

1 July 2024

Construction & Engineering | Construction

Sunway Construction (SCGB MK)

Buy (Maintained)

The News We Have All Been Waiting For; Keep BUY

Target Price (Return): MYR4.32 (14%)
 Price (Market Cap): MYR3.79 (USD1,036m)
 ESG score: 3.3 (out of 4)
 Avg Daily Turnover (MYR/USD) 10.1m/2.14m

- **Still BUY with new MYR4.32 TP from MYR4.12, 14% upside, c.2% FY24F yield.** Toyo Ventures Holdings (TOYOVEN MK, NR) via its subsidiary Song Hau 2 Power Company issued a notification letter to the Ministry of Industry and Trade (MOIT) of Vietnam in regard to successfully achieving the financial closing date for the Song Hau 2 thermal power plant (SH2P) on 28 June. Despite the lack of further funding details for SH2P, the latest development marks a huge milestone after some delays.
- **Prior to the announcement,** on 7 June, TOYOVEN accepted an equipment procurement facility of up to USD980m, which may finance up to 70% of SH2P's invoice amount. Additionally, TOYOVEN entered into a grid connection agreement with the National Power Transmission Corporation (subsidiary of Vietnam Electricity) on 12 June to the Vietnam National Power System via the 500kV switchyard of the Song Hau Power Complex.
- **Back in Mar 2023,** Sunway Construction via a JV with Power Engineering Consulting Joint Stock Company 2 (PECC2) executed a formal contract agreement with the owner to formalise the terms and conditions governing the EPCC works for the SH2P project, with SCGB holding 55% while PECC2 having a 45% stake in the JV. The contract value for SH2P project is USD2.4bn (c.MYR11.2bn), which brings SCGB's effective share to c.MYR6bn.
- **We are adopting a prudent approach to make no changes** to our earnings estimates for SCGB at this juncture pending the notice to proceed by TOYOVEN for SH2P. As mentioned in our [report](#) on 10 June, we project that SH2P may boost earnings by <5% for FY24F and 18-32% for FY25F and FY26F, assuming the initial project value of SH2P remains unchanged.
- **Despite no changes to our earnings forecasts,** we are bumping up the target P/E pegged to its FY25F EPS to 21.5x from 20.5x. This is to reflect SCGB's position to secure more data centre jobs in Johor and Selangor (at least 1000MW incoming capacity) with the group already securing MYR4.3bn worth of data centre works (not present during the last construction upcycle in CY17 when it traded at a P/E of c.18.5x). As such, we derive a new TP of MYR4.32 (from MYR4.12) which bakes in a 6% ESG premium.
- **We view that further upside for its orderbook** (which stands at c.MYR7.9bn excluding SH2P) may come from industrial jobs related to warehouses and semiconductor facilities which the group is actively tendering for. Thus far, SCGB has a job for Daiso Malaysia Group's global distribution centre warehouse worth MYR298m in Port Klang. Risks of manpower capacity constraints is rather manageable with the possibility of industrial building systems heavily deployed for industrial building projects, in our view. Long-term catalysts would be Sunway's (SWB MK, BUY, TP: MYR4.00) hospital expansion plan across Penang, Kelantan, and Iskandar Puteri.
- **Key risks** include the project delays and prolonged period of high material costs.

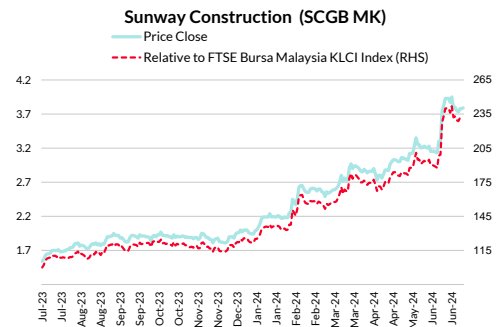
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	95.4	18.1	28.9	94.4	147.7
Relative	86.1	19.7	25.0	85.3	133.2
52-wk Price low/high (MYR)				1.54	-3.95



Source: Bloomberg

Overall ESG Score: 3.3 (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/RM million.

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.

Forecasts and Valuation	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Total turnover (MYRm)	2,155	2,671	3,082	4,395	5,135
Recurring net profit (MYRm)	144	170	179	244	279
Recurring net profit growth (%)	(0.3)	18.2	5.1	36.6	14.2
Recurring P/E (x)	33.94	28.71	27.33	20.00	17.52
P/B (x)	6.6	6.0	5.5	4.9	4.4
P/CF (x)	na	na	10.55	42.52	14.88
Dividend Yield (%)	1.5	1.6	2.2	3.0	3.4
EV/EBITDA (x)	22.14	18.07	19.90	14.30	13.39
Return on average equity (%)	18.8	18.6	20.9	26.0	26.7
Net debt to equity (%)	net cash	38.7	26.4	31.4	35.8

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-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Malaysia	Recurring EPS	0.11	0.13	0.14	0.19	0.22
Construction & Engineering	DPS	0.05	0.06	0.08	0.11	0.13
Sunway Construction	BVPS	0.57	0.64	0.69	0.77	0.85
SCGB MK	Return on average equity (%)	18.8	18.6	20.9	26.0	26.7
Buy						
	Valuation metrics	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Recurring P/E (x)	33.94	28.71	27.33	20.00	17.52
	P/B (x)	6.6	6.0	5.5	4.9	4.4
	FCF Yield (%)	(5.0)	(6.2)	8.4	1.2	5.6
	Dividend Yield (%)	1.5	1.6	2.2	3.0	3.4
	EV/EBITDA (x)	22.14	18.07	19.90	14.30	13.39
	EV/EBIT (x)	24.96	22.52	23.88	16.45	15.42
	Income statement (MYRm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Total turnover	2,155	2,671	3,082	4,395	5,135
	Gross profit	366	198	460	889	938
	EBITDA	210	279	250	353	384
	Depreciation and amortisation	(24)	(55)	(42)	(46)	(50)
	Operating profit	187	224	208	307	334
	Net interest	(4)	(21)	(6)	(3)	(4)
	Pre-tax profit	184	189	211	300	340
	Taxation	(45)	(43)	(41)	(58)	(66)
	Reported net profit	135	145	179	244	279
	Recurring net profit	144	170	179	244	279
	Cash flow (MYRm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Change in working capital	(382)	(498)	252	(172)	4
	Cash flow from operations	(215)	(286)	463	115	328
	Capex	(27)	(18)	(55)	(55)	(56)
	Cash flow from investing activities	424	(88)	(54)	(53)	(256)
	Dividends paid	(90)	(72)	(107)	(147)	(167)
	Cash flow from financing activities	143	349	257	144	117
	Cash at beginning of period	99	492	470	597	576
	Net change in cash	351	(25)	666	206	189
	Ending balance cash	446	467	1,136	804	767
	Balance sheet (MYRm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Total cash and equivalents	576	582	709	688	659
	Tangible fixed assets	108	99	183	191	196
	Total investments	223	253	253	253	253
	Total assets	2,236	3,083	3,048	3,638	4,152
	Short-term debt	172	438	488	538	588
	Total long-term debt	312	489	477	487	497
	Total liabilities	1,415	2,191	2,076	2,565	2,962
	Total equity	821	892	972	1,073	1,190
	Total liabilities & equity	2,236	3,083	3,048	3,638	4,152
	Key metrics	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Revenue growth (%)	24.6	23.9	15.4	42.6	16.8
	Recurrent EPS growth (%)	(0.3)	18.2	5.1	36.6	14.2
	Gross margin (%)	17.0	7.4	14.9	20.2	18.3
	Operating EBITDA margin (%)	9.8	10.5	8.1	8.0	7.5
	Net profit margin (%)	6.3	5.4	5.8	5.6	5.4
	Dividend payout ratio (%)	52.5	53.3	60.0	60.0	60.0
	Capex/sales (%)	1.3	0.7	1.8	1.3	1.1
	Interest cover (x)	10.3	4.7	3.4	6.3	7.4

Source: Company data, RHB

Emissions And ESG

Trend analysis

While total emissions have been increasing, the Scope 1 emissions have eased to 7,440 tonnes in FY23 from 9,713 in FY20.

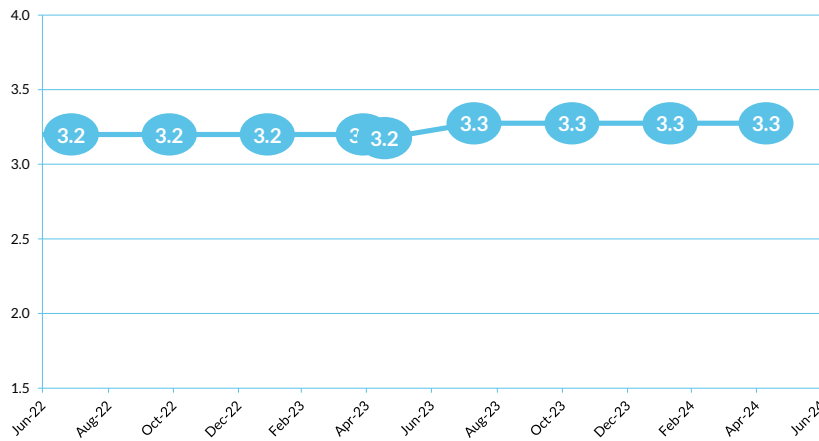
Emissions (tCO2e)	Dec-21	Dec-22	Dec-23
Scope 1	6,104	7,167	7,440
Scope 2	3,863	4,504	6,997
Scope 3	144,401	168,888	314,414
Total emissions	154,368	180,559	328,851

Source: Company data, RHB

Latest ESG-Related Developments

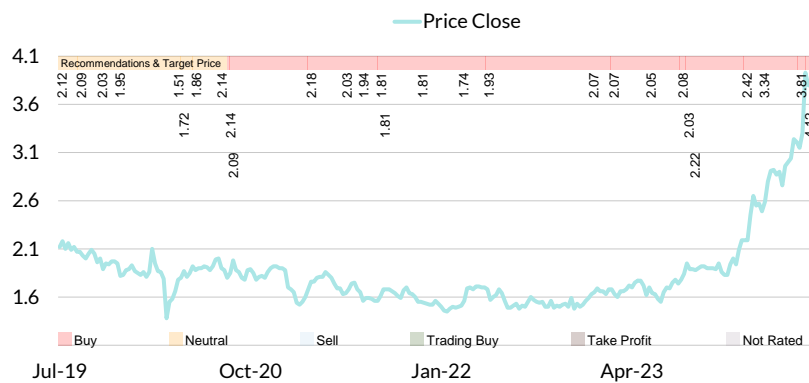
- Through its Sustainable Energy Services division, the group continues to be in the forefront of ongoing efforts to enable the transition towards a greener economy.
- In FY2022, the division completed 18 rooftop solar panels installation projects with a cumulative clean energy generating capacity of 17,866 kWp.

ESG Rating History



Source: RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2024-06-11	Buy	4.12	3.74
2024-06-10	Buy	3.81	3.31
2024-05-21	Buy	3.81	3.25
2024-03-21	Buy	3.34	2.73
2024-02-22	Buy	3.34	2.60
2024-02-21	Buy	3.34	2.61
2024-01-12	Buy	2.42	2.19
2023-11-22	Buy	2.22	1.89
2023-10-06	Buy	2.22	1.92
2023-09-07	Buy	2.22	1.88
2023-08-24	Buy	2.03	1.79
2023-08-08	Buy	2.08	1.76
2023-07-12	Buy	2.05	1.70
2023-05-23	Buy	2.05	1.69
2023-05-16	Buy	2.07	1.72

Source: RHB, Bloomberg

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

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