

22 November 2024

Construction & Engineering | Construction

Sunway Construction (SCGB MK)

Buy (Maintained)

Building Up Momentum For Data Centre Job Progress

Target Price (Return): MYR5.50 (+24%)
 Price (Market Cap): MYR4.43 (USD1,280m)
 ESG score: 3.3 (out of 4)
 Avg Daily Turnover (MYR/USD) 12.3m/2.84m

- **Maintain BUY and MYR5.50 TP, 24% upside with c.3% FY25F yield.** Sunway Construction's 9M24 core net profit of MYR98.3m (+2.3% YoY) accounts for 61% and 56% of our and Street full-year projections. However, we view results as in line as we envisage a stronger 4Q24, backed by greater progress of its jobs for data centres (DC) and Sunway (SWB MK, BUY, TP: MYR5.00). While SCGB may record lower earnings in FY24, we believe FY25F will likely be a supercharged year (53% growth) – underpinned by stronger revenue recognition from a mix of DC jobs (c.50% of outstanding orderbook).
- **The construction arm's PBT surged by 65% YoY in 3Q24**, with a stronger margin of 8.2% (3Q23: 7%) amid accelerated progress of ongoing projects (particularly DCs). Meanwhile, its precast segment recorded a 3Q24 PBT of MYR2m vs MYR6.5m in 3Q23, due to higher contributions from projects nearing completion a year ago.
- **Orderbook update.** SCGB's construction orderbook as of end-3Q24 stood at c.MYR7.1bn (end-3Q23: MYR5.8bn), with MYR4bn orders secured (vs our FY24 target of MYR4.5bn). The company has MYR10.6bn worth of active tenders comprising DC, warehousing and semiconductor facilities.
- **We make no changes to our earnings estimates** as we deem results to be in line. This is premised on better progress in 4Q24 for its first package for the JHB1X0 DC job in Johor worth MYR1.7bn. The first package of JHB1X0 had a 36.5% completion rate as of end-3Q24, compared with progress of just 14.1-14.7% from end-4Q23 to end-2Q24 (Figure 2). Hence, our TP of MYR5.50 remains put – derived by pegging FY25F EPS to an unchanged target P/E of 27x to reflect the breadth of industrial jobs it has (especially DCs). Such jobs have shorter turnaround times and higher margins vs normal building and infrastructure contracts. Our TP also bakes in a 6% ESG premium as SCGB's ESG score is three notches above the country median.
- **The stock is trading at 23x FY25P/E**, which is at a premium from Bursa Malaysia Construction Index's 10-year mean of 13x. We think this is justified – as SCGB's ROE is significantly higher than its peers', and it is set to benefit from catalysts such as securing semiconductor-related jobs (it has yet to clinch any) and infrastructure contract wins, eg the Penang International Airport expansion and Segment 2 of the Penang LRT Mutiara Line.
- **In the longer run, SCGB is likely to benefit from the Johor-Singapore Special Economic Zone** via Sunway City Iskandar Puteri. This is on top of parent company Sunway's hospital expansion plans across Penang, Kelantan and Iskandar Puteri, as well as its intention to build an education campus in Ipoh in the future.
- **Key downside risks:** Project delays and a prolonged period of high material costs.

Analyst

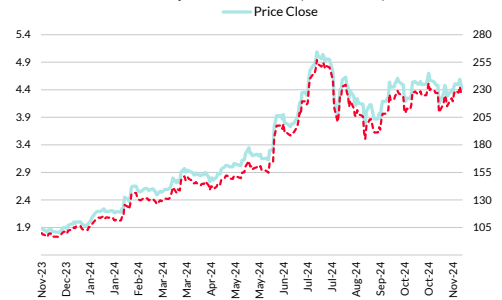
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	128.4	(1.6)	7.5	36.3	134.4
Relative	119.2	1.9	10.4	38.4	125.8
52-wk Price low/high (MYR)				1.81	-5.09

Sunway Construction (SCGB MK)



Source: Bloomberg

Forecasts and Valuation	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Total turnover (MYRm)	2,155	2,671	2,920	3,935	5,066
Recurring net profit (MYRm)	144	170	162	248	314
Recurring net profit growth (%)	(0.3)	18.2	(4.8)	52.9	26.8
Recurring P/E (x)	39.67	33.56	35.27	23.07	18.19
P/B (x)	7.7	7.0	6.5	5.8	5.1
P/CF (x)	na	na	12.65	44.14	18.61
Dividend Yield (%)	1.2	1.4	1.7	2.6	3.3
EV/EBITDA (x)	26.06	21.03	23.44	16.26	13.60
Return on average equity (%)	18.8	18.6	19.0	26.5	30.0
Net debt to equity (%)	net cash	38.7	26.9	30.8	38.6

Source: Company data, RHB

Overall ESG Score: 3.3 (out of 4)

E: EXCELLENT

SCGB installed rooftop solar panels at its Sunway Precast Industries plant at Senai, Johor, to reduce carbon emissions at the site. With this, 98.6MWh of energy can be consumed via solar power generation at this plant, avoiding 57.7 tonnes of carbon emissions.

S: GOOD

The group ensures the safety and health of all employees, and safety at public areas surrounding 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.

Financial Exhibits

Asia	Financial summary (MYR)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Malaysia	Recurring EPS	0.11	0.13	0.13	0.19	0.24
Construction & Engineering	DPS	0.05	0.06	0.08	0.12	0.15
Sunway Construction	BVPS	0.57	0.64	0.69	0.76	0.86
SCGB MK	Return on average equity (%)	18.8	18.6	19.0	26.5	30.0
Buy						
	Valuation metrics	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Valuation basis	Recurring P/E (x)	39.67	33.56	35.27	23.07	18.19
FY25F P/E of 27x.	P/B (x)	7.7	7.0	6.5	5.8	5.1
	FCF Yield (%)	(4.2)	(5.3)	6.9	1.3	4.4
Key drivers	Dividend Yield (%)	1.2	1.4	1.7	2.6	3.3
Sunway Construction's earnings are backed by:	EV/EBITDA (x)	26.06	21.03	23.44	16.26	13.60
i. An outstanding order backlog of MYR6.3bn, of which >90% is from construction, which would keep the firm busy for the next three years;	EV/EBIT (x)	29.38	26.20	28.19	18.63	15.36
ii. Recurring orders from its parent company.						
	Income statement (MYRm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Key risks	Total turnover	2,155	2,671	2,920	3,935	5,066
i. Project delays;	Gross profit	366	198	457	853	1,046
ii. A prolonged period of high material costs.	EBITDA	210	279	247	360	441
	Depreciation and amortisation	(24)	(55)	(42)	(46)	(50)
Company Profile	Operating profit	187	224	205	314	390
Sunway Construction is one of the largest construction companies in Malaysia. Apart from civil & infrastructure construction services, the company also provides the more specialised:	Net interest	(4)	(21)	(7)	(3)	(4)
i. Foundation & geotechnical engineering services;	Pre-tax profit	184	189	199	306	387
ii. Mechanical, electrical & plumbing (MEP) services.	Taxation	(45)	(43)	(39)	(60)	(75)
	Reported net profit	135	145	162	248	314
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.	Recurring net profit	144	170	162	248	314
	Cash flow (MYRm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Change in working capital	(382)	(498)	250	(163)	(55)
	Cash flow from operations	(215)	(286)	451	129	307
	Capex	(27)	(18)	(55)	(55)	(56)
	Cash flow from investing activities	424	(88)	(54)	(53)	(256)
	Dividends paid	(90)	(72)	(97)	(149)	(188)
	Cash flow from financing activities	143	349	267	142	96
	Cash at beginning of period	99	492	470	595	587
	Net change in cash	351	(25)	664	219	147
	Ending balance cash	446	467	1,135	815	735
	Balance sheet (MYRm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Total cash and equivalents	576	582	707	699	627
	Tangible fixed assets	108	99	183	191	196
	Total investments	223	253	253	253	253
	Total assets	2,236	3,083	2,959	3,421	4,064
	Short-term debt	172	438	488	538	588
	Total long-term debt	312	489	477	487	497
	Total liabilities	1,415	2,191	2,000	2,362	2,877
	Total equity	821	892	959	1,059	1,187
	Total liabilities & equity	2,236	3,083	2,959	3,421	4,064
	Key metrics	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Revenue growth (%)	24.6	23.9	9.3	34.8	28.7
	Recurrent EPS growth (%)	(0.3)	18.2	(4.8)	52.9	26.8
	Gross margin (%)	17.0	7.4	15.7	21.7	20.6
	Operating EBITDA margin (%)	9.8	10.5	8.5	9.2	8.7
	Net profit margin (%)	6.3	5.4	5.5	6.3	6.2
	Dividend payout ratio (%)	52.5	53.3	60.0	60.0	60.0
	Capex/sales (%)	1.3	0.7	1.9	1.4	1.1
	Interest cover (x)	10.3	4.7	3.4	6.4	8.6

Source: Company data, RHB

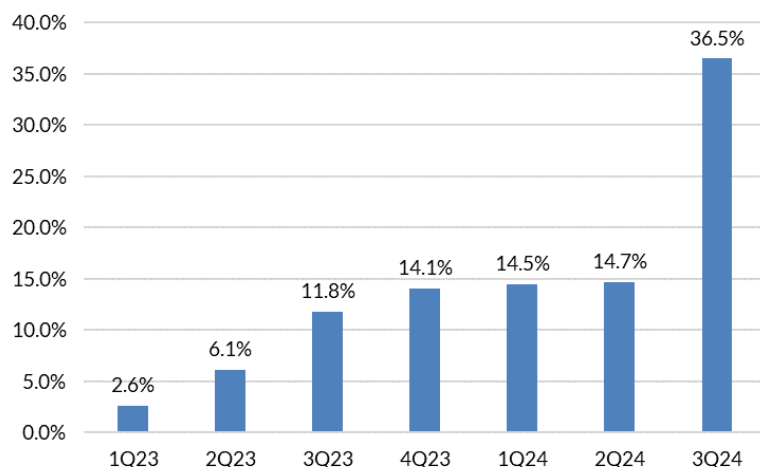
Results At a Glance

Figure 1: SCGB's results review

FYE Dec (MYRm)	3Q23	2Q24	3Q24	QoQ (%)	YoY (%)	9M23	9M24	YoY (%)	Comments
Revenue	673.5	651.2	865.3	32.9	28.5	1,799.7	2,121.4	17.9	Better progress billings from DC jobs.
EBIT	54.1	52.7	64.8	23.1	19.7	142.5	170.6	19.7	
EBIT margin (%)	8.0	8.1	7.5			7.9	8.0		
Interest expense	(13.0)	(17.8)	(16.6)	(6.4)	27.7	(32.8)	(50.6)	54.5	
Interest income	7.0	15.3	22.4	45.9	>100	17.8	42.4	>100	
Pretax profit	48.1	50.2	70.5	40.5	46.6	127.9	162.4	27.0	
Pretax margin (%)	7.1	7.7	8.2			7.1	7.7		
Tax	(12.6)	(12.4)	(21.9)	75.9	73.7	(30.5)	(43.3)	42.0	
Effective tax rate (%)	(1.9)	(24.8)	(31.0)			(23.9)	(26.6)		
Minority interest	(0.5)	1.1	(2.2)	>-100	>-100	(1.6)	(1.4)	(12.5)	
Net profit	35.0	38.9	46.5	19.6	32.7	95.8	117.7	22.8	
Core profit	37.9	37.2	34.2	(8.1)	(9.8)	96.1	98.3	2.3	In line with expectations.
Core net margin (%)	5.6	5.7	3.9			5.3	4.6		

Source: Company data, RHB

Figure 2: Cumulative progress of the JHBX10 DC job (excluding the revised notice to proceed and tenant improvement works)



Source: Company data

Emissions And ESG

Trend analysis

While total emissions have been increasing, SCGB's Scope 1 emissions decreased to 7,440 tonnes in FY23, from 9,713 in FY20.

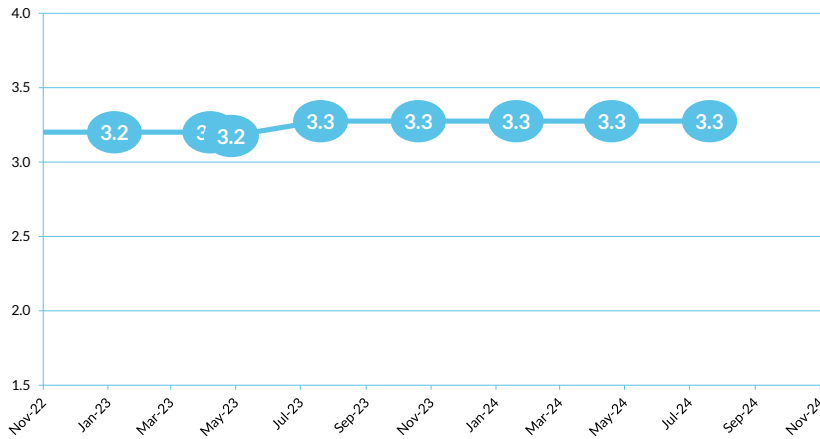
Emissions (tCO2e)	Dec-21	Dec-22	Dec-23
Scope 1	6,104	7,167	7,440
Scope 2	3,863	4,504	6,997
Scope 3	144,401	168,888	314,414
Total emissions	154,368	180,559	328,851

Source: Company data, RHB

Latest ESG-Related Developments

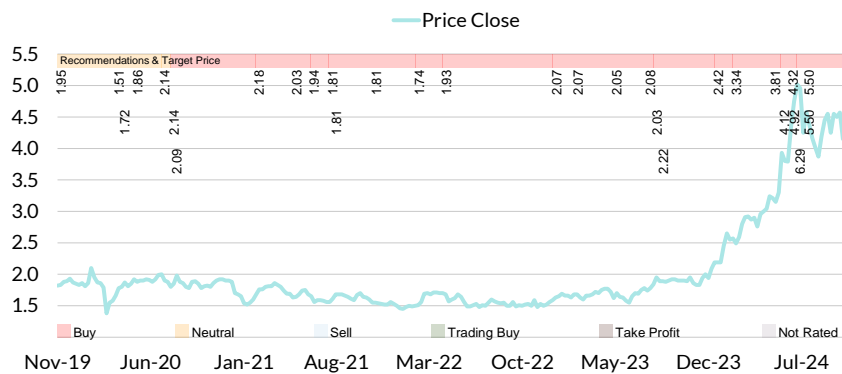
- Through SCGB's Sustainable Energy Services division, the group continues to be at the forefront of ongoing efforts to enable the transition towards a greener economy.
- In FY22, the division completed 18 rooftop solar panels installation projects with a cumulative clean energy generating capacity of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

ESG Rating History



Source: RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2024-08-26	Buy	5.50	4.14
2024-08-23	Buy	5.50	4.16
2024-07-19	Buy	6.29	5.02
2024-07-05	Buy	4.92	4.35
2024-07-01	Buy	4.32	3.90
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

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
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