

12 January 2024

Construction & Engineering | Construction

Sunway Construction (SCGB MK)

Buy (Maintained)

Standing Out Strongly Down South; Stay BUY

Target Price (Return): MYR2.42 (+11%)
 Price (Market Cap): MYR2.19 (USD608m)
 ESG score: 3.3 (out of 4)
 Avg Daily Turnover (MYR/USD) 0.96m/0.21m

- **Still BUY, with new MYR2.42 TP from MYR2.22, 11% upside and c.3% FY24F yield.** We believe Sunway Construction is in a sweet spot to benefit from the Johor-Singapore Special Economic Zone (JS-SEZ) from various angles, from industrial buildings to renewable energy (RE). We still favour SCGB and even without the JS-SEZ – prospects are backed by Mass Rapid Transit 3, reinstatement of Light Rail Transit (LRT) 3 stations, and Penang LRT. The financial close of Song Hau 2 power plant (expected by end-1H24) may add c.MYR6bn to its orderbook (latest orderbook: c.MYR5.8bn).
- **Market speculation is rife on the exact location of the JS-SEZ** – either in Kulai which houses the Sedenak Tech Park (STeP) or somewhere near the Tuas Link. Should the JS-SEZ be situated near the Second Link, we may likely see spillover effects on the Sunway City Iskandar Puteri (SCIP) (GDV: c.MYR30bn) with c.1,770 acres of land near the Second Link and subsequently, towards SCGB. SCGB has completed c.MYR1.7bn worth of projects in Johor with c.MYR900m jobs in SCIP. Assuming the JS-SEZ is in Kulai, SCGB already has a foothold in places like STeP via the MYR1.7bn data centre project it secured in Dec 2022.
- **RE initiatives** mentioned in the MoU of the JS-SEZ could likely spell opportunities from the EPCC of solar plants, in our view. Recall that SCGB has secured c.MYR500m of EPCC contracts for solar projects. Solar energy prospects could be further backed by Malaysia's move to reverse the policy of banning exports of RE to Singapore.
- **Even putting the JS-SEZ factor aside**, Singapore real estate group, Equalbase will jointly develop an MYR8bn carbon neutral logistics hub with Sunway (SWB MK, BUY, TP: MYR3.00) in a free commercial zone within SCIP. Aside from residential and retail premises – SCGB was previously involved in industrial projects in Johor such as the MYR121m job for the Bio-Xcell plant. SCGB has strengthened its muscle for industrial jobs in general after securing the MYR298m (50% effective share via SCGB-Kajima (Malaysia) JV) from Daiso Malaysia Group for a global distribution centre warehouse in Pulau Indah, Selangor. Therefore, we view SCGB to be eyeing projects under the said MYR8bn carbon neutral logistics hub.
- **No changes to our earnings estimates** but we are adjusting our target P/E (pegged to our FY24F EPS) to 18.5x from 17x. As such, we arrive at a new TP of MYR2.42 after imputing a 6% ESG premium based on our proprietary ESG scoring methodology. We believe this target P/E (which is above its 5-year mean P/E of 16x) is justified as SCGB was trading near around 18.5x during the mid-2017. Moreover, the stock's 17.8x FY24F P/E is below the target P/E. Additional catalysts could be SCGB's potential participation in the Johor Bahru LRT, which we view as likely given its current MYR605m contract for the JB-Singapore Rapid Transit System (RTS) Link.
- **Key risks:** Project delays and a prolonged period of high material costs.

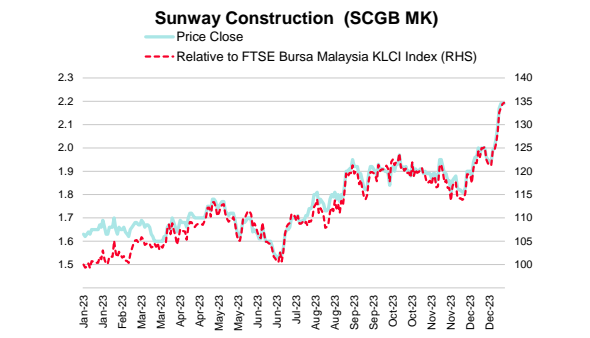
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	12.9	15.3	13.5	28.8	34.4
Relative	11.0	12.8	10.3	22.2	34.7
52-wk Price low/high (MYR)	1.53 – 2.19				



Source: Bloomberg

Forecasts and Valuation	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Total turnover (MYRm)	1,729	2,155	2,666	2,809	3,279
Recurring net profit (MYRm)	145	144	135	159	180
Recurring net profit growth (%)	57.1	(0.5)	(6.1)	17.8	13.3
Recurring P/E (x)	19.54	19.64	20.92	17.76	15.67
P/B (x)	4.0	3.8	3.6	3.3	3.0
P/CF (x)	11.84	na	20.69	13.70	16.23
Dividend Yield (%)	2.4	2.5	2.9	3.4	3.8
EV/EBITDA (x)	13.58	12.34	10.58	10.25	9.20
Return on average equity (%)	16.9	18.8	17.7	19.3	20.2
Net debt to equity (%)	20.4	net cash	6.7	net cash	net cash

Source: Company data, RHB

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.

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Financial Exhibits

Asia	Financial summary (MYR)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Malaysia	Recurring EPS	0.11	0.11	0.10	0.12	0.14
Construction & Engineering	DPS	0.05	0.05	0.06	0.07	0.08
Sunway Construction	BVPS	0.54	0.57	0.61	0.66	0.72
SCGB MK	Return on average equity (%)	16.9	18.8	17.7	19.3	20.2
Buy						
	Valuation metrics	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
	Recurring P/E (x)	19.54	19.64	20.92	17.76	15.67
	P/B (x)	4.0	3.8	3.6	3.3	3.0
	FCF Yield (%)	7.2	(8.6)	2.9	5.4	4.2
	Dividend Yield (%)	2.4	2.5	2.9	3.4	3.8
	EV/EBITDA (x)	13.58	12.34	10.58	10.25	9.20
	EV/EBIT (x)	16.24	13.92	13.19	12.29	11.03
	Income statement (MYRm)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
	Total turnover	1,729	2,155	2,666	2,809	3,279
	Gross profit	358	375	510	511	648
	EBITDA	167	210	259	251	277
	Depreciation and amortisation	(27)	(24)	(51)	(42)	(46)
	Operating profit	139	186	208	209	231
	Net interest	(0)	(4)	(38)	(17)	(12)
	Pre-tax profit	152	184	175	201	228
	Taxation	(41)	(45)	(36)	(39)	(44)
	Reported net profit	113	135	135	159	180
	Recurring net profit	145	144	135	159	180
	Cash flow (MYRm)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
	Change in working capital	153	(382)	(54)	2	(55)
	Cash flow from operations	238	(215)	136	206	174
	Capex	(35)	(27)	(55)	(55)	(55)
	Cash flow from investing activities	(174)	424	(55)	(54)	(53)
	Dividends paid	(52)	(90)	(81)	(95)	(108)
	Cash flow from financing activities	(122)	143	(25)	(29)	(40)
	Cash at beginning of period	200	99	492	469	592
	Net change in cash	(58)	351	56	124	81
	Ending balance cash	143	450	548	592	674
	Balance sheet (MYRm)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
	Total cash and equivalents	99	576	553	677	758
	Tangible fixed assets	125	108	269	183	191
	Total investments	724	223	223	223	223
	Total assets	1,864	2,236	2,523	2,612	2,906
	Short-term debt	93	172	211	261	311
	Total long-term debt	153	312	400	310	320
	Total liabilities	1,147	1,415	1,652	1,680	1,906
	Total equity	717	821	871	931	1,000
	Total liabilities & equity	1,864	2,236	2,523	2,612	2,906
	Key metrics	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
	Revenue growth (%)	11.4	24.6	23.7	5.4	16.7
	Recurrent EPS growth (%)	57.3	(0.5)	(6.1)	17.8	13.3
	Gross margin (%)	20.7	17.4	19.1	18.2	19.8
	Operating EBITDA margin (%)	9.6	9.7	9.7	8.9	8.4
	Net profit margin (%)	6.5	6.3	5.1	5.7	5.5
	Dividend payout ratio (%)	60.1	52.6	60.0	60.0	60.0
	Capex/sales (%)	2.0	1.3	2.1	2.0	1.7
	Interest cover (x)	30.4	10.3	3.9	5.9	8.5

Source: Company data, RHB

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Figure 1 : Projects undertaken by SCGB in Johor (excluding data centre projects and the JB-SG RTS Link project)

Work Packages	Value (MYRm)
Sunway Big Box Office, Sunway City Iskandar Puteri	51
Sunway Big Box Hotel, Iskandar	99
Emerald Residence, Iskandar	174
Sunway Big Box Retail, Johor	200
Emerald Boulevard 88, Iskandar	56
Coastal Highway Southern Link	170
Sunway Citrine, Iskandar	212
Sunway Iskandar International School	27
Sunway Lenang Heights	95
Urban Wellness project	282
Legoland Malaysia	257
Bio-Xcell plant	121
Total	1,744

Source: Company data, RHB

Emissions And ESG

Trend analysis

While total emissions have been increasing, the Scope 1 emissions have eased to 7,167 tonnes in FY22 from 9,713 in FY20.

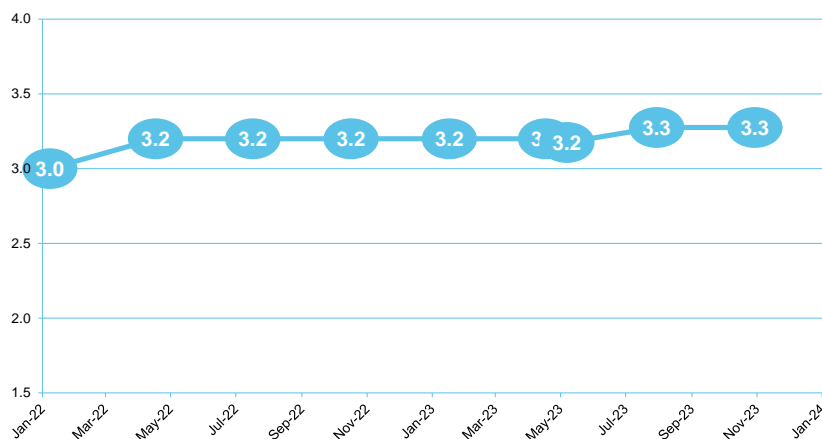
Emissions (tCO2e)	Dec-20	Dec-21	Dec-22
Scope 1	9,713	6,104	7,167
Scope 2	2,793	3,863	4,504
Scope 3	139,395	144,401	168,888
Total emissions	151,901	154,368	180,559

Source: Company data, RHB

Latest ESG-Related Developments

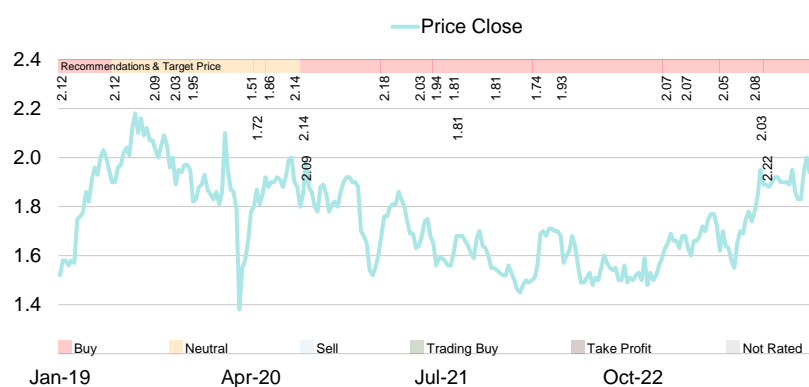
- Through SCGB's Sustainable Energy Services division, the group continues to be in the forefront of ongoing efforts to enable the transition towards a greener economy.
- In FY22, the division completed 18 rooftop solar panels installation projects with a cumulative clean energy generating capacity of 17,866 kWp.

ESG Rating History



Source: RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
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
2023-03-02	Buy	2.07	1.69
2023-02-22	Buy	2.07	1.66
2023-01-25	Buy	2.07	1.67
2023-01-04	Buy	2.07	1.63
2022-11-22	Buy	1.93	1.43
2022-11-02	Buy	1.93	1.57

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
Sell:	Share price may fall by more than 10% over the next 12 months
Not Rated:	Stock is not within regular research coverage

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