

Sunway Construction Group (SCGB MK)

Disrupted, but to pick up fast

Cutting forecasts & TP; maintain BUY

The MCO has disrupted works at all of SCGB's projects, but their re-start momentum should be fast after the health screening of all foreign workers. We expect a loss in 2Q20 due to fixed overheads. We cut FY20E net profit by 41%, marginally tweak FY21E/FY22E. Our TP is lowered to MYR2.03 (-11%) on revised 16.5x FY21E PER. Reiterate BUY; SCGB offers a direct exposure to big-ticket infrastructure spending. Its e.MYR5.2b outstanding orderbook offers medium-term earnings visibility.

It has been quiet for about seven weeks

Works had virtually stopped at about all of SCGB's projects since the Movement Control Order (MCO) started on 18 Mar. As the country moved into the Conditional MCO phase from 4 May, works have been allowed to re-start at all of its projects subject to the health screening of all foreign workers on-site. SCGB believes that the MCO-induced disruption can be categorised as a force majeure, thus allowing it to seek an extension of time to complete all works without incurring late delivery liability.

We now anticipate a loss in 2Q20

SCGB continues to incur overheads (wages, fixed asset depreciation, etc) during the MCO period. Despite construction works having re-started, they are not at full capacity pending the health screening of all foreign workers on-site. We expect full capacity only from end-May, considering also the upcoming Aidilfitri public holiday in the final week of May. As for its precast concrete operation, while its Johor plants have re-started, supply to Singapore is still disrupted due to the latter's Circuit Breaker.

Strong orderbook offers mid-term earnings visibility

SCGB's outstanding orderbook stood at MYR5.2b end-2019 and a recent win in India has helped to sustain its outstanding orderbook at MYR5.2b, we estimate, after considering 1Q20's work recognition. SCGB has a 60% stake in this new Indian project which comprises the construction of a 4-lane highway, plus O&M over 15 years. Management retains its MYR2b orderbook replenishment target for 2020 (2019: MYR1.8b) for now.

FYE Dec (MYR m)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue	2,257	1,769	1,909	2,818	2,325
EBITDA	215	185	138	230	189
Core net profit	144	129	89	159	121
Core EPS (sen)	11.2	10.0	6.9	12.3	9.4
Core EPS growth (%)	9.2	(10.3)	(30.9)	78.1	(23.7)
Net DPS (sen)	7.0	7.0	4.8	7.0	7.0
Core P/E (x)	11.9	19.1	26.1	14.7	19.2
P/BV (x)	2.9	4.0	3.6	3.2	3.1
Net dividend yield (%)	5.3	3.7	2.7	3.9	3.9
ROAE (%)	25.5	21.3	14.0	23.2	16.5
ROAA (%)	8.1	7.0	4.5	6.9	4.9
EV/EBITDA (x)	6.3	11.1	13.8	7.7	9.6
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Consensus net profit	-	-	148	160	146
MKE vs. Consensus (%)	-	-	(39.6)	(0.3)	(16.8)

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BUY

Share Price	MYR 1.81
12m Price Target	MYR 2.03 (+16%)
Previous Price Target	MYR 2.28

Company Description

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

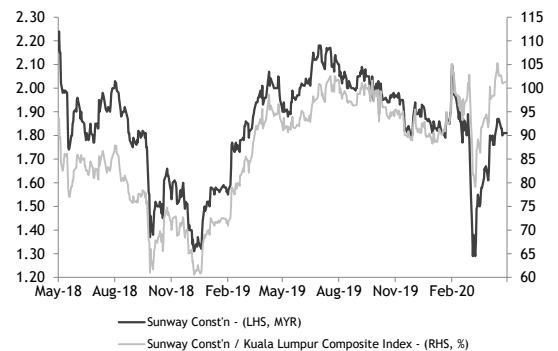
Statistics

52w high/low (MYR)	2.18/1.29
3m avg turnover (USDm)	0.4
Free float (%)	25.6
Issued shares (m)	1,293
Market capitalisation	MYR2.3B
	USD540M

Major shareholders:

Sunway Bhd.	54.4%
Active Equity Sdn. Bhd.	10.1%
Employees Provident Fund	8.4%

Price Performance



	-1M	-3M	-12M
Absolute (%)	12	(10)	(6)
Relative to index (%)	10	1	9

Source: FactSet

Wins 1st construction project in India after a long lapse

The project comes with minimal risk exposure, except for currency risk. SCGB will have a 60% stake, comprising the (i) construction of a 4-lane highway in Tamil Nadu over 2 years for Rs 865 Crore (or MYR495m) with 60% of the payment to be on fixed annuity over 15 years (thus no traffic risk), and (ii) 15 years of O&M at Rs 7 Crore (or MYR4m) p.a. SCGB's partner is a local (RNS Infrastructure Ltd) whom it had worked with, in its 1st two projects in India. back in 2001. The project has a price fluctuation clause throughout the 2 years construction and 15 years maintenance period. Interest rate risk on the 15 years annuity payment for 60% of the construction value is mitigated as NHAI will pay SCGB-RNS an interest income at 3% above the Reserve Bank of India (RBI) rate. Receivables risk is also mitigated as the client is the National Highway Authority of India (NHAI).

Helps to sustain outstanding orderbook at e.MYR5.2b

This recent win has helped SCGB to sustain its outstanding orderbook at MYR5.2b, we estimate, after considering MYR5.2b of outstanding works as of end-2019 and e.MYR300m+ of works recognition in 1Q20. Assuming a 10% pretax margin, this new Indian highway project is expected to contribute MYR37m in net profit over its 2 years of construction. As for the O&M over the subsequent 15 years, we expect the margins to be small and earnings contribution to be negligible.

Fig 1: Outstanding orderbook of MYR5.2b end-2019 + MYR300m in 2020 YTD

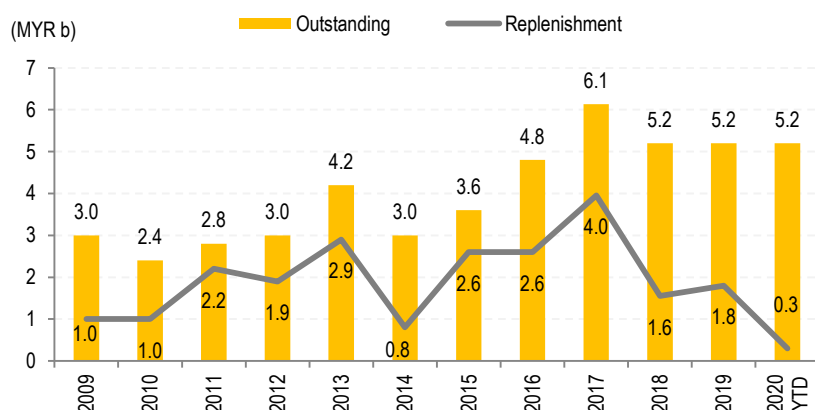
As at end-2019	Completion	Contract value (MYR m)	Outstanding (MYR m)
Infrastructure			
KVMRT 2, V201 (Sg Buloh-Persiaran Dagang)	2Q21	1,213	163
LRT 3 : Package GS07-08	2Q21	2,178	1,718
Piling Works	-	99	24
Piling Works #	-	99	65
Sentul West Station (MEP) #	1Q21	57	57
Tamil Nadu 4-lane highway construction @	2023	300	300
Building			
Putrajaya Parcel F	1Q19	1,610	33
PPA1M Project in Kota Bahru	2Q21	582	76
TNB HQ Campus #	2Q21	781	704
Petronas Learning Centre #	2Q21	310	299
Oxley Tower #	2Q22	68	67
IOI Mall (MEP) #	2Q21	68	68
Internal			
Sunway Medical Centre 4 (2 towers)	4Q21	512	379
Sunway Property - Kelana Jaya Condo	3Q21	449	261
Sunway Carnival 2 Extension - PDP contract	1Q21	286	226
SunGeo Lake 44 storey residential tower	1Q21	223	82
SMC Seberang Jaya	1Q21	180	146
Sunway Velocity Two	4Q21	352	300
Sunway Velocity 3C4	2Q21	100	75
BigBox Hotel #	3Q20	100	72
Parcel CP2 (piling) #	3Q21	119	111
BB Solar #	4Q19	8	0
Sunway Pyramid Solar #	2Q20	3	3
Precast			
Secured pre 2019	-	331	157
New order in 2019 #	-	160	147
Total		10,188	5,533

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

Management retains its MYR2b replenishment target

Management maintains its MYR2b orderbook replenishment target for 2020 (2019: MYR1.8b, 2018: MYR1.6b), for now. Earlier targets were for work packages from major local infrastructure projects expected to be rolled out this year - ECRL (local contractors' portion), PTMP (in particular, the LRT portion), KVMRT3, KL-SG HSR, and Sarawak's coastal road network & 2nd trunk road. Of these, we think the ECRL (local contractors' portion) and KVMRT3 rollout will be earlier than the rest. Overseas, management's focus markets are Myanmar and India.

Fig 2: Outstanding orderbook vs. replenishment



*Including precast; Source: Company data, Maybank Kim Eng

Recalibrating our forecasts

Our FY20E net profit is cut by 41% after incorporating: (i) no works recognition / revenue from 18 Mar until 3 May, with a gradual ramp up in works from 4 May until end-May, and full capacity from early-June; (ii) recurring fixed overheads during the MCO period, (iii) lower job win assumption of MYR1.6b in 2020 (vs. MYR2b previously) but a higher MYR2.6b in 2021 (vs. MYR2.2b previously). The lower job win assumption for 2020 is premised on expected deferment in the roll-out of some local jobs into 2021. Due to the revenue loss brought on by the MCO in 2020 and with most of SCGB's outstanding orderbook to complete in 2021, we expect a surge in works recognition and earnings in FY21.

Recalibrating our target valuation

Imputing our renewed expectation for a new post-MCO landscape, we lower our target valuation for SCGB to 16.5x FY21E PER (vs. 18.4x or +0.5SD of mean previously). This is 10% above our target for the market to reflect our optimism for some big-ticket infrastructure spending by the government to revive the economy, with SCGB to be a beneficiary. Our revised TP, as a result, is MYR2.03.

Fig 3: 12M forward PER



Source: Company data, Maybank Kim Eng

Risk statement

There are several risk factors for our earnings estimates, target price and rating for SCGB. Slower-than-expected work progress at existing major construction projects may affect timing of earnings recognition. The timing of major infrastructure projects roll-out by the government could also affect orderbook replenishment. At the precast segment, any significant increase in steel prices and stiffer competition could also affect project margins.

FYE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
Key Metrics					
P/E (reported) (x)	17.4	19.1	26.1	14.7	19.2
Core P/E (x)	11.9	19.1	26.1	14.7	19.2
P/BV (x)	2.9	4.0	3.6	3.2	3.1
P/NTA (x)	2.9	4.0	3.6	3.3	3.1
Net dividend yield (%)	5.3	3.7	2.7	3.9	3.9
FCF yield (%)	8.0	7.4	3.6	9.9	1.8
EV/EBITDA (x)	6.3	11.1	13.8	7.7	9.6
EV/EBIT (x)	7.7	14.6	18.4	9.3	13.2
INCOME STATEMENT (MYR m)					
Revenue	2,256.8	1,768.7	1,909.1	2,818.3	2,324.8
Gross profit	441.8	391.7	345.0	437.0	395.9
EBITDA	215.1	185.3	138.5	230.5	189.4
Depreciation	(40.0)	(44.2)	(34.7)	(40.3)	(51.4)
EBIT	175.2	141.0	103.8	190.1	138.0
Net interest income / (exp)	6.8	12.0	7.6	8.2	12.4
Associates & JV	0.7	4.4	0.0	0.0	0.0
Exceptionals	0.0	0.0	0.0	0.0	0.0
Pretax profit	182.7	157.4	111.4	198.4	150.4
Income tax	(38.0)	(27.1)	(22.0)	(39.2)	(29.0)
Minorities	(0.3)	(1.0)	0.0	0.0	0.0
Reported net profit	144.4	129.3	89.3	159.1	121.4
Core net profit	144.4	129.3	89.3	159.1	121.4
BALANCE SHEET (MYR m)					
Cash & Short Term Investments	484.9	692.6	714.2	853.9	804.7
Accounts receivable	1,000.2	970.4	1,052.9	1,402.9	1,208.4
Inventory	30.0	25.1	28.5	43.4	35.2
Property, Plant & Equip (net)	177.0	138.7	161.3	205.5	223.9
Intangible assets	3.6	3.6	3.6	3.6	3.6
Investment in Associates & JVs	44.7	48.4	48.4	48.4	48.4
Other assets	27.6	26.2	26.2	26.2	27.2
Total assets	1,768.0	1,905.0	2,035.1	2,583.9	2,351.4
ST interest bearing debt	113.6	233.4	233.4	233.4	233.4
Accounts payable	939.6	885.2	987.9	1,467.9	1,203.3
LT interest bearing debt	0.0	52.7	52.7	52.7	52.7
Other liabilities	123.0	109.0	109.0	109.0	110.0
Total Liabilities	1,176.3	1,279.9	1,382.5	1,862.5	1,598.9
Shareholders Equity	590.2	623.0	650.4	719.1	750.2
Minority Interest	1.4	2.2	2.2	2.2	2.2
Total shareholder equity	591.7	625.2	652.6	721.4	752.5
Total liabilities and equity	1,768.0	1,905.0	2,035.1	2,583.9	2,351.4
CASH FLOW (MYR m)					
Pretax profit	182.7	157.4	111.4	198.4	150.4
Depreciation & amortisation	40.0	44.2	34.7	40.3	51.4
Adj net interest (income)/exp	6.8	12.0	7.6	8.2	12.4
Change in working capital	(10.4)	27.9	16.7	115.2	(61.9)
Cash taxes paid	(37.4)	(38.4)	(22.0)	(39.2)	(29.0)
Other operating cash flow	10.9	(15.0)	(7.6)	(8.2)	(12.4)
Cash flow from operations	192.6	188.1	140.7	314.6	110.9
Capex	(54.8)	(4.8)	(57.3)	(84.5)	(69.7)
Free cash flow	137.8	183.3	83.5	230.1	41.1
Dividends paid	(96.9)	(90.4)	(61.9)	(90.3)	(90.3)
Change in Debt	(24.5)	167.9	0.0	0.0	0.0
Other invest/financing cash flow	(18.1)	(43.4)	0.0	0.0	2.0
Net cash flow	(1.7)	217.5	21.5	139.8	(47.2)

FYE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
Key Ratios					
Growth ratios (%)					
Revenue growth	8.7	(21.6)	7.9	47.6	(17.5)
EBITDA growth	9.3	(13.9)	(25.3)	66.4	(17.8)
EBIT growth	10.1	(19.5)	(26.4)	83.2	(27.4)
Pretax growth	8.3	(13.9)	(29.2)	78.1	(24.2)
Reported net profit growth	9.2	(10.5)	(30.9)	78.1	(23.7)
Core net profit growth	9.2	(10.5)	(30.9)	78.1	(23.7)
Profitability ratios (%)					
EBITDA margin	9.5	10.5	7.3	8.2	8.1
EBIT margin	7.8	8.0	5.4	6.7	5.9
Pretax profit margin	8.1	8.9	5.8	7.0	6.5
Payout ratio	62.6	69.9	69.3	56.8	74.4
DuPont analysis					
Net profit margin (%)	6.4	7.3	4.7	5.6	5.2
Revenue/Assets (x)	1.3	0.9	0.9	1.1	1.0
Assets/Equity (x)	3.0	3.1	3.1	3.6	3.1
ROAE (%)	25.5	21.3	14.0	23.2	16.5
ROAA (%)	8.1	7.0	4.5	6.9	4.9
Liquidity & Efficiency					
Cash conversion cycle	(29.8)	(30.8)	(18.6)	(23.3)	(39.8)
Days receivable outstanding	169.0	200.5	190.8	156.8	202.2
Days inventory outstanding	5.4	7.2	6.2	5.4	7.3
Days payables outstanding	204.1	238.5	215.6	185.6	249.3
Dividend cover (x)	1.6	1.4	1.4	1.8	1.3
Current ratio (x)	1.4	1.5	1.5	1.4	1.4
Leverage & Expense Analysis					
Asset/Liability (x)	1.5	1.5	1.5	1.4	1.5
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Net gearing (%) (excl. perps)	net cash	net cash	net cash	net cash	net cash
Net interest cover (x)	na	na	na	na	na
Debt/EBITDA (x)	0.5	1.5	2.1	1.2	1.5
Capex/revenue (%)	2.4	0.3	3.0	3.0	3.0
Net debt/ (net cash)	(371.2)	(406.6)	(428.1)	(567.9)	(518.7)

Source: Company; Maybank

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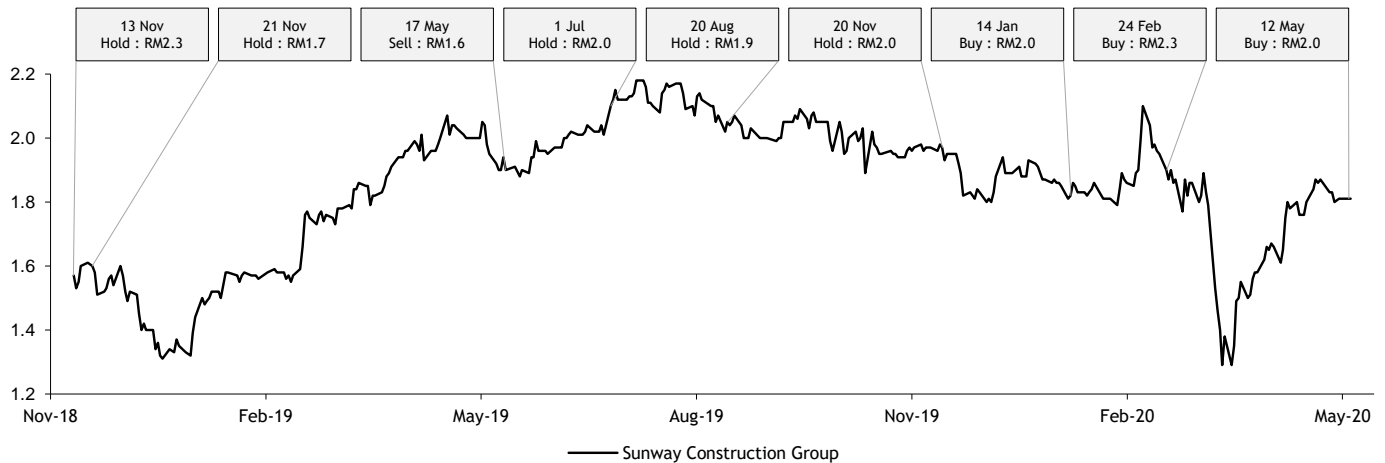
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