

Sunway Construction SCOG.KL SCGB MK

EQUITY: ENGINEERING & CONSTRUCTION

New contract wins make up for earnings drop

Maintain Buy and lower TP to MYR2.20

2Q20 results review; adjust earnings, but maintain Buy

- SunCon reported 2Q20 adjusted net income of only MYR2mn, which implies 1H20 adjusted net income of MYR19mn (26%/ 21% of our revised/consensus estimates for FY20F). The main reason for the decline in income was the lockdowns in Malaysia and Singapore, which meant a halt in construction activity in SunCon's core markets. Construction works have now normalized to pre-COVID levels in Malaysia; however, the progress remains slow in Singapore, as per management.
- It announced an interim dividend of 1.25 sen/sh, which implies a yield of 0.7%. Operating cash flow was strong in 2Q20 at MYR105mn in 2Q20 vs MYR28mn in 2Q19 and MYR19mn in 1Q20. The group has net cash position of MYR387mn as of end-2Q20, highlighting its balance sheet strength.
- In a positive development, SunCon announced the award of two more projects by its parentco, worth MYR 747mn, along with the results. The partial underwriting of orderbook by parentco remains one of the bright spots for SunCon with YTD replenishment at MYR1.5bn, already at 75% of management's full year target.
- With current tenderbook of MYR8.7bn, we do not see any risks to management's full year orderbook replenishment target of MYR2bn (NMR: MYR2bn); however, margins will be lower, in our view, due to some delays and project owners' demands.
- We lower our FY20F/21F earnings by 53%/ 14% due to slower work in progress due to lockdowns and lower margins, but maintain our orderbook replenishment target for FY20F/ 21F at MYR2bn each.

Maintain Buy and lower TP to MYR2.20, implying 23% upside

We reiterate Buy on SunCon as: 1) it is likely to be a beneficiary of positive news flows from project awards in Malaysia on the revival of infra jobs and projects from parentco, and also overseas job wins from India; 2) we believe SunCon is the best pure-play exposure within our coverage to the construction sector in Malaysia with strong earnings to cash flow conversion, net cash balance sheet, and high ROE (FY21F: 22%); and 3) we expect its precast business to grow again with the opening of a new precast plant in Singapore. We value SunCon at a FY21F P/E of 20x (premium valuation for strong orderbook momentum) (vs 19x FY20F earlier; current: 16.1x; FY21F EPS of 11sen), to arrive at our new TP of MYR2.20 (vs MYR2.30 earlier).

| Year-end 31 Dec | FY19 | | FY20F | | FY21F | | FY22F | |
|----------------------------|----------|----------|----------|----------|----------|----------|----------|--|
| Currency (MYR) | Actual | Old | New | Old | New | Old | New | |
| Revenue (mn) | 1,769 | 1,977 | 1,169 | 2,062 | 1,834 | 2,404 | 2,263 | |
| Reported net profit (mn) | 129 | 155 | 72 | 166 | 143 | 178 | 161 | |
| Normalised net profit (mn) | 129 | 155 | 72 | 166 | 143 | 178 | 161 | |
| FD normalised EPS | 10.02c | 11.98c | 5.58c | 12.88c | 11.08c | 13.80c | 12.42c | |
| FD norm. EPS growth (%) | -13.8 | 19.5 | -44.3 | 7.5 | 98.7 | 7.1 | 12.0 | |
| FD normalised P/E (x) | 17.9 | - | 32.1 | - | 16.1 | - | 14.4 | |
| EV/EBITDA (x) | 10.3 | - | 18.8 | - | 9.6 | - | 8.3 | |
| Price/book (x) | 3.7 | - | 3.7 | - | 3.3 | - | 3.1 | |
| Dividend yield (%) | 3.9 | - | 2.2 | - | 4.3 | - | 4.8 | |
| ROE (%) | 21.3 | 23.8 | 11.6 | 23.6 | 21.8 | 23.4 | 22.3 | |
| Net debt/equity (%) | net cash | net cash | net cash | net cash | net cash | net cash | net cash | |

Source: Company data, Nomura estimates

| | |
|---------------------------------------|-----------------|
| Rating Remains | Buy |
| Target price Reduced from MYR 2.30 | MYR 2.20 |
| Closing price 18 August 2020 | MYR 1.79 |
| Implied upside | +22.9% |
| Market Cap (USD mn) | 553.7 |
| ADT (USD mn) | 0.3 |

Research Analysts

Malaysia Engineering & Construction

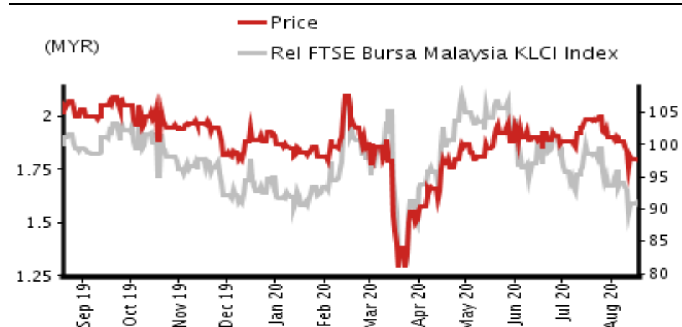
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Key Data on Sunway Construction

Relative Performance Chart



Source: Thomson Reuters, Nomura

Performance

| (%) | 1M | 3M | 12M | | |
|---------------------------|-------|-------|-------|------------------|-------|
| Absolute (MYR) | -10.1 | -3.8 | -13.5 | M cap (USDm) | 553.7 |
| Absolute (USD) | -8.3 | 0.5 | -13.6 | Free float (%) | 35.4 |
| Rel to FTSE | -7.8 | -14.4 | -11.1 | 3-mth ADT (USDm) | 0.3 |
| Bursa Malaysia KLCI Index | | | | | |

Income statement (MYRmn)

| Year-end 31 Dec | FY18 | FY19 | FY20F | FY21F | FY22F |
|------------------------|--------|--------|--------|--------|--------|
| Revenue | 2,257 | 1,769 | 1,169 | 1,834 | 2,263 |
| Cost of goods sold | -2,077 | -1,628 | -1,103 | -1,672 | -2,077 |
| Gross profit | 180 | 141 | 67 | 162 | 185 |
| SG&A | | | | | |
| Employee share expense | | | | | |
| Operating profit | 180 | 141 | 67 | 162 | 185 |
| EBITDA | 220 | 181 | 103 | 209 | 239 |
| Depreciation | -40 | -40 | -36 | -47 | -54 |
| Amortisation | | | | | |
| EBIT | 180 | 141 | 67 | 162 | 185 |
| Net interest expense | 8 | 12 | 19 | 13 | 12 |
| Associates & JCEs | 1 | 4 | 4 | 4 | 4 |
| Other income | | | | | |
| Earnings before tax | 189 | 157 | 90 | 179 | 201 |
| Income tax | -38 | -27 | -17 | -35 | -39 |
| Net profit after tax | 150 | 130 | 73 | 144 | 162 |
| Minority interests | 0 | -1 | -1 | -1 | -1 |
| Other items | | | | | |
| Preferred dividends | | | | | |
| Normalised NPAT | 150 | 129 | 72 | 143 | 161 |
| Extraordinary items | -5 | 0 | 0 | 0 | 0 |
| Reported NPAT | 145 | 129 | 72 | 143 | 161 |
| Dividends | -90 | -90 | -50 | -100 | -112 |
| Transfer to reserves | 54 | 39 | 22 | 43 | 49 |

Valuations and ratios

| | | | | | |
|------------------------|------|-------|-------|-------|------|
| Reported P/E (x) | 16.0 | 17.9 | 32.1 | 16.1 | 14.4 |
| Normalised P/E (x) | 15.4 | 17.9 | 32.1 | 16.1 | 14.4 |
| FD normalised P/E (x) | 15.4 | 17.9 | 32.1 | 16.1 | 14.4 |
| Dividend yield (%) | 3.9 | 3.9 | 2.2 | 4.3 | 4.8 |
| Price/cashflow (x) | 12.2 | 11.9 | 39.3 | 17.6 | 11.9 |
| Price/book (x) | 3.9 | 3.7 | 3.7 | 3.3 | 3.1 |
| EV/EBITDA (x) | 8.8 | 10.3 | 18.8 | 9.6 | 8.3 |
| EV/EBIT (x) | 10.8 | 13.1 | 28.5 | 12.3 | 10.6 |
| Gross margin (%) | 8.0 | 8.0 | 5.7 | 8.8 | 8.2 |
| EBITDA margin (%) | 9.7 | 10.2 | 8.8 | 11.4 | 10.6 |
| EBIT margin (%) | 8.0 | 8.0 | 5.7 | 8.8 | 8.2 |
| Net margin (%) | 6.4 | 7.3 | 6.2 | 7.8 | 7.1 |
| Effective tax rate (%) | 20.2 | 17.2 | 19.0 | 19.5 | 19.6 |
| Dividend payout (%) | 62.5 | 69.8 | 69.8 | 69.8 | 69.8 |
| ROE (%) | 25.3 | 21.3 | 11.6 | 21.8 | 22.3 |
| ROA (pretax %) | 13.5 | 11.7 | 6.5 | 14.3 | 13.0 |
| Growth (%) | | | | | |
| Revenue | 8.7 | -21.6 | -33.9 | 56.8 | 23.4 |
| EBITDA | 12.9 | -17.6 | -43.2 | 102.6 | 14.8 |
| Normalised EPS | 15.3 | -13.8 | -44.3 | 98.7 | 12.0 |
| Normalised FDEPS | 15.3 | -13.8 | -44.3 | 98.7 | 12.0 |

Source: Company data, Nomura estimates

Cashflow statement (MYRmn)

| Year-end 31 Dec | FY18 | FY19 | FY20F | FY21F | FY22F |
|-----------------------------|------|------|-------|-------|-------|
| EBITDA | 220 | 181 | 103 | 209 | 239 |
| Change in working capital | -56 | -24 | -46 | -55 | -18 |
| Other operating cashflow | 25 | 36 | 2 | -22 | -28 |
| Cashflow from operations | 189 | 194 | 59 | 132 | 194 |
| Capital expenditure | -56 | -8 | -102 | -79 | -54 |
| Free cashflow | 133 | 185 | -43 | 52 | 140 |
| Reduction in investments | -45 | -4 | -4 | -4 | -4 |
| Net acquisitions | | | | | |
| Dec in other LT assets | -3 | 1 | 0 | 0 | 0 |
| Inc in other LT liabilities | 96 | 4 | 0 | 0 | 0 |
| Adjustments | -66 | 2 | 4 | 4 | 4 |
| CF after investing acts | 116 | 188 | -43 | 52 | 140 |
| Cash dividends | -97 | -91 | -70 | -75 | -106 |
| Equity issue | | | | | |
| Debt issue | -21 | 172 | 0 | 0 | 0 |
| Convertible debt issue | | | | | |
| Others | 0 | -62 | 0 | 0 | 0 |
| CF from financial acts | -118 | 19 | -70 | -75 | -106 |
| Net cashflow | -2 | 208 | -113 | -23 | 34 |
| Beginning cash | 487 | 485 | 693 | 579 | 556 |
| Ending cash | 485 | 693 | 579 | 556 | 590 |
| Ending net debt | -371 | -407 | -293 | -270 | -304 |

Balance sheet (MYRmn)

| As at 31 Dec | FY18 | FY19 | FY20F | FY21F | FY22F |
|----------------------------|-------|-------|-------|-------|-------|
| Cash & equivalents | 485 | 693 | 579 | 556 | 590 |
| Marketable securities | | | | | |
| Accounts receivable | 917 | 847 | 560 | 878 | 1,084 |
| Inventories | 30 | 25 | 15 | 23 | 29 |
| Other current assets | 106 | 145 | 145 | 145 | 145 |
| Total current assets | 1,537 | 1,710 | 1,300 | 1,603 | 1,847 |
| LT investments | 45 | 49 | 53 | 57 | 62 |
| Fixed assets | 163 | 139 | 204 | 237 | 237 |
| Goodwill | 4 | 4 | 4 | 4 | 4 |
| Other intangible assets | 0 | 0 | 0 | 0 | 0 |
| Other LT assets | 5 | 4 | 4 | 4 | 4 |
| Total assets | 1,754 | 1,905 | 1,565 | 1,905 | 2,154 |
| Short-term debt | 114 | 233 | 233 | 233 | 233 |
| Accounts payable | 874 | 868 | 525 | 797 | 990 |
| Other current liabilities | 72 | 18 | 18 | 18 | 18 |
| Total current liabilities | 1,059 | 1,120 | 777 | 1,048 | 1,242 |
| Long-term debt | 0 | 53 | 53 | 53 | 53 |
| Convertible debt | | | | | |
| Other LT liabilities | 103 | 107 | 107 | 107 | 107 |
| Total liabilities | 1,162 | 1,280 | 937 | 1,208 | 1,401 |
| Minority interest | 1 | 2 | 3 | 4 | 5 |
| Preferred stock | | | | | |
| Common stock | 259 | 259 | 259 | 259 | 259 |
| Retained earnings | 361 | 399 | 401 | 469 | 523 |
| Proposed dividends | | | | | |
| Other equity and reserves | -28 | -34 | -34 | -34 | -34 |
| Total shareholders' equity | 591 | 623 | 625 | 693 | 747 |
| Total equity & liabilities | 1,754 | 1,905 | 1,565 | 1,905 | 2,154 |

Liquidity (x)

| | | | | | |
|----------------|------|------|------|------|------|
| Current ratio | 1.45 | 1.53 | 1.67 | 1.53 | 1.49 |
| Interest cover | - | - | - | - | - |

Leverage

| | | | | | |
|---------------------|----------|----------|----------|----------|----------|
| Net debt/EBITDA (x) | net cash | net cash | net cash | net cash | net cash |
| Net debt/equity (%) | net cash | net cash | net cash | net cash | net cash |

Per share

| | | | | | |
|--------------------|--------|--------|-------|--------|--------|
| Reported EPS (MYR) | 11.20c | 10.02c | 5.58c | 11.08c | 12.42c |
| Norm EPS (MYR) | 11.62c | 10.02c | 5.58c | 11.08c | 12.42c |
| FD norm EPS (MYR) | 11.62c | 10.02c | 5.58c | 11.08c | 12.42c |
| BVPS (MYR) | 0.46 | 0.48 | 0.48 | 0.54 | 0.58 |
| DPS (MYR) | 0.07 | 0.07 | 0.04 | 0.08 | 0.09 |

Activity (days)

| | | | | | |
|-----------------|-------|-------|-------|-------|-------|
| Days receivable | 163.5 | 182.0 | 220.2 | 143.2 | 158.3 |
| Days inventory | 4.8 | 6.2 | 6.7 | 4.2 | 4.5 |
| Days payable | 167.8 | 195.3 | 231.3 | 144.3 | 156.9 |
| Cash cycle | 0.5 | -7.1 | -4.4 | 3.0 | 5.9 |

Source: Company data, Nomura estimates

2Q20 results review

- SunCon reported 2Q20 adjusted net income of MYR 2mn, which was down 93% y-y and down 87% q-q. Cumulatively, 1H20 adjusted net income of MYR 19mn (-71% y-y) formed 26%/ 21% of our revised/consensus estimates for the full-year. It announced an interim dividend of 1.25 sen/sh, which implies a yield of 0.7%.
- The main reason for the decline in income was the lockdown in Malaysia and Singapore to control the pandemic, which meant a halt in construction activity in these markets. This impacted project billings and therefore impacted revenue and income for SunCon. Construction works have now normalized to pre-COVID levels in Malaysia, after the company received all its foreign workers tested for COVID-19, as per government regulations; however, the progress still remains slow in Singapore (at 20% of normalized levels), as per management.
- Continued orderbook replenishment due to the support from the parentco remains one of the bright spots for SunCon. In 2Q20, MYR 212mn worth new contracts were bagged by SunCon and along with the results, management announced the award of a further MYR 747mn of jobs. This implies YTD orderbook replenishment of ~MYR1.5bn which forms ~75% of management's full-year target of ~MYR 2bn. Outstanding orderbook stands at MYR6.2bn (including projects won in 3Q20 so far), implying earnings visibility of ~2.3 years, based on our estimates.
- With current tenderbook of MYR8.7bn, we do not see any risks to management's full-year orderbook replenishment target of MYR2bn (NMR: MYR2bn); however, margins will be lower, in our view. Management is bidding for highway and mass transit jobs in India, and sees its balance sheet strength as one of the advantages in securing the projects. Within Malaysia, the company is seeking opportunities in the East Coast Rail link (ECRL) earthworks jobs (upcoming) and any new mega-projects in the 2021 budget announcement (to be in November 2020).
- SunCon reported operating cash flows of MYR105mn in 2Q20 vs MYR28mn in 2Q19 and MYR19mn in 1Q20. The group has net cash position of MYR387mn as of end-2Q20.
- There is no change to the opening timeline of the new precast plant (ICPH) in Singapore which is targeted to start production by 1QFY22. In the meantime, SunCon will continue to supply to its Singapore precast segments from its Senai and Iskandar plants. Due to slower construction activity in Singapore due to lockdown, the budgeted capex for the ICPH in 2020 will be lower than MYR70mn guided earlier.
- **Construction:** Construction revenue for 2Q20 was MYR137mn, down 66%/ 58% y-y/ q-q due to movement control order (MCO). PBT was also down in both y-y and q-q due to lower revenues as well as margins.
- **Precast:** Precast revenue for 2Q20 was MYR3mn and the division reported LBT of MYR4mn.

Fig. 1: SunCon – 1H20 results snapshot

| MYR mn | 1H20 | NMR FY20F new | as % of NMR new | Cons FY20F | as % of cons |
|------------------|------|------------------|--------------------|------------|--------------|
| Revenue | 506 | 1,169 | 43% | 1,634 | 31% |
| Adj PBT | 24 | 90 | 26% | 114 | 21% |
| Adj NPATAMI | 19 | 72 | 26% | 88 | 21% |
| Reported NPATAMI | 19 | 72 | 26% | 86 | 22% |

Source: Company data, Bloomberg consensus, Nomura estimates

Fig. 2: SunCon – 2Q20 results review

| MYR mn | 2Q20 | 2Q19 | % chg y-y | 1Q20 | % chg q-q | 1H20 | 1H19 | % chg y-y | FY20F new | as % of FY20F new |
|--------------------------------------|------------|------------|---------------|------------|---------------|------------|------------|--------------|--------------|-------------------------|
| Revenues | 140 | 440 | (68%) | 366 | (62%) | 506 | 880 | (43%) | 1,169 | 43% |
| Construction | 137 | 406 | (66%) | 330 | (58%) | 467 | 813 | (43%) | 1,052 | 44% |
| Precast concrete | 3 | 34 | (91%) | 36 | (92%) | 39 | 67 | (41%) | 118 | 33% |
| Operating profit | 0 | 38 | (100%) | 19 | (100%) | 19 | 76 | (75%) | 67 | 28% |
| Construction | 3 | 37 | (91%) | 17 | (80%) | 21 | 75 | (72%) | | |
| Precast concrete | (3) | 1 | NM | 1 | NM | (2) | 1 | NM | | |
| Adjusted Pretax profit | 2 | 41 | (94%) | 21 | (89%) | 24 | 81 | (71%) | 90 | 26% |
| Construction | 6 | 41 | (86%) | 20 | (71%) | 26 | 81 | (68%) | 84 | 31% |
| Precast concrete | (4) | 0 | NM | 1 | NM | (3) | 0 | NM | 6 | (47%) |
| Core PAT | 2 | 33 | (94%) | 17 | (87%) | 19 | 65 | (71%) | 73 | 26% |
| Core PAT - equityholders | 2 | 33 | (93%) | 16 | (87%) | 19 | 64 | (71%) | 72 | 26% |
| Other one-off charges | 0 | 0 | NM | 0 | NM | 0 | 0 | NM | 0 | NM |
| Headline NPAT - equityholders | 2 | 33 | (93%) | 16 | (87%) | 19 | 64 | (71%) | 72 | 26% |
| Adj Pretax margins | 2% | 9% | -8 ppt | 6% | -4 ppt | 5% | 9% | | 8% | |
| Construction | 4% | 10% | -6 ppt | 6% | -2 ppt | 6% | 10% | | 8% | |
| Precast concrete | (118%) | 0% | -118 ppt | 2% | -120 ppt | (7%) | 0% | | 5% | |

Source: Company data, Nomura estimates

Fig. 3: SunCon's outstanding orderbook

Including projects won in 3Q20 so far

| MYR mn | Contract Sum | Outstanding order book |
|---|---------------------|-------------------------------|
| Infrastructure/Piling | | |
| MRT V201 + S201 (Sg Buloh-Persiaran Dagang) | 1,213 | 123 |
| LRT3: Package GS07-08 | 2,178 | 1,589 |
| Piling Works | 99 | 19 |
| GS06,09 + GS10 | 60 | 13 |
| Sentual West Station | 57 | 57 |
| Chan Sow Lin KVMRT UG St (MEP) | 54 | 54 |
| Building | | |
| Putrajaya Parcel F | 1,610 | 20 |
| PPA1M project in Kota Bharu | 582 | 64 |
| TNB HQ Campus | 781 | 666 |
| Petronas Leadership Center | 310 | 283 |
| Oxley Tower | 68 | 66 |
| IOI Mall | 68 | 59 |
| India | | |
| Thorapalli Agraharam - Jittandahalli | 508 | 508 |
| Internal | | |
| Sunway Medical Centre Phase 4 | 450 | 351 |
| Sunway Serene - Serviced Residences | 413 | 240 |
| Velo 2 | 352 | 265 |
| 3C4 | 100 | 64 |
| Sunway GEOLake | 223 | 50 |
| Carnival Mall Ext | 286 | 214 |
| SMC Seberang Jaya | 180 | 136 |
| Big Box Hotel | 100 | 58 |
| Parcel CP2 | 119 | 70 |
| SIS | 121 | 121 |
| CP2 | 344 | 344 |
| Belfield residential condo | 403 | 403 |
| Singapore | | |
| Precast | 331 | 282 |
| Precast - New order 2020 | 37 | 38 |
| Total | 10,102 | 6,161 |
| Orderbook burn rate (FY19, including internal) | | 2,668 |
| Implied earnings visibility (years) | | 2.3 |

Source: Company data, Nomura research

Fig. 4: SunCon - YTD orderbook replenishment

| Projects (2020 new awards) | Client | Duration | Contract Sum (RM'mil) |
|--|-------------------------------------|------------|-----------------------|
| Thorapalli Agraharam – Jittandahalli Section of NH-844 | National Highway Authority of India | 24 months | 508 |
| Bukit Batok Primary School | Logistic Construction Pte LTD | Various | 1 |
| Rooftop solar projects | Various | < 6 months | 4 |
| Secured-1Q 2020 | | | 513 |
| Chan Sow Lin KVMRT underground station (MEP) | MMC Gamuda KVMRT (UGW) JV | 12 months | 54 |
| Sunway International School - Bandar Sunway | Sunway Education Group Sdn Bhd | 30 months | 121 |
| Ang Mo Kio N6C34 | Thong Huat Brothers Pte Ltd | 24 months | 37 |
| Secured-2Q 2020 | | | 212 |
| Total Secured YTD June 2020 | | | 725 |
| CP2 Mixed Development - Bandar Sunway | Sunway SouthQuay Sdn Bhd | 40 months | 344 |
| 3 blocks of 55/56 storey residential condominium | Sunway Belfield Sdn Bhd | 45 months | 403 |
| Total Secured YTD 17 August 2020 | | | 1,472 |

Source: Company data

Fig. 5: SunCon – changes to estimates

| MYR mn | Old | | | New | | | % change | | |
|-------------------------|-------|-------|-------|-------|-------|-------|-----------|-----------|-----------|
| | FY20F | FY21F | FY22F | FY20F | FY21F | FY22F | FY20F | FY21F | FY22F |
| Orderbook replenishment | 2,000 | 2,000 | 2,000 | 2,000 | 2,000 | 2,000 | 0% | 0% | 0% |
| External | 1,000 | 1,200 | 1,200 | 700 | 1,200 | 1,200 | (30%) | 0% | 0% |
| Internal | 700 | 500 | 500 | 1,200 | 500 | 500 | 71% | 0% | 0% |
| Precast | 300 | 300 | 300 | 100 | 300 | 300 | (67%) | 0% | 0% |
| Revenue | 1,977 | 2,062 | 2,404 | 1,169 | 1,834 | 2,263 | (41%) | (11%) | (6%) |
| Adj PBT | 194 | 209 | 224 | 90 | 179 | 201 | (54%) | (14%) | (10%) |
| PBT margins | 9.8% | 10.1% | 9.3% | 7.7% | 9.8% | 8.9% | (2.1 ppt) | (0.3 ppt) | (0.4 ppt) |
| Adj NPAT | 155 | 166 | 178 | 72 | 143 | 161 | (53%) | (14%) | (10%) |

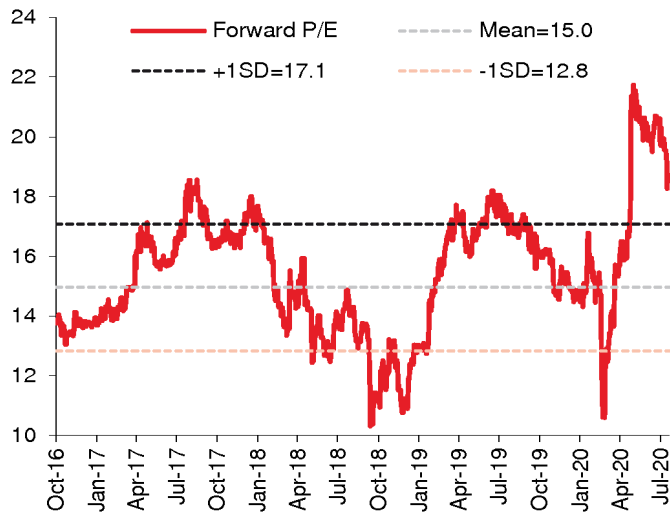
Source: Nomura estimates

Fig. 6: SunCon – Target price valuation methodology

| | Dec-21 |
|--------------------------------------|-------------|
| | FY21F |
| Normalised net profit (MYR mn) | 143 |
| FD number of shares outstanding (mn) | 1,291 |
| FD EPS (MYR/ sh) | 0.11 |
| Target FY21F P/E | 20.0 x |
| Price target (MYR/ sh) | 2.20 |

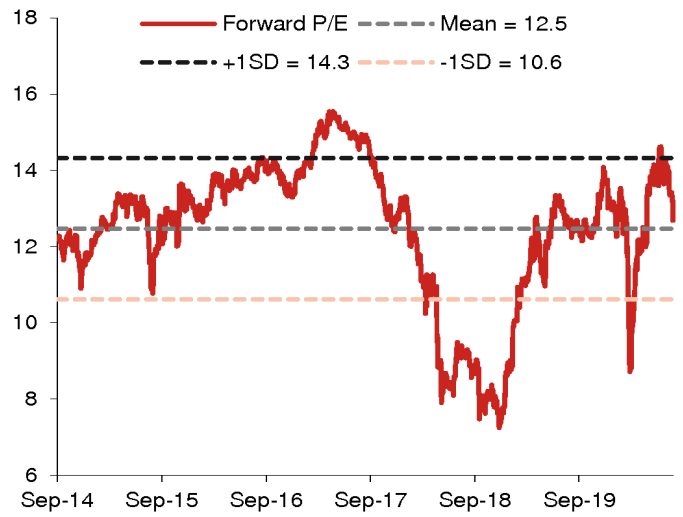
Source: Nomura estimates

Fig. 7: SunCon forward P/E (consensus)



Source: Bloomberg consensus, Nomura research

Fig. 8: KLCON forward P/E



Source: Bloomberg, Nomura research

Appendix A-1

Analyst Certification

I, Tushar Mohata, hereby certify (1) that the views expressed in this Research report accurately reflect my personal views about any or all of the subject securities or issuers referred to in this Research report, (2) no part of my compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this Research report and (3) no part of my compensation is tied to any specific investment banking transactions performed by Nomura Securities International, Inc., Nomura International plc or any other Nomura Group company.

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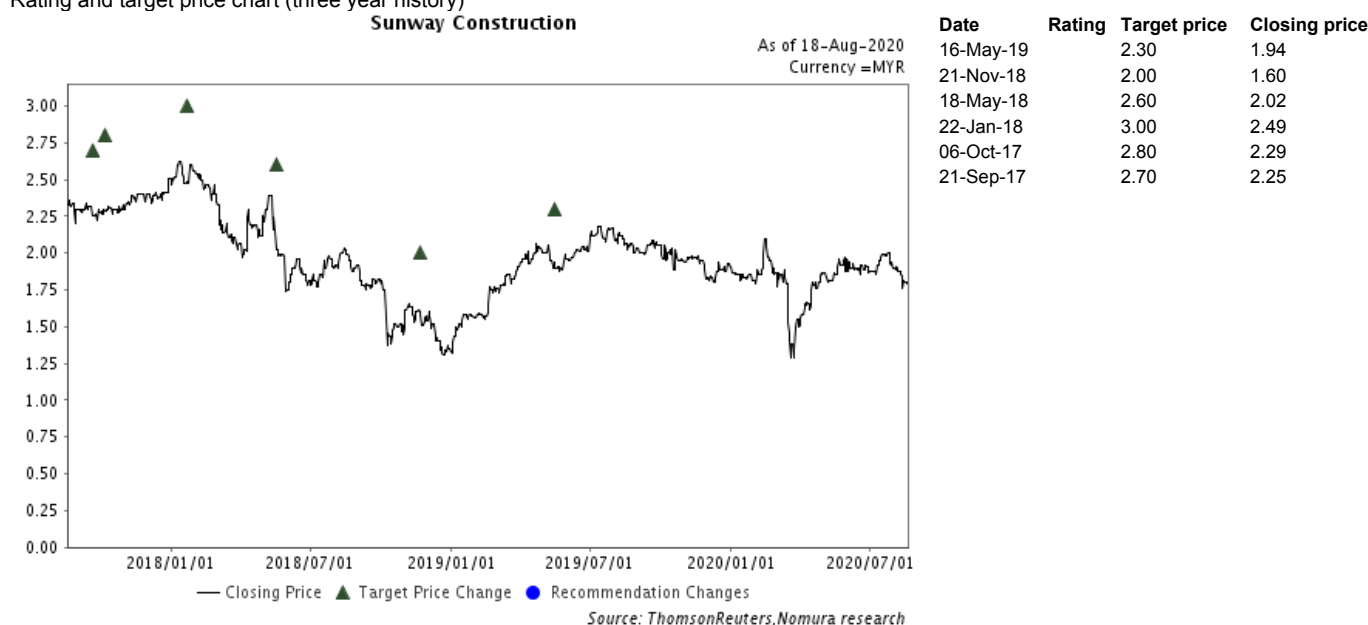
Materially mentioned issuers

| Issuer | Ticker | Price | Price date | Stock rating | Sector rating | Disclosures |
|---------------------|---------|----------|-------------|--------------|---------------|-------------|
| Sunway Construction | SCGB MK | MYR 1.79 | 18-Aug-2020 | Buy | N/A | |

Sunway Construction (SCGB MK)

MYR 1.79 (18-Aug-2020) Buy (Sector rating: N/A)

Rating and target price chart (three year history)



For explanation of ratings refer to the stock rating keys located after chart(s)

Valuation Methodology We value SunCon at a target P/E of 20x on FY21F earnings. Using net income of MYR143mn for FY21F and a target P/E of 20x, we arrive at our TP of MYR2.20. The benchmark index for the stock is FTSE Bursa Malaysia KLCI Index.

Risks that may impede the achievement of the target price Downside risks include: 1) delays in construction project awards; 2) lower-than-expected margins; 3) lower pre-cast earnings persisting; 4) a lack of new projects; 5) risk of project cancellation or arbitration.

Important Disclosures

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