

Sunway Construction Group

Bloomberg: SCGB MK | Reuters: SCOG.KL

Refer to important disclosures at the end of this report

DBS Group Research . Equity

6 May 2021

BUY

Last Traded Price (5 May 2021): RM1.70 (KLCI : 1,575.67)

Price Target 12-mth: RM2.30 (35% upside) (Prev RM2.30)

Analyst

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What's New

- **1Q21 results to show some weakness but this will not reflect full-year potential**
- **YTD wins of RM462m – RM2bn target intact**
- **Strong balance sheet but fund raising still possible**
- **Maintain BUY and TP of RM2.30**

Price Relative



Forecasts and Valuation

FY Dec (RMm)	2019A	2020A	2021F	2022F
Revenue	1,769	1,553	2,345	2,515
EBITDA	181	124	194	204
Pre-tax Profit	157	103	165	183
Net Profit	129	75.9	132	146
Net Pft (Pre Ex.)	129	75.9	132	146
Net Pft Gth (Pre-ex) (%)	(11.6)	(41.3)	74.3	10.7
EPS (sen)	10.0	5.87	10.2	11.3
EPS Pre Ex. (sen)	10.0	5.87	10.2	11.3
EPS Gth Pre Ex (%)	(12)	(41)	74	11
Diluted EPS (sen)	10.0	5.87	10.2	11.3
Net DPS (sen)	6.99	4.74	6.65	7.36
BV Per Share (sen)	48.2	49.3	52.8	56.8
PE (X)	17.0	29.0	16.6	15.0
PE Pre Ex. (X)	17.0	29.0	16.6	15.0
P/Cash Flow (X)	11.7	23.6	12.2	13.6
EV/EBITDA (X)	10.4	15.1	9.4	8.9
Net Div Yield (%)	4.1	2.8	3.9	4.3
P/Book Value (X)	3.5	3.5	3.2	3.0
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	21.3	12.1	20.0	20.7
Earnings Rev (%):		0	0	0
Consensus EPS (sen):		N/A	10.8	11.9
Other Broker Recs:		B: 12	S: 1	H: 2

Source of all data on this page: Company, AllianceDBS, Bloomberg Finance L.P.

On track for a solid year

Investment Thesis:

1QFY21 to show some weakness but... We expect SCGB's 1QFY21 results to show some weakness on tepid y-o-y showing but this will not represent its full-year performance. 1Q will be impacted by some self-imposed stop work orders to comply with the amended Workers' Minimum Standards of Housing Amenities Act 1990 (Act 446) and also carry out more COVID-19 testing.

...RM2bn new order win forecast maintained. YTD 1Q21 wins have reached RM462m. The balance of potential new order wins in FY21 will come from two packages from LSS4 worth RM300m, Sunway Ipoh hospital worth RM200m, CP 2 in Sunway worth RM500m and RM500m worth of public sector infrastructure works. SCGB is a front runner for MRT 3 given the BIM/IBS requirements and potential TOD with Sunway Berhad.

Balance sheet – potential fund raising? While SCGB is in a net cash position of RM339m as at end-2020, it still faces relatively higher capital commitments in the coming years. This will stem from the two LSS projects worth RM300m whose pay back will only commence post FY24, its Integrated Concrete Precast Hub (ICPH) project in Singapore with a capex commitment of SGD80m (SGD25m spent so far) and its two Indian projects.

Valuation:

TP of RM2.30. Our target price (TP) is based on sum-of-parts (SOP) valuation to reflect the growing contribution from its high-margin precast business.

Where we differ:

Despite its seemingly higher valuations, we expect this premium to sustain given its impeccable execution, net cash balance sheet with sustainable dividend payouts and improving visibility of project flows.

Key Risks to Our View:

The timely execution of its orderbook post-Movement Control Order (MCO) is crucial to minimising the risk of any further earnings cuts.

At A Glance

Issued Capital (m shrs)	1,289
Mkt. Cap (RMm/US\$m)	2,192 / 532
Major Shareholders (%)	
Sunway Berhad	55.6
Tan Sri Jeffrey Cheah & Family	7.6
Free Float (%)	25
3m Avg. Daily Val (US\$m)	0.39

GIC Industry : Industrials / Capital Goods



Live more, Bank less

WHAT'S NEW

On track for a solid year

RM2bn new order win forecast maintained. SCGB reiterated its RM2bn new order win target for FY21F. YTD 1Q21 wins have reached RM462m, largely coming from a combination of internal and external jobs. The largest win so far was Sunway Medical Centre – Damansara Giza worth RM180m (see Table 1). The balance of potential new order wins in FY21 will come from two packages from LSS4 worth RM300m, Sunway Ipoh hospital worth RM200m, CP 2 in Sunway worth RM500m and RM500m worth of public sector infrastructure works. There is also the Sunway Valley City project in Penang that could be launched this year too.

MRT 3. SCGB has also pencilled in RM500m worth of infrastructure jobs which are likely to come from MRT 3. The cabinet has approved this project recently and expects it to be rolled out in 2HCY21. SCGB shed some light on the recent Request for Information (RFI) exercise conducted by MRT Corp. We understand MRT Corp was looking for broad feedback from the 42 participants (including foreign contractors) for the above ground portion. There will be two more RFI for the underground portion and potential Transit Oriented Development (TOD).

SCGB is front runner for MRT 3. Besides having the required experience (SCGB was the work package contractor for both MRT 1 and 2), we believe SCGB stands out as front runner for above ground MRT 3 works because of the Building Information Management (BIM) and Industrial Building Systems (IBS) requirements imposed by MRT Corp and its parent company Sunway Holdings for partnership in a TOD structure.

1QFY21 to show some weakness but.... We expect 1QFY21 results due out in mid- to end-May 2021 to show some weakness on tepid y-o-y showing but will not represent its full-year performance. This is owing to the fact that it was impacted by some self-imposed stop work orders to comply with the amended Workers' Minimum Standards of Housing Amenities Act 1990 (Act 446) and also to carry out more COVID-19 testing. The amendments to this Act were gazetted in mid-Feb 2021 as part of the Emergency Ordinance, which gives the ministry power to act against errant employers in accommodation matters. The amended act also compels employers to report on their undocumented migrant workers who must be inoculated under the national COVID-19 vaccination.

Indian projects taking off but watch escalating Covid-19 cases. SCGB also signed the concession agreement for both its India Hybrid Annuity Model (HAM) projects in

December 2020. This will enable it to kick off both projects in May 2021 after the process of financial close. These two projects will start contributing in 2HCY21 – worth a combined RM823m and form 16% of its total outstanding orderbook of RM5.1bn – and will see peak progress in CY22. At present the pre mobilisation works are on-going.

While the Covid-19 cases have been escalating, we understand these two projects are in the sub-urban area of Tamil Nadu and have been comparatively less impacted while there is also no lock down imposed as yet. We also take comfort with the recent statement by the National Highway Authority of India that despite the lock downs last year, it achieved construction of 4,192km of highways last year which was the highest ever in a financial year. There are also steps taken to get the maximum amount of workforce vaccinated as early as possible.

The more recent new Indian win is for the Meensurutti to Chidambaram Section of the NH-227 from Km 98.433 to Km 129.965 under Bharatmala Pariyojana Phase-I. This project will kick off sooner than the initial Indian Project as it has achieved the 80% right of way (or land acquisition). The payment terms are for 40% during the construction period and the balance of 60% in a 15-year annuity concession. There is no traffic risk given the fixed annuity structure

The first project was clinched in March 2020 with its 40% partner RNS Infrastructure Limited – a Rs864.5 Crore (c.RM508m) contract together with a 15-year operating and maintenance contract of Rp7.08 Crore per annum from the National Highway Authority of India. The contract involves the widening to four lanes of the Thorapalli Agrapharam – Jittandahalli Section of the NH-844 from Km 25.000 to Km 63.500 (existing Chainage), corresponding to Km 23.350 to Km 60.100 (Design Chainage) under Bharatmala Pariyojana Phase-I (National Corridor) in the State of Tamil Nadu.

Under the HAM, NHAI will pay 40% of the project cost in the first two years during the construction period in five equal instalments. The balance of 60% is paid over 15 years as fixed annuity amount plus interest, which is benchmarked to the RBI (Reserve Bank of India) rate + 3%. As there is no toll right for the concessionaire, there will be no traffic risk. Risk is mitigated through a price fluctuation clause throughout the 2-year construction period and 15-year maintenance period. Land acquisition has also reached 80%.

Other foreign wins? SCGB will also start re-tendering for Indian projects in 2H CY21, where its current focus is to achieve financial close for its first two Indian projects. However, it may focus on EPC metro projects with monthly progress payments moving forward. It is also bidding for piling projects in the Philippines with a Malaysian partner, whose funding stems from the Asian Development Bank.

Precast orders picking up momentum. YTD March 2021 precast wins have reached RM190m and may exceed its internal target of RM250m. SCGB is looking to be more aggressive in bidding for more precast jobs to coincide with the opening of the first phase of its Integrated Concrete Precast Hub (ICPH) in FY22, which will see its capacity increase by 30% and a further 50% in FY23 from 120,000 m³ currently. For 4Q20, its precast division made a pretax profit of RM4.3m vs. RM2.5m in 4Q19. 4Q20 revenue declined marginally y-o-y but surged 2.6-fold q-o-q to RM42m. Revenue for 4Q20 was only marginally impacted by the circuit breaker and movement restriction in the foreign workers dormitories in Singapore which was more apparent in 3Q20. The outstanding precast orderbook as at 31 December 2020 was RM258m.

Relief measures by Singapore government. The Singapore government has been supportive of the construction industry in light of the recent increase in Covid-19 cases among the foreign worker community and ban on Indian labour. Some of the new measures being undertaken are six-month scheme to allow new Chinese work permit holders to enter Singapore first and obtain their skills certification in Singapore from 7 May 2021, additional 49 day EOT for eligible public sector contracts, simplified claim process to receive 0.1% payout of awarded contract sum for on going public sector projects under SGD100m in value.

Balance sheet – potential fund raising? While SCGB is in a net cash position of RM339m as at 31 December 2020, it

still faces relatively higher capital commitments in the coming years. This will stem from the two LSS projects worth RM300m whose payback will only commence post FY24, its ICPH in Singapore with a capex commitment of SGD80m (SGD25m spent so far) and its two Indian projects.

Dividends. It has a fixed dividend policy of paying 35% of net profit but has been paying c.70% since FY17. In spite of FY20 being a pandemic year, it declared a total DPS of 4 sen that translates into a payout ratio of 71%. We are projecting DPS of 6.6 sen and 7.3 sen for FY21F and FY22F, respectively, based on a payout ratio of 65%. However, with the capital commitments mentioned above, we think there is a risk that payouts will likely trend lower.

We maintain our BUY rating and keep our TP unchanged at RM2.30, which is based on SOP. SCGB remains the least impacted construction stock under our coverage from the COVID-19 pandemic given its strong net cash balance sheet and pipeline of jobs from its parent company. On top of this, we expect the company to be involved in the revival of mega projects locally.

Company Background

An established player with 30 years of heritage, Sunway Construction Group (SCGB) is one of Malaysia's largest construction companies. It adopts an integrated business model that covers various phases of construction activities, from project design to completion.

Sunway Construction Group

SCGB YTD 1Q21 new contract wins

Project	Client	Duration (months)	Amount (RMm)
Sunway International School (VO)	Sunway Education Group	30	15
Big Box Office	Sunway Marketplace	14	51.4
Tengah Park C2	Chiu Teng Construction Pte Ltd	23	114.3
Sunway Medical Centre- Damansara Giza	Paradigm Fairview	24	180
DD Plastic (SIRIM)	Sirim Berhad	3	0.4
Tengah C7	LBD Engineering Pte Ltd	27	35.1
Ang Mo Kio N2C3A	Right Construction Pte Ltd	27	35.7
Jalan Tambun	MBI	18	13.7
Sunway Medical Centre - Seberang Jaya (VO)	Paradigm Fairview	6	16
			461.6

Sunway Construction Group

SCGB total outstanding orderbook as at 31 December 2020

Projects	Outstanding (RMm)
Infrastructure	
MRT Package V201 + S201 (Sungai Buloh- Persiaran Dagang)	7
LRT 3 : Package GS07-08	573
Sentul West Station (MEP)	39
Chan Sow Lin KVMRT U/G Station	46
Building	
Putrajaya Parcel F	18
TNB HQ Campus	508
PLC	211
PPA1M Kota Bahru	54
Oxley Tower (MEP)	58
IOI Mall (MEP)	34
Internal	
SMC 4	293
Big Box - Iskandar	32
Sunway Serene	188
Velo 2	196
3C4	53
Sunway GEOLake	19
Carnival Mall Ext	151
SMC Seberang Jaya	109
Parcel CP Piling	27
BKE Seberang Jaya	4
Parcel CP 2 Superstructure	344
Belfield	396
Hotel Guest Room (Reno)	58
SIS	110
Velo 2B	251
SMC 4 VO	162
Renewal Energy	
Internal	6
External	31
India	
Thorapalli Agraharam - Jttanda	508
Meensurutti Chidambaram	315
Singapore	
Precast	259
Total	5060



Historical PE and PB bands

Forward PE band (x)



Source: Bloomberg Finance L.P., AllianceDBS estimates

PB band (x)



Source: Bloomberg Finance L.P., AllianceDBS estimates

Sunway Construction Group

Key Assumptions

FY Dec	2018A	2019A	2020A	2021F	2022F
New order wins	1,553	2,014	150	2,150	2,150
Construction revenue	2,123	1,619	1,455	2,205	2,350
Precast revenue	134	150	97.4	140	165
Construction EBIT	8.17	8.35	6.76	6.65	6.86
Precast EBIT margins	0.81	3.85	2.80	10.0	10.0

Segmental Breakdown

FY Dec	2018A	2019A	2020A	2021F	2022F
Revenues (RMm)					
Construction	2,123	1,619	1,455	2,205	2,350
Precast Concrete	134	150	97.4	140	165
Total	2,257	1,769	1,553	2,345	2,515
EBIT (RMm)					
Construction	174	135	98.4	147	161
Precast Concrete	1.09	5.77	2.73	14.0	16.5
Total	175	141	101	161	178
EBIT Margins (%)					
Construction	8.2	8.4	6.8	6.6	6.9
Precast Concrete	0.8	3.8	2.8	10.0	10.0
Total	7.7	8.0	6.5	6.8	7.1

Income Statement (RMm)

FY Dec	2018A	2019A	2020A	2021F	2022F
Revenue	2,257	1,769	1,553	2,345	2,515
Cost of Goods Sold	(1,782)	(1,397)	(1,226)	(1,938)	(2,096)
Gross Profit	474	372	326	407	419
Other Opng (Exp)/Inc	(298)	(231)	(236)	(246)	(242)
Operating Profit	175	141	90.5	161	178
Other Non Opng (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	0.73	4.42	2.15	0.0	0.0
Net Interest (Exp)/Inc	7.74	12.0	10.5	4.83	5.24
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	185	157	103	165	183
Tax	(38.0)	(27.1)	(27.8)	(33.1)	(36.6)
Minority Interest	(0.3)	(1.0)	0.54	0.0	0.0
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Profit	146	129	75.9	132	146
Net Profit before Except.	146	129	75.9	132	146
EBITDA	218	181	124	194	204
Growth					
Revenue Gth (%)	8.7	(21.6)	(12.2)	51.0	7.3
EBITDA Gth (%)	6.5	(16.9)	(31.6)	56.2	5.3
Opg Profit Gth (%)	8.1	(20.0)	(35.8)	77.3	10.8
Net Profit Gth (Pre-ex) (%)	7.5	(11.6)	(41.3)	74.3	10.7
Margins & Ratio					
Gross Margins (%)	21.0	21.0	21.0	17.3	16.7
Opg Profit Margin (%)	7.8	8.0	5.8	6.8	7.1
Net Profit Margin (%)	6.5	7.3	4.9	5.6	5.8
ROAE (%)	25.6	21.3	12.1	20.0	20.7
ROA (%)	7.9	7.0	4.0	6.5	6.5
ROCE (%)	20.6	15.5	8.8	14.2	14.9
Div Payout Ratio (%)	66.3	69.9	80.7	65.0	65.0
Net Interest Cover (x)	NM	NM	NM	NM	NM

Source: Company, AllianceDBS

Sunway Construction Group

Quarterly Income Statement (RMm)

FY Dec	4Q2019	1Q2020	2Q2020	3Q2020	4Q2020
Revenue	486	366	140	419	627
Other Oper. (Exp)/Inc	(455)	(347)	(140)	(386)	(588)
Operating Profit	30.8	18.7	0.07	33.0	38.8
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	4.42	0.0	0.06	0.0	0.05
Net Interest (Exp)/Inc	5.26	2.54	2.21	3.01	2.71
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	40.5	21.2	2.34	36.0	41.6
Tax	(7.8)	(4.3)	(0.2)	(11.7)	(11.5)
Minority Interest	(1.1)	(0.6)	0.07	(0.2)	0.14
Net Profit	31.6	16.4	2.19	24.0	30.2
Net profit bef Except.	31.6	16.4	2.19	24.0	30.2
EBITDA	35.3	18.7	0.13	33.0	38.9
Growth					
Revenue Gth (%)	20.7	(24.7)	(61.7)	199.2	49.6
EBITDA Gth (%)	2.5	(47.0)	(99.3)	24,486.6	18.0
Opq Profit Gth (%)	(10.3)	(39.4)	(99.6)	46,965.7	17.8
Net Profit Gth (Pre-ex) (%)	(5.5)	(48.3)	(86.6)	996.4	25.6
Margins					
Opq Profit Margins (%)	6.3	5.1	0.0	7.9	6.2
Net Profit Margins (%)	6.5	4.5	1.6	5.7	4.8

Balance Sheet (RMm)

FY Dec	2018A	2019A	2020A	2021E	2022E
Net Fixed Assets	164	139	108	125	149
Invts in Associates & JVs	44.7	48.4	48.9	48.9	48.9
Other LT Assets	6.58	7.81	7.13	7.13	7.13
Cash & ST Invts	485	693	640	684	700
Inventory	30.0	25.1	34.3	25.1	26.9
Debtors	1,059	970	1,048	1,285	1,378
Other Current Assets	22.9	21.7	19.7	19.7	19.7
Total Assets	1,812	1,905	1,906	2,194	2,329
ST Debt	114	233	234	234	234
Creditor	995	885	955	1,197	1,281
Other Current Liab	14.6	1.56	5.78	5.78	5.78
LT Debt	96.3	148	72.7	72.7	72.7
Other LT Liabilities	0.57	11.2	0.0	0.0	0.0
Shareholder's Equity	591	623	637	683	734
Minority Interests	1.44	2.22	1.71	1.71	1.71
Total Cap. & Liab.	1,812	1,905	1,906	2,194	2,329
Non-Cash Wkq. Capital	103	130	141	127	138
Net Cash/(Debt)	275	311	334	377	393
Debtors Turn (avg days)	182.3	209.4	237.3	181.6	193.2
Creditors Turn (avg days)	228.5	252.9	281.6	206.2	218.5
Inventory Turn (avg days)	5.7	7.4	9.1	5.7	4.6
Asset Turnover (x)	1.2	1.0	0.8	1.1	1.1
Current Ratio (x)	1.4	1.5	1.5	1.4	1.4
Quick Ratio (x)	1.4	1.5	1.4	1.4	1.4
Net Debt/Equity (X)	CASH	CASH	CASH	CASH	CASH
Net Debt/Equity ex MI (X)	CASH	CASH	CASH	CASH	CASH
Capex to Debt (%)	26.8	2.2	0.6	16.3	16.3
Z-Score (X)	3.3	2.9	2.8	2.8	2.8

Source: Company, AllianceDBS

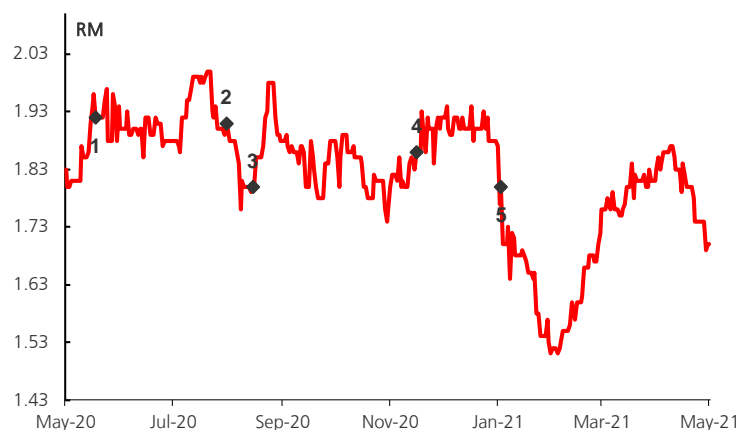
Sunway Construction Group

Cash Flow Statement (RMm)

FY Dec	2018A	2019A	2020A	2021F	2022F
Pre-Tax Profit	185	157	103	165	183
Dep. & Amort.	41.9	40.3	33.4	33.1	26.1
Tax Paid	(38.0)	(27.1)	(27.8)	(33.1)	(36.6)
Assoc. & JV Inc/(loss)	0.0	0.0	0.0	0.0	0.0
Chg in Wkq.Cap.	(59.3)	(15.6)	(17.0)	14.2	(11.2)
Other Operating CF	59.7	33.1	1.52	0.0	0.0
Net Operating CF	189	188	93.3	180	161
Capital Exp.(net)	(56.2)	(8.3)	(1.9)	(50.0)	(50.0)
Other Invts.(net)	0.0	0.0	0.0	0.0	0.0
Invts in Assoc. & JV	0.0	0.0	0.0	0.0	0.0
Div from Assoc & JV	0.0	0.0	0.0	0.0	0.0
Other Investing CF	(17.7)	(43.1)	183	0.0	0.0
Net Investing CF	(73.8)	(51.4)	181	(50.0)	(50.0)
Div Paid	(96.9)	(90.4)	(61.3)	(86.0)	(95.2)
Chg in Gross Debt	75.3	172	(75.4)	0.0	0.0
Capital Issues	0.0	0.0	0.0	0.0	0.0
Other Financing CF	(95.9)	(10.5)	(190)	0.0	0.0
Net Financing CF	(118)	71.1	(327)	(86.0)	(95.2)
Currency Adjustments	0.0	0.0	0.0	0.0	0.0
Chg in Cash	(2.4)	208	(52.6)	43.5	16.1
Opq CFPS (sen)	19.2	15.8	8.53	12.8	13.3
Free CFPS (sen)	10.3	13.9	7.07	10.0	8.61

Source: Company, AllianceDBS

Target Price & Ratings History



S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	22 May 20	1.92	2.30	BUY
2:	04 Aug 20	1.91	2.30	BUY
3:	19 Aug 20	1.80	2.30	BUY
4:	20 Nov 20	1.86	2.30	BUY
5:	07 Jan 21	1.80	2.30	BUY

Note: Share price and Target price are adjusted for corporate actions.

Source: AllianceDBS

Analyst: Tjen San CHONG

AllianceDBS recommendations are based on an Absolute Total Return* Rating system, defined as follows:

STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

BUY (>15% total return over the next 12 months for small caps, >10% for large caps)

HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

FULLY VALUED (negative total return, i.e., > -10% over the next 12 months)

SELL (negative total return of > -20% over the next 3 months, with identifiable share price catalysts within this time frame)

*Share price appreciation + dividends

Completed Date: 6 May 2021 07:58:43 (MYT)

Dissemination Date: 6 May 2021 07:59:31 (MYT)

Sources for all charts and tables are AllianceDBS unless otherwise specified.

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