

8 September 2020

Construction & Engineering | Construction

Sunway Construction (SCGB MK)

Buy (Maintained)

Leveraging On a New Growth Cycle; Keep BUY

Target Price (Return): MYR2.09 (+11%)
Price: MYR1.89
Market Cap: USD588m
Avg Daily Turnover (MYR/USD) 0.90m/0.22m

- **Maintain BUY, MYR2.09 TP, 11% upside with c.1% FY20F yield.** As we believe the sector is moving into a new growth cycle, Sunway Construction is well-positioned to capture opportunities. Our optimism on earnings recovery – due to strength in work execution, aggressive tendering, and the steady flow of in-house jobs – supports our 18x FY21F P/E valuation. In our view, valuations remain attractive – the stock is trading at just 16x FY21F EPS (5-year mean). This counter is still our sector Top Pick.

- **Moving into a peak cycle.** SunCon's work package for LRT3 was revised down by c. 40% to MYR1.3bn. This brings the current outstanding orders from this project to MYR706m. We note that the contract sum is final, which should allow earnings to be progressively recognised, undisrupted. Based on the current progress, it is on track to meet the completion target, which is in 2023. We understand from management that higher progress billings are expected in 2021, as works move to a peak cycle.

- **Precast segment should see a recovery by year-end.** In Singapore, about 80% of the projects that SunCon is involved in have received the green light to continue. This is a significant improvement compared to only 19% being approved in May. According to management, the contribution from this segment will likely improve from 4Q20 onwards. The opening of SunCon's new Integrated Construction Precast Hub (ICPH) plant is scheduled for mid-2022, with construction works expected to be completed near end-2021. The payback period for this plant is around 10-12 years, on a SGD80m investment cost.

- **On track to meet its yearly job target.** SunCon has secured about MYR1.5bn in new orders YTD. The biggest one clinched so far is for the construction of a highway in India, with a contract value of MYR508m. Earnings during the 2-year construction phase will be booked progressively until completion. Thereafter, it will be followed by 15 years of maintenance works, which would allow SunCon to derive income of MYR4.1m a year. Commencement of construction works has been slightly delayed to 1Q21, due to COVID-19. SunCon expects to sign the concession agreement soon.

- **Interest in local rail projects remains.** SunCon reiterated its interest to participate in local rail projects including the Kuala Lumpur-Singapore High-Speed Rail, Johor Singapore Rapid Train System (RTS), East Coast Rail Link and Mass Rapid Transit 3. Moving forward, other potential new jobs include the construction of hospitals in Penang and Johor. It is also exploring options to participate in some Penang transportation projects.

- **Key risks.** Downside risks include a failure to secure new contracts, a prolonged downturn in the retail and property markets, and a longer-than-expected delay in the roll-out of mega infrastructure projects.

Analysts

Muhammad Danial bin Abd Razak
+603 9280 8682
muhammad.danial.abd@rhbgroup.com

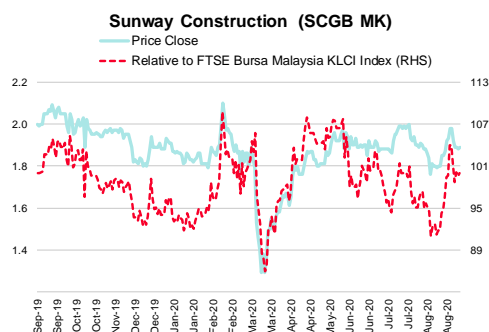


Eddy Do Wey Qing
+603 9280 8856
wey.qing.do@rhbgroup.com



Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(1.1)	0.5	(0.5)	1.6	(5.5)
Relative	3.5	4.4	2.1	(0.6)	0.0
52-wk Price low/high (MYR)				1.29 – 2.10	



Source: Bloomberg

Forecasts and Valuation	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Total turnover (MYRm)	2,257	1,769	1,273	2,005	2,051
Recurring net profit (MYRm)	147	116	69	150	150
Recurring net profit growth (%)	11.6	(20.9)	(40.2)	116.4	(0.2)
Recurring P/E (x)	16.64	21.04	35.21	16.27	16.30
P/B (x)	4.1	3.9	3.7	3.3	3.0
P/CF (x)	12.69	10.33	na	24.83	12.04
Dividend Yield (%)	3.7	3.3	1.4	3.1	3.1
EV/EBITDA (x)	9.45	11.76	16.58	9.37	8.73
Return on average equity (%)	25.5	19.7	10.8	21.6	19.5
Net debt to equity (%)	net cash	net cash	net cash	net cash	net cash

Source: Company data, RHB

Note:

Small cap stocks are defined as companies with a market capitalization of less than USD1bn.

Financial Exhibits

Asia	Financial summary (MYR)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Malaysia	Recurring EPS	0.11	0.09	0.05	0.12	0.12
Construction & Engineering	DPS	0.07	0.06	0.03	0.06	0.06
Sunway Construction	BV/PS	0.46	0.48	0.51	0.57	0.62
SCGB MK	Return on average equity (%)	25.5	19.7	10.8	21.6	19.5
Buy						
	Valuation metrics	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Recurring P/E (x)	16.64	21.04	35.21	16.27	16.30
	P/B (x)	4.1	3.9	3.7	3.3	3.0
	FCF Yield (%)	5.6	9.4	(1.4)	0.5	6.1
	Dividend Yield (%)	3.7	3.3	1.4	3.1	3.1
	EV/EBITDA (x)	9.45	11.76	16.58	9.37	8.73
	EV/EBIT (x)	11.48	15.64	25.28	11.85	11.41
	Income statement (MYRm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Total turnover	2,257	1,769	1,273	2,005	2,051
	Gross profit	447	121	222	399	397
	EBITDA	215	170	122	221	227
	Depreciation and amortisation	(38)	(42)	(42)	(46)	(53)
	Operating profit	177	128	80	175	174
	Net interest	8	12	7	6	6
	Pre-tax profit	183	148	87	189	189
	Taxation	(38)	(27)	(18)	(39)	(39)
	Reported net profit	145	120	69	150	150
	Recurring net profit	147	116	69	150	150
	Cash flow (MYRm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Change in working capital	(10)	86	(144)	(98)	(0)
	Cash flow from operations	193	237	(33)	98	203
	Capex	(56)	(8)	(1)	(85)	(55)
	Cash flow from investing activities	(74)	(51)	(1)	(85)	(55)
	Dividends paid	(97)	(91)	(35)	(75)	(75)
	Cash flow from financing activities	(118)	72	3	(67)	(67)
	Cash at beginning of period	487	485	693	662	608
	Net change in cash	0	257	(31)	(54)	81
	Ending balance cash	489	742	662	608	689
	Balance sheet (MYRm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Total cash and equivalents	485	693	682	629	709
	Tangible fixed assets	163	139	98	136	138
	Total investments	45	49	49	49	49
	Total assets	1,754	1,905	1,620	1,971	2,076
	Short-term debt	114	233	253	243	233
	Total long-term debt	0	62	62	62	62
	Total liabilities	1,162	1,280	960	1,236	1,266
	Total equity	593	625	660	735	810
	Total liabilities & equity	1,754	1,905	1,620	1,971	2,076
	Key metrics	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Revenue growth (%)	8.7	(21.6)	(28.0)	57.5	2.3
	Recurrent EPS growth (%)	11.6	(20.9)	(40.2)	116.4	(0.2)
	Gross margin (%)	19.8	6.8	17.5	19.9	19.4
	Operating EBITDA margin (%)	9.5	9.6	9.6	11.0	11.1
	Net profit margin (%)	6.4	6.8	5.5	7.5	7.3
	Capex/sales (%)	2.5	0.5	0.1	4.2	2.7
	Interest cover (x)	21.3	9.7	6.0	12.9	13.3

Source: Company data, RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2020-08-20	Buy	2.09	1.80
2020-08-19	Buy	2.14	1.80
2020-07-23	Neutral	2.14	1.99
2020-05-22	Neutral	1.86	1.92
2020-04-23	Neutral	1.72	1.76
2020-04-09	Neutral	1.51	1.67
2020-02-21	Neutral	1.95	1.95
2019-10-09	Neutral	2.03	1.95
2019-08-20	Neutral	2.09	2.05
2019-05-17	Neutral	2.12	1.90
2019-02-26	Buy	2.12	1.76

Source: RHB, Bloomberg

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KUALA LUMPUR

RHB Investment Bank Bhd
Level 3A, Tower One, RHB Centre
Jalan Tun Razak
Kuala Lumpur 50400
Malaysia
Tel : +603 9280 8888
Fax : +603 9200 2216

JAKARTA

PT RHB Sekuritas Indonesia
Revenue Tower, 11th Floor, District 8 - SCBD
Jl. Jendral Sudirman Kav 52-53
Jakarta 12190
Indonesia
Tel : +6221 509 39 888
Fax : +6221 509 39 777

BANGKOK

RHB Securities (Thailand) PCL
10th Floor, Sathorn Square Office Tower
98, North Sathorn Road, Silom
Bangrak, Bangkok 10500
Thailand
Tel: +66 2088 9999
Fax: +66 2088 9799

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RHB Bank Berhad (Singapore branch)
90 Cecil Street
#04-00 RHB Bank Building
Singapore 069531