

20 January 2025

Construction & Engineering | Construction

Sunway Construction (SCGB MK)

Buy (Maintained)

The Sun Has Not Set; Maintain BUY

Target Price (Return): MYR5.50 (+51%)
 Price (Market Cap): MYR3.63 (USD1,039m)
 ESG score: 3.3 (out of 4)
 Avg Daily Turnover (MYR/USD) 13.4m/3.01m

- **Maintain BUY and MYR5.50 TP, 51% upside with c.3% FY25F yield.** Outgoing US president Joe Biden's restriction of artificial intelligence (AI) chip exports to Tier-2 countries like Malaysia should have a limited impact on Sunway Construction. SCGB's major data centre (DC) clients are mainly from Tier-1 countries, which could obtain the Universal Validated End User (UVEU) status, enabling larger quantities of AI chips to be brought into Tier-2 countries. Hence, we believe SCGB's latest sell-down is overdone. We make no change to our TP and earnings estimates, for now.
- **While DCs easily make up c.50% of SCGB's outstanding orderbook,** roughly 80-90% of its DC orderbook is related to clients that are headquartered in Tier-1 countries. As for its MYR11bn active tenderbook (as at end-Sep 2024), we understand that DC-related tenders could be up to 80%, ie worth c.MYR9bn. On further scrutiny, we gathered that the majority of DC tenders are related to project owners headquartered in Tier-1 countries. Therefore, it could be the case that these DC clients would apply for the UVEU status.
- **To address the concern of these DC clients** of likely having off-takers from Tier-3 countries (such as China, according to the US Bureau of Industry and Security), we gathered that SCGB's DC clients are either hyperscalers who are building DCs for their own consumption or co-location providers that mostly have off-takers from non-Tier 3 countries.
- **JHBX10 DC job in Johor.** We believe SCGB may have a chance in clinching future expansion works for the JHBX10 DC (client from a Tier-1 country) as we gathered that total planned capacity is to be c.200-300MW. SCGB's MYR3.9bn of total jobs awards for the said DC is estimated to cover between 100MW and 150MW of capacity contracted out, based on our projections.
- **Looking ahead, incoming DC capacity in Malaysia** may mainly still come from DC providers from Tier-1 countries (Figure 1) which may continue providing potential opportunities for SCGB. Additionally, other potential jobs for SCGB include the Segment 2 of the Penang Light Rail Transit, and upcoming medical centres from its parent Sunway (SWB MK, BUY, TP: MYR5.75).
- **No changes to our estimates.** As such, our TP of MYR5.50 (which bakes in a 6% ESG premium) remains put. Our TP was derived by pegging FY25F EPS to an unchanged target P/E of 27x to reflect SCGB's prominence for DC providers from Tier-1 countries. The stock is currently trading at 18.9x FY25P/E – close to the c.18x observed during the 2017 construction upcycle (which had no DC factor at that time) – which we view is unjustified, based on the nation's digitalisation push which could ensure that investments by global tech giants in Malaysia remain in place.
- **Key risks:** Lower-than-expected job wins.

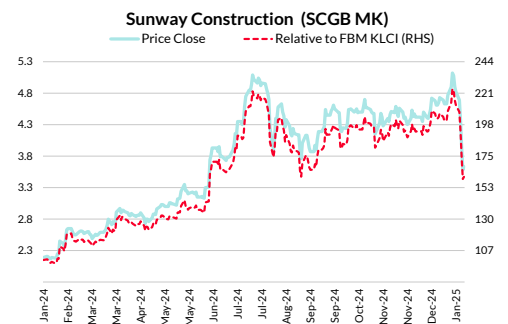
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(21.6)	(17.5)	(19.2)	(26.5)	65.0
Relative	(17.0)	(15.6)	(14.6)	(22.4)	59.9
52-wk Price low/high (MYR)				2.17	-5.12



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)	32.50	27.50	28.90	18.90	14.91
P/B (x)	6.3	5.7	5.3	4.8	4.2
P/CF (x)	na	na	10.37	36.17	15.25
Dividend Yield (%)	1.5	1.7	2.1	3.2	4.0
EV/EBITDA (x)	21.16	17.34	19.26	13.39	11.26
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

It 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 of CO₂/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)	32.50	27.50	28.90	18.90	14.91
	P/B (x)	6.3	5.7	5.3	4.8	4.2
	FCF Yield (%)	(5.2)	(6.5)	8.5	1.6	5.4
	Dividend Yield (%)	1.5	1.7	2.1	3.2	4.0
	EV/EBITDA (x)	21.16	17.34	19.26	13.39	11.26
	EV/EBIT (x)	23.85	21.60	23.17	15.35	12.72
	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

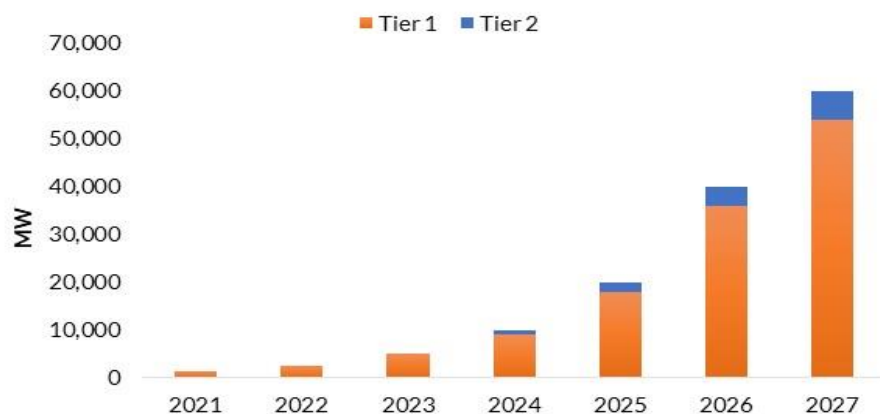
Source: Company data, RHB

Figure 1: DC providers in Malaysia aside from Google, Microsoft and Amazon Web Services (list not exhaustive)

DC Provider	Headquartered In	Country Tier (in respect to headquarters)	Live/launched capacity	Upcoming Planned Capacity
Yondr Group	Netherlands	Tier 1	n.a.	300MW
AirTrunk	Australia	Tier 1	50MW	100MW
EdgeConneX	US	Tier 1	n.a.	Close to 300MW
NTT Global Data Centres	Japan	Tier 1	22MW	290MW
Equinix	US	Tier 1	n.a.	n.a.
NextDC	Australia	Tier 1	0MW	65MW
Vantage DC	US	Tier 1	31MW	256MW
Stack Infrastructure	US	Tier 1	0MW	220MW
K2 DC	Singapore	Tier 2	n.a.	Up to 300MW
Princeton Digital Group (PDG)	Singapore	Tier 2	0MW	150MW
STT GDC JV	Singapore	Tier 2	20MW (in JV with Basis Bay)	120MW
Bridge DC (BDC)	China	Tier 3	16MW	135MW + 100MW (via partnership with Mah Sing)
GDS Holdings	China	Tier 3	69.5MW	168MW (co-developed with YTL Power)

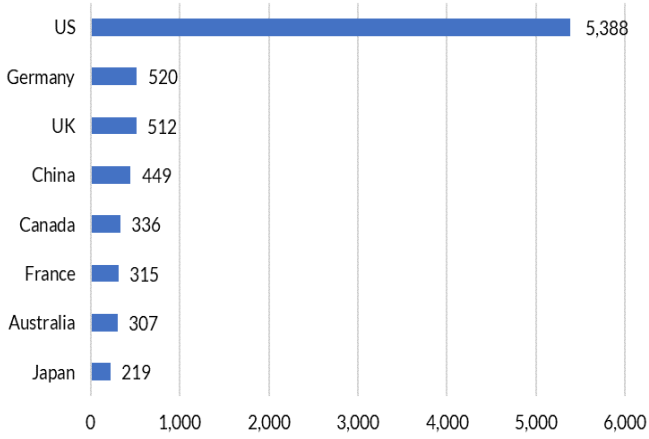
Source: RHB, Various sources

Figure 2: DC capacity in Tier-1 and Tier-2 countries



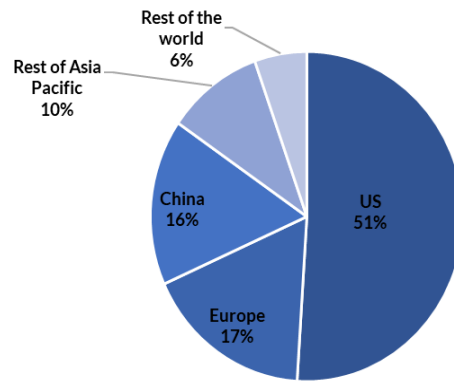
Source: www.semianalysis.com

Figure 3: Number of DCs in top 10 markets



Source: Data Centre Solutions, Cloudscene Platform

Figure 4: Global DC capacity breakdown (%)



Source: Synergy Research Group

Emissions And ESG

Trend analysis

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

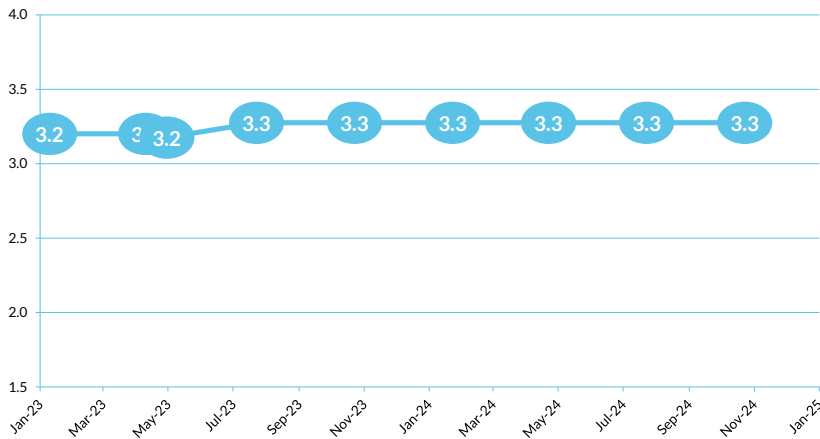
Emissions (tCO2e)	Dec-21	Dec-22	Dec-23
Scope 1	6,104	7,167	7,440
Scope 2	3,863	4,504	6,997
Scope 3	144,401	168,888	314,414
Total emissions	154,368	180,559	328,851

Source: Company data, RHB

Latest ESG-Related Developments

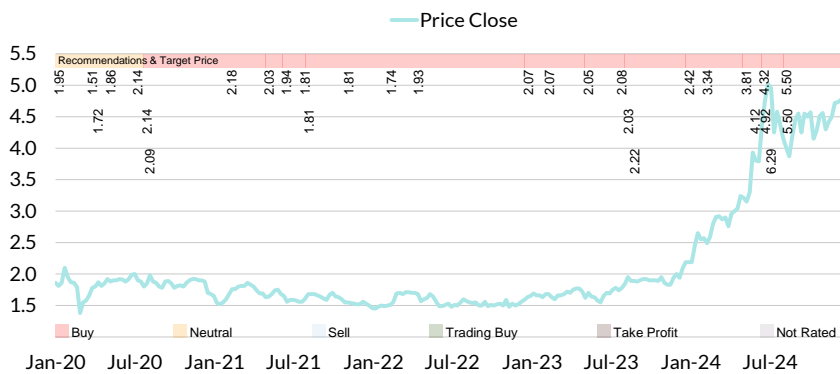
- Through its Sustainable Energy Services division, SCGB continues to be at the forefront of ongoing efforts to enable the transition towards a greener economy.
- In FY22, the division completed 18 rooftop solar panels installation projects with a cumulative clean energy generating capacity of 17,866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

ESG Rating History



Source: RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2024-11-22	Buy	5.50	4.56
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

Source: RHB, Bloomberg

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