

Sunway Construction Group (SCGB MK)

Replenishment on target

Awaiting next catalyst; D/G to HOLD

With close to MYR0.5b in job wins in 1Q21, SCGB is on track to meet its MYR2b replenishment target for 2021. MCO 2.0 had however impacted the construction work pace again in 1Q21. We maintain our earnings forecasts for now, still expecting a recovery in FY21E with several major projects slated for completion in 2021/22. With its share price closing in to our TP, the stock is now a HOLD as we await the next catalyst. Our BUY in the sector is Gamuda (GAM MK, CP MYR3.56, TP MYR4.12).

MYR462m wins in 1Q20; maintains MYR2b target

Of the MYR462m new contracts secured 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. Most of the new jobs have a 2-year completion timeline. SCGB's 1Q21 wins have lifted its outstanding orderbook to MYR5.5b after considering MYR5.06b remaining as of end-2020, but before deducting for works recognised in 1Q21. SCGB maintains its MYR2b job win target for 2021 of which half would be from Sunway Group and the balance external jobs, including from India.

MCO 2.0 impact

1Q21 saw 12 days of CMCO 2.0, almost two months of MCO 2.0 and 4 weeks of CMCO 3.0 in the Klang Valley and Penang. In all, SCGB's construction ops were affected by about half a month of non-work during MCO 2.0; the pace is now back to full capacity. Fortunately, its precast ops, which supply to SG, were not affected in 1Q21. Our back-of-the-envelope calculation is a 4% impact to our FY21E net profit, but a catch-up in work pace in 2Q-4Q21 could soften the impact. We maintain our estimates for now. SCGB will report on its 1Q21 earnings on 20 May.

About fairly valued for now

At 16.8x 12M fwd PER now, we think that valuation has largely priced in an earnings recovery from FY21E. Near-term catalysts are sizeable job wins (above our MYR2b assumption for 2021), and a reinstatement on the FBM indices including F4GBM (it dropped out during the Nov 2020 review; fell short at the liquidity screen). Our unchanged TP is based on 17x FY21E PER, its mean PER before its FY20 earnings fall due to COVID-19.

FYE Dec (MYR m)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue	1,769	1,553	2,426	2,899	2,553
EBITDA	181	124	206	210	218
Core net profit	129	73	140	130	123
Core EPS (sen)	10.0	5.6	10.8	10.1	9.5
Core EPS growth (%)	(10.3)	(43.7)	91.7	(6.9)	(5.4)
Net DPS (sen)	7.0	4.0	7.0	7.0	7.0
Core P/E (x)	19.1	33.3	16.4	17.7	18.7
P/BV (x)	4.0	3.8	3.3	3.2	3.0
Net dividend yield (%)	3.7	2.1	3.9	3.9	3.9
ROAE (%)	21.3	11.6	21.1	18.4	16.6
ROAA (%)	7.0	3.8	6.6	5.0	4.2
EV/EBITDA (x)	11.4	16.8	9.0	9.8	10.9
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	10.9
Consensus net profit	-	-	140	158	166
MKE vs. Consensus (%)	-	-	(0.2)	(18.0)	(26.1)

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HOLD

[Prior:BUY]

Share Price **MYR 1.78**
12m Price Target **MYR 1.84 (+7%)**
Previous Price Target **MYR 1.84**

Company Description

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

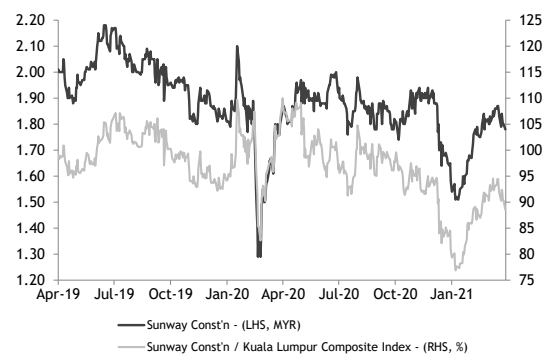
Statistics

52w high/low (MYR) **2.00/1.51**
3m avg turnover (USDm) **0.4**
Free float (%) **25.2**
Issued shares (m) **1,293**
Market capitalisation **MYR2.3B**
USD562M

Major shareholders:

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

Price Performance



	-1M	-3M	-12M
Absolute (%)	(2)	8	(1)
Relative to index (%)	(2)	6	(16)

Source: FactSet

Abbreviation

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

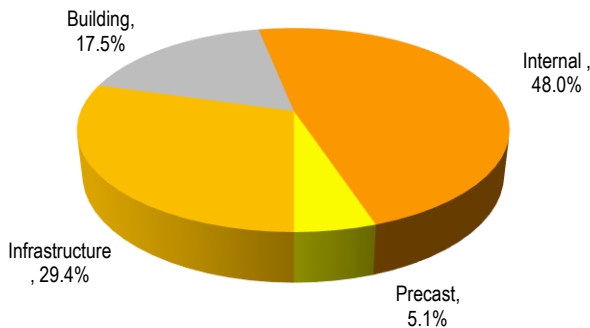
Various phases of MCO in 2021

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 28 Apr 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 continuing support from the Sunway Group add onto its value proposition.

MYR5.1b outstanding orderbook as of end-2020

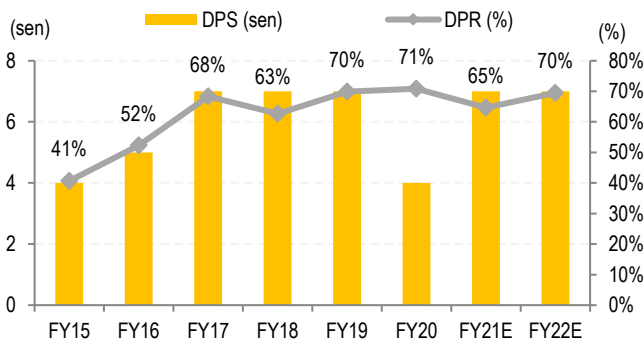


Source: Company

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 net cash/near-cash balance of MYR339m (26sen/shr) as of 31 Dec 2020.
- DPR is a minimum 35% of PATMI; since its relisting (on 28 Jul 2015), SCGB has been paying up to 71% (FY20).

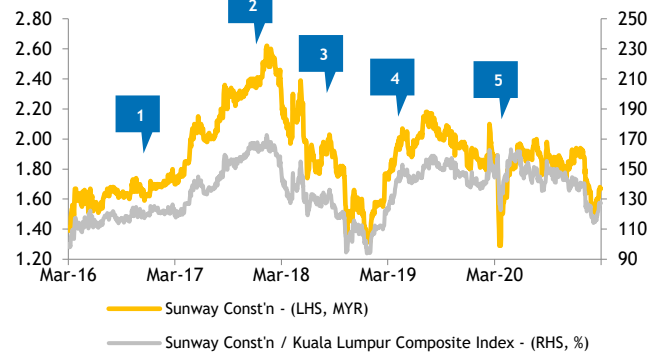
Dividends



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.
- Sporadic 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.

Fig 1: Outstanding orderbook of MYR5.1b @ Dec 2020

As at 31 Dec 2020	Completion	Contract value (MYR m)	Outstanding (MYR m)
Infrastructure			
KVMRT 2, V201 (Sg Buloh-Persiaran Dagang)	Finalisation	1,213	7
LRT 3 : Package GS07-08 - 60%	2Q22	1,295	573
Sentul West Station (MEP) #	4Q21	57	39
KVMRT 2, Chan Sow Lin underground station (MEP) @	4Q21	54	46
Tamil Nadu Highway (Thorapalil Agraharam-Jittandahalli, of NH-844) @	3Q23	508	508
Tamil Nadu Highway (Meensurutti-Chidambarm, of NH-227) @	3Q23	315	315
Building			
Putrajaya Parcel F	Maintenance	1,610	18
PPA1M Project in Kota Bahru	2Q21	582	54
TNB HQ Campus #	2Q22	781	508
Petronas Learning Centre #	4Q21	305	211
Oxley Tower #	2Q22	68	58
IOI Mall (MEP) #	4Q21	68	34
Internal			
Sunway Medical Centre 4 (2 towers)	3Q22	450	293
Sunway Serene - Kelana Jaya Condo	2Q22	413	188
Sunway Carnival 2 Extension - PDP contract	4Q21	286	151
SunGeo Lake 44 storey residential tower	2Q21	223	19
SMC Seberang Jaya	4Q21	180	109
Sunway Velocity Two	4Q21	352	196
Sunway Velocity 3C4	2Q21	100	53
BigBox Hotel #	1Q21	100	32
Sunway South Key - Parcel CP2 (piling) #	2Q21	119	27
BKE (Seberang Jaya) @	2Q21	4	4
Sunway International School @	4Q22	121	110
Sunway South Quay - Comm mixed devt @	3Q21	344	344
Service apartments at Jln Belfield @	1Q24	403	396
Sunway Resort Hotel & Spa renovation @	2Q21	81	58
Sunway Medical Centre 4 (VO) @	3Q22	162	162
Sunway Velocity Two - 2 blocks of service apartments @	3Q23	253	251
Renewable energy - internal @	2021	6	6
Renewable energy - external @	4Q21	32	31
Precast			
Secured pre 2020	-	331	207
New order in 2020 @	-	51	52
Total		10,867	5,060

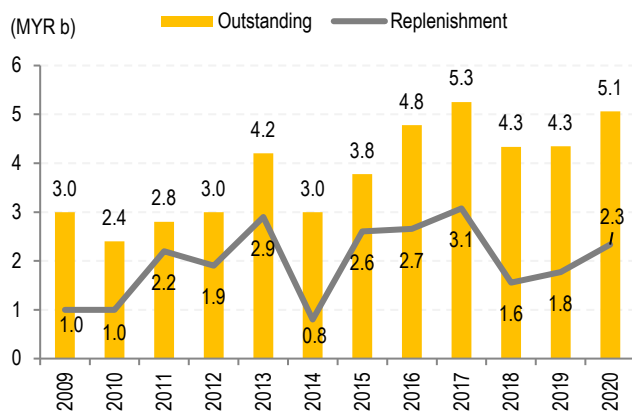
#Secured in 2019; @ Secured in 2020; Source: Company

Fig 2: Job wins in 1Q21

	Duration	Contract value (MYR m)
Big Box Office	14 months	51
Tengah Park C2	23 months	114
Sunway Medical Centre - Damansara Giza	24 months	180
Others	6-30 months	117
Total		462

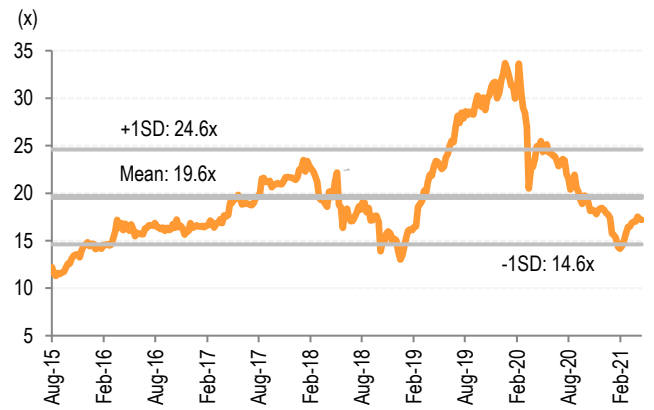
Source: Company

Fig 3: Outstanding orderbook vs. replenishment



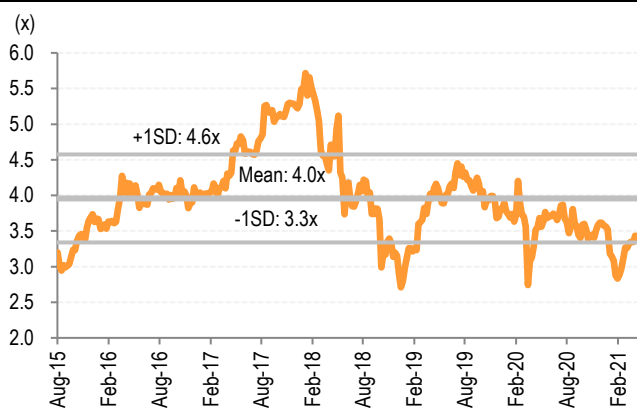
Note: Including precast, adjusted for revised value of LRT3 project;
Source: Company data, Maybank KE

Fig 4: 12M forward PER



Source: Company data, Maybank KE

Fig 5: 12M forward P/B



Company data, Maybank KE

FYE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
Key Metrics					
P/E (reported) (x)	19.1	32.6	16.4	17.7	18.7
Core P/E (x)	19.1	33.3	16.4	17.7	18.7
P/BV (x)	4.0	3.8	3.3	3.2	3.0
P/NTA (x)	4.0	3.8	3.4	3.2	3.0
Net dividend yield (%)	3.7	2.1	3.9	3.9	3.9
FCF yield (%)	7.7	3.8	9.5	7.1	3.4
EV/EBITDA (x)	11.4	16.8	9.0	9.8	10.9
EV/EBIT (x)	14.6	23.1	10.3	12.2	14.4
INCOME STATEMENT (MYR m)					
Revenue	1,768.7	1,552.7	2,426.0	2,898.7	2,552.5
EBITDA	181.3	124.0	206.0	210.0	217.6
Depreciation	(40.3)	(33.4)	(25.9)	(40.1)	(52.8)
EBIT	141.0	90.5	180.1	169.9	164.8
Net interest income / (exp)	12.0	10.5	12.3	9.8	3.8
Associates & JV	4.4	0.1	0.0	0.0	0.0
Exceptionals	0.0	0.0	0.0	0.0	0.0
Pretax profit	157.4	101.1	192.3	179.6	168.7
Income tax	(27.1)	(27.8)	(52.8)	(49.8)	(45.8)
Minorities	(1.0)	(0.5)	0.0	0.0	0.0
Reported net profit	129.3	72.8	139.5	129.8	122.8
Core net profit	129.3	72.8	139.5	129.8	122.8
BALANCE SHEET (MYR m)					
Cash & Short Term Investments	692.6	640.1	747.5	780.6	767.7
Accounts receivable	970.4	1,048.3	1,255.6	1,446.0	1,312.9
Inventory	25.1	34.3	56.4	69.4	59.6
Property, Plant & Equip (net)	138.7	107.4	166.4	219.1	191.8
Intangible assets	3.6	0.0	0.0	0.0	0.0
Investment in Associates & JVs	48.4	48.9	48.9	48.9	48.9
Other assets	26.2	27.1	47.1	337.1	637.1
Total assets	1,905.0	1,906.1	2,321.9	2,901.1	3,018.1
ST interest bearing debt	233.4	233.7	233.7	233.7	233.7
Accounts payable	885.2	955.2	1,321.8	1,610.5	1,394.8
LT interest bearing debt	52.7	67.2	67.2	317.2	617.2
Other liabilities	109.0	11.0	11.0	12.0	12.0
Total Liabilities	1,279.9	1,267.5	1,634.0	2,173.7	2,258.0
Shareholders Equity	623.0	636.9	686.2	725.8	758.3
Minority Interest	2.2	1.7	1.7	1.7	1.7
Total shareholder equity	625.2	638.6	687.9	727.5	760.0
Total liabilities and equity	1,905.0	1,906.1	2,321.9	2,901.1	3,018.1
CASH FLOW (MYR m)					
Pretax profit	157.4	101.1	192.3	179.6	168.7
Depreciation & amortisation	40.3	33.4	25.9	40.1	52.8
Adj net interest (income)/exp	17.4	11.6	12.3	9.8	3.8
Change in working capital	32.7	(29.1)	137.2	85.2	(72.8)
Cash taxes paid	(38.4)	(28.8)	(52.8)	(49.8)	(45.8)
Other operating cash flow	(15.9)	5.0	(12.3)	(9.8)	(3.8)
Cash flow from operations	193.5	93.3	302.6	255.1	102.9
Capex	(4.7)	(1.9)	(84.9)	(92.8)	(25.5)
Free cash flow	188.8	91.4	217.7	162.4	77.4
Dividends paid	(90.4)	(61.2)	(90.3)	(90.3)	(90.3)
Change in Debt	167.9	12.0	0.0	250.0	300.0
Other invest/financing cash flow	(307.1)	87.2	(20.0)	(289.0)	(300.0)
Net cash flow	(40.7)	129.4	107.4	33.1	(12.9)

FYE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
Key Ratios					
Growth ratios (%)					
Revenue growth	(21.6)	(12.2)	56.3	19.5	(11.9)
EBITDA growth	(17.2)	(31.6)	66.1	2.0	3.6
EBIT growth	(19.5)	(35.8)	98.9	(5.7)	(3.0)
Pretax growth	(13.9)	(35.8)	90.2	(6.6)	(6.1)
Reported net profit growth	(10.5)	(43.7)	91.7	(6.9)	(5.4)
Core net profit growth	(10.5)	(43.7)	91.7	(6.9)	(5.4)
Profitability ratios (%)					
EBITDA margin	10.2	8.0	8.5	7.2	8.5
EBIT margin	8.0	5.8	7.4	5.9	6.5
Pretax profit margin	8.9	6.5	7.9	6.2	6.6
Payout ratio	69.9	70.9	64.7	69.5	73.5
DuPont analysis					
Net profit margin (%)	7.3	4.7	5.8	4.5	4.8
Revenue/Assets (x)	0.9	0.8	1.0	1.0	0.8
Assets/Equity (x)	3.1	3.0	3.4	4.0	4.0
ROAE (%)	21.3	11.6	21.1	18.4	16.6
ROAA (%)	7.0	3.8	6.6	5.0	4.2
Liquidity & Efficiency					
Cash conversion cycle	(28.5)	(27.3)	(24.1)	(35.4)	(48.2)
Days receivable outstanding	200.5	234.0	170.9	167.8	194.6
Days inventory outstanding	7.1	8.7	8.1	9.1	10.9
Days payables outstanding	236.2	270.0	203.1	212.2	253.6
Dividend cover (x)	1.4	1.4	1.5	1.4	1.4
Current ratio (x)	1.5	1.5	1.3	1.3	1.3
Leverage & Expense Analysis					
Asset/Liability (x)	1.5	1.5	1.4	1.3	1.3
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	10.9
Net gearing (%) (excl. perps)	net cash	net cash	net cash	net cash	10.9
Net interest cover (x)	na	na	na	na	na
Debt/EBITDA (x)	1.6	2.4	1.5	2.6	3.9
Capex/revenue (%)	0.3	0.1	3.5	3.2	1.0
Net debt/ (net cash)	(406.6)	(339.2)	(446.6)	(229.7)	83.2

Source: Company; Maybank

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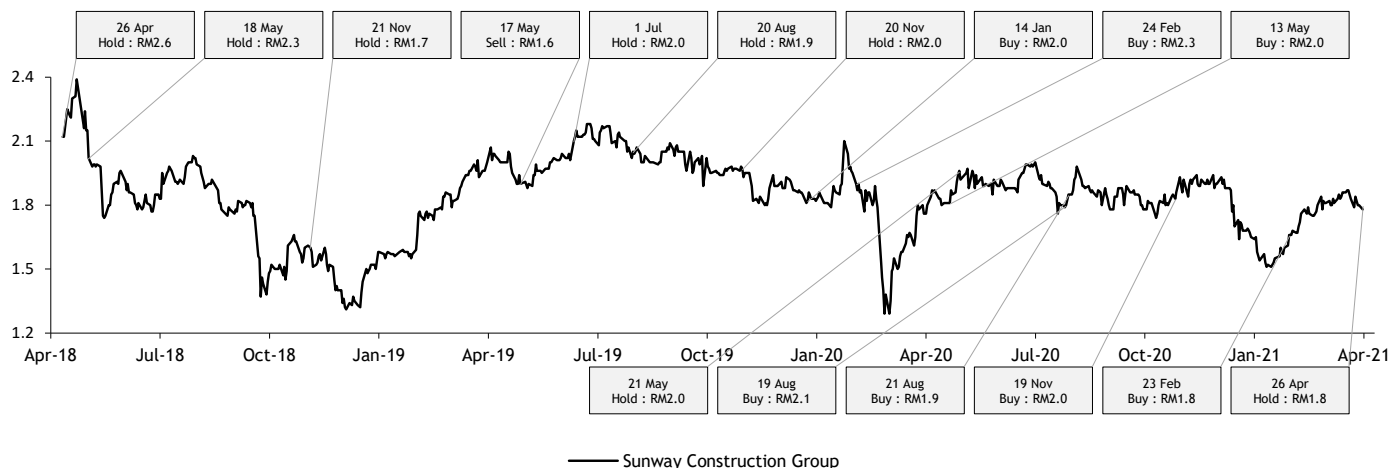
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