

11 June 2024

Construction &amp; Engineering | Construction

## Sunway Construction (SCGB MK)

**Buy** (Maintained)

### Getting Bigger In Sedenak Tech Park; Stay BUY

Target Price (Return):	MYR4.12 (+24%)
Price (Market Cap):	MYR3.31 (USD904m)
ESG score:	3.3 (out of 4)
Avg Daily Turnover (MYR/USD)	11.1m/2.33m

- **Still BUY, new MYR4.12 TP from MYR3.81, 24% upside with c.3% FY24F yield.** Sunway Construction announced that the value of its data centre (DC) job known as JHB1X0 in Sedenak Tech Park (STeP), Johor has been revised to MYR3.2bn from MYR1.7bn – making it the company’s largest single contract to date. The upward adjustment came from the inclusion of the job scope under the notice to proceed (NTP) 4 works, on top of the balance of the existing NTP 2 and NTP 3 works. NTP 2, NTP3 and NTP 4 works are expected to be completed in 20 months from June onwards.
- **Impact on orderbook.** With NTP 1 works (estimated at MYR300m) being completed as of 10 Jun, we estimate the remaining works for NTP2 and NTP3 to be valued at c.MYR1.4bn (out of the total initial job value of MYR1.7bn). The inclusion of NTP works brings the balance of works of JHB1X0 to about MYR2.9bn. We estimate that DC jobs now constitute c.MYR3.8bn or 48% of the SCGB’s enlarged outstanding orderbook of MYR7.9bn. With DC jobs taking centrestage, we project that SCGB could comfortably add MYR2-3bn more worth of DC contracts to its existing ones before it needs to fully reassess its overall manpower capacity.
- **Post-contract value adjustment for JHBX01 via NTP 4 works.** SCGB’s new job wins for FY24F have reached c.MYR3.3bn – the highest since FY17, which saw MYR4bn worth of new jobs clinched. The total value of new job wins YTD has also exceeded our initial assumption of MYR3bn. Since the YTD FY24 job replenishment has surpassed our initial projection of MYR3bn, we are revising our new job wins estimate for this year to MYR4.5bn.
- **We now upgrade our FY24-26 earnings estimates by 2%, 8% and 8%.** As such, we arrive at a new TP of MYR4.12 (from MYR3.81) – derived by pegging FY25F EPS to an unchanged target P/E of 20.5x (which bakes in a 6% ESG premium). We believe that the target P/E is justified, to reflect SCGB’s position in securing more DC projects in Johor and Selangor. Note that it has already garnered MYR4.3bn worth of DC contracts (which were absent during the last construction upcycle in CY17, when the stock was trading at a P/E of 18.5x).
- **The stock’s market valuation is at 17.5x FY25F P/E,** which is at a premium to the Bursa Malaysia Construction Index’s 5-year mean of 13x. This is justified, as SCGB’s ROE is significantly higher than that of its peers, and it has the potential to benefit from the Johor-Singapore Special Economic Zone via Sunway City Iskandar Puteri. Long-term catalysts would be Sunway’s (SWB MK, BUY, TP: MYR4.00) hospital expansion plan across Penang, Kelantan and Iskandar Puteri. Meanwhile, a short-term catalyst would be securing a package related to one of the five Light Rail Transit 3 stations being reinstated (likely to cost c.MYR500m).
- **Key downside risks** include the project delays and a prolonged period of high material costs.

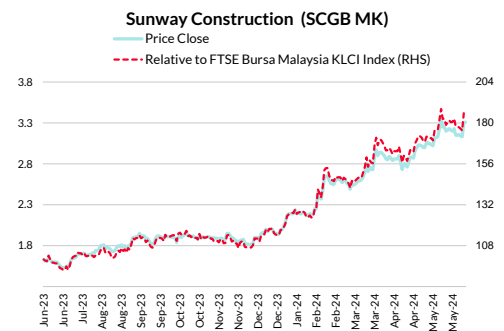
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#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	70.6	8.9	27.8	80.9	101.8
Relative	59.6	8.0	23.0	68.9	84.5
52-wk Price low/high (MYR)				1.53	–3.35



Source: Bloomberg

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)	29.64	25.08	23.86	17.47	15.30
P/B (x)	5.8	5.2	4.8	4.3	3.9
P/CF (x)	na	na	9.21	37.14	13.00
Dividend Yield (%)	1.7	1.8	2.5	3.4	3.9
EV/EBITDA (x)	19.19	15.86	17.42	12.55	11.78
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

#### Overall ESG Score: 3.3 (out of 4)

##### E: EXCELLENT

It installed 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 facility, 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 directors, with full disclosure on 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.

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## Financial Exhibits

<b>Asia</b>	<b>Financial summary (MYR)</b>	<b>Dec-22</b>	<b>Dec-23</b>	<b>Dec-24F</b>	<b>Dec-25F</b>	<b>Dec-26F</b>
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
<b>Sunway Construction</b>	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						
	<b>Valuation metrics</b>	<b>Dec-22</b>	<b>Dec-23</b>	<b>Dec-24F</b>	<b>Dec-25F</b>	<b>Dec-26F</b>
<b>Valuation basis</b>	Recurring P/E (x)	29.64	25.08	23.86	17.47	15.30
We value the company based on 20.5x FY24F P/E. SCGB's minimal net debt position allows it to gear up for more jobs moving forward.	P/B (x)	5.8	5.2	4.8	4.3	3.9
	FCF Yield (%)	(5.7)	(7.1)	9.6	1.4	6.4
	Dividend Yield (%)	1.7	1.8	2.5	3.4	3.9
<b>Key drivers</b>	EV/EBITDA (x)	19.19	15.86	17.42	12.55	11.78
Sunway Construction's earnings are backed by:	EV/EBIT (x)	21.64	19.76	20.90	14.43	13.56
i. An outstanding order backlog of MYR7.9bn, of which >90% is from construction, which should keep the firm busy for the next three years;						
ii. Recurring orders from its parent company.						
	<b>Income statement (MYRm)</b>	<b>Dec-22</b>	<b>Dec-23</b>	<b>Dec-24F</b>	<b>Dec-25F</b>	<b>Dec-26F</b>
<b>Key risks</b>	Total turnover	2,155	2,671	3,082	4,395	5,135
Key risks: Project delays and a prolonged period of high material costs.	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
	<b>Cash flow (MYRm)</b>	<b>Dec-22</b>	<b>Dec-23</b>	<b>Dec-24F</b>	<b>Dec-25F</b>	<b>Dec-26F</b>
<b>Company Profile</b>	Change in working capital	(382)	(498)	252	(172)	4
Sunway Construction is one of the largest construction companies in Malaysia. Apart from civil & infrastructure construction services, the company also provides the more specialised:	Cash flow from operations	(215)	(286)	463	115	328
i. Foundation & geotechnical engineering services;	Capex	(27)	(18)	(55)	(55)	(56)
ii. Mechanical, electrical & plumbing (MEP) services.	Cash flow from investing activities	424	(88)	(54)	(53)	(256)
	Dividends paid	(90)	(72)	(107)	(147)	(167)
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.	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
	<b>Balance sheet (MYRm)</b>	<b>Dec-22</b>	<b>Dec-23</b>	<b>Dec-24F</b>	<b>Dec-25F</b>	<b>Dec-26F</b>
	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
	<b>Key metrics</b>	<b>Dec-22</b>	<b>Dec-23</b>	<b>Dec-24F</b>	<b>Dec-25F</b>	<b>Dec-26F</b>
	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 SCGB's total emissions have been increasing, its Scope 1 emissions eased to 7,440 tonnes in FY23 from 9,713 in FY20.

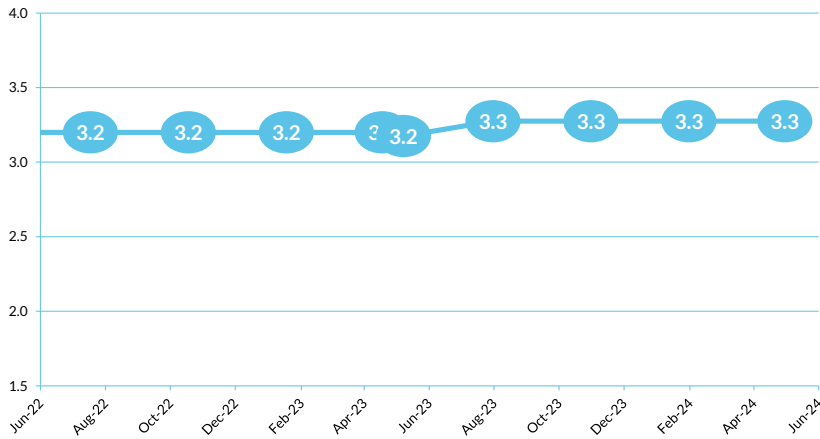
Emissions (tCO2e)	Dec-21	Dec-22	Dec-23
Scope 1	6,104	7,167	7,440
Scope 2	3,863	4,504	6,997
Scope 3	144,401	168,888	314,414
Total emissions	154,368	180,559	328,851

Source: Company data, RHB

## Latest ESG-Related Developments

- Through SCGB's Sustainable Energy Services division, the group continues to be on the forefront of efforts to enable the transition towards a greener economy.
- In FY22, 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
2024-06-10	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
2023-04-05	Buy	2.07	1.69

Source: RHB, Bloomberg

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<b>Buy:</b>	Share price may exceed 10% over the next 12 months
<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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