

Sunway Construction Group (SCGB MK)

2Q24: In-line

Strong execution capability but fully priced in

SCGB's 2Q24 core net profit (CNP) of MYR39m (+18% YoY, +20% QoQ), which lifted 1H24 CNP to MYR71m (+17% YoY) was in-line - the latter at 46% of our FY24E (39% of consensus). We raise FY24-26E CNP forecasts by 10%/34%/56% as we raise our job win assumptions. Our TP is uplifted to MYR3.70 (from MYR2.30) based on revised 21x PER (updated +0.5SD of mean) on rolled forward FY25E earnings. We continue to like SCGB for its strong execution capability, but valuation is pricey at 24x FY25E PER; SELL.

A lift from higher construction progress

2Q24 group CNP was higher both YoY/QoQ as construction revenue rose on accelerated progress in building & data centre jobs, while EBIT margin was stable at 7.8%. This offset lower precast contribution as production for newly secured jobs only starts in 4Q24/early-2025. Reversal of provisions for completed projects supported 2Q24 precast EBIT. Similarly, 1H24 group CNP rose on higher construction revenue (and stable EBIT margin at 8.1%), while precast received a boost from the reversal of provisions. A 3.5sen 1st interim DPS was declared (+0.5sen YoY) representing 63% DPR.

MYR7.4b o/s orderbook; upped FY24 job win target

New jobs in 1H24 totalled MYR3.5b, bringing the outstanding orderbook to MYR7.4b @ end-Jun 2024. Major wins in 1H24 were a 3rd/4th/5th data centre job in the Klang Valley (MYR748m), additional order for the JHB1X0 job in Johor (MYR1.7b) and the new Sunway Ipoh Mall (MYR721m). Having exceeded its internal replenishment target range of MYR2.5b-MYR3b for FY24E, SCGB raised its target to MYR4b-MYR5b. The active tender book is MYR13.7b which comprises data centre jobs and jobs in the warehousing and semiconductor segments. Major infra projects that SCGB is eyeing are the Mutiara LRT and Penang Int'l Airport expansion.

Raising earnings forecasts, but maintain +0.5SD peg

Our revised earnings incorporate MYR4.5b job wins in FY24E (previously MYR3b) and a similar MYR4.5b p.a. in FY25/FY26E (previously MYR3.5b). Having raised our job win assumptions (and profits) substantially reflecting also a 3rd investment upcycle in M'sia as highlighted by our Economics Team [\[link\]](#), we think a +0.5SD valuation is fair to reflect further job win prospects. Our new TP is based on 21x FY25E PER (previously 19x FY24E).

FYE Dec (MYR m)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue	2,155	2,671	3,436	4,528	4,813
EBITDA	210	245	281	350	371
Core net profit	135	145	170	227	258
Core EPS (sen)	10.5	11.3	13.2	17.6	20.0
Core EPS growth (%)	20.1	7.3	17.4	33.1	13.9
Net DPS (sen)	5.5	6.0	6.0	6.0	6.0
Core P/E (x)	14.9	17.2	32.1	24.1	21.2
P/BV (x)	2.7	3.0	6.0	5.1	4.4
Net dividend yield (%)	3.5	3.1	1.4	1.4	1.4
ROAE (%)	18.8	18.6	19.7	22.9	22.4
ROAA (%)	6.6	5.5	5.1	6.1	6.8
EV/EBITDA (x)	9.9	12.3	23.0	17.4	14.8
Net gearing (%) (incl perps)	net cash	51.1	94.8	48.2	net cash
Consensus net profit	-	-	180	267	286
MIBG vs. Consensus (%)	-	-	(5.3)	(15.1)	(9.8)

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SELL

Share Price	MYR 4.24
12m Price Target	MYR 3.70 (-9%)
Previous Price Target	MYR 2.30

Company Description

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

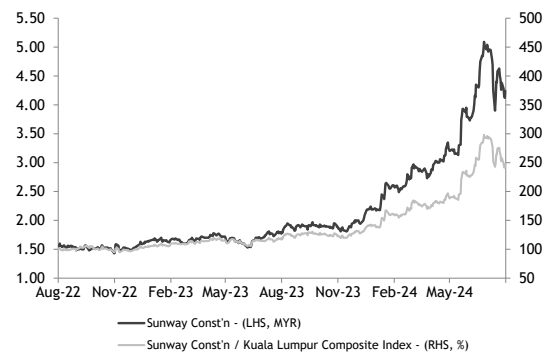
Statistics

52w high/low (MYR)	5.09/1.79
3m avg turnover (USDm)	4.3
Free float (%)	27.3
Issued shares (m)	1,293
Market capitalisation	MYR5.5B
	USD1.3B

Major shareholders:

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

Price Performance



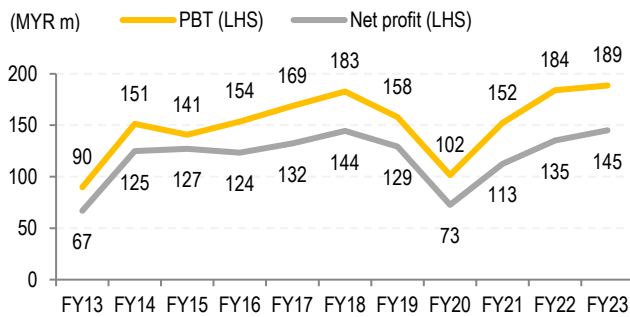
	-1M	-3M	-12M
Absolute (%)	(15)	30	140
Relative to index (%)	(15)	29	113

Source: FactSet

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)

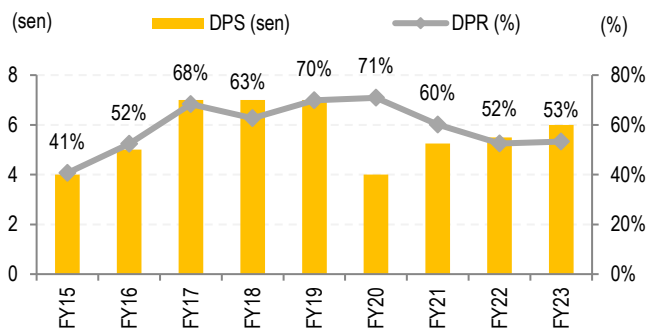


Source: Company

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).

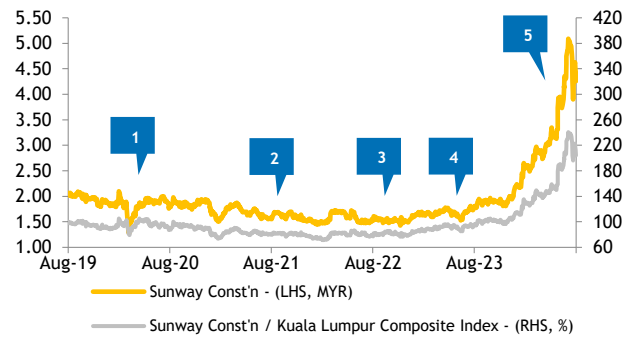
Dividends



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, including datacentre construction jobs.

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

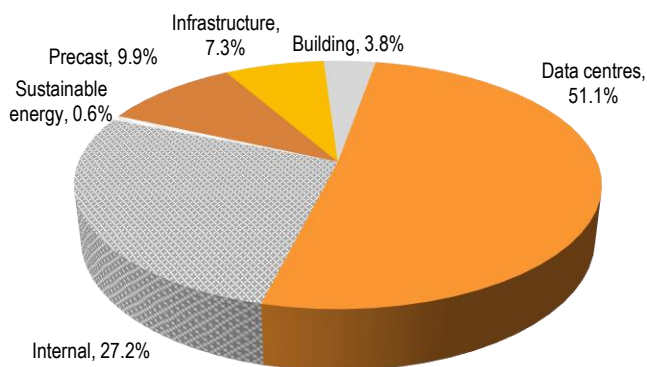
- Slower-than-expected work progress at existing projects will affect the timing of earnings recognition.
- The timing of mega infrastructure project roll-outs by the Government could affect orderbook replenishment.
- At the precast segment, significant increase in steel prices and stiffer competition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

Fig 1: Results summary

FY Dec (MYR m)	Quarterly					Cumulative		
	2Q24	2Q23	% YoY	1Q24	% QoQ	6M24	6M23	% YoY
Revenue	651.2	604.1	7.8	604.8	7.7	1,256.0	1,126.2	11.5
EBIT	52.7	46.7	12.8	53.1	(0.8)	105.7	88.4	19.7
Net interest inc/(exp)	(2.4)	(4.7)	(48)	(11.4)	(78.6)	(13.9)	(8.9)	56.2
Assoc, JV profits	-	0.3	NM	-	NM	-	0.3	NM
Pre-tax profit	50.2	42.3	18.8	41.6	20.5	91.9	79.8	15.1
Tax	(12.4)	(9.0)	38.3	(8.9)	39.2	(21.4)	(17.9)	19.6
Minority Interests	1.1	(0.3)	NM	(0.3)	NM	0.8	(1.1)	NM
Net profit	38.9	33.0	17.8	32.4	19.9	71.3	60.8	17.2
EPS (sen)	3.02	2.56	18.0	2.51	20.3	5.53	4.72	17.2
DPS (sen)	3.50	3.00	16.7	-	NM	3.50	3.00	16.7
	2Q24	2Q23	+/- ppt	1Q24	+/- ppt	6M24	6M23	+/- ppt
EBIT margin (%)	8.1	7.7	0.4	8.8	(0.7)	8.4	7.8	0.6
Pretax margin (%)	7.7	7.0	0.7	6.9	0.8	7.3	7.1	0.2
Tax rate (%)	24.8	21.3	3.5	21.5	3.3	23.3	22.4	0.9
Segmental								
Revenue	2Q24	2Q23	% YoY	1Q24	% QoQ	6M24	6M23	% YoY
Construction	597.6	535.6	11.6	543.6	9.9	1,141.2	1,004.7	13.6
Precast concrete	53.6	68.5	(21.7)	61.2	(12.4)	114.9	121.5	(5.5)
Total	651.2	604.1	7.8	604.8	7.7	1,256.0	1,126.2	11.5
EBIT								
Construction	46.6	40.4	15.2	46.4	0.4	92.9	78.0	19.1
Precast concrete	6.1	6.3	(2.8)	6.7	(9.2)	12.8	10.3	24.0
Total	52.7	46.7	12.8	53.1	(0.8)	105.7	88.4	19.7
EBIT margin (%)								
Construction	7.8	7.5	0.2	8.5	(0.7)	8.1	7.8	0.4
Precast concrete	11.4	9.1	2.2	11.0	0.4	11.1	8.5	2.7
Total	8.1	7.7	0.4	8.8	(0.7)	8.4	7.8	0.6

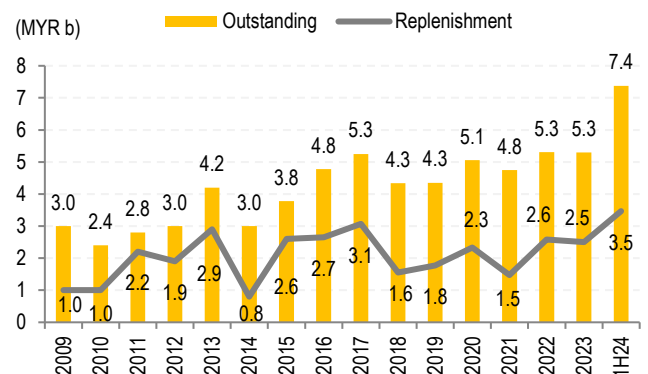
Source: Company, Maybank IBG Research (tabulation)

Fig 2: Outstanding orderbook of MYR7.4b @ 30 Jun 2024



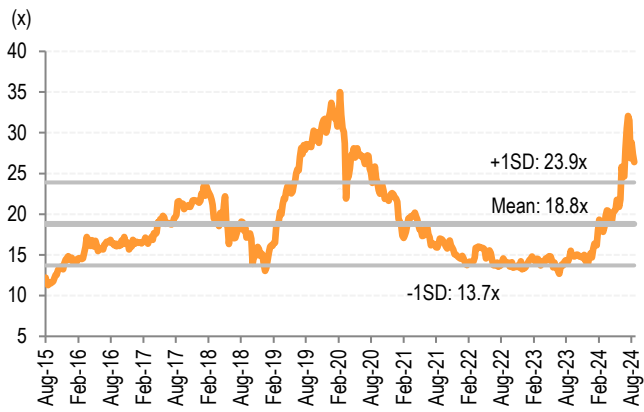
Source: Company data, Maybank IBG Research (chart)

Fig 3: Outstanding orderbook vs. replenishment



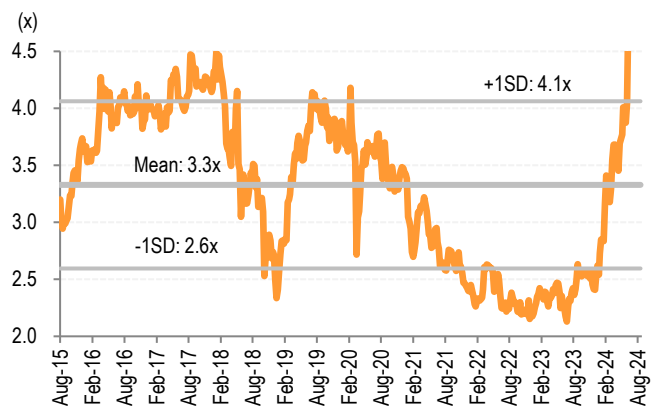
Note: Including precast, adjusted for revised value of KVLRT3 project;
Source: Company data, Maybank IBG Research (chart)

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	32.1	24.1	21.2
Core P/E (x)	14.9	17.2	32.1	24.1	21.2
P/BV (x)	2.7	3.0	6.0	5.1	4.4
P/NTA (x)	2.7	3.1	6.0	5.2	4.4
Net dividend yield (%)	3.5	3.1	1.4	1.4	1.4
FCF yield (%)	nm	nm	nm	1.8	4.0
EV/EBITDA (x)	9.9	12.3	23.0	17.4	14.8
EV/EBIT (x)	11.2	13.5	24.7	18.4	15.7
INCOME STATEMENT (MYR m)					
Revenue	2,155.2	2,671.2	3,436.4	4,527.9	4,812.8
EBITDA	210.2	245.3	281.1	350.4	371.0
Depreciation	(23.7)	(21.0)	(19.1)	(19.4)	(20.9)
EBIT	186.5	224.3	262.0	331.0	350.1
Net interest income / (exp)	(4.2)	(21.5)	(34.8)	(28.8)	(4.3)
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	227.1	302.2	345.7
Income tax	(45.3)	(42.8)	(56.8)	(75.6)	(87.5)
Minorities	(3.6)	(0.7)	0.0	0.0	0.0
Reported net profit	135.2	145.1	170.3	226.7	258.2
Core net profit	135.2	145.1	170.3	226.7	258.2
BALANCE SHEET (MYR m)					
Cash & Short Term Investments	491.6	470.4	228.8	247.1	387.3
Accounts receivable	813.3	1,410.2	2,043.2	2,625.6	2,777.3
Inventory	53.4	46.4	60.9	82.1	87.6
Property, Plant & Equip (net)	107.5	98.0	99.4	107.1	115.0
Intangible assets	0.1	0.6	0.6	0.6	0.6
Investment in Associates & JVs	223.1	253.1	253.1	253.1	253.1
Other assets	547.0	804.0	928.4	560.0	107.0
Total assets	2,236.0	3,082.8	3,614.5	3,875.7	3,727.9
ST interest bearing debt	172.2	438.2	438.2	438.2	438.2
Accounts payable	886.0	1,193.3	1,395.8	1,876.1	2,000.5
LT interest bearing debt	308.5	487.7	723.9	355.5	(97.5)
Other liabilities	49.0	72.0	72.0	72.0	72.0
Total Liabilities	1,415.3	2,190.8	2,629.5	2,741.5	2,412.8
Shareholders Equity	737.1	820.2	913.2	1,062.5	1,243.3
Minority Interest	83.7	71.8	71.8	71.8	71.8
Total shareholder equity	820.8	892.0	984.9	1,134.2	1,315.1
Total liabilities and equity	2,236.0	3,082.8	3,614.5	3,875.7	3,727.9
CASH FLOW (MYR m)					
Pretax profit	184.1	188.6	227.1	302.2	345.7
Depreciation & amortisation	23.7	21.0	19.1	19.4	20.9
Adj net interest (income)/exp	(3.7)	(21.2)	(34.8)	(28.8)	(4.3)
Change in working capital	(382.1)	(516.6)	(445.0)	(123.3)	(32.8)
Cash taxes paid	(50.8)	(31.9)	(56.8)	(75.6)	(87.5)
Other operating cash flow	13.9	60.6	34.8	28.8	4.3
Cash flow from operations	(215.0)	(299.4)	(255.5)	122.8	246.4
Capex	(1.9)	(16.0)	(20.6)	(27.1)	(28.8)
Free cash flow	(216.9)	(315.4)	(276.0)	95.7	217.5
Dividends paid	(90.3)	(70.9)	(77.4)	(77.4)	(77.4)
Change in Debt	233.4	420.9	236.2	(368.4)	(453.0)
Other invest/financing cash flow	450.8	(45.1)	(124.4)	368.4	453.0
Net cash flow	377.1	(10.5)	(241.6)	18.3	140.2

FYE 31 Dec	FY22A	FY23A	FY24E	FY25E	FY26E
Key Ratios					
Growth ratios (%)					
Revenue growth	24.6	23.9	28.6	31.8	6.3
EBITDA growth	26.0	16.7	14.6	24.7	5.9
EBIT growth	33.8	20.2	16.8	26.4	5.8
Pretax growth	20.9	2.5	20.4	33.1	14.4
Reported net profit growth	20.1	7.3	17.4	33.1	13.9
Core net profit growth	20.1	7.3	17.4	33.1	13.9
Profitability ratios (%)					
EBITDA margin	9.8	9.2	8.2	7.7	7.7
EBIT margin	8.7	8.4	7.6	7.3	7.3
Pretax profit margin	8.5	7.1	6.6	6.7	7.2
Payout ratio	52.5	53.3	45.4	34.1	30.0
DuPont analysis					
Net profit margin (%)	6.3	5.4	5.0	5.0	5.4
Revenue/Assets (x)	1.0	0.9	1.0	1.2	1.3
Assets/Equity (x)	3.0	3.8	4.0	3.6	3.0
ROAE (%)	18.8	18.6	19.7	22.9	22.4
ROAA (%)	6.6	5.5	5.1	6.1	6.8
Liquidity & Efficiency					
Cash conversion cycle	(42.6)	(9.4)	28.7	43.3	44.0
Days receivable outstanding	123.1	149.8	180.9	185.6	202.1
Days inventory outstanding	10.0	8.0	6.6	6.5	7.2
Days payables outstanding	175.7	167.3	158.8	148.8	165.3
Dividend cover (x)	1.9	1.9	2.2	2.9	3.3
Current ratio (x)	1.5	1.3	1.3	1.3	1.4
Leverage & Expense Analysis					
Asset/Liability (x)	1.6	1.4	1.4	1.4	1.5
Net gearing (%) (incl perps)	net cash	51.1	94.8	48.2	net cash
Net gearing (%) (excl. perps)	net cash	51.1	94.8	48.2	net cash
Net interest cover (x)	44.9	10.4	7.5	11.5	80.6
Debt/EBITDA (x)	2.3	3.8	4.1	2.3	0.9
Capex/revenue (%)	0.1	0.6	0.6	0.6	0.6
Net debt/ (net cash)	(10.9)	455.6	933.4	546.7	(46.5)

Source: Company; Maybank IBG Research

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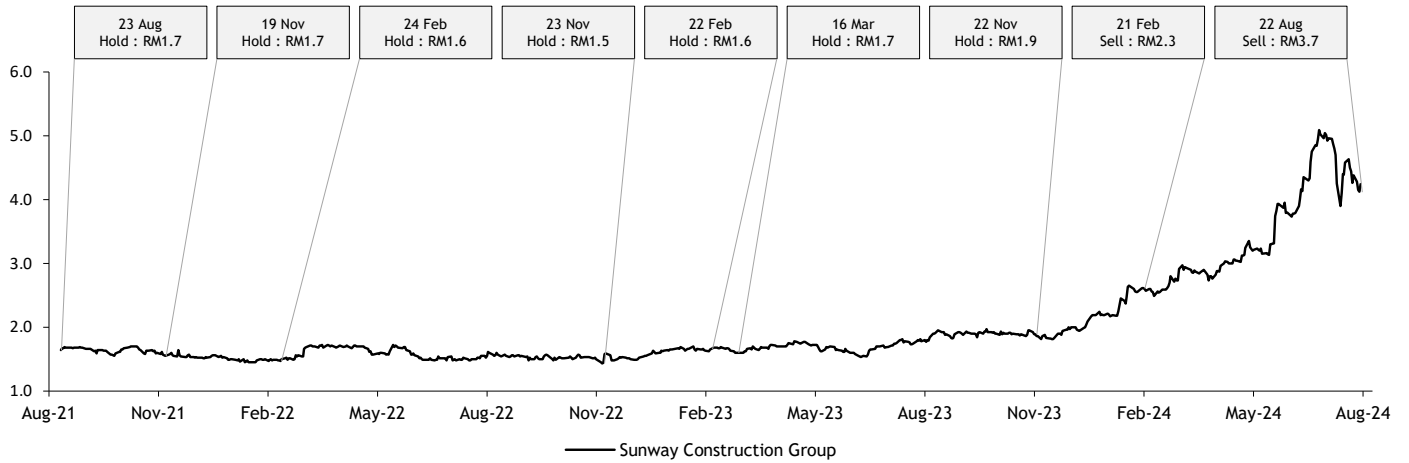
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