

26 August 2024

Construction & Engineering | Construction

Sunway Construction (SCGB MK)

Buy (Maintained)

No Slowdown In Scouting For DC Jobs; Stay BUY

Target Price (Return): MYR5.50 (+32%)
 Price (Market Cap): MYR4.16 (USD1,226m)
 ESG score: 3.3 (out of 4)
 Avg Daily Turnover (MYR/USD) 18.4m/4.01m

- **Still BUY and MYR5.50 TP, 32% upside and c.3% FY25F yield.** Post meeting, we remain upbeat on Sunway Construction's prospects. We still view FY25F to be a supercharged year (earnings projected to grow at c.53%) – underpinned by higher recognition from a mix of data centre (DC) jobs coupled with potential DC wins with around 766.9MW of IT supply of DCs committed in Malaysia according to DC Byte. This translates to MYR29-34bn of estimated construction value based on the construction cost of USD8.5-10m per MW in Malaysia based on [Arizton](#).
- **SCGB's tenderbook expanded to MYR13.7bn as of end 2Q24** compared to MYR9.4bn as of end 1Q24. We understand that the increase in tenderbook mostly comes from DC-related jobs while the group is also in the midst of entering into bids for semiconductor-related facilities space (which SCGB has yet to clinch any jobs from). The group's focus will not be much on warehousing facilities as DC and semiconductor jobs tend to fetch healthier margins which are slightly higher than the aggregated PBT margin of 5-8%.
- **Job prospects and strategy.** With MYR3.5bn worth of new jobs YTD-FY24, we view our job replenishment target of MYR4.5bn as a reasonable target with more hyperscale DC providers entering Malaysia. In the grand scheme of things, SCGB plans to cement a solid reputation with current clients via ongoing jobs, of which some are major US-based technology multi-national corporations (MNCs), and later secure jobs for subsequent upsizing of DC facilities – which has occurred in the case of Yellowwood Properties in Sedenak Tech Park (STeP) for the JHB1X0 DC.
- **Manpower management.** Labour supply is not much of an issue for SCGB as a sizeable amount of internal jobs from its parent is slated to end in 4Q24 namely Sunway Belfield, Sunway Velocity 2B and Sunway Medical Centre Joh (including variation orders). Assuming that the manpower from these jobs can be solely used for new jobs (particularly DCs) – SCGB has room to take up c.MYR1.2bn worth of fresh contracts, in our view.
- **No changes to our earnings estimates** but we flag upside risks which may stem from faster-than-expected billings, particularly for the JHB1X0 DC in STeP (worth MYR3.2bn) – targeted for full completion by 1Q26. Hence, our TP of MYR5.50 (derived via pegging the FY25F EPS to an unchanged target P/E of 27x) remains to reflect the breadth of industrial jobs like DCs (some from major MNCs) which can weather risks of not securing public infrastructure jobs. Our TP also bakes in a 6% ESG premium.
- **The stock is currently trading at a 21.7x FY25F P/E**, a premium from the Bursa Malaysia Construction Index's 10-year mean of 13x. We think this is justified given SCGB's ROE which is significantly higher than its peers and a plethora of catalysts such as securing semiconductor-related contracts and infrastructure ones such as the Penang Light Rail Transit.
- **Key risks:** Project delays and a prolonged period of high material costs.

Analyst

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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	114.4	(17.5)	30.0	61.9	131.1
Relative	102.0	(17.9)	29.6	56.3	117.5
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)	37.25	31.52	33.12	21.66	17.08
P/B (x)	7.3	6.5	6.1	5.5	4.8
P/CF (x)	na	na	11.88	41.45	17.48
Dividend Yield (%)	1.3	1.4	1.8	2.8	3.5
EV/EBITDA (x)	24.41	19.78	22.03	15.29	12.81
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

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/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, 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
	Recurring P/E (x)	37.25	31.52	33.12	21.66	17.08
	P/B (x)	7.3	6.5	6.1	5.5	4.8
	FCF Yield (%)	(4.5)	(5.7)	7.4	1.4	4.7
	Dividend Yield (%)	1.3	1.4	1.8	2.8	3.5
	EV/EBITDA (x)	24.41	19.78	22.03	15.29	12.81
	EV/EBIT (x)	27.52	24.64	26.49	17.53	14.47
	Income statement (MYRm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Total turnover	2,155	2,671	2,920	3,935	5,066
	Gross profit	366	198	457	853	1,046
	EBITDA	210	279	247	360	441
	Depreciation and amortisation	(24)	(55)	(42)	(46)	(50)
	Operating profit	187	224	205	314	390
	Net interest	(4)	(21)	(7)	(3)	(4)
	Pre-tax profit	184	189	199	306	387
	Taxation	(45)	(43)	(39)	(60)	(75)
	Reported net profit	135	145	162	248	314
	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

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 tonnes in FY20.

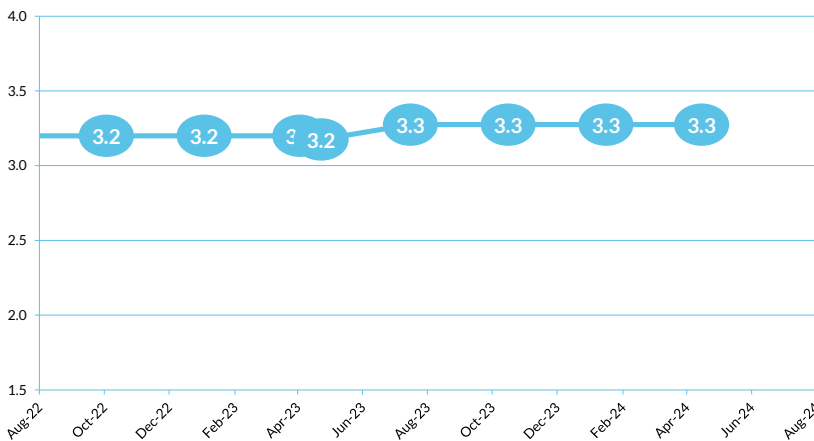
Emissions (tCO2e)	Dec-21	Dec-22	Dec-23
Scope 1	6,104	7,167	7,440
Scope 2	3,863	4,504	6,997
Scope 3	144,401	168,888	314,414
Total emissions	154,368	180,559	328,851

Source: Company data, RHB

Latest ESG-Related Developments

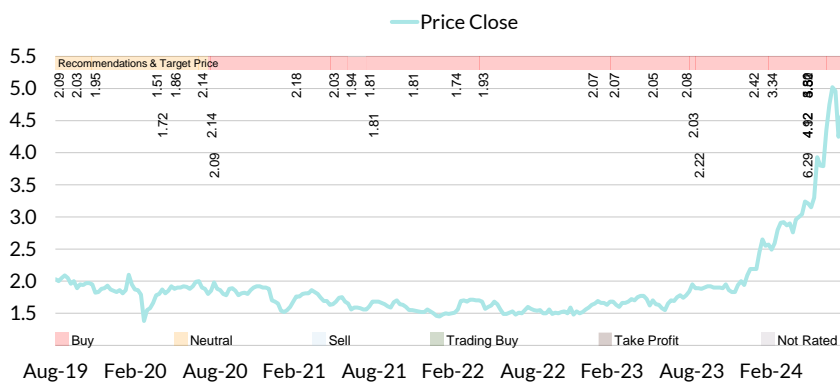
- Through SCGB's Sustainable Energy Services division, the group continues to be in the forefront of ongoing efforts to enable the transition towards a greener economy. In FY2022, the division completed 18 rooftop solar panels installation projects with a cumulative clean energy generating capacity of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

ESG Rating History



Source: RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2024-08-23	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
2023-08-24	Buy	2.03	1.79

Source: RHB, Bloomberg

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Neutral:	Share price may fall within the range of +/- 10% over the next 12 months
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