

19 August 2020

Sunway Construction Group

1HFY20 Deemed Within Expectations

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2QFY20 CNP of RM4.6m brought 1H20 CNP to RM22.1m – broadly within our estimate (32%) but below consensus' (25%). With this worst set of quarterly results finally out of the way coupled with the construction space going unnoticed as we approach key re-rating events (i.e. Budget 2021 and 12MP); our conviction for the sector only grows stronger by the day. Suncon remains our top pick within the big cap space. **OUTPERFORM** on unchanged TP of RM2.45.

Within our estimate but below consensus. 2QFY20 earnings of RM4.6m brought 1HFY20 to RM22.1m – broadly within our estimate at 32% but below consensus at 25%. While we expect the remaining two quarters in FY20 to gradually improve which explains why we deem 1HFY20 as in line, we think consensus FY20 CNP forecast of RM88m is slightly farfetched, implying an average of RM33m/quarter for 3QFY20 and 4QFY20 which is the pre-Covid-19 levels. We think it is only logical to expect profitability levels to normalise from FY21. The 1.25 sen dividend announced was in line.

2QFY20 CNP of RM4.6m plunged 74% QoQ stemming from the longer MCO period of 2 months' vs 2 weeks (in 1QFY20) as fixed costs on the back of a sharp decrease in revenue (-62%) resulted in a CNP margin squeeze (-1.5ppt).

Dissecting 2QFY20 segmentally, Suncon's construction segment performance was commendable for still being able to stay profitable as management managed to reduce some fixed overheads in tandem with the lower revenue. The same cannot be said for its precast segment which saw it registering a net loss of RM3.3m on a 92% QoQ dip in revenue as Singapore's circuit breaker totally shut off Suncon from delivering its precast components across the border. That said, Suncon has gradually recommenced precast deliveries into Singapore with 19% of its jobs already given the green light to restart in June 2020. **YoY**, 1HFY20 CNP of RM22.1m was down 62% mainly from Covid-19 lockdowns.

RM2b replenishment target on track. Along with its results, SUNCON announced two new contracts worth RM747m from its parent SUNWAY to build: (i) a mixed development at Bandar Sunway known as CP2 worth RM344m, and (ii) three blocks of condominium in Kuala Lumpur known as Sunway Belfield worth RM403m. With RM1472m contract wins YTD, we are reassured that our/management's FY20E target replenishment of RM2b is intact, underpinned by its tender-book of RM8.5b. With these awards, outstanding order-book currently stands at RM6.1b (as of Aug 2020) providing 3x cover.

No change to our earnings forecast post results.

Maintain OUTPERFORM with an unchanged SoP-derived TP of RM2.45 based on a construction PER of 18x (+1SD above its 5-year mean). We think our premium PER valuations is justified vs. other contractors given Suncon's low risks nature from the receivable, replenishment, and execution perspectives – the three key risks that really matter to a contractor.

OUTPERFORM ↔

Price : **RM1.79**
Target Price : **RM2.45** ↔

Share Price Performance



KLCI 1,577.85
YTD KLCI chg -0.7%
YTD stock price chg -6.3%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	SCGB MK EQUITY
Market Cap (RM m)	2,308.0
Shares Outstanding	1,289.4
52-week range (H)	2.10
52-week range (L)	1.25
3-mth avg daily vol:	637,979
Free Float	19%
Beta	1.1

Major Shareholders

Sunway Holdings Sdn Bhd	54.6%
Sungei Way Corp Sdn Bhd	10.1%
Employees Provident Fund Board	9.1%

Summary Earnings Table

FYE Dec (RM m)	2019A	2020E	2021E
Turnover	1768.7	1429.9	2383.7
EBIT	142.7	77.3	195.5
PBT	157.4	88.8	204.4
Net Profit	129.3	70.1	160.0
Core PATAMI	131.0	70.1	160.0
Consensus (NP)	n.a.	88.0	148.2
Earnings Revision	n.a.	0%	0%
Core EPS (sen)	10	5	12
Core EPS growth (%)	-5	-46	128
NDPS (sen)	7.0	2.5	8.0
NTA per Share (RM)	0.53	0.56	0.61
Price to NTA (x)	3.4	3.2	2.9
PER (x)	17.6	33.0	14.5
Debt-to-Equity ratio (x)	-0.8	-0.6	-0.4
Return on Equity (%)	19	10	20
Net Div. Yield (%)	3.9	1.4	4.5

19 August 2020

Risks include: A resurgence of Covid-19 cases, lower-than-expected margins, delay in work progress dragging into 2021.

Results Highlight								
FYE Dec (RM'm)	2Q20	1Q20	QoQ	2Q19	YoY	1H20	1H19	YoY
Turnover	140.2	365.8	-62%	440.2	-68%	506.0	880.2	-43%
EBIT (adjusted for EI)	2.5	19.9	-87%	34.7	-93%	22.4	69.8	-68%
Interest income	4.5	5.2	-14%	7.2	-37%	9.8	11.4	-14%
Interest expense	-2.3	-2.7	-15%	-3.6	-36%	-5.0	-5.9	-15%
Associates	0.0	0.0	n.a.	0.0	n.a.	0.0	0.0	n.a.
Exceptional items	-2.4	-1.2	100%	2.9	-183%	-3.6	6.0	-160%
PBT	2.3	21.2	-89%	41.2	-94%	23.6	81.3	-71%
Tax	-0.2	-4.3	-95%	-8.2	-97%	-4.5	-16.7	-73%
Minority interest	-0.1	0.6	-112%	-0.2	-68%	0.5	0.4	23%
PATAMI	2.2	16.4	-87%	33.2	-93%	18.5	64.2	-71%
CNP	4.6	17.6	-74%	30.3	-85%	22.1	58.2	-62%
Net DPS (sen)	1.25	0	n.m.	3.5	-64%	1.25	3.5	-64%
Margins								
EBIT	1.8%	5.4%		7.9%		4.4%	7.9%	
PBT	1.7%	5.8%		9.4%		4.7%	9.2%	
PATAMI	1.6%	4.5%		7.5%		3.7%	7.3%	
CNP	3.3%	4.8%		6.9%		4.4%	6.6%	

Source: Company, Kenanga Research

Segmental Breakdown								
	2Q20	1Q20	QoQ	2Q19	YoY	1H20	1H19	YoY
Revenue								
Construction	137.2	329.6	-58%	406.3	-66%	466.8	813.3	-43%
Precast concrete	3.0	36.3	-92%	33.9	-91%	39.3	66.9	-41%
Total	140.2	365.8	-62%	440.2	-68%	506.0	880.2	-43%
EBIT								
Construction	3.4	17.3	-80%	36.9	-91%	20.7	74.7	-72%
Precast concrete	-3.3	1.4	-338%	0.8	-535%	-1.9	1.1	-277%
Total	0.1	18.7	-100%	37.6	-100%	18.8	75.8	-75%
Pretax profit								
Construction	5.9	20.4	-71%	41.1	-86%	26.3	81.2	-68%
Precast concrete	-3.5	0.8	-554%	0.1	-7025%	-2.8	0.1	-2537%
Total	2.3	21.2	-89%	41.2	-94%	23.6	81.3	-71%
Net profit								
Construction	5.5	16.0	-65%	33.1	-83%	21.5	64.2	-66%
Precast concrete	-3.3	0.4	-1003%	0.1	5502%	-3.0	0.0	59460%
Total	2.2	16.4	-87%	33.2	-93%	18.5	64.2	-71%
PAT Margins								
Construction	4.0%	4.8%		8.2%		4.6%	7.9%	
Precast	-112.0%	1.0%		0.2%		-7.6%	0.0%	
Total	1.6%	4.5%		7.5%		3.7%	7.3%	

Source: Company, Kenanga Research

Sum of Parts Target Price		
Items	Value (RM m)	Remarks
Construction	2,651	Apply 18x FY21F PE
Precast concrete	127	Apply 10x FY21F PE
Business equity value	2,778	
Net cash/(debt) as of 1Q20	360	
Equity value	3,138	
No. of shares (m)	1,293	
Equity value per share (RM)	2.45	

Source: Kenanga Research

19 August 2020

Peer Comparison

Name	Last Price (RM)	Market Cap (RM'm)	Shariah Compliant	Current FYE	PER (x) - Core Earnings			PBV (x)		ROE (%)		Net Div Yld (%)	Target Price	Rating
					Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.			
STOCKS UNDER COVERAGE														
GAMUDA BHD	3.38	8,495.7	Y	07/2020	11.5	17.2	12.4	1.0	1.0	5.6%	1.8%	4.10	OP	
GEORGE KENT (MALAYSIA) BHD	0.790	416.5	Y	01/2021	10.5	12.7	8.4	0.9	0.8	6.7%	2.0%	0.510	UP	
HOCK SENG LEE BERHAD	0.905	497.3	Y	12/2020	9.0	17.1	8.1	0.6	0.6	3.5%	1.1%	1.25	OP	
IJM CORP BHD	1.33	4,829.6	Y	03/2021	14.3	21.1	17.3	0.5	0.5	2.3%	2.3%	2.00	OP	
KERJAYA PROSPEK GROUP BHD	1.04	1,275.9	Y	12/2020	8.6	12.2	8.5	1.3	1.2	10.2%	3.0%	1.45	OP	
KIMLUN CORP BHD	0.770	261.6	Y	12/2020	4.5	10.3	5.9	0.4	0.4	3.8%	6.1%	0.960	OP	
MITRAJAYA HOLDINGS BHD	0.200	166.9	Y	12/2020	N.A.	N.A.	N.A.	0.2	0.3	-3.9%	0.0%	0.200	MP	
MUHIBBAH ENGINEERING (M) BHD	0.810	391.6	Y	12/2020	10.3	14.2	5.2	0.3	0.3	2.3%	1.2%	1.15	OP	
SUNWAY CONSTRUCTION GROUP BHD	1.79	2,308.0	Y	12/2020	17.5	33.1	14.4	3.7	3.5	10.9%	1.4%	2.45	OP	
WCT HOLDINGS BHD	0.415	585.1	Y	12/2020	3.8	N.A.	13.4	0.2	0.2	-0.2%	0.0%	0.460	UP	
Simple Average					10.0	17.2	10.4	0.9	0.9	4.1%	1.9%			

Source: Bloomberg, Kenanga Research

19 August 2020

Stock Ratings are defined as follows:**Stock Recommendations**

OUTPERFORM	: A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM	: A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM	: A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT	: A particular sector's Expected Total Return is MORE than 10%
NEUTRAL	: A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT	: A particular sector's Expected Total Return is LESS than -5%

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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