

Sunway Construction Group (SCGB MK)

4Q21: Record quarterly profit

Maintain HOLD with a revised MYR1.58 TP

4Q21 net profit exceeded our expectation for the 2nd sequential quarter with the beat coming from stronger construction works momentum and recalibration of margins for projects nearing completion. We however lower FY22/23E net profit by 6%/11% respectively on revised job wins forecasts. Our new TP is MYR1.58 (-11sen) on unchanged 15x FY22E PER (-1SD of mean, reflecting higher material cost and orderbook risks).

Even stronger if not for impairment/provision

4Q21 net profit of MYR65m (highest ever) more than tripled QoQ on full resumption of activities after MCO 3.0 which affected 3Q21. Construction revenue more than doubled QoQ, while EBIT margin rose 4.7ppts QoQ as margins recalibration continued for the 2nd consecutive quarter, for projects nearing completion. 4Q21 profit would have been even stronger if not for receivables impairment (MYR10m) and legal fees provision (MYR17m). FY21 net profit of MYR113m (+55% YoY) was >40% above our/consensus forecasts. A 2nd interim DPS of 4sen will be paid on 7 Apr (ex-date 14 Mar), bringing FY21 DPS to 5.25sen (60% DPR).

MYR4.8b outstanding orderbook; targets MYR2b wins

Jobs secured in FY21 totaled MYR1.5b (FY20: MYR2.3b) while outstanding orderbook was MYR4.8b end-2021. Active tender book presently is about MYR4.3b comprising a mix of civil infrastructure works, overseas (including in India) and domestic PFI projects. The internal job win target for FY22 is MYR2b; we have assumed the same. Meanwhile, its new precast plant in SG which is on schedule to be operational by 2H22 would also help in orderbook replenishment.

Revising forecasts; ESG risk score has improved

Our downward earnings revisions for FY22/23E mainly incorporate lower MYR1.5b job wins in FY21 (vs. MYR2b earlier) and MYR2b in FY22E (vs. MYR2.3b earlier). Our FY22E profit has also incorporated *Cukai Makmur*; we estimate a 4+% impact on net profit. Elsewhere, SCGB's risk score by Sustainalytics (see page 3) is down in the latter's latest update (13 Oct 2021), reflecting improved ESG risk management.

FYE Dec (MYR m)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	1,553	1,729	2,608	2,873	2,354
EBITDA	124	167	221	212	172
Core net profit	73	113	136	132	102
Core EPS (sen)	5.6	8.7	10.5	10.3	7.9
Core EPS growth (%)	(43.7)	54.7	20.6	(2.6)	(22.7)
Net DPS (sen)	4.0	5.3	7.0	7.0	5.0
Core P/E (x)	33.3	17.9	14.1	14.4	18.7
P/BV (x)	3.8	2.9	2.6	2.4	2.3
Net dividend yield (%)	2.1	3.4	4.7	4.7	3.4
ROAE (%)	11.6	16.9	18.8	17.3	12.7
ROAA (%)	3.7	6.0	6.0	4.5	3.4
EV/EBITDA (x)	20.4	13.0	9.9	11.3	14.5
Net gearing (%) (incl perps)	15.8	19.4	33.7	59.0	66.0
Consensus net profit	-	-	128	141	na
MKE vs. Consensus (%)	-	-	6.4	(6.2)	na

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HOLD

Share Price	MYR 1.48
12m Price Target	MYR 1.58 (+11%)
Previous Price Target	MYR 1.69

Company Description

Sunway Construction Group offers integrated construction services and has precast concrete business in Singapore.

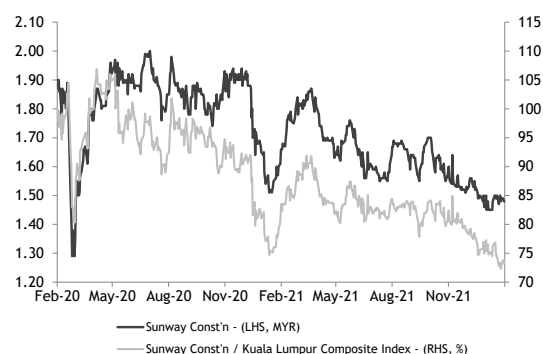
Statistics

52w high/low (MYR)	1.87/1.45
3m avg turnover (USDm)	0.1
Free float (%)	23.9
Issued shares (m)	1,293
Market capitalisation	MYR1.9B USD457M

Major shareholders:

Sunway Bhd.	54.4%
Active Equity Sdn. Bhd.	10.1%
Employees Provident Fund	9.2%

Price Performance



	-1M	-3M	-12M
Absolute (%)	1	(6)	(11)
Relative to index (%)	(2)	(10)	(12)

Source: FactSet

Abbreviation

MCO 3.0 = Movement Control Order 3.0

PFI = Private Funding Initiatives

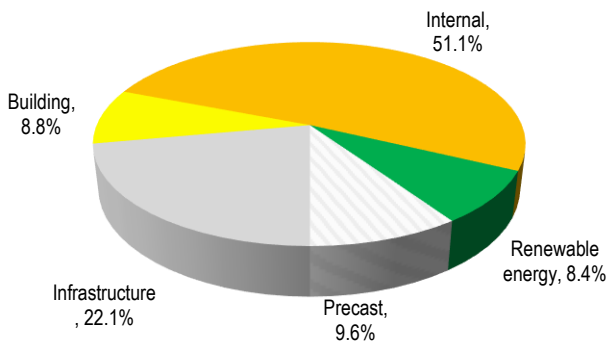
NRP P1, P4 = National Recovery Plan Phase 1, Phase 4

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Tear Sheet Insert

Value Proposition

- Malaysia's largest pure play construction group with an established brandname having commenced operations in 1981 with a cumulative revenue of MYR30b.
- Operates on a fully integrated business model with 6 core ops: (i) building construction; (ii) civil/infrastructure, (iii) foundation & geotechnics; (iv) mechanical, electrical & plumbing; (v) precast concrete (two existing plants in Johor, 3rd under construction in SG [operational 2H22] - supplying IBS components largely to SG); (vi) renewable energy.
- Completed special purpose building projects include KL Convention Centre, Sunway Shopping Mall; completed civil projects include SILK, MEX, SKVE, BRT, KVMRT and KVLRT.
- Experienced senior management team and support from the Sunway Group add onto its value proposition.

MYR4.75b outstanding orderbook as of 31 Dec 2021

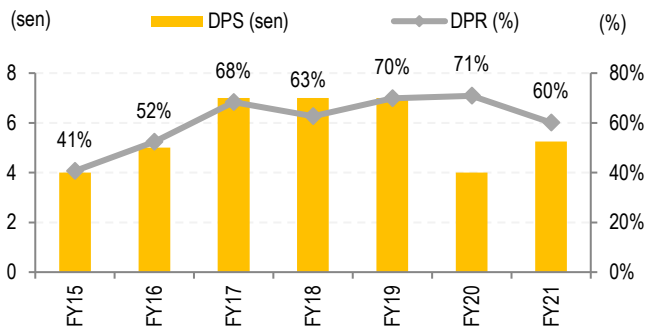


Source: Company

Financial Metrics

- Two main earning growth drivers are rising orderbook and higher margins which may come from value engineering.
- ROEs of >20% since its relisting in 2015 were above peers, but this suffered a set-back in FY20/FY21 due to work disruption from Malaysia's movement restrictions.
- Balance sheet is strong with a low net gearing of 20% as of end-FY21.
- DPR is a minimum 35% of PATMI; since its relisting (on 28 Jul 2015), SCGB had paid up to 71% (FY20).

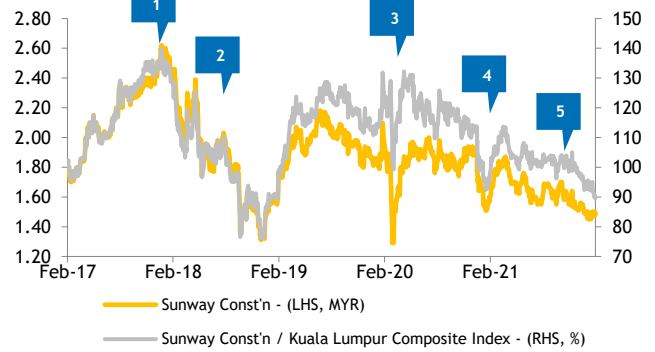
Dividends



Source: Company

Price Drivers

Historical share price trend



Source: Company, Maybank IBG Research

- Secured work packages under KVMRT 2 and KVLRT 3; outstanding orderbook reached another high of MYR6.1b as of end-2017.
- Post GE14 (9 May 2018) concerns, as the new Government sought to review the cost of major infra projects awarded during the previous Government.
- Malaysia's Movement Control Order (MCO) from 18 Mar 2020 led to work disruption at all of SCGB's projects.
- MCO 2.0 from 13 Jan 2021.
- More economic activities re-opened in states under National Recovery Plan Phase 1 (from 16 Aug 2021).

Swing Factors

Upside

- Larger-than-expected orderbook replenishment could lift sentiment on the stock although the earnings impact will only be felt in full at least a year later.
- Significant margin expansion for its existing orderbook coming from value engineering breakthrough.
- Government's policy reaffirmation on higher usage of IBS in construction as a long-term plan to reduce the country's over-reliance on foreign labour; this will be positive for SCGB's precast concrete business.

Downside

- Slower-than-expected work progress at existing projects will affect the timing of earnings recognition.
- High COVID-19 cases could disrupt work pace again.
- The timing of mega infrastructure project roll-outs by the Government could affect orderbook replenishment.
- At the precast segment, significant increase in steel prices and stiffer competition could affect margins.

Risk Rating & Score ¹	26.3 (Medium)
Score Momentum ²	-3.2
Last Updated	13 Oct 2021
Controversy Score ³ (Updated: 5 Dec 2021)	1 - Business ethics incidents

Business Model & Industry Issues

- As an industry leader, SCGB has built a track record in GBI-certified buildings and it also offers renewable energy services. SCGB has started measuring and reporting on key "E" parameters - water & energy use, carbon emission - on per unit revenue basis, in 2020.
- On labour matters, SCGB complies with Act 446, which extends to CLQ/workers accommodation of its business partners. To mitigate bribery & corruption risks, its Anti-Bribery and Corruption Policy and Anti-Money Laundering Policy were rolled out in 2020.
- Overall, SCGB's ESG risks are manageable, in our view. As SCGB continues to build on these efforts, its value proposition and investment case should strengthen further.

Material E issues

- SCGB has built a track record in designing Green Building Index (GBI)-certified buildings with 4 completed and 3 ongoing projects. It offers renewable (solar) energy services and has participated in the tender of Large Scale Solar (LSS) projects.
- SCGB started reporting on the following parameters (on per unit revenue basis) in 2020: (i) Water Use Intensity (WUI; 253m³/MYRm); (ii) Energy Use Intensity (EUI; 3.08 MWh/MYRm); (iii) Carbon Emission Intensity (CEI; 98 tCO₂e/MYRm). It targets to lower WUI and CEI by 10% by 2030 (with 2020 as base year), while target for EUI has yet to be established.
- In Jan 2021, SCGB signed up as an official supporter of the Task Force on Climate-Related Financial Disclosures (TCFD).
- SCGB achieved zero environmental compounds and fines in 2020. All its project sites are certified with ISO 14001:2015 Environmental Management System since 2018, ensuring strict implementation and monitoring.
- In Nov 2020, SCGB ceased to be a FTSE4Good Index constituent after 5 consecutive years as it fell out of the FTSE Index series for not passing the liquidity screening.

Material S issues

- Women made up just 16% of SCGB's workforce in 2020 due to the nature of its operations (women made up 31% at the executive level, 5% at the non-executive level). Pay equity was however balanced at 1.00 (women) : 0.99 (men).
- Employees' training was an avg. 15.9 hours per employee in 2020 (total MYR289k); SCGB targets 40 hours by 2030.
- All of SCGB's workplaces are ISO 45001/OHSAS 18001 Occupational Health and Safety Management System certified.
- SCGB complies with Act 446 - Workers' Minimum Standards of Housing and Amenities (Amendment) Act 2019 - fully enforced in Sep 2020. This extends to CLQ/workers accommodation of its business partners.
- To mitigate COVID-19 infection risk at worksites, >12,500 tests were conducted on its workforce and that of its business partners in Jun-Dec 2020.
- SCGB contributed MYR250k to the National Disaster Relief Fund and MYR280k to the Jeffrey Cheah Foundation in 2020 to support the foundation's aim of quality education; this was in addition to its other community outreach efforts.

Key G metrics and issues

- SCGB's Board comprises 8 Directors of which 7 are Non-Executive (incl. Chairman). 5 (or 63%) are Independent; each has not served a cumulative term of >9 years. SCGB's Constitution provides for 1/3 of its Board to retire by rotation by each AGM but eligible for re-election.
- There are presently 2 women on SCGB's Board (25% representation), slightly short of the 30% requirement.
- SCGB provides detailed disclosure on remuneration of its directors but not of its top senior management. In FY20, remuneration to directors (including alternate director) was 2.9% of pretax profit.
- SCGB has been audited by BDO PLT since FY15, at least.
- An Anti-Bribery and Corruption Policy was rolled out in Jan 2020 to all staff and business associates. Also, SCGB had in 2020 established an Anti-Money Laundering Policy, which is linked to its pre-existing Code of Conduct & Business Ethics, and Whistleblowing Policy & Procedures.
- Transactions with related parties within the Sunway Group have been on terms and conditions not materially different from those with unrelated parties, based on our screening of its FY15-FY20 annual reports.

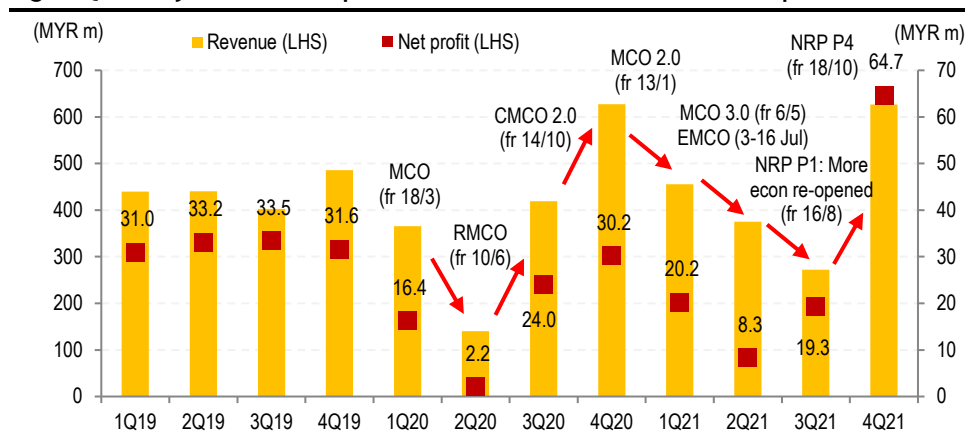
¹**Risk Rating & Score** - derived by Sustainalytics and assesses the company's exposure to unmanaged ESG risks. Scores range between 0 - 50 in order of increasing severity with low/high scores & ratings representing negligible/significant risk to the company's enterprise value, respectively, from ESG-driven financial impacts. ²**Score Momentum** - indicates changes to the company's score since the last update - a **negative** integer indicates a company's improving risk score; a **positive** integer indicates a deterioration. ³**Controversy Score** - reported periodically by Sustainalytics in the event of material ESG-related incident(s), with the impact severity scores of these events ranging from Category 0-5 (0 - no reports; 1 - negligible risks; ...; 5 - poses serious risks & indicative of potential structural deficiencies at the company).

Fig 1: Results summary

FY Dec (MYR m)	Quarterly					Cumulative		
	4Q21	4Q20	% YoY	3Q21	% QoQ	12M21	12M20	% YoY
Revenue	626.6	627.2	(0.1)	272.1	130.3	1,729.2	1,552.7	11.4
EBIT	84.9	38.8	118.6	22.1	284.7	139.4	90.5	54.0
Net interest inc/(exp)	(0.0)	(0.3)	(86.0)	0.1	NM	(0.4)	0.9	NM
Assoc, JV profits	6.2	3.0	104.6	2.4	161.2	13.3	10.1	31.0
Pre-tax profit	91.0	41.6	118.9	24.5	271.8	152.2	101.5	50.0
Tax	(26.0)	(11.5)	125.8	(5.0)	424.4	(41.5)	(27.8)	49.4
Minority Interests	(0.3)	0.1	NM	(0.2)	17.9	1.8	(0.9)	NM
Net profit	64.7	30.2	114.3	19.3	235.4	112.6	72.8	54.7
EPS (sen)	1.49	1.86	(19.9)	0.65	129.2	3.71	3.30	12.4
DPS (sen)	-	-	NM	1.25	NM	1.25	1.25	-
	4Q21	4Q20	+/- ppt	3Q21	+/- ppt	12M21	12M20	+/- ppt
EBIT margin (%)	13.5	6.2	7.4	8.1	5.4	8.1	5.8	2.2
Pretax margin (%)	14.5	6.6	7.9	9.0	5.5	8.8	6.5	2.3
Tax rate (%)	28.6	27.7	0.9	20.3	8.3	27.3	27.4	(0.1)
Revenue	4Q21	4Q20	% YoY	3Q21	% QoQ	12M21	12M20	% YoY
Construction	579.9	585.0	(0.9)	255.8	126.7	1,606.2	1,455.2	10.4
Precast concrete	46.7	42.2	10.7	16.3	187.1	122.9	97.4	26.2
Total	626.6	627.2	(0.1)	272.1	130.3	1,729.2	1,552.7	11.4
EBIT								
Construction	82.2	34.8	136.0	24.2	239.4	134.9	87.2	54.8
Precast concrete	2.7	4.0	(32.6)	(2.2)	NM	4.5	3.3	34.7
Total	84.9	38.8	118.6	22.1	284.7	139.4	90.5	54.0
EBIT margin (%)	4Q21	4Q20	+/- ppt	3Q21	+/- ppt	12M21	12M20	+/- ppt
Construction	14.2	6.0	8.2	9.5	4.7	8.4	6.0	2.4
Precast concrete	5.8	9.5	(3.7)	(13.2)	19.0	3.7	3.4	0.2
Total	13.5	6.2	7.4	8.1	5.4	8.1	5.8	2.2

Source: Company, Maybank IBG Research (tabulation)

Fig 2: Quarterly revenue and profit at various movement restriction phases



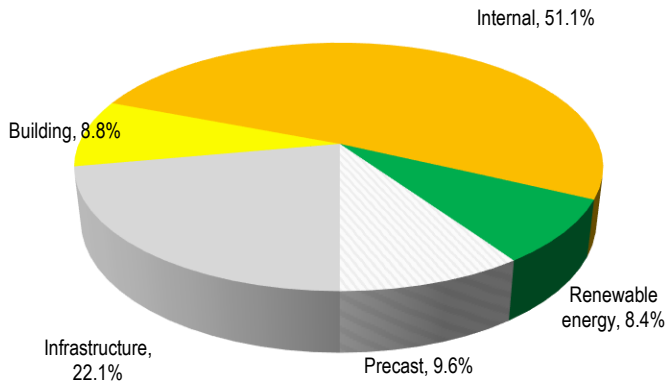
Source: Company data, Maybank IBG Research (chart)

Fig 3: Outstanding orderbook of MYR4.75b @ 31 Dec 2021

As at 31 Dec 2021	Completion	Contract value (MYR m)	Outstanding (MYR m)
Infrastructure			
LRT 3 : Package GS07-08	2Q22	1,295	196
Sentul West Station (MEP) #	1Q22	57	9
KVMRT 2, Chan Sow Lin underground station (MEP) @	1Q22	54	9
Tamil Nadu Highway (Thorapalil Agraharam-Jittandahalli, of NH-844) @	4Q23	508	508
Tamil Nadu Highway (Meensurutti-Chidambarm, of NH-227) @	3Q23	315	310
Jln Tambun #	4Q22	14	14
Bangsar Rising (piling) #	1Q22	5	5
Building			
Putrajaya Parcel F	Maintenance	1,610	11
TNB HQ Campus #	3Q22	781	294
Petronas Learning Centre #	Completed	305	49
Oxley Tower (MEP) #	1Q22	68	52
IOI Mall (MEP) #	1Q22	68	13
Internal			
Sunway Medical Centre 4 (2 towers)	2Q22	450	169
Sunway Serene - Kelana Jaya Condo	3Q22	413	86
Sunway Carnival 2 Extension - PDP contract	2Q22	286	42
SMC Seberang Jaya	2Q22	180	61
Sunway Velocity Two	2Q22	352	115
Sunway Velocity 3C4	3Q22	100	37
Sunway South Key - CP2 (piling) #	2Q22	198	61
Butterworth-Kulim Expressway @	1Q22	4	4
Sunway International School @	4Q22	121	69
Sunway South Quay - CP2 (superstructure)	4Q23	265	265
Service apartments at Jln Belfield @	4Q24	403	361
Sunway Resort Hotel & Spa renovation @	2Q22	81	29
Sunway Medical Centre 4 (VO) @	2Q22	162	162
Sunway Velocity Two - 2 blocks of service apartments @	4Q23	253	225
SMC Seberang Jaya - VO #	2Q22	16	16
Sunway International School - VO #	4Q22	19	19
Big Box Office #	2Q22	51	37
Sunway Damansara Medical Centre #	1Q23	240	231
Sunway Medical Centre Ipoh #	1Q24	150	149
Drainage works #	4Q22	1	1
Sunway South Quay - CP2 (superstructure - VO)	3Q24	293	293
Renewable energy			
Renewable energy - external @	-	27	12
Renewable energy - external #	-	387	386
Precast			
Secured pre 2021	-	331	160
New order in 1Q21 #	-	185	183
New order in 3Q21 #	-	113	113
Total		10,164	4,751

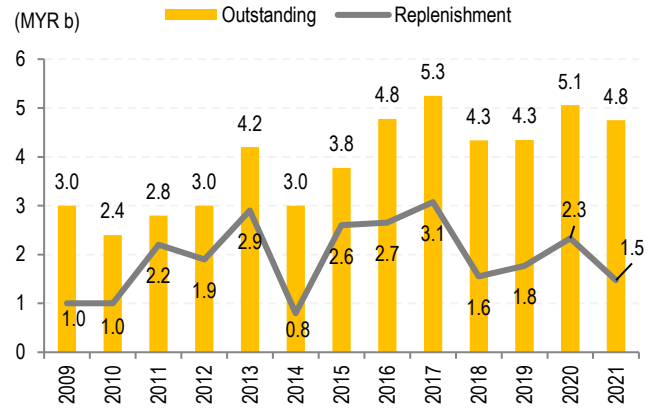
#Secured in 2019; @ Secured in 2020; # Secured in 2021; Source: Company

Fig 4: Outstanding orderbook of MYR4.75b @ 31 Dec 2021



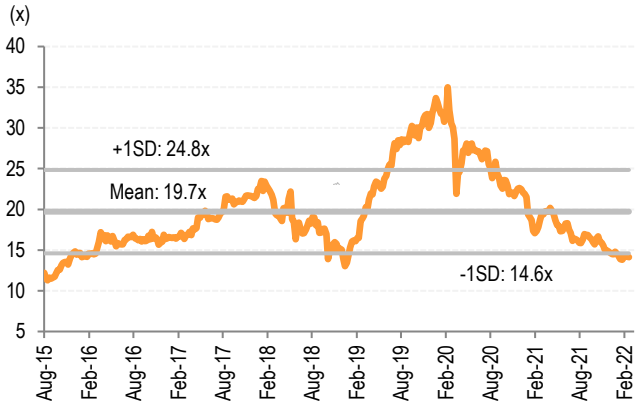
Source: Company data, Maybank IBG Research (chart)

Fig 5: Outstanding orderbook vs. replenishment



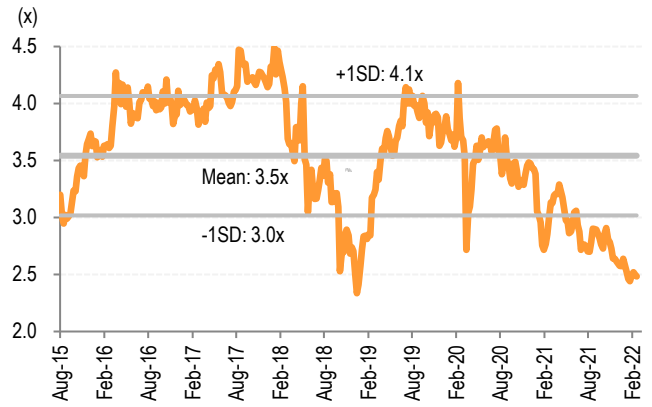
Note: Including precast, adjusted for revised value of LRT3 project;
Source: Company data, Maybank IBG Research (chart)

Fig 6: 12M forward PER



Source: Company data, Maybank IBG Research

Fig 7: 12M forward P/B



Source: Company data, Maybank IBG Research

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Key Metrics					
P/E (reported) (x)	32.6	19.0	14.1	14.4	18.7
Core P/E (x)	33.3	17.9	14.1	14.4	18.7
P/BV (x)	3.8	2.9	2.6	2.4	2.3
P/NTA (x)	3.8	2.9	2.6	2.4	2.3
Net dividend yield (%)	2.1	3.4	4.7	4.7	3.4
FCF yield (%)	3.5	10.3	12.8	9.0	nm
EV/EBITDA (x)	20.4	13.0	9.9	11.3	14.5
EV/EBIT (x)	27.9	15.6	11.2	13.0	17.6
INCOME STATEMENT (MYR m)					
Revenue	1,552.7	1,729.2	2,608.1	2,872.9	2,354.2
EBITDA	124.0	166.8	220.5	211.8	171.5
Depreciation	(33.4)	(27.4)	(24.9)	(27.8)	(30.8)
EBIT	90.5	139.4	195.6	184.1	140.7
Net interest income / (exp)	0.9	(0.4)	(7.4)	(10.6)	(8.9)
Associates & JV	10.1	13.3	5.0	5.0	5.0
Exceptionals	0.0	0.0	0.0	0.0	0.0
Pretax profit	101.5	152.2	193.2	178.5	136.8
Income tax	(27.8)	(41.5)	(57.4)	(46.3)	(34.5)
Minorities	(0.9)	1.8	0.0	0.0	0.0
Reported net profit	72.8	112.6	135.8	132.2	102.2
Core net profit	72.8	112.6	135.8	132.2	102.2
BALANCE SHEET (MYR m)					
Cash & Short Term Investments	200.1	98.8	231.3	313.2	232.5
Accounts receivable	904.9	660.9	1,005.5	1,093.6	936.7
Inventory	34.3	46.2	74.8	83.9	68.0
Property, Plant & Equip (net)	107.3	124.7	138.8	154.2	158.6
Intangible assets	0.1	0.1	0.1	0.1	0.1
Investment in Associates & JVs	488.9	723.5	728.5	733.5	738.5
Other assets	170.5	210.1	481.8	781.8	781.8
Total assets	1,906.1	1,864.2	2,660.9	3,160.2	2,916.3
ST interest bearing debt	233.7	92.5	92.5	92.5	92.5
Accounts payable	940.0	876.0	1,376.2	1,533.6	1,251.8
LT interest bearing debt	67.2	145.4	395.4	695.4	695.4
Other liabilities	27.0	34.0	35.0	35.0	35.0
Total Liabilities	1,267.5	1,147.4	1,898.6	2,356.0	2,074.3
Shareholders Equity	636.9	699.1	744.6	786.6	824.4
Minority Interest	1.7	17.6	17.6	17.6	17.6
Total shareholder equity	638.6	716.8	762.3	804.2	842.0
Total liabilities and equity	1,906.1	1,864.2	2,660.9	3,160.2	2,916.3
CASH FLOW (MYR m)					
Pretax profit	101.5	152.2	193.2	178.5	136.8
Depreciation & amortisation	33.4	27.4	24.9	27.8	30.8
Adj net interest (income)/exp	1.4	0.1	(7.4)	(10.6)	(8.9)
Change in working capital	(23.7)	83.1	126.9	60.2	(109.0)
Cash taxes paid	(28.8)	(26.6)	(57.4)	(46.3)	(34.5)
Other operating cash flow	4.0	2.1	2.4	5.6	3.9
Cash flow from operations	87.8	238.3	282.6	215.2	19.1
Capex	(1.9)	(31.5)	(39.1)	(43.1)	(35.3)
Free cash flow	85.9	206.8	243.4	172.1	(16.2)
Dividends paid	(61.2)	(51.6)	(90.3)	(90.3)	(64.5)
Change in Debt	12.0	(70.1)	250.0	300.0	0.0
Other invest/financing cash flow	(266.7)	(138.7)	(270.7)	(300.0)	0.0
Net cash flow	(230.0)	(53.6)	132.5	81.9	(80.7)

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Key Ratios					
Growth ratios (%)					
Revenue growth	(12.2)	11.4	50.8	10.2	(18.1)
EBITDA growth	(31.6)	34.6	32.2	(3.9)	(19.0)
EBIT growth	(35.8)	54.0	40.3	(5.9)	(23.6)
Pretax growth	(35.7)	50.0	26.9	(7.6)	(23.4)
Reported net profit growth	(43.7)	54.7	20.6	(2.6)	(22.7)
Core net profit growth	(43.7)	54.7	20.6	(2.6)	(22.7)
Profitability ratios (%)					
EBITDA margin	8.0	9.6	8.5	7.4	7.3
EBIT margin	5.8	8.1	7.5	6.4	6.0
Pretax profit margin	6.5	8.8	7.4	6.2	5.8
Payout ratio	70.9	60.1	66.5	68.3	63.1
DuPont analysis					
Net profit margin (%)	4.7	6.5	5.2	4.6	4.3
Revenue/Assets (x)	0.8	0.9	1.0	0.9	0.8
Assets/Equity (x)	3.0	2.7	3.6	4.0	3.5
ROAE (%)	11.6	16.9	18.8	17.3	12.7
ROAA (%)	3.7	6.0	6.0	4.5	3.4
Liquidity & Efficiency					
Cash conversion cycle	(42.1)	(62.9)	(56.1)	(65.4)	(77.5)
Days receivable outstanding	203.4	163.0	115.0	131.5	155.2
Days inventory outstanding	8.3	10.5	9.7	11.4	13.4
Days payables outstanding	253.8	236.3	180.9	208.3	246.2
Dividend cover (x)	1.4	1.7	1.5	1.5	1.6
Current ratio (x)	1.1	1.0	1.0	1.0	1.1
Leverage & Expense Analysis					
Asset/Liability (x)	1.5	1.6	1.4	1.3	1.4
Net gearing (%) (incl perps)	15.8	19.4	33.7	59.0	66.0
Net gearing (%) (excl. perps)	15.8	19.4	33.7	59.0	66.0
Net interest cover (x)	na	nm	26.4	17.4	15.8
Debt/EBITDA (x)	2.4	1.4	2.2	3.7	4.6
Capex/revenue (%)	0.1	1.8	1.5	1.5	1.5
Net debt/ (net cash)	100.8	139.1	256.6	474.8	555.4

Source: Company; Maybank

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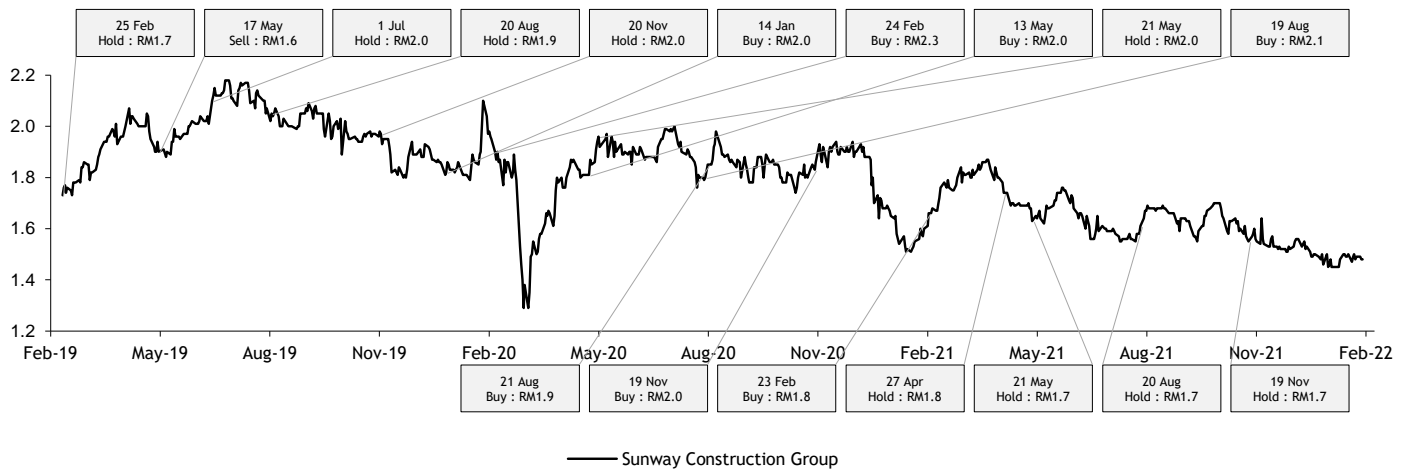
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