

Sunway Construction Group Berhad

TP: RM1.19 (-39.3%)

Dragged by MCO

Last Traded: RM1.96

SELL

Ooi Beng Hooi

Tel: +603-2167 9612

benghooi@ta.com.my

www.taonline.com.my

Results Review

- SUNCON's IQFY20 net profit of RM16.4mn came in below expectations, accounting for 12.7% and 12.4% of ours and consensus full-year estimates. The variance was mainly due to more-severe-than-expected impact from the 2-week Movement Control Order (MCO) in March 2020, which led to lower progress of works and margin.
- IQ20 topline fell by 16.9% YoY to RM365.8mn while the net profit plunged at a steeper pace of 47.3% to RM16.4mn. This was due to suspension of works at majority of its work sites during the MCO period. Its operating margin deteriorated from 8.0% in FY19 to 5.1% in IQ20 as it incurred fixed overhead while works were suspended. Nevertheless, the quarterly segmental revenue and PBT for precast division improved by RM3.3mn and RM0.7mn to RM36.3mn and RM0.8mn respectively.
- On a sequential basis, IQ20 revenue and net profit dropped by 24.7% and 48.3% respectively for the same reasons above.
- Its net cash position remains strong despite declining from RM406.6mn a quarter ago to RM359.6mn. This is sufficient to cover 24 months of fixed overhead.

Impact

- In view of the weaker-than-expected results, we adjust our revenue recognition and margin assumptions. FY20 earnings forecast is cut by 22.9% but FY21 and FY22 earnings estimates are upgraded by 2.6% and 2.0% respectively as we expect SUNCON to accelerate construction activities to catch up on work progress.

Outlook

- Backed by RM513mn of job win in IQ20, its outstanding order book as of end-March 2020 improved slightly from RM5.2bn a quarter ago to RM5.4bn, translating into 3.1x FY19 revenue. This could provide earnings visibility to the group for the next 2 years.
- Including a new job it secured yesterday for the development of Sunway International School amounting to RM121.0mn, SUNCON has secured RM688mn of new jobs YTD. The management maintains an order replenishment target of RM2.0bn for 2020, versus our assumption of RM1.6n. Active tender outstanding is estimated at RM7.3bn, with more than 50% of it coming from overseas market (India, Singapore, Myanmar and Philippines).

Share Information

Bloomberg Code	SCGB MK
Bursa	SUNCON
Stock Code	5263
Listing	Main Market
Share Cap (mn)	1,289.4
Market Cap (RMmn)	2534.1
52-wk Hi/Lo (RM)	2.20/1.25
12-mth Avg Daily Vol ('000 shrs)	626.6
Estimated Free Float (%)	35.4
Beta	1.29

Major Shareholders (%)

Sunholdings	54.56
Sungei Way Corp Sdn Bhd	10.08
Employee Provident Fund	8.74

Forecast Revision

	FY20	FY21
Forecast Revision (%)	(22.9)	2.6
Net profit (RMmn)	99.4	127.9
Consensus	137.2	155.6
TA's / Consensus (%)	72.5	82.2
Previous Rating	Sell (Maintained)	

Financial Indicators

	FY20	FY21
Net Debt / Equity (%)	net cash	net cash
CFPS (sen)	(3.6)	(0.7)
Price / CFPS (x)	(53.9)	(269.6)
ROA (%)	6.3	5.8
NTA/Share (RM)	51.8	54.8
Price/NTA (x)	3.8	3.6

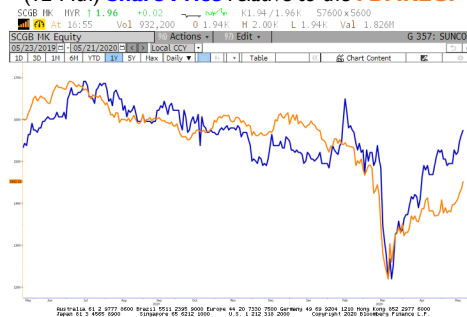
Scorecard

	% of FY	
vs. TA	12.7	Below
vs. Consensus	12.4	Below

Share Performance (%)

Price Change	SUNCON	FBM KLCI
1 mth	8.5	5.1
3 mth	(2.1)	(5.2)
6 mth	(1.0)	(8.8)
12 mth	0.0	(9.5)

(12-Mth) Share Price relative to the FBMKLCI



Source: Bloomberg

Valuation

- Following the earnings revision, we raise the target price slightly from RMI.16 to RMI.19, based on unchanged 12x CY21 earnings. Maintain **Sell** on valuation ground.

Table 1: Earnings Summary (RMmn)

FYE Dec (RMmn)	2018	2019	2020F	2021F	2022F
Revenue	2,256.8	1,768.7	1,629.0	1,950.0	2,350.0
Gross profit	444.7	378.1	276.9	390.0	470.0
EBITDA	215.4	181.3	144.2	198.9	218.3
EBITDA margin (%)	9.5	10.2	8.9	10.2	9.3
EBIT	175.2	141.0	109.6	145.0	150.0
PBT	182.7	157.4	125.9	161.9	164.5
PAT	144.4	129.3	99.4	127.9	129.9
Core net profit	144.4	129.3	99.4	127.9	129.9
Core EPS (sen)	11.2	10.0	7.7	9.9	10.0
PER (x)	17.5	19.6	25.5	19.8	19.5
Gross dividend (sen)	7.0	7.0	7.0	7.0	7.0
Dividend yield (%)	3.6	3.6	3.6	3.6	3.6
ROE (%)	25.5	21.3	15.8	19.7	18.9

Table 2: IQFY20 Results Analysis (RMmn)

FYE Dec	1Q19	4Q19	1Q20	QoQ (%)	YoY (%)	3MFY19	3MFY20	YoY(%)
Revenue	440.0	485.9	365.8	(24.7)	(16.9)	440.0	365.8	(16.9)
- Construction	407.0	440.5	329.6	(25.2)	(19.0)	407.0	329.6	(19.0)
- Precast	33.0	45.4	36.3	(20.2)	9.9	33.0	36.3	9.9
Operating profit	38.2	30.8	18.7	(39.4)	(51.1)	38.2	18.7	(51.1)
Finance income	4.2	8.7	5.2	(39.4)	24.1	4.2	5.2	24.1
Finance costs	(2.3)	(3.4)	(2.7)	(20.4)	17.8	(2.3)	(2.7)	17.8
Profit before taxation	40.1	40.5	21.2	(47.6)	(47.1)	40.1	21.2	(47.1)
- Construction	40.1	38.1	20.4	(46.3)	(49.0)	40.1	20.4	(49.0)
- Precast	0.1	2.4	0.8	(68.1)	1154.8	0.1	0.8	>1000.0
Income tax expense	(8.5)	(7.8)	(4.3)	(44.7)	(49.2)	(8.5)	(4.3)	(49.2)
Non-controlling interests	0.6	1.1	0.6	(47.1)	(8.6)	0.6	0.6	(8.6)
Net profit	31.0	31.6	16.4	(48.3)	(47.3)	31.0	16.4	(47.3)
- Construction	31.1	28.0	16.0	(42.8)	(48.6)	31.1	16.0	(48.6)
- Precast	(0.1)	3.7	0.4	(89.9)	(653.7)	(0.1)	0.4	(653.7)
Core net profit	31.0	31.6	16.4	(48.3)	(47.3)	31.0	16.4	(47.3)
Reported EPS (sen)	2.4	2.5	1.3	(48.2)	(47.1)	2.4	1.3	(47.1)
Core EPS (sen)	2.4	2.5	1.3	(48.2)	(47.1)	2.4	1.3	(47.1)
Dividend (sen)	0.0	3.5	0.0	(100.0)	na	0.0	0.0	na
Margin (%):				% pts	% pts			% pts
- Operating	8.7	6.3	5.1	(1.2)	(3.6)	8.7	5.1	(3.6)
- Construction	9.3	6.1	5.2	(14.4)	(4.1)	9.3	5.2	(4.1)
- Precast	1.0	8.5	3.9	(54.3)	2.9	1.0	3.9	2.9
- PBT	9.1	8.3	5.8	(2.5)	(3.3)	9.1	5.8	(3.3)
- PAT	7.2	6.7	4.6	(2.1)	(2.6)	7.0	4.5	(2.6)
- Effective tax rate	21.2	19.3	20.3	1.0	(0.8)	21.2	20.3	(0.8)

(THIS PAGE IS INTENTIONALLY LEFT BLANK)

Stock Recommendation Guideline

- BUY** : Total return within the next 12 months exceeds required rate of return by 5%-point.
HOLD : Total return within the next 12 months exceeds required rate of return by between 0-5%-point.
SELL : Total return is lower than the required rate of return.
Not Rated: The company is not under coverage. The report is for information only.

Total Return is defined as expected share price appreciation plus gross dividend over the next 12 months. Gross dividend is excluded from total return if dividend discount model valuation is used to avoid double counting.

Required Rate of Return of 7% is defined as the yield for one-year Malaysian government treasury plus assumed equity risk premium.

Disclaimer

The information in this report has been obtained from sources believed to be reliable. Its accuracy and/ or completeness is not guaranteed and opinions are subject to change without notice. This report is for information only and not to be construed as a solicitation for contracts. We accept no liability for any direct or indirect loss arising from the use of this document. We, our associates, directors, employees may have an interest in the securities and/or companies mentioned herein.

As of Friday, May 22, 2020, the analyst, Ooi Beng Hooi, who prepared this report, has interest in the following securities covered in this report:
(a) nil

Kaladher Govindan – Head of Research

TA SECURITIES HOLDINGS BERHAD (14948-M)

A Participating Organisation of Bursa Malaysia Securities Berhad

Menara TA One | 22 Jalan P. Ramlee | 50250 Kuala Lumpur | Malaysia | Tel: 603 – 2072 1277 | Fax: 603 – 2032 5048
www.ta.com.my