)	14.9	17.2	21.8	19.8	20.3
P/BV (x)	2.7	3.0	3.8	3.4	3.1
P/NTA (x)	2.7	3.1	3.8	3.4	3.1
Net dividend yield (%)	3.5	3.1	2.3	2.3	2.3
FCF yield (%)	nm	nm	nm	5.2	5.8
EV/EBITDA (x)	9.9	12.3	16.8	14.8	14.5
EV/EBIT (x)	11.2	13.5	18.2	16.0	15.9
INCOME STATEMENT (MYR m)					
Revenue	2,155.2	2,671.2	3,559.6	3,342.1	2,920.9
EBITDA	210.2	245.3	257.7	260.2	224.6
Depreciation	(23.7)	(21.0)	(19.2)	(19.5)	(19.4)
EBIT	186.5	224.3	238.4	240.8	205.2
Net interest income / (exp)	(4.2)	(21.5)	(42.0)	(25.2)	3.7
Associates & JV	1.7	(14.1)	0.0	0.0	0.0
Exceptionals	0.0	0.0	0.0	0.0	0.0
Pretax profit	184.1	188.6	196.4	215.6	208.9
Income tax	(45.3)	(42.8)	(42.1)	(45.9)	(43.5)
Minorities	(3.6)	(0.7)	0.0	0.0	0.0
Reported net profit	135.2	145.1	154.4	169.7	165.4
Core net profit	135.2	145.1	154.4	169.7	165.4
BALANCE SHEET (MYR m)					
Cash & Short Term Investments	491.6	470.4	401.4	497.7	616.5
Accounts receivable	813.3	1,410.2	2,108.8	1,994.5	1,770.3
Inventory	53.4	46.4	64.3	59.8	52.0
Property, Plant & Equip (net)	107.5	98.5	99.6	99.2	96.5
Intangible assets	0.1	0.1	0.1	0.1	0.1
Investment in Associates & JVs	223.1	253.1	253.1	253.1	253.1
Other assets	547.0	804.0	1,066.7	670.1	211.5
Total assets	2,236.0	3,082.8	3,994.1	3,574.6	3,000.0
ST interest bearing debt	172.2	438.2	438.2	438.2	438.2
Accounts payable	886.0	1,211.7	1,671.5	1,556.3	1,352.3
LT interest bearing debt	308.5	487.7	862.2	465.6	7.0
Other liabilities	49.0	53.0	53.0	53.0	53.0
Total Liabilities	1,415.3	2,190.8	3,025.1	2,513.3	1,850.7
Shareholders Equity	737.1	820.2	897.2	989.5	1,077.6
Minority Interest	83.7	71.8	71.8	71.8	71.8
Total shareholder equity	820.8	892.0	969.0	1,061.3	1,149.3
Total liabilities and equity	2,236.0	3,082.8	3,994.1	3,574.6	3,000.0
CASH FLOW (MYR m)					
Pretax profit	184.1	188.6	196.4	215.6	208.9
Depreciation & amortisation	23.7	21.0	19.2	19.5	19.4
Adj net interest (income)/exp	(3.7)	(21.2)	(42.0)	(25.2)	3.7
Change in working capital	(382.1)	(498.0)	(256.7)	3.7	28.1
Cash taxes paid	(50.8)	(31.9)	(42.1)	(45.9)	(43.5)
Other operating cash flow	13.9	55.6	42.0	25.2	(3.7)
Cash flow from operations	(215.0)	(285.8)	(83.1)	192.8	212.9
Capex	(1.9)	(15.3)	(20.4)	(19.1)	(16.7)
Free cash flow	(216.9)	(301.1)	(103.4)	173.7	196.2
Dividends paid	(90.3)	(70.9)	(77.4)	(77.4)	(77.4)
Change in Debt	233.4	420.9	374.5	(396.6)	(458.6)
Other invest/financing cash flow	450.8	(71.1)	(262.7)	396.6	458.6
Net cash flow	377.1	(22.2)	(69.0)	96.3	118.8

FYE 31 Dec	FY22A	FY23A	FY24E	FY25E	FY26E
Key Ratios					
Growth ratios (%)					
Revenue growth	24.6	23.9	33.3	(6.1)	(12.6)
EBITDA growth	26.0	16.7	5.1	1.0	(13.7)
EBIT growth	33.8	20.2	6.3	1.0	(14.8)
Pretax growth	20.9	2.5	4.1	9.7	(3.1)
Reported net profit growth	20.1	7.3	6.4	9.9	(2.5)
Core net profit growth	20.1	7.3	6.4	9.9	(2.5)
Profitability ratios (%)					
EBITDA margin	9.8	9.2	7.2	7.8	7.7
EBIT margin	8.7	8.4	6.7	7.2	7.0
Pretax profit margin	8.5	7.1	5.5	6.5	7.2
Payout ratio	52.5	53.3	50.1	45.6	46.8
DuPont analysis					
Net profit margin (%)	6.3	5.4	4.3	5.1	5.7
Revenue/Assets (x)	1.0	0.9	0.9	0.9	1.0
Assets/Equity (x)	3.0	3.8	4.5	3.6	2.8
ROAE (%)	18.8	18.6	18.0	18.0	16.0
ROAA (%)	6.6	5.5	4.4	4.5	5.0
Liquidity & Efficiency					
Cash conversion cycle	(42.6)	(8.6)	19.3	30.1	33.9
Days receivable outstanding	123.1	149.8	177.9	221.0	232.0
Days inventory outstanding	10.0	7.9	6.3	7.6	7.9
Days payables outstanding	175.7	166.3	164.9	198.5	206.1
Dividend cover (x)	1.9	1.9	2.0	2.2	2.1
Current ratio (x)	1.5	1.3	1.3	1.3	1.4
Leverage & Expense Analysis					
Asset/Liability (x)	1.6	1.4	1.3	1.4	1.6
Net gearing (%) (incl perps)	net cash	51.1	92.8	38.3	net cash
Net gearing (%) (excl. perps)	net cash	51.1	92.8	38.3	net cash
Net interest cover (x)	44.9	10.4	5.7	9.6	na
Debt/EBITDA (x)	2.3	3.8	5.0	3.5	2.0
Capex/revenue (%)	0.1	0.6	0.6	0.6	0.6
Net debt/ (net cash)	(10.9)	455.6	899.1	406.1	(171.3)

Source: Company; Maybank IBG Research

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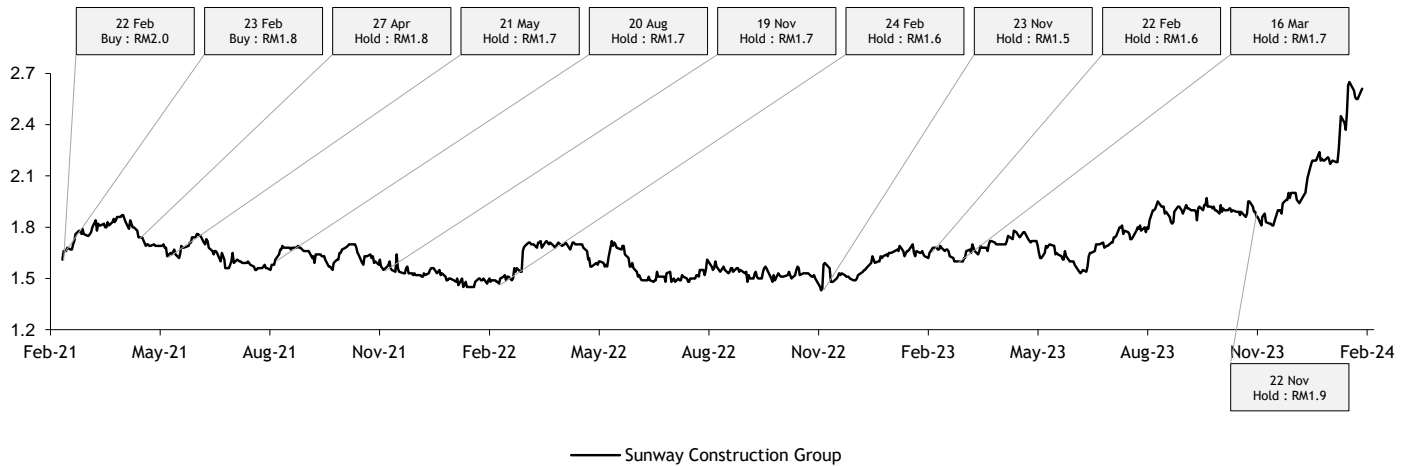
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