

21 February 2024

Construction & Engineering | Construction

Sunway Construction (SCGB MK)

Buy (Maintained)

A Record Year With Growth Prospects Intact; BUY

Target Price (Return): MYR3.34 (28%)
 Price (Market Cap): MYR2.61 (USD701m)
 ESG score: 3.3 (out of 4)
 Avg Daily Turnover (MYR/USD) 3.34m/0.71m

- **BUY, new MYR3.34 TP from MYR2.42, 28% upside, c.4% yield.** FY23 core net profit of MYR170.2m (FY22: MYR144m) exceeded our and Street's estimates at 126% and 122% of full-year projections. The positive deviation was due to higher-than-expected progress billings of ongoing projects (mainly internal projects). We expect FY24 to see >10% core earnings growth, backed by data centre jobs in Johor (ramped up progress) and steady internal jobs from its listed parent (38% of its outstanding orderbook).
- **The construction arm's 21% YoY revenue growth in FY23** was offset by lower PBT margin of 7.1% (FY22: 8.8%) as FY22 saw the finalisation of accounts for some projects and reversal for a legal case provision. Sunway Construction's precast segment saw FY23 PBT of MYR18.7m (+75% YoY) vs MYR10.7m in FY22, supported by better activity at its Integrated Construction & Prefabrication Hub amid better precast demand.
- **Prospects.** SCGB's construction orderbook stood at MYR5.3bn at end-4Q23 (end-4Q22: MYR5.3bn) with MYR2.5bn orders secured. Looking ahead, SCGB has MYR26bn worth of active tenders comprising two bids under the Mass Rapid Transit 3 (MRT3) project, some warehousing and semiconductor facilities, as well as internal bids. Additional job replenishment could come from the reinstatement of five Light Rail Transit (LRT) 3 stations, Bayan Lepas LRT, and Sunway City Iskandar Puteri (SCIP) located near the Second Link.
- **We revise FY24-25F earnings** by +22% each after bumping up our new job win assumptions to MYR3bn (from MYR2.5bn) and MYR2.5bn (from MYR2bn) for FY24F and FY25F. Our FY24F job win target is at the higher end of SCGB's guidance of MYR2.5bn-3bn, given the aforementioned prospects. We also introduce FY26F earnings, with a job win assumption of MYR3bn. Post earnings adjustment and rolling forward our valuation base to FY25F, we derived our new MYR3.34 TP via pegging our FY25F EPS to an unchanged 18.5x target P/E. Our TP also bakes in a 6% ESG premium based on an ESG score of 3.3.
- **The stock is trading at 15.3x FY25P/E**, a premium to the Bursa Malaysia Construction Index's 5-year mean of 13x. We think this is justified, given SCGB's ROE which is significantly higher than its peers, and its potential to benefit from the Johor-Singapore Special Economic Zone via SCIP. Our current estimates have also yet to impute the Song Hau 2 power plant project which may significantly boost its orderbook by c.MYR6bn and increase FY24F earnings by c.8% if the project commences by 1H24. SCGB's potential to mark its presence in Sarawak via Sunway's (SWB MK, BUY, TP: MYR3.45) two MoUs with Sarawak-based entities, covering a total of 616 acres of land, could also serve as a rerating catalyst.
- **Key risks:** Project delays and a prolonged period of high material costs.

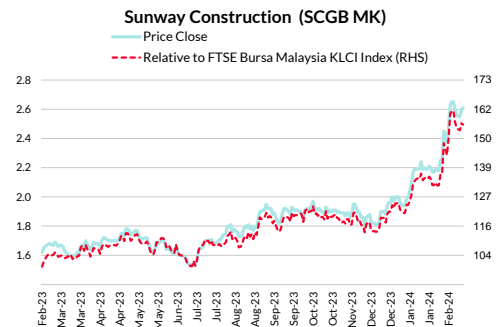
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	34.5	19.2	35.9	46.6	61.1
Relative	27.6	14.5	29.1	39.0	55.5
52-wk Price low/high (MYR)				1.53	-2.65



Source: Bloomberg

Forecasts and Valuation	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Total turnover (MYRm)	2,155	2,671	3,208	3,796	3,841
Recurring net profit (MYRm)	144	170	194	220	250
Recurring net profit growth (%)	(0.3)	18.2	14.1	13.1	13.7
Recurring P/E (x)	23.37	19.77	17.33	15.32	13.48
P/B (x)	4.6	4.1	3.7	3.4	3.1
P/CF (x)	na	na	7.11	23.16	10.88
Dividend Yield (%)	2.1	2.3	3.5	3.9	4.5
EV/EBITDA (x)	14.90	12.63	12.93	10.88	10.38
Return on average equity (%)	18.8	18.6	22.6	23.3	24.1
Net debt to equity (%)	net cash	38.7	26.1	27.2	32.5

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-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Malaysia	Recurring EPS	0.11	0.13	0.15	0.17	0.19
Construction & Engineering	DPS	0.05	0.06	0.09	0.10	0.12
Sunway Construction	BVPS	0.57	0.64	0.70	0.76	0.84
SCGB MK	Return on average equity (%)	18.8	18.6	22.6	23.3	24.1
Buy						
	Valuation metrics	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Recurring P/E (x)	23.37	19.77	17.33	15.32	13.48
	P/B (x)	4.6	4.1	3.7	3.4	3.1
	FCF Yield (%)	(7.2)	(9.0)	12.4	2.7	7.5
	Dividend Yield (%)	2.1	2.3	3.5	3.9	4.5
	EV/EBITDA (x)	14.90	12.63	12.93	10.88	10.38
	EV/EBIT (x)	16.80	15.73	15.32	12.71	12.16
	Income statement (MYRm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Total turnover	2,155	2,671	3,208	3,796	3,841
	Gross profit	366	198	477	754	744
	EBITDA	210	279	267	320	345
	Depreciation and amortisation	(24)	(55)	(42)	(46)	(50)
	Operating profit	187	224	225	274	295
	Net interest	(4)	(21)	(4)	(0)	(1)
	Pre-tax profit	184	189	230	269	304
	Taxation	(45)	(43)	(45)	(52)	(59)
	Reported net profit	135	145	194	220	250
	Recurring net profit	144	170	194	220	250
	Cash flow (MYRm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Change in working capital	(382)	(498)	247	(117)	14
	Cash flow from operations	(215)	(286)	474	145	309
	Capex	(27)	(18)	(55)	(55)	(56)
	Cash flow from investing activities	424	(88)	(54)	(53)	(256)
	Dividends paid	(90)	(72)	(117)	(132)	(150)
	Cash flow from financing activities	143	349	247	159	134
	Cash at beginning of period	99	492	470	598	622
	Net change in cash	351	(25)	667	252	188
	Ending balance cash	446	467	1,137	850	812
	Balance sheet (MYRm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Total cash and equivalents	576	582	710	734	704
	Tangible fixed assets	108	99	183	191	196
	Total investments	223	253	253	253	253
	Total assets	2,236	3,083	3,106	3,412	3,607
	Short-term debt	172	438	488	538	588
	Total long-term debt	312	489	477	487	497
	Total liabilities	1,415	2,191	2,128	2,343	2,432
	Total equity	821	892	979	1,069	1,174
	Total liabilities & equity	2,236	3,083	3,106	3,412	3,607
	Key metrics	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Revenue growth (%)	24.6	23.9	20.1	18.3	1.2
	Recurrent EPS growth (%)	(0.3)	18.2	14.1	13.1	13.7
	Gross margin (%)	17.0	7.4	14.9	19.9	19.4
	Operating EBITDA margin (%)	9.8	10.5	8.3	8.4	9.0
	Net profit margin (%)	6.3	5.4	6.1	5.8	6.5
	Dividend payout ratio (%)	52.5	53.3	60.0	60.0	60.0
	Capex/sales (%)	1.3	0.7	1.7	1.4	1.5
	Interest cover (x)	10.3	4.7	3.7	5.6	6.5

Source: Company data, RHB

Results At a Glance

Figure 1: SCGB's results review

FYE Dec (MYRm)	4Q22	3Q23	4Q23	QoQ (%)	YoY (%)	FY22	FY23	YoY (%)	Comments
Revenue	503.4	673.5	871.5	29.4	73.1	2,155.2	2,671.2	23.9	Better progress billings due from internal projects
EBIT	64.0	54.1	81.8	51.1	27.8	177.7	224.3	26.2	
EBIT margin (%)	12.7	8.0	9.4			8.2	8.4		
Interest expense	(10.5)	(13.0)	(15.2)	16.4	44.8	(18.0)	(47.9)	>100	
Interest income	4.4	7.0	8.6	22.5	94.9	13.9	26.4	90.6	
EI/Others	(0.4)	(2.9)	(24.7)	nm	nm	(8.8)	(25.0)	nm	
Pretax profit	56.3	48.1	60.8	26.3	7.9	184.1	188.6	2.5	
Pretax margin (%)	11.2	7.1	7.0			8.5	7.1		
Tax	(10.8)	(12.6)	(12.3)	(2.0)	14.3	(45.3)	(42.8)	(5.6)	
Effective tax rate (%)	(2.1)	(26.2)	(16.4)			(24.9)	(21.1)		
Minority interest	0.1	(0.5)	0.8	nm	nm	(3.6)	(0.7)	(79.3)	
Net profit	45.6	35.0	49.3	40.7	7.9	135.2	145.1	7.3	
Core profit	46.0	37.9	74.0	95.3	60.6	144.0	170.2	18.1	Exceeded expectations
Core net margin (%)	9.1	5.6	8.5			6.7	6.4		

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.

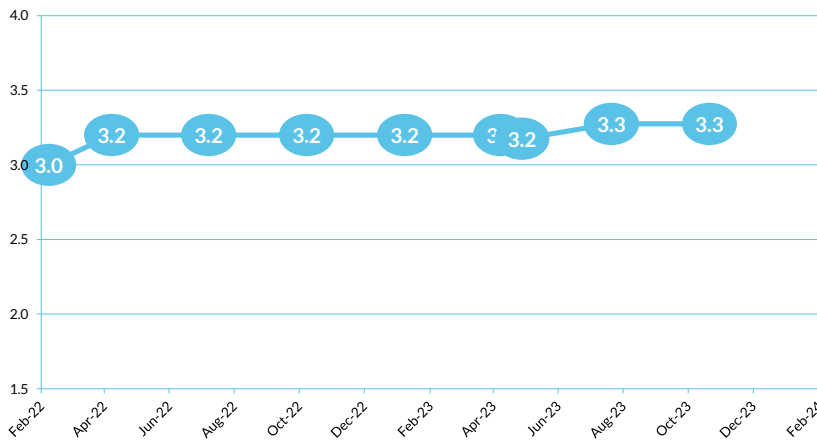
Emissions (tCO2e)	Dec-21	Dec-22	Dec-23
Scope 1	6,104	7,167	na
Scope 2	3,863	4,504	na
Scope 3	144,401	168,888	na
Total emissions	154,368	180,559	na

Source: Company data, RHB

Latest ESG-Related Developments

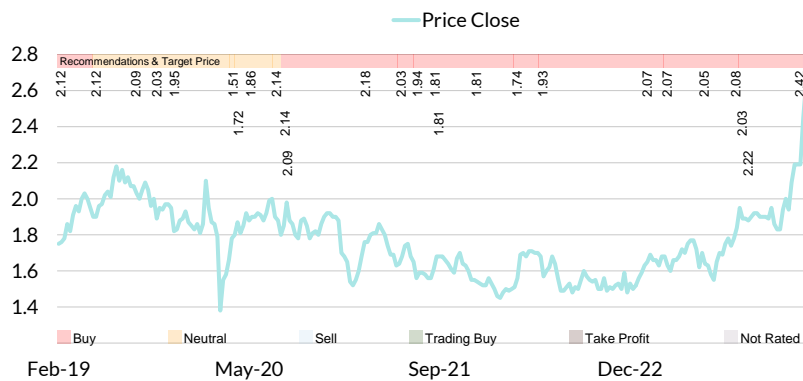
- Through SunCon’s Sustainable Energy Services division, the group continues to be in the forefront of ongoing efforts to enable the transition towards a greener economy.
- In FY2022, the division completed 18 rooftop solar panels installation projects with a cumulative clean energy generating capacity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

ESG Rating History



Source: RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2024-01-12	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
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

Source: RHB, Bloomberg

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Buy:	Share price may exceed 15% over the next 12 months
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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