

22 February 2023

# Sunway Construction (SCGB MK)

Anticipating a Stronger Year Ahead; Still BUY

- **Still BUY and MYR2.07 TP, 26% upside and c.5% FY23F yield.** Sunway Construction posted FY22 core earnings of MYR144m (FY21: MYR144.5m), which met our but exceeded Street's estimates at 103% and 114% of full-year projections. We expect FY23 to chart a >10% core earnings growth, backed by the data centre job in Johor (higher margins and faster turnaround period) and steady internal job replenishments from its listed parent, which makes up 33% of SCGB's outstanding orderbook.
- **Segmental review.** In PBT terms, the construction segment posted 16.5% YoY growth in FY22 amid works normalisation to full capacities – some projects have even reached peak progress. SCGB's precast segment recorded a FY22 PBT of MYR10.7m (>100% YoY) vs FY21's MYR3.4m – this was underpinned by higher stock turnovers on better progress for construction projects in Singapore post easing of border restrictions there, which facilitated the entry of migrant workers into the republic.
- **Prospects.** SCGB's construction orderbook stood at MYR5.3bn as at end 4Q22 (end 3Q22: MYR4.1bn) with MYR2.6bn orders secured – the highest since FY17's MYR4bn. Looking ahead, it has MYR21.3bn worth of active tenders comprising (amongst others): i) The two work package bids (CMC301 and CMC301) under the Mass Rapid Transit 3 or MRT3 project, ii) two packages under the Johor Bahru-Singapore Rapid Transit System, and iii) some data centre jobs in the Klang Valley. All in, we believe SCGB's foray into the data centre space will buffer any downside risks in terms of cost reviews and delays related to public infrastructure jobs. The commissioning of the group's pre-cast plant in Pulau Punggol in Singapore (maximum annual capacity: c.75,000cu m) could slowly enable SCGB to serve a larger client base there.
- **There are no changes to our earnings forecasts,** as results were within expectations. We also introduce our FY25F earnings, which entails a jobs replenishment assumption of MYR2.3bn A catalyst for further earnings upside would be the potential finalisation of the interim EPC agreement (outcome to be known by 1H23) for the Song Hau thermal power plant that may potentially boost its orderbook by MYR6bn. Our current earnings estimates have yet to impute pending due diligence exercise by SCGB.
- **Valuation.** Our MYR2.07 TP remains unchanged after imputing a 4% premium to our intrinsic valuation based on our proprietary ESG scoring methodology. Our valuation target P/E of 15.5x, which is pegged to our FY23F EPS, is maintained. The valuation target is above the KLCON Index's 5-year mean P/E of 12x and reflects SCGB's commendable orderbook/revenue cover of c.2.7x, which is backed by a robust balance sheet with a net cash position of c.MYR50m as at end FY22. All in, valuations appear undemanding, as the stock is trading at 12.8x FY23F P/E, -1SD from its 5-year mean. Key risks include project delays and a prolonged period of high material costs.

Forecasts and Valuation	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Total turnover (MYRm)	1,729	2,155	2,704	3,020	3,529
Recurring net profit (MYRm)	145	144	166	176	188
Recurring net profit growth (%)	57.1	(0.5)	15.7	6.0	6.6
Recurring P/E (x)	14.76	14.84	12.83	12.10	11.35
P/B (x)	3.1	2.9	2.7	2.4	2.2
P/CF (x)	8.95	na	12.77	9.51	11.43
Dividend Yield (%)	3.2	3.3	4.7	5.0	5.3
EV/EBITDA (x)	9.44	9.05	7.39	7.16	6.61
Return on average equity (%)	16.9	18.8	21.6	21.0	20.6
Net debt to equity (%)	20.4	net cash	net cash	net cash	net cash

Source: Company data, RHB

See important disclosures at the end of this report

Market Dateline / PP 19489/05/2019 (035080)

## Malaysia Results Review

Construction & Engineering | Construction

**Buy** (Maintained)

Target Price (Return):	MYR2.07 (26%)
Price (Market Cap):	MYR1.65 (USD480m)
ESG score:	3.20 (out of 4)
Avg Daily Turnover (MYR/USD)	0.99m/0.22m

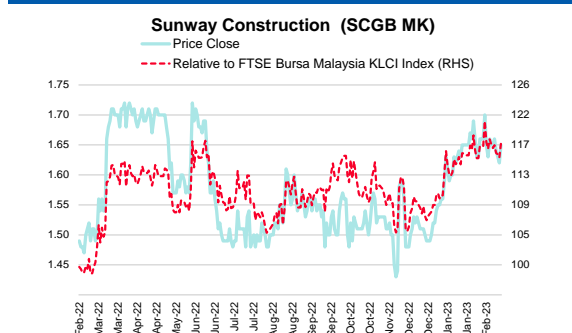
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### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	5.8	0.0	13.8	3.1	10.7
Relative	7.2	1.8	12.0	5.1	17.6
52-wk Price low/high (MYR)				1.43 – 1.72	



Source: Bloomberg

### Overall ESG Score: 3.20 (out of 4)

#### E: EXCELLENT

SCGB 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 plant, avoiding 57.7 tonnes of carbon emissions. In FY21, the group guided that its carbons 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 engagements and efforts to uplift employee relations.

#### G: EXCELLENT

57% of SCGB's board members are independent, with full disclosures on director remunerations, including salaries and bonuses. The group has an in-house investor relations team. Accessibility to this team is excellent and mostly helps deal with investor queries.

#### Note:

Small cap stocks are defined as companies with a market capitalisation of less than USD0.5bn.

## Financial Exhibits

<b>Asia</b>	<b>Financial summary (MYR)</b>	<b>Dec-21</b>	<b>Dec-22</b>	<b>Dec-23F</b>	<b>Dec-24F</b>	<b>Dec-25F</b>
Malaysia	Recurring EPS	0.11	0.11	0.13	0.14	0.15
Construction & Engineering	DPS	0.05	0.05	0.08	0.08	0.09
<b>Sunway Construction</b>	BVPS	0.54	0.57	0.62	0.68	0.73
SCGB MK	Return on average equity (%)	16.9	18.8	21.6	21.0	20.6
Buy						
<b>Valuation basis</b>	<b>Valuation metrics</b>	<b>Dec-21</b>	<b>Dec-22</b>	<b>Dec-23F</b>	<b>Dec-24F</b>	<b>Dec-25F</b>
We value the company based on FY23F P/E of 15.5x.	Recurring P/E (x)	14.76	14.84	12.83	12.10	11.35
SCGB's minimal net debt position allows it to gear up for more jobs moving forward.	P/B (x)	3.1	2.9	2.7	2.4	2.2
	FCF Yield (%)	9.5	(11.4)	5.3	7.9	6.2
	Dividend Yield (%)	3.2	3.3	4.7	5.0	5.3
	EV/EBITDA (x)	9.44	9.05	7.39	7.16	6.61
	EV/EBIT (x)	11.29	10.21	9.18	8.53	7.92
<b>Key drivers</b>	<b>Income statement (MYRm)</b>	<b>Dec-21</b>	<b>Dec-22</b>	<b>Dec-23F</b>	<b>Dec-24F</b>	<b>Dec-25F</b>
SCGB's earnings are backed by:	Total turnover	1,729	2,155	2,704	3,020	3,529
i. An outstanding order backlog of MYR5.3bn, of which >90% is from construction, which would keep the firm busy for the next three years;	Gross profit	358	375	513	520	648
ii. Recurring orders from its parent company.	EBITDA	167	210	262	260	277
	Depreciation and amortisation	(27)	(24)	(51)	(42)	(46)
	Operating profit	139	186	211	218	231
	Net interest	(0)	(4)	(5)	(4)	(3)
	Pre-tax profit	152	184	214	223	237
	Taxation	(41)	(45)	(44)	(43)	(46)
	Reported net profit	113	135	166	176	188
	Recurring net profit	145	144	166	176	188
<b>Key risks</b>	<b>Cash flow (MYRm)</b>	<b>Dec-21</b>	<b>Dec-22</b>	<b>Dec-23F</b>	<b>Dec-24F</b>	<b>Dec-25F</b>
Key risks include project delays and prolonged periods of high material costs.	Change in working capital	153	(382)	(54)	3	(50)
	Cash flow from operations	238	(215)	167	224	187
	Capex	(35)	(27)	(55)	(55)	(55)
	Cash flow from investing activities	(174)	424	(55)	(54)	(53)
	Dividends paid	(52)	(90)	(100)	(106)	(113)
	Cash flow from financing activities	(122)	143	(44)	(39)	(45)
	Cash at beginning of period	200	99	492	480	612
	Net change in cash	(58)	351	68	131	89
	Ending balance cash	143	450	560	612	701
<b>Company Profile</b>	<b>Balance sheet (MYRm)</b>	<b>Dec-21</b>	<b>Dec-22</b>	<b>Dec-23F</b>	<b>Dec-24F</b>	<b>Dec-25F</b>
Sunway Construction is one of the largest construction companies in Malaysia. Apart from civil & infrastructure construction services, the company also provides the more specialised: i) Foundation & geotechnical engineering services and ii) mechanical, electrical & plumbing or MEP services. In addition, the group runs highly profitable precast concrete products manufacturing operations in Malaysia and Singapore. Aside from fulfilling local requirements, SCGB also largely supplies hose concrete products for Singapore's Housing & Development Board projects.	Total cash and equivalents	99	576	565	696	786
	Tangible fixed assets	125	108	169	183	191
	Total investments	724	223	223	223	223
	Total assets	1,864	2,236	2,453	2,727	3,048
	Short-term debt	93	172	211	261	311
	Total long-term debt	153	312	300	310	320
	Total liabilities	1,147	1,415	1,569	1,776	2,026
	Total equity	717	821	883	951	1,023
	Total liabilities & equity	1,864	2,236	2,453	2,727	3,048
	<b>Key metrics</b>	<b>Dec-21</b>	<b>Dec-22</b>	<b>Dec-23F</b>	<b>Dec-24F</b>	<b>Dec-25F</b>
	Revenue growth (%)	11.4	24.6	25.5	11.7	16.8
	Recurrent EPS growth (%)	57.1	(0.5)	15.7	6.0	6.6
	Gross margin (%)	20.7	17.4	19.0	17.2	18.4
	Operating EBITDA margin (%)	9.6	9.7	9.7	8.6	7.8
	Net profit margin (%)	6.5	6.3	6.1	5.8	5.3
	Dividend payout ratio (%)	60.1	52.6	60.0	60.0	60.0
	Capex/sales (%)	2.0	1.3	2.0	1.8	1.6
	Interest cover (x)	30.4	10.3	10.4	9.3	12.8

Source: Company data, RHB

## Results At a Glance

Figure 1: SCGB's results review

FYE Dec (MYRm)	4Q21	3Q22	4Q22	QoQ (%)	YoY (%)	FY21	FY22	YoY (%)	Comments
<b>Revenue</b>	<b>626.6</b>	<b>469.3</b>	<b>503.4</b>	<b>7.3</b>	<b>(19.7)</b>	<b>1,729.2</b>	<b>2,155.2</b>	<b>24.6</b>	Better progress billings due to normalisation to full work capacity.
<b>EBIT</b>	<b>26.1</b>	<b>34.8</b>	<b>64.0</b>	<b>84.0</b>	<b>&gt;100</b>	<b>107.5</b>	<b>177.7</b>	<b>65.3</b>	
<i>EBIT margin (%)</i>	<i>4.2</i>	<i>7.4</i>	<i>12.7</i>			<i>6.2</i>	<i>8.2</i>		
Interest expense	(1.0)	(3.2)	(10.5)	>100	>100	(4.6)	(18.0)	>100	
Interest income	1.0	4.1	4.4	8.5	>100	4.2	13.9	234.1	
JV/Associates	6.2	(0.1)	(2.0)	nm	>-100	13.3	1.7	(87.2)	
El/Others	27.0	2.1	0.4	(81.0)	(98.5)	31.9	8.8	(72.4)	
<b>Pre-tax profit</b>	<b>91.0</b>	<b>37.6</b>	<b>56.3</b>	<b>49.7</b>	<b>(38.1)</b>	<b>152.2</b>	<b>184.1</b>	<b>20.9</b>	
<i>Pre-tax margin (%)</i>	<i>14.5</i>	<i>8.0</i>	<i>11.2</i>			<i>8.8</i>	<i>8.5</i>		
Tax	(26.0)	(13.6)	(10.8)	(20.9)	(58.5)	(41.5)	(45.3)	9.2	
<i>Effective tax rate (%)</i>	<i>(30.7)</i>	<i>(36.2)</i>	<i>(18.5)</i>			<i>(29.9)</i>	<i>(24.9)</i>		
Minority interest	<b>(0.3)</b>	<b>(1.2)</b>	<b>0.1</b>	<b>&gt;-100</b>	<b>&gt;-100</b>	<b>1.8</b>	<b>(3.6)</b>	<b>&gt;-100</b>	
<b>Net profit</b>	<b>64.7</b>	<b>22.7</b>	<b>45.6</b>	<b>&gt;100</b>	<b>(29.5)</b>	<b>112.6</b>	<b>135.2</b>	<b>20.1</b>	
<b>Core profit</b>	<b>91.7</b>	<b>24.8</b>	<b>46.0</b>	<b>85.6</b>	<b>(49.8)</b>	<b>144.5</b>	<b>144.0</b>	<b>(0.3)</b>	Within expectations.
<i>Core net margin (%)</i>	<i>14.6</i>	<i>5.3</i>	<i>9.1</i>			<i>8.4</i>	<i>6.7</i>		

Source: Company data, RHB

## Recommendation Chart

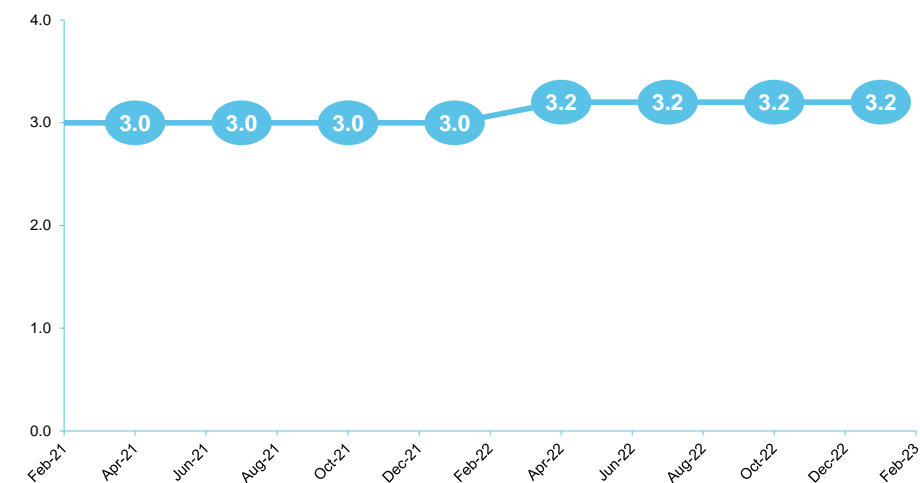


Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
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
2022-08-24	Buy	1.93	1.56
2022-07-21	Buy	1.93	1.50
2022-05-26	Buy	1.93	1.57
2022-04-26	Buy	1.93	1.69
2022-02-24	Buy	1.74	1.47
2021-11-19	Buy	1.81	1.55
2021-08-20	Buy	1.81	1.61
2021-08-11	Buy	1.81	1.58
2021-06-29	Buy	1.94	1.64
2021-05-21	Buy	2.03	1.63
2021-04-22	Buy	2.18	1.80

Source: RHB, Bloomberg

## ESG Rating History



Source: RHB

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