

Sunway Construction Group (SCGB MK)

1Q21: Shortfall

Lowering forecasts

Although up 24% YoY, SCGB's 1Q21 net profit fell short of expectations at 15% of our/consensus FY21E due to MCO 2.0 which impacted the work pace again at its construction ops. We are turning cautious due to the resurgence of COVID-19 cases in MY and SG. We lower FY21E net profit by 21%, but raise FY22/23E by 4%/13%. HOLD maintained, with a lower MYR1.72 TP on updated 18x PER (-0.5SD of mean; 17x previously) and on rolling forward valuation base to mid-FY22E earnings (vs FY21E).

Up YoY, down QoQ

Construction revenue rose 28% YoY but was down 28% QoQ. The YoY growth was driven by the building division, i.e. work progress on its TNB HQ Campus, Petronas Leadership Centre, Sunway Carnival Mall Extension and Sunway Medical Centre Seberang Jaya projects. QoQ, works recognition fell as MCO 2.0 (13 Jan 2021 to 4 Mar 2021) had resulted in sub-optimal operations in some of SCGB's projects as SCGB continued on its efforts to ensure compliance to minimum workers' housing standards. Positively, while precast revenue was down both YoY/QoQ, it benefited from better margins on recognition of higher yielding projects.

MYR5b o/s orderbook

Outstanding works sustained at MYR5b end-Mar 2021 of which MYR462m were secured in 1Q21, on track for its MYR2b replenishment target for 2021. Of the MYR462m wins in 1Q21, MYR185m relates to its precast ops with the orders coming from SG, and MYR180m relates to a new Sunway Medical Centre at Damansara Giza. Our earnings model assumes a similar MYR2b win in 2021. Active tender at hand is MYR7b (50% overseas in India, SG and PH). Elsewhere, its two Indian projects achieved financial close on 10 May 2021; SCGB is awaiting the appointment date.

Pandemic resurgence

SCGB's two projects in India are located in Tamil Nadu where the sites are outside the populous cities; thus, management do not anticipate major disruption in works. However, we are concern that the work pace at its MY (construction) and SG (precast) ops could be impacted again by the resurgence of COVID-19 cases, now in the community.

FYE Dec (MYR m)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue	1,769	1,553	2,396	2,699	2,753
EBITDA	181	124	175	218	239
Core net profit	129	73	111	136	139
Core EPS (sen)	10.0	5.6	8.6	10.5	10.8
Core EPS growth (%)	(10.3)	(43.7)	52.4	22.3	2.4
Net DPS (sen)	7.0	4.0	6.0	7.0	7.0
Core P/E (x)	19.1	33.3	19.5	16.0	15.6
P/BV (x)	4.0	3.8	3.2	3.0	2.8
Net dividend yield (%)	3.7	2.1	3.6	4.2	4.2
ROAE (%)	21.3	11.6	17.0	19.6	18.8
ROAA (%)	6.6	3.7	5.2	5.3	4.7
EV/EBITDA (x)	12.3	20.4	12.2	10.9	11.0
Net gearing (%) (incl perps)	net cash	15.8	net cash	29.1	60.2
Consensus net profit	-	-	140	156	166
MKE vs. Consensus (%)	-	-	(20.5)	(13.0)	(16.4)

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HOLD

Share Price	MYR 1.68
12m Price Target	MYR 1.72 (+6%)
Previous Price Target	MYR 1.84

Company Description

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

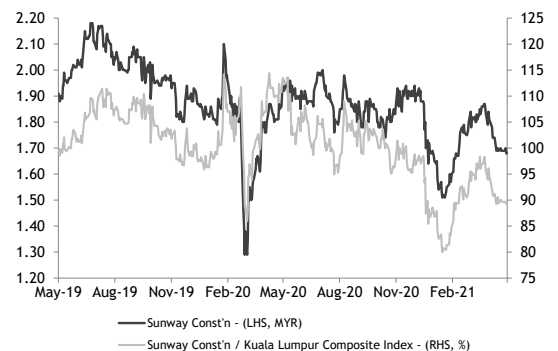
Statistics

52w high/low (MYR)	2.00/1.51
3m avg turnover (USDm)	0.3
Free float (%)	25.2
Issued shares (m)	1,293
Market capitalisation	MYR2.2B USD524M

Major shareholders:

Sunway Bhd.	54.4%
Active Equity Sdn. Bhd.	10.1%
Employees Provident Fund	9.0%

Price Performance



	-1M	-3M	-12M
Absolute (%)	(9)	5	(13)
Relative to index (%)	(7)	5	(21)

Source: FactSet

Abbreviation

MCO = Movement Control Order
CMCO = Conditional MCO
SG = Singapore
PH = Philippines

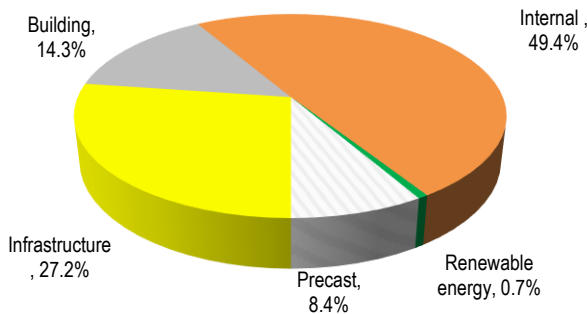
Various phases of MCO in 2021

CMCO 2.0 = 14 Oct 2020 to 12 Jan 2021
MCO 2.0 = 13 Jan to 4 Mar 2021
CMCO 3.0 = 5 Mar to 6 May 2021
MCO 3.0 = From 6 May (S'gor) / 7 May (KL) / 12 May (Penang) till 7 Jun 2021

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 (MEP); (v) precast concrete (with two plants in Johor - and another under construction in SG - 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.
- Highly experienced senior management team and support from the Sunway Group add onto its value proposition.

MYR5b outstanding orderbook as of end-Mar 2021

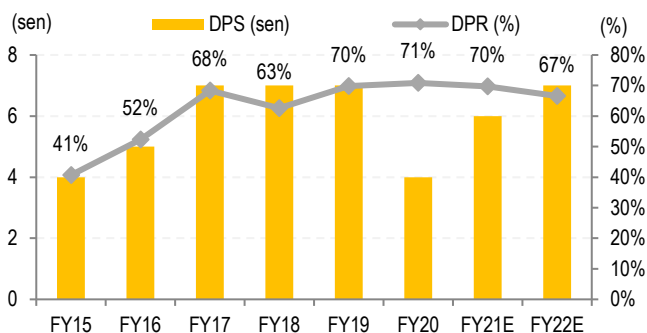


Source: Company

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 due to work disruption from Malaysia's MCO; we expect ROE to rebound in FY21E.
- Balance sheet is strong with a near-cash (wholesale fund) balance of MYR497m as of 31 Mar 2021, off-setting a net debt of MYR117m (0.18 gearing).
- DPR is a minimum 35% of PATMI; since its relisting (on 28 Jul 2015), SCGB has been paying up to 71% (FY20).

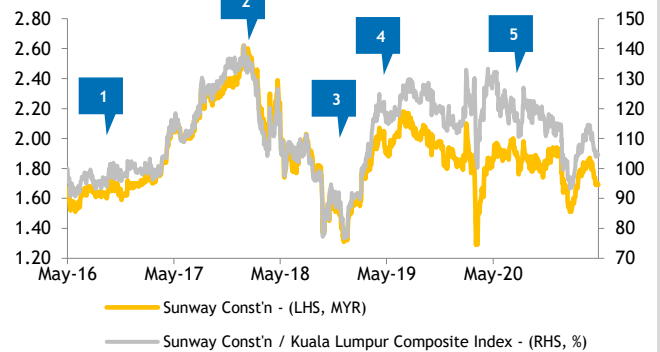
Dividends



Source: Company

Price Drivers

Historical share price trend



Source: Company, Maybank Kim Eng

- Secured MYR2.7b new jobs in 2016, bringing outstanding order book to a new high of MYR4.8b as of end-2016.
- 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 infrastructure projects awarded during the previous Government.
- Investor sentiment towards the construction sector improved.
- Malaysia's Movement Control Order (MCO) from 18 Mar 2020 led to work disruption at all of SCGB's projects.

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, any significant increase in steel prices and stiffer competition could also affect margins.

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Fig 1: Results summary

FY Dec (MYR m)	Quarterly				
	1Q21	1Q20	% YoY	4Q20	% QoQ
Revenue	455.2	365.8	24.4	627.2	(27.4)
EBIT	26.1	18.7	39.7	38.8	(32.8)
Net interest inc/(exp)	(0.8)	1.9	NM	2.7	(130.6)
Assoc, JV profits	2.0	1.1	82.1	0.0	NM
Pre-tax profit	27.2	21.6	26.0	41.6	(34.5)
Tax	(6.9)	(4.3)	60.8	(11.5)	(39.8)
Minority Interests	(0.1)	(1.0)	NM	0.1	NM
Net profit	20.2	16.4	23.8	30.2	(33.0)
EPS (sen)	1.57	1.27	23.6	2.34	(32.9)
DPS (sen)	-	-	NM	2.75	NM
	1Q21	1Q20	+/- ppt	4Q20	+/- ppt
<i>EBIT margin (%)</i>	5.7	5.1	0.6	6.2	(0.5)
<i>Pretax margin (%)</i>	6.0	5.9	0.1	6.6	(0.6)
<i>Tax rate (%)</i>	25.5	19.9	5.5	27.7	(2.3)
<u>Revenue</u>	1Q21	1Q20	% YoY	4Q20	% QoQ
Construction	421.3	329.6	27.8	585.0	(28.0)
Precast concrete	33.9	36.3	(6.6)	42.2	(19.7)
Total	455.2	365.8	24.4	627.2	(27.4)
<u>EBIT</u>					
Construction	22.3	17.3	29.3	34.8	(35.8)
Precast concrete	3.8	1.4	167.3	4.0	(5.9)
Total	26.1	18.7	39.7	38.8	(32.8)
<u>EBIT margin (%)</u>	1Q21	1Q20	+/- ppt	4Q20	+/- ppt
Construction	5.3	5.2	0.1	6.0	(0.6)
Precast concrete	11.1	3.9	7.2	9.5	1.6
Total	5.7	5.1	0.6	6.2	(0.5)

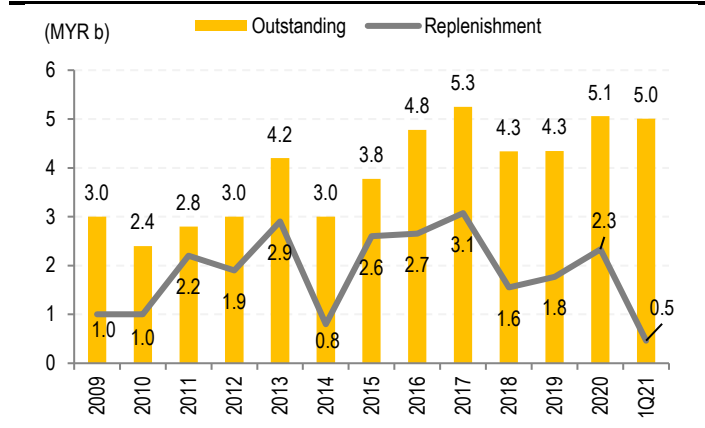
Source: Company

Fig 2: Outstanding orderbook of MYR5b @ end-Mar 2021

As at 31 Mar 2021	Completion	Contract value (MYR m)	Outstanding (MYR m)
Infrastructure			
LRT 3 : Package GS07-08	2Q22	1,295	465
Sentul West Station (MEP) #	4Q21	57	35
KVMRT 2, Chan Sow Lin underground station (MEP) @	4Q21	54	39
Tamil Nadu Highway (Thorapalil Agraharam-Jittandahalli, of NH-844) @	3Q23	508	508
Tamil Nadu Highway (Meensurutti-Chidambarm, of NH-227) @	3Q23	315	315
Jln Tambun #	4Q22	14	14
Building			
Putrajaya Parcel F	Maintenance	1,610	17
TNB HQ Campus #	3Q21	781	449
Petronas Learning Centre #	4Q21	305	168
Oxley Tower (MEP) #	2Q22	68	54
IOI Mall (MEP) #	4Q21	68	28
Internal			
Sunway Medical Centre 4 (2 towers)	3Q22	450	268
Sunway Serene - Kelana Jaya Condo	2Q22	413	162
Sunway Carnival 2 Extension - PDP contract	3Q21	286	122
SunGeo Lake 44 storey residential tower	2Q21	223	13
SMC Seberang Jaya	3Q21	180	104
Sunway Velocity Two	4Q21	352	173
Sunway Velocity 3C4	2Q22	100	50
BigBox Hotel #	2Q21	100	3
Sunway South Key - Parcel CP2 (piling) #	2Q21	119	25
BKE (Seberang Jaya) @	2Q21	4	4
Sunway International School @	4Q22	121	103
Sunway South Quay - Comm mixed devt @	3Q21	344	344
Service apartments at Jln Belfield @	1Q24	403	387
Sunway Resort Hotel & Spa renovation @	2Q21	81	46
Sunway Medical Centre 4 (VO) @	3Q22	162	162
Sunway Velocity Two - 2 blocks of service apartments @	3Q23	253	246
SMC Seberang Jaya - VO #	3Q21	16	16
Sunway International School - VO #	4Q22	15	15
Big Box Office #	2Q22	51	48
Sunway Damansara Medical Centre #	1Q23	180	180
Renewable energy			
Renewable energy - internal @	2021	12	7
Renewable energy - external @	2021	26	26
Precast			
Secured pre 2021	-	331	237
New order in 1Q21 #	-	185	185
Total		9,481	5,006

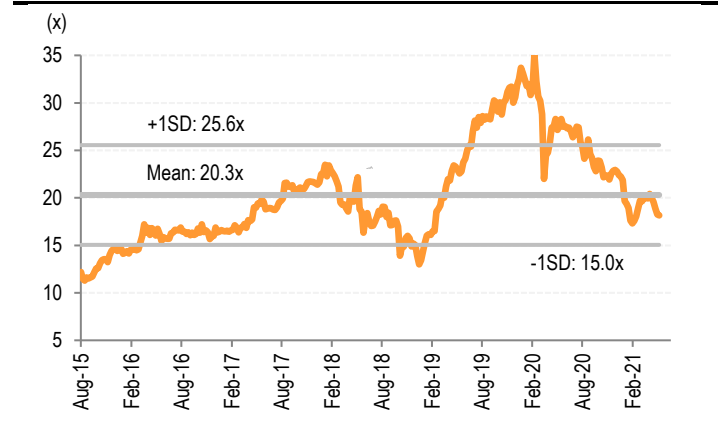
#Secured in 2019; @ Secured in 2020; # Secured in 1Q21; Source: Company

Fig 3: Outstanding orderbook vs. replenishment



Note: Including precast, adjusted for revised value of LRT3 project;
Source: Company data, Maybank KE

Fig 4: 12M forward PER



Source: Company data, Maybank KE

FYE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
Key Metrics					
P/E (reported) (x)	19.1	32.6	19.5	16.0	15.6
Core P/E (x)	19.1	33.3	19.5	16.0	15.6
P/BV (x)	4.0	3.8	3.2	3.0	2.8
P/NTA (x)	4.0	3.8	3.2	3.0	2.8
Net dividend yield (%)	3.7	2.1	3.6	4.2	4.2
FCF yield (%)	7.7	3.5	10.9	6.2	6.3
EV/EBITDA (x)	12.3	20.4	12.2	10.9	11.0
EV/EBIT (x)	15.9	27.9	14.3	12.9	13.2
INCOME STATEMENT (MYR m)					
Revenue	1,768.7	1,552.7	2,396.0	2,698.7	2,752.5
EBITDA	181.3	124.0	174.5	217.9	239.2
Depreciation	(40.3)	(33.4)	(25.9)	(33.1)	(39.3)
EBIT	141.0	90.5	148.6	184.9	199.8
Net interest income / (exp)	11.4	0.9	(0.9)	(2.6)	(9.4)
Associates & JV	5.6	10.1	5.0	5.0	5.0
Exceptionals	0.0	0.0	0.0	0.0	0.0
Pretax profit	157.9	101.5	152.7	187.3	195.5
Income tax	(27.1)	(27.8)	(41.8)	(51.7)	(56.6)
Minorities	(1.5)	(0.9)	0.0	0.0	0.0
Reported net profit	129.3	72.8	110.9	135.6	138.9
Core net profit	129.3	72.8	110.9	135.6	138.9
BALANCE SHEET (MYR m)					
Cash & Short Term Investments	614.6	200.1	338.2	342.4	389.7
Accounts receivable	849.7	904.9	1,079.6	1,178.8	1,208.1
Inventory	25.1	34.3	55.4	62.4	63.2
Property, Plant & Equip (net)	138.5	107.3	165.3	218.6	206.8
Intangible assets	3.9	0.1	0.1	0.1	0.1
Investment in Associates & JVs	48.4	488.9	493.9	498.9	503.9
Other assets	322.2	170.5	190.5	480.5	780.5
Total assets	2,002.3	1,906.1	2,323.1	2,781.7	3,152.3
ST interest bearing debt	233.4	233.7	233.7	233.7	233.7
Accounts payable	868.3	940.0	1,323.5	1,485.7	1,507.7
LT interest bearing debt	52.7	67.2	67.2	317.2	617.2
Other liabilities	125.0	27.0	27.0	28.0	28.0
Total Liabilities	1,279.9	1,267.5	1,651.0	2,064.2	2,386.2
Shareholders Equity	623.0	636.9	670.4	715.8	764.4
Minority Interest	99.5	1.7	1.7	1.7	1.7
Total shareholder equity	722.5	638.6	672.1	717.5	766.1
Total liabilities and equity	2,002.3	1,906.1	2,323.1	2,781.7	3,152.3
CASH FLOW (MYR m)					
Pretax profit	157.9	101.5	152.7	187.3	195.5
Depreciation & amortisation	40.3	33.4	25.9	33.1	39.3
Adj net interest (income)/exp	16.8	1.4	(0.9)	(2.6)	(9.4)
Change in working capital	32.7	(23.7)	187.6	56.1	(8.2)
Cash taxes paid	(38.4)	(28.8)	(41.8)	(51.7)	(56.6)
Other operating cash flow	(15.3)	4.0	(4.1)	(2.4)	4.4
Cash flow from operations	194.1	87.8	319.4	219.8	165.1
Capex	(4.7)	(1.9)	(83.9)	(86.4)	(27.5)
Free cash flow	189.4	85.9	235.5	133.4	137.5
Dividends paid	(90.4)	(61.2)	(77.4)	(90.3)	(90.3)
Change in Debt	167.9	12.0	0.0	250.0	300.0
Other invest/financing cash flow	(394.4)	(266.7)	(20.0)	(289.0)	(300.0)
Net cash flow	(127.5)	(230.0)	138.2	4.2	47.3

FYE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
Key Ratios					
Growth ratios (%)					
Revenue growth	(21.6)	(12.2)	54.3	12.6	2.0
EBITDA growth	(17.2)	(31.6)	40.8	24.9	9.8
EBIT growth	(19.5)	(35.8)	64.2	24.4	8.1
Pretax growth	(13.6)	(35.7)	50.4	22.7	4.4
Reported net profit growth	(10.5)	(43.7)	52.4	22.3	2.4
Core net profit growth	(10.5)	(43.7)	52.4	22.3	2.4
Profitability ratios (%)					
EBITDA margin	10.2	8.0	7.3	8.1	8.7
EBIT margin	8.0	5.8	6.2	6.8	7.3
Pretax profit margin	8.9	6.5	6.4	6.9	7.1
Payout ratio	69.9	70.9	69.8	66.6	65.0
DuPont analysis					
Net profit margin (%)	7.3	4.7	4.6	5.0	5.0
Revenue/Assets (x)	0.9	0.8	1.0	1.0	0.9
Assets/Equity (x)	3.2	3.0	3.5	3.9	4.1
ROAE (%)	21.3	11.6	17.0	19.6	18.8
ROAA (%)	6.6	3.7	5.2	5.3	4.7
Liquidity & Efficiency					
Cash conversion cycle	(38.3)	(42.1)	(39.5)	(56.9)	(62.0)
Days receivable outstanding	180.0	203.4	149.1	150.6	156.1
Days inventory outstanding	7.1	8.3	7.8	9.1	9.5
Days payables outstanding	225.5	253.8	196.3	216.6	227.6
Dividend cover (x)	1.4	1.4	1.4	1.5	1.5
Current ratio (x)	1.6	1.1	1.0	1.0	1.0
Leverage & Expense Analysis					
Asset/Liability (x)	1.6	1.5	1.4	1.3	1.3
Net gearing (%) (incl perps)	net cash	15.8	net cash	29.1	60.2
Net gearing (%) (excl. perps)	net cash	15.8	net cash	29.1	60.2
Net interest cover (x)	na	na	nm	72.1	21.3
Debt/EBITDA (x)	1.6	2.4	1.7	2.5	3.6
Capex/revenue (%)	0.3	0.1	3.5	3.2	1.0
Net debt/ (net cash)	(328.6)	100.8	(37.3)	208.5	461.2

Source: Company; Maybank

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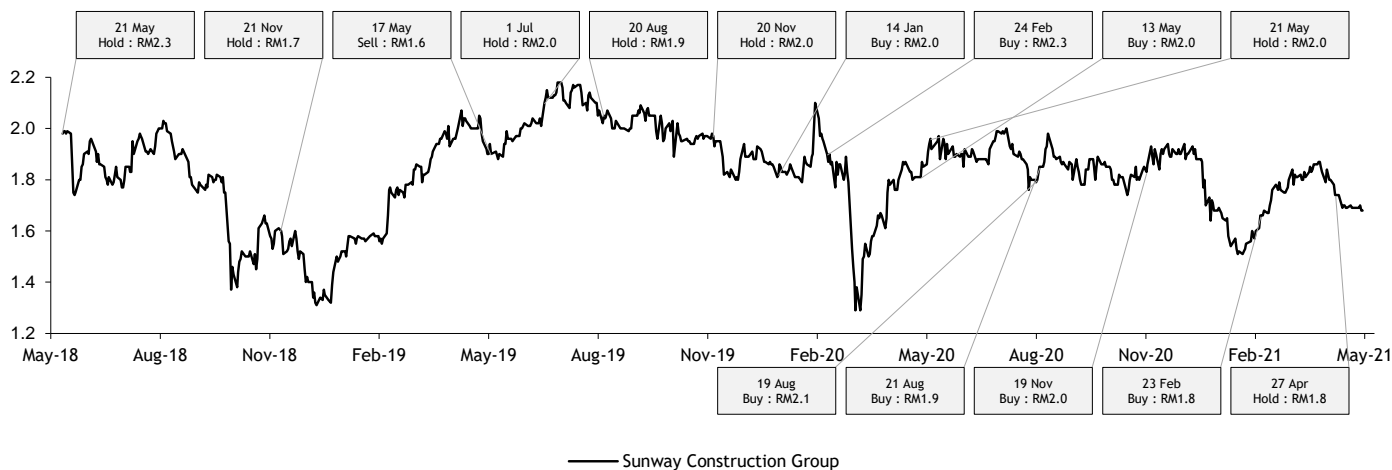
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