



AmInvestment Bank

Company report

SUNWAY CONSTRUCTION

(SCGB MK EQUITY, SCOG.KL)

6 May 2021

Indian projects not derailed by Covid-19 catastrophe

HOLD

(Maintained)

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Rationale for report: Company update

Price	RM1.69
Fair Value	RM1.80
52-week High/Low	RM2.01/RM1.50

Key Changes

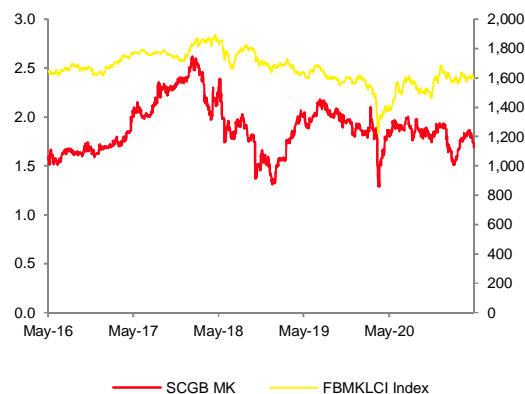
Fair value	↔
EPS	↔

YE to Dec	FY20	FY21F	FY22F	FY23F
Revenue (RM mil)	1,552.7	2,340.3	2,713.0	2,748.7
Core net profit (RM mil)	72.8	132.3	161.3	174.1
FD Core EPS (sen)	5.6	10.2	12.5	13.5
FD Core EPS growth (%)	(43.7)	81.8	21.9	8.0
Consensus Net Profit (RM mil)	-	140.4	154.3	158.3
DPS (sen)	2.5	7.0	7.0	7.0
PE (x)	30.0	16.5	13.5	12.5
EV/EBITDA (x)	14.9	9.1	7.8	7.0
Div yield (%)	1.5	4.1	4.1	4.1
ROE (%)	11.6	20.1	22.6	22.0
Net Gearing (%)	nm	nm	nm	nm

Stock and Financial Data

Shares Outstanding (million)	1,292.9
Market Cap (RM mil)	2,185.0
Book Value (RM/share)	0.49
P/BV (x)	3.4
ROE (%)	11.6
Net Gearing (%)	-
Major Shareholders	Sunway Bhd & Cheah family(65.3%) EPF(9.2%)
Free Float	25.6
Avg Daily Value (RM mil)	1.7

Price performance	3mth	6mth	12mth
Absolute (%)	10.5	(2.9)	(9.6)
Relative (%)	9.9	(10.8)	(20.0)

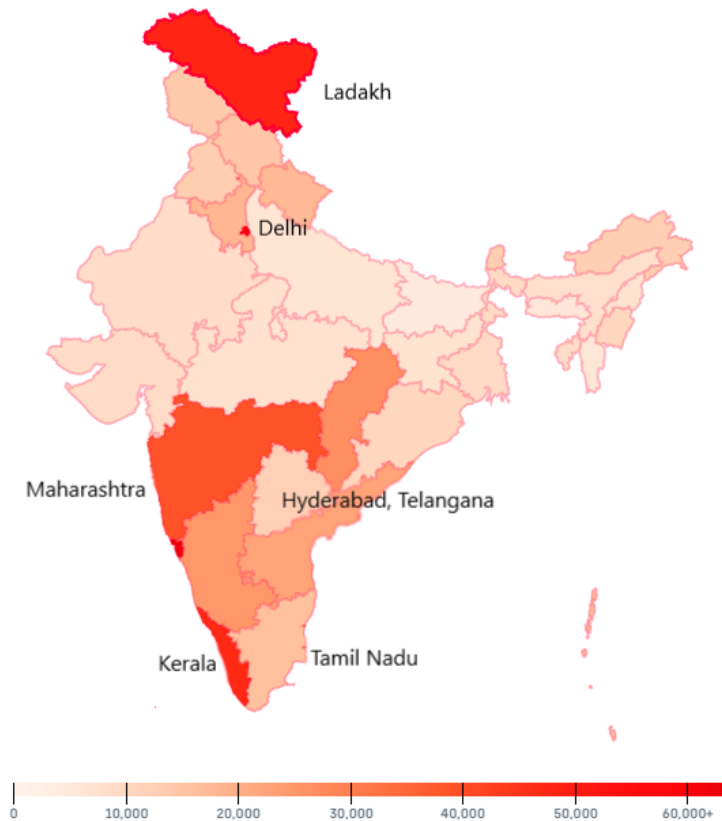


Investment Highlights

- We maintain our forecasts and fair value of RM1.80 based on 14x FY22F EPS plus a 3% premium to reflect a 4-star ESG rating as appraised by us (Exhibit 5). The 14x multiple is in line with our benchmark forward PE for large-cap construction stocks. Maintain HOLD.
- Sunway Construction has returned to India since 2020 following the award of two highway projects based on a hybrid annuity model, both in Tamil Nadu, namely: (1) the Thorapalli Agraharam–Jittandahalli section of NH-844 (RM508mil); and (2) the Meensurutti–Chidambaram section of NH-227 (RM315mil). The two projects with a combined value of RM823mil now make up about 16% of Sunway Construction's outstanding construction order book of RM5.2bil (Exhibit 2).
- With the Covid-19 infection situation in India spinning out of control in recent weeks and potentially into a prolonged crisis, we believe there could be concerns on Sunway Construction over: (1) the progress of its projects in India, and hence the impact on its earnings; and (2) the safety of its staff in India, and hence the impact on its ESG rating.
- Nevertheless, we draw comfort from these following findings, from both our recent engagement with the company as well as publicly available information:
 1. The Tamil Nadu state at the southern tip of India is not considered one of the epicentres of India's massive second Covid-19 wave, with only 16,233 confirmed cases per 1mil population, according to statistics compiled by crowd-sourced website Covid19India (Exhibit 1). This compares with 47,396 of the Kerala state and 39,057 of the Maharashtra state –on the west coast, and 61,218 of Delhi;
 2. The sites of both Sunway Construction's projects are in the sparsely populated outskirts of the Tamil Nadu state – one in the Chidambaram municipality (with a population of 62,153 based on 2011's Census of India) and the other in the Thorapalli village (with a population of 9,849 based on the 2011 Census of India); and
 3. Sunway Construction only has a handful of staff members (Malaysia and India nationals) in India and they work remotely from Hyderabad in the Telangana state with relatively low confirmed Covid-19 cases.

- We remain cautious on the outlook of the local construction sector. The recent news on the MRT3 potentially commencing work in the second half of the year aside, the fact remains that the government will have very limited room for fiscal manoeuvre given the elevated national debt, weighed down further by the economic impact of the pandemic (including reduced tax and petroleum revenues), as well as the massive relief spending to cushion the economic impact of the pandemic.
- We believe Sunway Construction can weather the sector downturn better given its proven ability to compete under an open bidding system, coupled with the availability of building jobs from its parent and sister companies under the Sunway Group. However, valuations are fair at 13–17x forward earnings on muted sector prospects.

EXHIBIT 1: CONFIRMED COVID-19 CASES PER 1MIL POPULATION



Source: Covid19India

EXHIBIT 2: OUTSTANDING ORDER BOOK

Project	Outstanding Value (RMmil)
Internal building jobs	2,391
Sunway Velocity Two	447
Sunway Medical Centre (SMC) 4	455
Parcel CP2, Bandar Sunway	344
Sunway Belfield, KL	396
Sunway Serene	188
Carnival Mall extension	151
SMC Seberang Jaya	109
Sunway International School	110
Sunway Resort & Spa renovation	58
Velocity 3C4	53
Big Box, Iskandar	32
Sunway GeoLake	19
Others	29
GS07 & GS08, LRT3	573
TNB HQ campus, KL	508
Thorapalli Agraharam – Jittandahalli, India	508
Meensurutti - Chidambaram, India	315
Petronas Leadership Centre, Bangi	211
Oxley, KL (MEP)	58
PPA1M, Kota Bharu	54
Chan Sow Lin station (MEP)	46
Others	136
New job wins in FY21F thus far	366
Total	5,166

Source: Company, AmlInvestment Bank Bhd

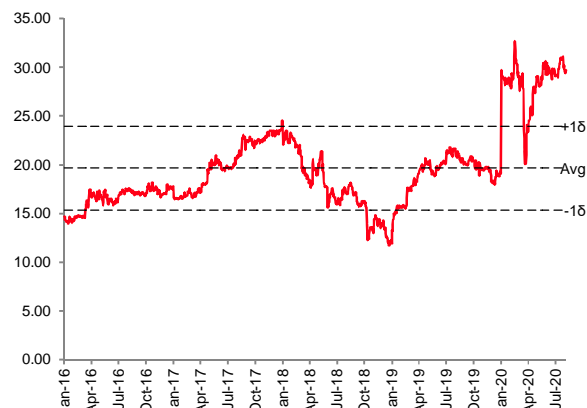
EXHIBIT 3: PB BAND CHART**EXHIBIT 4: PE BAND CHART**

EXHIBIT 5: ESG RATING

Overall	★	★	★	★	
Zero-carbon initiatives	★	★			
Work site safety	★	★	★		
Migrant worker welfare	★	★	★	★	
Corporate social responsibility	★	★	★	★	
Pollution control	★	★	★	★	★
Supply chain auditing	★	★	★	★	
Corruption-free pledge	★	★	★		
Gender diversity	★	★			
Accessibility & transparency	★	★	★	★	★

We accord a discount/premium of -6%, -3%, 0%, +3% and +6% on fundamental fair value based on the overall ESG rating as appraised by us, from 1-star to 5-star

EXHIBIT 5: FINANCIAL DATA

Income Statement (RMmil, YE 31 Dec)	FY19	FY20	FY21F	FY22F	FY23F
Revenue	1,768.7	1,552.7	2,340.3	2,713.0	2,748.7
EBITDA	181.3	124.0	214.1	257.8	279.2
Depreciation/Amortisation	(40.3)	(33.4)	(57.2)	(62.2)	(67.2)
Operating income (EBIT)	141.0	90.5	156.9	195.6	212.0
Other income & associates	4.4	0.1	-	-	-
Net interest	12.0	10.5	8.7	6.1	5.9
Exceptional items	-	-	-	-	-
Pretax profit	157.4	101.1	165.6	201.8	217.9
Taxation	(27.1)	(27.8)	(33.1)	(40.4)	(43.6)
Minorities/pref dividends	(1.0)	(0.5)	(0.1)	(0.2)	(0.2)
Net profit	129.3	72.8	132.3	161.3	174.1
Core net profit	129.3	72.8	132.3	161.3	174.1
Balance Sheet (RMmil, YE 31 Dec)	FY19	FY20	FY21F	FY22F	FY23F
Fixed assets	138.7	107.4	250.2	388.0	420.8
Intangible assets	3.6	-	-	-	-
Other long-term assets	52.8	56.3	56.3	56.3	56.3
Total non-current assets	195.2	163.8	306.5	444.3	477.1
Cash & equivalent	692.6	640.1	539.2	472.4	523.4
Stock	-	-	-	-	-
Trade debtors	970.4	1,048.3	1,048.3	1,048.3	1,048.3
Other current assets	46.8	54.0	54.0	54.0	54.0
Total current assets	1,709.8	1,742.3	1,641.5	1,574.6	1,625.6
Trade creditors	885.2	955.2	955.2	955.2	955.2
Short-term borrowings	233.4	233.7	233.7	233.7	233.7
Other current liabilities	1.6	5.8	5.8	5.8	5.8
Total current liabilities	1,120.2	1,194.7	1,194.7	1,194.7	1,194.7
Long-term borrowings	52.7	67.2	67.2	67.2	67.2
Other long-term liabilities	107.0	5.5	5.5	5.5	5.5
Total long-term liabilities	159.7	72.7	72.7	72.7	72.7
Shareholders' funds	623.0	636.9	678.7	749.5	833.1
Minority interests	2.2	1.7	1.8	2.0	2.2
BV/share (RM)	0.48	0.49	0.52	0.58	0.64
Cash Flow (RMmil, YE 31 Dec)	FY19	FY20	FY21F	FY22F	FY23F
Pretax profit	157.4	101.1	165.6	201.8	217.9
Depreciation/Amortisation	40.3	33.4	57.2	62.2	67.2
Net change in working capital	27.9	-	-	-	-
Others	(39.2)	(59.3)	(41.8)	(46.5)	(49.5)
Cash flow from operations	186.3	75.2	181.0	217.5	235.6
Capital expenditure	(8.3)	(3.4)	(200.0)	(200.0)	(100.0)
Net investments & sale of fixed assets	3.6	2.7	-	-	-
Others	(263.7)	181.4	-	-	-
Cash flow from investing	(268.5)	180.7	(200.0)	(200.0)	(100.0)
Debt raised/(repaid)	167.9	12.0	-	-	-
Equity raised/(repaid)	(5.7)	-	-	-	-
Dividends paid	(90.6)	(62.3)	(90.5)	(90.5)	(90.5)
Others	(52.1)	(97.0)	8.7	6.1	5.9
Cash flow from financing	19.5	(147.3)	(81.8)	(84.4)	(84.6)
Net cash flow	(62.7)	108.7	(100.8)	(66.9)	51.0
Net cash/(debt) b/f	488.4	432.9	559.6	458.8	391.9
Net cash/(debt) c/f	425.7	541.6	458.8	391.9	442.9
Key Ratios (YE31 Dec)	FY19	FY20	FY21F	FY22F	FY23F
Revenue growth (%)	(21.6)	(12.2)	50.7	15.9	1.3
EBITDA growth (%)	(15.7)	(31.6)	72.7	20.4	8.3
Pretax margin (%)	8.9	6.5	7.1	7.4	7.9
Net profit margin (%)	7.3	4.7	5.7	5.9	6.3
Interest cover (x)	nm	nm	nm	nm	nm
Effective tax rate (%)	17.2	27.5	20.0	20.0	20.0
Dividend payout (%)	70.0	44.4	68.4	56.1	52.0
Debtors turnover (days)	200	246	163	141	139
Stock turnover (days)	-	-	-	-	-
Creditors turnover (days)	236	293	192	165	164

Source: Company, AmInvestment Bank Bhd estimates

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