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Malaysia Infrastructure

Reuters SCOG.KL
Bloomberg SCGB MK

Priced on 26 March 2020
KLSE Comp @ 1,328.1

12M hi/lo RM2.18/1.29

12M price target RM2.10
±% potential +40%

Shares in issue 1,292.9m
Free float (est.) 45.6%

Market cap US\$440m

3M ADV US\$0.4m

Foreign s'holding 3.2%

Major shareholders

Sunway Berhad 54.4%
Sungei Way Corp Sdn Bhd 10.1%

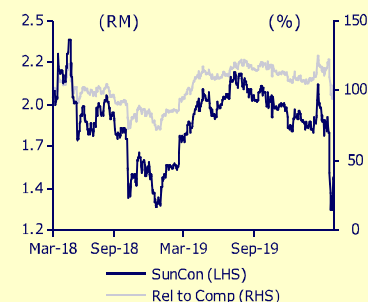
Blended ESG Score (%)*

Overall 73.9
Country average 68.4
GEM sector average 68.0

*Click to visit company page on cls.com for details

Stock performance (%)

	1M	3M	12M
Absolute	(21.1)	(20.2)	(18.9)
Relative	(11.1)	(3.7)	0.7
Abs (US\$)	(23.8)	(24.8)	(24.8)



Source: Bloomberg

Beyond local shores

Secures RM500m highway contract in India

SunCon announced its maiden win this year: a job award from the National Highway Authority of India (NHAI), equivalent to RM500m. This marks a return to India after several years of being devoted wholly to local opportunities. Overall, the relative safety of internal jobs, balance sheet strength, and turnaround on its pre-cast segment are reasons we expect SunCon, our sector pick, to do well in this climate. We cut our target price from RM2.30 to RM2.10. At 12x PE, we reiterate our BUY rating.

With a concession, but not exposed to traffic risk

This win was expected and sees SunCon, via a 60:40 JV, undertake construction of a four-lane highway in Tamil Nadu State, with 15-year operation and maintenance (O&M). SunCon is, however, not exposed to traffic risk, which will be borne by NHAI.

Support from past experience and less construction interruption risk

RNS Infrastructure Limited, the 40% JV partner, has had two prior jobs with SunCon, which itself has seven jobs in India under its belt (see Figure 1). SunCon's record there is not without blemish, but construction risk factor is reduced given that now at least 80% of the land for construction (40km) would be handed over before construction. Set to commence in October (after financial close), the earnings impact would only be meaningful come 2021.

Hybrid annuity model sees some payment deferral; guiding better margins

On a hybrid-annuity model, a 40% payment is paid during the first two years (construction phase), and the remainder is in annuity payments over a 15-year concession period. The company may take on bridge financing understood to be equivalent to about RM160m, but it should stay net cash. Notwithstanding deferred cashflow, earnings would be concentrated in the 2-year construction, as the O&M value is small. That SunCon is guiding higher than the usual 6-9% pre-tax margin suggests pricing up for risk; the contract also has a clause to shield SunCon from materials price fluctuations. Conservatively assuming an 8% margin, this job would account for c.6-7% of 21/22CL PATMI.

Better job visibility to support premium; MCO effect flowed through TP

SunCon's internal jobs, such as parent's hospitals and mixed developments, support pipeline of a RM1.8bn replenishment goal in 2020 (guidance: RM2bn) and should warrant a premium valuation. We still peg our target price at 15.4x 20CL earnings, yet cut it from RM2.30 to RM2.10 as earnings fall on the 1-2 month work delay due to the lockdown order. SunCon will attempt to catch up in the months ahead. Elsewhere, the earnings dip in 22CL accounts for minority interest on the job.

Financials

Year to 31 December	18A	19A	20CL	21CL	22CL
Revenue (RMm)	2,257	1,769	2,440	2,693	2,730
Rev forecast change (%)	-	-	(6.9)	3.5	(1.1)
Net profit (RMm)	131	129	164	170	178
NP forecast change (%)	-	-	(8.0)	0.8	(4.6)
EPS (sen)	10.2	10.0	12.7	13.2	13.7
CL/consensus (13) (EPS%)	-	-	106	105	116
EPS growth (% YoY)	(3.5)	(1.5)	27.1	3.6	4.4
PE (x)	14.8	15.0	11.8	11.4	10.9
Dividend yield (%)	4.7	4.7	6.0	6.0	6.0
ROE (%)	22.9	21.3	25.4	24.3	23.4
Net debt/equity (%)	(62.7)	(65.0)	(44.2)	(50.9)	(54.7)

Source: www.cls.com

Financials at a glance

Year to 31 December	2018A	2019A	2020CL	(% YoY)	2021CL	2022CL
Profit & Loss (RMm)						
Revenue	2,257	1,769	2,440	37.9	2,693	2,730
Cogs (ex-D&A)	(2,042)	(1,587)	(2,194)		(2,426)	(2,453)
Gross Profit (ex-D&A)	215	181	245	35.4	267	277
SG&A and other expenses	-	-	0		-	-
Op Ebitda	215	181	245	35.4	267	277
Depreciation/amortisation	(53)	(40)	(51)		(56)	(61)
Op Ebit	162	141	194	37.8	211	216
Net interest inc/(exp)	8	12	8	(33.3)	9	11
Other non-Op items	0	4	4	0	4	4
Profit before tax	170	157	207	31.4	224	231
Taxation	(38)	(27)	(41)		(47)	(46)
Profit after tax	132	130	165	26.9	177	185
Minority interest	0	(1)	(1)		(7)	(7)
Net profit	131	129	164	27.1	170	178
Adjusted profit	131	129	164	27.1	170	178
Cashflow (RMm)						
Operating profit	162	141	194	37.8	211	216
Depreciation/amortisation	53	40	51	27	56	61
Working capital changes	(11)	28	1	(96.7)	9	(2)
Other items	(45)	(51)	(41)		(47)	(46)
Net operating cashflow	159	158	205	29.5	229	229
Capital expenditure	(56)	(5)	(50)		(50)	(50)
Free cashflow	103	154	155	0.9	179	179
M&A/Others	(2)	(21)	17		19	20
Net investing cashflow	(58)	(26)	(33)		(31)	(30)
Increase in loans	(21)	162	-		-	-
Dividends	(97)	(91)	(117)		(121)	(121)
Net equity raised/other	-	-	0		0	0
Net financing cashflow	(118)	72	(117)		(121)	(121)
Incr/(decr) in net cash	(16)	204	55	(72.8)	76	78
Exch rate movements	12	4	(5)		1	(5)
Balance sheet (RMm)						
Cash & equivalents	485	693	744	7.4	821	889
Accounts receivable	885	818	815	(0.3)	900	913
Other current assets	228	199	334	67.7	334	346
Fixed assets	164	139	137	(0.9)	131	120
Investments	45	49	45	(8.5)	45	45
Intangible assets	4	4	4	0	4	4
Other non-current assets	3	4	4	0	4	4
Total assets	1,812	1,905	2,084	9.4	2,239	2,320
Short-term debt	114	233	233	0	233	233
Accounts payable	995	885	884	(0.2)	977	988
Other current liabs	15	2	-		-	-
Long-term debt/CBs	-	53	213	303.9	213	213
Provisions/other LT liabs	97	107	79	(25.8)	78	77
Shareholder funds	591	623	671	7.7	727	791
Minorities/other equity	1	2	3	47.7	10	18
Total liabs & equity	1,812	1,905	2,084	9.4	2,239	2,320
Ratio analysis						
Revenue growth (% YoY)	8.7	(21.6)	37.9		10.4	1.4
Ebitda margin (%)	9.5	10.2	10.1		9.9	10.2
Ebit margin (%)	7.2	8.0	8.0		7.8	7.9
Net profit growth (%)	(3.5)	(1.5)	27.1		3.6	4.4
Op cashflow growth (% YoY)	238.7	(0.7)	29.5		11.4	0.3
Capex/sales (%)	2.5	0.3	2.0		1.9	1.8
Net debt/equity (%)	(62.7)	(65.0)	(44.2)		(50.9)	(54.7)
Net debt/Ebitda (x)	-	-	-		-	-
ROE (%)	22.9	21.3	25.4		24.3	23.4
ROIC (%)	52.1	42.4	45.2		41.2	43.5

Source: www.clsa.com

Find CLSA research on Bloomberg, Thomson Reuters, Factset and CapitalIQ - and profit from our evaluator proprietary database at clsa.com

Figure 1

List of SunCon job experience in India

Project	Year	RM m equivalent	Awarded by
Belgaum Bypass, Karnataka	2001	56.1	National Highway Authority of India, NHAI
Roadworks Package 5-C	2001	172.3	NHAI
Dharwad - Belgaum Package 3	2002	117.8	NHAI
Grand trunk road - India	2002	228.0	NHAI
East-West Corridor roadworks, Rajasthan	2005	164.8	NHAI
East-West Corridor roadworks, Uttar Pradesh	2005	238.6	NHAI
Cochin Port connectivity, Cochin	2007	189.4	NHAI
Thorapalli Agraharam - Jittandahalli Section	2020	500.0	NHAI
Total		1,667.0	

Source: CLSA, SunCon

Figure 2

SunCon forward PE

Source: CLSA

Visibility from internal jobs should support valuations

Valuation details

We value SunCon using the price-earnings multiple approach. Its target price is derived from 15.4x 20CL earnings, which is at one standard deviation above 10-year mean PE for the KLCON index. We accord an above-sector average PE given its flow of internal jobs and strong balance sheet.

Investment risks

The investment risks for SunCon mainly stem from construction risk. Specific risks to our estimates would be lower-than-expected margins (below 5-8%) or the amount of projects secured falls below our expectation, either due to an inability to secure projects or caused by a delay on project roll-out. The increase in steel prices beyond anticipated will also creep into margins as SunCon hedges steel needs for a future six-month period. On the pre-cast segment, risks to our earnings will be the timing of a margin recovery currently in doldrums due to competition. SunCon is also susceptible to risk facing the construction industry in general, which includes the risk of disputes and ensuing lengthy negotiations, which are not uncommon, not to mention the fluctuations in raw materials and availability of labour.

Detailed financials

Profit & Loss (RMm)

Year to 31 December	2016A	2017A	2018A	2019A	2020CL	2021CL	2022CL
Revenue	1,789	2,076	2,257	1,769	2,440	2,693	2,730
Cogs (ex-D&A)	(1,601)	(1,874)	(2,042)	(1,587)	(2,194)	(2,426)	(2,453)
Gross Profit (ex-D&A)	188	202	215	181	245	267	277
Research & development costs	-	-	-	-	-	-	-
Selling & marketing expenses	-	-	-	-	-	-	-
Other SG&A	-	-	-	-	-	-	-
Other Op Expenses ex-D&A	-	-	-	-	-	-	-
Op Ebitda	188	202	215	181	245	267	277
Depreciation/amortisation	(39)	(37)	(53)	(40)	(51)	(56)	(61)
Op Ebit	149	165	162	141	194	211	216
Interest income	10	13	16	25	17	19	20
Interest expense	(6)	(6)	(8)	(13)	(9)	(9)	(9)
Net interest inc/(exp)	4	7	8	12	8	9	11
Associates/investments	-	-	-	4	4	4	4
Forex/other income	-	-	-	-	-	-	-
Asset sales/other cash items	-	-	-	-	-	-	-
Provisions/other non-cash items	-	-	-	-	-	-	-
Asset revaluation/Exceptional items	-	-	-	-	-	-	-
Profit before tax	154	172	170	157	207	224	231
Taxation	(30)	(36)	(38)	(27)	(41)	(47)	(46)
Profit after tax	124	136	132	130	165	177	185
Preference dividends	-	-	-	-	-	-	-
Profit for period	124	136	132	130	165	177	185
Minority interest	0	0	0	(1)	(1)	(7)	(7)
Net profit	124	136	131	129	164	170	178
Extraordinaries/others	0	0	0	0	0	0	0
Profit available to ordinary shares	124	136	131	129	164	170	178
Dividends	-	-	-	-	-	-	-
Retained profit	124	136	131	129	164	170	178
Adjusted profit	124	136	131	129	164	170	178
EPS (sen)	9.6	10.5	10.2	10.0	12.7	13.2	13.7
Adj EPS [pre excep] (sen)	9.6	10.5	10.2	10.0	12.7	13.2	13.7
Core EPS (sen)	9.6	10.5	10.2	10.0	12.7	13.2	13.7
DPS (sen)	5.0	7.0	7.0	7.0	9.0	9.0	9.0

Profit & loss ratios

Year to 31 December	2016A	2017A	2018A	2019A	2020CL	2021CL	2022CL
Growth (%)							
Revenue growth (% YoY)	(6.7)	16.1	8.7	(21.6)	37.9	10.4	1.4
Ebitda growth (% YoY)	5.7	7.5	6.0	(15.5)	35.4	8.7	3.8
Ebit growth (% YoY)	9.5	10.5	(1.9)	(12.9)	37.8	8.4	2.5
Net profit growth (%)	(2.9)	10.1	(3.5)	(1.5)	27.1	3.6	4.4
EPS growth (% YoY)	(2.9)	10.1	(3.5)	(1.5)	27.1	3.6	4.4
Adj EPS growth (% YoY)	(2.9)	10.1	(3.5)	(1.5)	27.1	3.6	4.4
DPS growth (% YoY)	25.0	40.0	0.0	0.0	28.6	0.0	0.0
Core EPS growth (% YoY)	(2.9)	10.1	(3.5)	(1.5)	27.1	3.6	4.4
Margins (%)							
Ebitda margin (%)	10.5	9.7	9.5	10.2	10.1	9.9	10.2
Ebit margin (%)	8.3	7.9	7.2	8.0	8.0	7.8	7.9
Net profit margin (%)	6.9	6.5	5.8	7.3	6.7	6.3	6.5
Core profit margin	6.9	6.5	5.8	7.3	6.7	6.3	6.5
Op cashflow margin	4.2	2.3	7.1	9.0	8.4	8.5	8.4
Returns (%)							
ROE (%)	26.2	26.0	22.9	21.3	25.4	24.3	23.4
ROA (%)	8.0	7.5	6.8	6.3	7.8	7.7	7.6
ROIC (%)	65.5	69.8	52.1	42.4	45.2	41.2	43.5
ROCE (%)	82.3	90.0	76.4	64.1	65.3	57.0	59.3
Other key ratios (%)							
Effective tax rate (%)	19.5	21.0	22.4	17.2	20.0	21.0	20.0
Ebitda/net int exp (x)	-	-	-	-	-	-	-
Exceptional or extraord. inc/PBT (%)	0.0	0.0	0.0	0.0	-	-	-
Dividend payout (%)	52.3	66.5	68.9	70.0	70.8	68.4	65.5

Source: www.clsa.com

Balance sheet (RMm)

Year to 31 December	2016A	2017A	2018A	2019A	2020CL	2021CL	2022CL
Cash & equivalents	466	487	485	693	744	821	889
Accounts receivable	732	1,066	885	818	815	900	913
Inventories	24	24	30	25	0	0	0
Other current assets	220	151	198	174	334	334	346
Current assets	1,442	1,729	1,597	1,710	1,894	2,056	2,148
Fixed assets	138	151	164	139	137	131	120
Investments	0	0	45	49	45	45	45
Goodwill	4	4	4	4	4	4	4
Other intangible assets	2	0	0	0	0	0	0
Other non-current assets	11	2	3	4	4	4	4
Total assets	1,597	1,885	1,812	1,905	2,084	2,239	2,320
Short term loans/OD	137	135	114	233	233	233	233
Accounts payable	955	1,184	995	885	884	977	988
Accrued expenses	-	-	-	-	-	-	-
Taxes payable	11	5	14	1	0	0	0
Other current liabs	0	0	0	0	-	-	-
Current liabilities	1,103	1,324	1,123	1,120	1,117	1,211	1,221
Long-term debt/leases/other	-	-	-	53	213	213	213
Convertible bonds	-	-	-	-	-	-	-
Provisions/other LT liabs	1	6	97	107	79	78	77
Total liabilities	1,104	1,331	1,220	1,280	1,409	1,502	1,511
Share capital	259	259	259	259	259	259	259
Retained earnings	257	324	361	399	447	503	567
Reserves/others	(23)	(29)	(28)	(35)	(35)	(35)	(35)
Shareholder funds	493	554	591	623	671	727	791
Minorities/other equity	1	1	1	2	3	10	18
Total equity	494	555	593	625	674	738	809
Total liabs & equity	1,597	1,885	1,812	1,905	2,084	2,239	2,320
Total debt	137	135	114	286	446	446	446
Net debt	(329)	(353)	(371)	(407)	(298)	(375)	(443)
Adjusted EV	1,610	1,587	1,524	1,486	1,600	1,530	1,469
BVPS (sen)	38.2	42.8	45.7	48.2	51.9	56.3	61.2

Balance sheet ratios

Year to 31 December	2016A	2017A	2018A	2019A	2020CL	2021CL	2022CL
Key ratios							
Current ratio (x)	1.3	1.3	1.4	1.5	1.7	1.7	1.8
Growth in total assets (% YoY)	14.3	18.0	(3.9)	5.1	9.4	7.5	3.6
Growth in capital employed (% YoY)	(16.9)	22.9	9.4	(1.2)	72.2	(3.7)	1.0
Net debt to operating cashflow (x)	-	-	-	-	-	-	-
Gross debt to operating cashflow (x)	1.8	2.9	0.7	1.8	2.2	2.0	1.9
Gross debt to Ebitda (x)	0.7	0.7	0.5	1.6	1.8	1.7	1.6
Net debt/Ebitda (x)	-	-	-	-	-	-	-
Gearing							
Net debt/equity (%)	(66.7)	(63.5)	(62.7)	(65.0)	(44.2)	(50.9)	(54.7)
Gross debt/equity (%)	27.6	24.3	19.2	45.8	66.1	60.5	55.1
Interest cover (x)	26.4	29.3	21.4	12.6	22.7	24.6	25.3
Debt Cover (x)	0.6	0.3	1.4	0.6	0.5	0.5	0.5
Working capital analysis							
Inventory days	4.7	4.7	4.9	6.3	2.1	0.0	0.0
Debtor days	133.8	158.0	157.7	175.7	122.2	116.3	121.2
Creditor days	199.6	208.3	194.7	216.1	147.1	140.0	146.2
Working capital/Sales (%)	0.6	2.5	4.6	7.4	10.9	9.5	9.9
Capital employed analysis							
Sales/Capital employed (%)	1,087.3	1,026.5	1,019.8	809.4	648.3	743.1	745.5
EV/Capital employed (%)	978.3	784.7	688.7	679.9	425.0	422.0	401.2
Working capital/Capital employed (%)	6.1	25.8	46.5	59.7	70.7	71.0	74.0
Fixed capital/Capital employed (%)	84.1	74.6	74.0	63.5	36.5	36.2	32.7
Other ratios (%)							
EV/OCF (x)	21.4	33.7	9.6	9.4	7.8	6.7	6.4
EV/FCF (x)	28.7	(208.3)	14.8	9.7	10.3	8.6	8.2
EV/Sales (x)	0.9	0.8	0.7	0.8	0.7	0.6	0.5
Capex/depreciation (%)	48.7	146.1	106.6	11.7	97.5	88.9	81.6

Source: www.clsa.com

Cashflow (RMm)

Year to 31 December	2016A	2017A	2018A	2019A	2020CL	2021CL	2022CL
Operating profit	149	165	162	141	194	211	216
Operating adjustments	(22)	0	0	0	0	0	0
Depreciation/amortisation	39	37	53	40	51	56	61
Working capital changes	(59)	(112)	(11)	28	1	9	(2)
Interest paid / other financial expenses	(6)	(6)	(8)	(13)	0	0	0
Tax paid	(26)	(37)	(37)	(38)	(41)	(47)	(46)
Other non-cash operating items	0	0	1	1	0	0	0
Net operating cashflow	75	47	159	158	205	229	229
Capital expenditure	(19)	(55)	(56)	(5)	(50)	(50)	(50)
Free cashflow	56	(8)	103	154	155	179	179
Acq/inv/disposals	13	89	26	(47)	-	-	-
Int, invt & associate div	89	13	(28)	25	17	19	20
Net investing cashflow	83	48	(58)	(26)	(33)	(31)	(30)
Increase in loans	0	(3)	(21)	162	-	-	-
Dividends	(84)	(71)	(97)	(91)	(117)	(121)	(121)
Net equity raised/others	-	0	-	-	0	0	0
Net financing cashflow	(84)	(74)	(118)	72	(117)	(121)	(121)
Incr/(decr) in net cash	74	21	(16)	204	55	76	78
Exch rate movements	2	1	12	4	(5)	1	(5)
Opening cash	390	465	488	485	694	744	815
Closing cash	465	487	484	693	744	821	889
OCF PS (sen)	5.8	3.6	12.3	12.3	15.9	17.7	17.7
FCF PS (sen)	4.3	(0.6)	8.0	11.9	12.0	13.8	13.9

Cashflow ratio analysis

Year to 31 December	2016A	2017A	2018A	2019A	2020CL	2021CL	2022CL
Growth (%)							
Op cashflow growth (% YoY)	(67.6)	(37.3)	238.7	(0.7)	29.5	11.4	0.3
FCF growth (% YoY)	(70.9)	(113.6)	-	48.8	0.9	15.1	0.4
Capex growth (%)	(50.8)	187.6	2.7	(91.6)	956.4	0.0	0.0
Other key ratios (%)							
Capex/sales (%)	1.1	2.6	2.5	0.3	2.0	1.9	1.8
Capex/op cashflow (%)	25.3	116.2	35.2	3.0	24.4	21.9	21.8
Operating cashflow payout ratio (%)	86.0	192.2	56.7	57.1	56.7	50.9	50.7
Cashflow payout ratio (%)	-	-	-	-	-	-	-
Free cashflow payout ratio (%)	-	-	-	-	-	-	-

DuPont analysis

Year to 31 December	2016A	2017A	2018A	2019A	2020CL	2021CL	2022CL
Ebit margin (%)	8.3	7.9	7.2	8.0	8.0	7.8	7.9
Asset turnover (x)	1.2	1.2	1.2	1.0	1.2	1.2	1.2
Interest burden (x)	1.0	1.0	1.0	1.1	1.1	1.1	1.1
Tax burden (x)	0.8	0.8	0.8	0.8	0.8	0.8	0.8
Return on assets (%)	8.0	7.5	6.8	6.3	7.8	7.7	7.6
Leverage (x)	3.2	3.3	3.2	3.1	3.1	3.1	2.9
ROE (%)	26.2	26.0	22.9	21.4	25.4	25.1	23.9

EVA® analysis

Year to 31 December	2016A	2017A	2018A	2019A	2020CL	2021CL	2022CL
Ebit adj for tax	120	130	126	117	155	166	173
Average invested capital	183	187	241	275	344	404	397
ROIC (%)	65.5	69.8	52.1	42.4	45.2	41.2	43.5
Cost of equity (%)	10.9	10.9	10.9	10.9	10.9	10.9	10.9
Cost of debt (adj for tax)	4.0	3.9	3.9	4.1	4.0	4.0	4.0
Weighted average cost of capital (%)	10.9	10.9	10.9	10.9	10.9	10.9	10.9
EVA/IC (%)	54.6	58.9	41.2	31.5	34.3	30.3	32.6
EVA (RMm)	100	110	99	87	118	122	129

Source: www.clsa.com



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Companies mentioned

SunCon (SCGB MK - RM1.50 - BUY)

National Highway Authority of India (N-R)

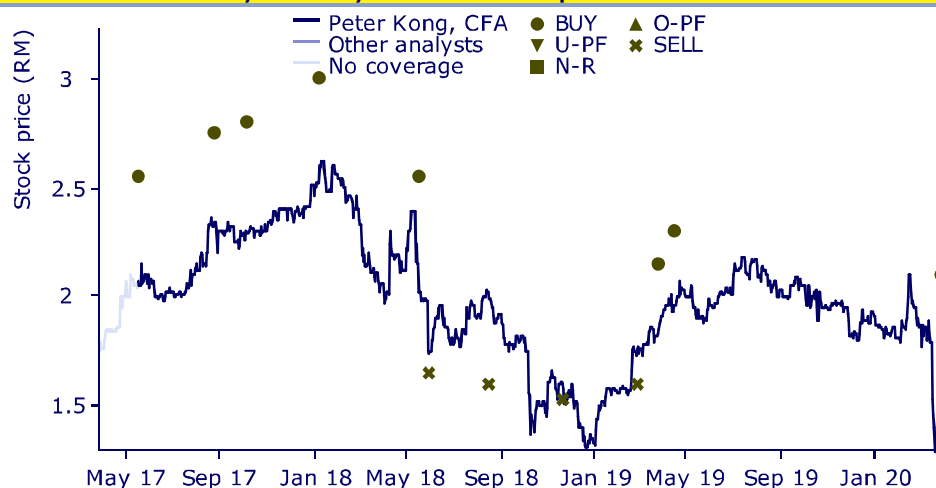
RNS Infrastructure Limited (N-R)

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Recommendation history of Sunway Construction Group Bhd SCGB MK



Date	Rec	Target	Date	Rec	Target
LATEST	BUY	2.10	31 May 2018	SELL	1.65
15 Apr 2019	BUY	2.30	18 May 2018	BUY	2.55
25 Mar 2019	BUY	2.15	08 Jan 2018	BUY	3.00
26 Feb 2019	SELL	1.60	06 Oct 2017	BUY	2.80
21 Nov 2018	SELL	1.53	25 Aug 2017	BUY	2.75
17 Aug 2018	SELL	1.60	18 May 2017	BUY	2.55

Source: CLSA

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