

Sunway Construction Group (SCGB MK) : BUY

Mkt. Cap: US\$446m | 3m Avg. Daily Val: US\$0.38m

Last Traded Price (26 Mar 2020): RM1.50

Price Target 12-mth: RM2.60 (73% upside) (Prev RM2.60)

Analyst

Tjen San CHONG, CFA +60 3 26043972; tjensan@alliancedbs.com

Secures India HAM project

- Clinches RM508m India NHAI with O&M portion
- HAM model mitigates risk – land acquisition at 80% and price fluctuation clauses in place
- First win for FY20F bringing orderbook to RM5.5bn
- BUY with TP of RM2.60

Forecasts and Valuation

FY Dec (RMm)	2018A	2019A	2020F	2021F
Revenue	2,257	1,769	2,315	2,551
EBITDA	218	181	224	248
Pre-tax Profit	184	157	191	213
Net Profit	146	129	153	170
Net Pft (Pre Ex.)	146	129	153	170
Net Pft Gth (Pre-ex) (%)	5.0	(11.3)	18.2	11.3
EPS (sen)	11.3	10.0	11.8	13.2
EPS Pre Ex. (sen)	11.3	10.0	11.8	13.2
EPS Gth Pre Ex (%)	5	(11)	18	11
Diluted EPS (sen)	11.3	10.0	11.8	13.2
Net DPS (sen)	7.50	6.99	7.68	8.55
BV Per Share (sen)	45.7	48.2	52.3	56.9
PE (X)	13.3	15.0	12.7	11.4
PE Pre Ex. (X)	13.3	15.0	12.7	11.4
P/Cash Flow (X)	10.3	10.3	5.5	12.9
EV/EBITDA (X)	7.6	9.0	6.4	5.8
Net Div Yield (%)	5.0	4.7	5.1	5.7
P/Book Value (X)	3.3	3.1	2.9	2.6
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	25.5	21.3	23.5	24.1

Source of all data on this page: Company, AllianceDBS, Bloomberg Finance L.P.

Company Guide



Summary of our point of view, and highlights the relevant data points, which are actively tracked

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What's New

India highway win. Sunway Construction Group Berhad (SCGB) together with its 40% partner RNS Infrastructure Limited has won a Rs864.5 Crore (c.RM508m) contract, along with a 15-year operating and maintenance contract of Rp7.08 Crore per annum from the National Highway Authority of India. The contract encompasses a four-lane highway for the Thorapalli Agraharam – Jittandahalli Section of NH-844 from Km 25.000 to Km 63.500 (existing Chainage), corresponding to Km 23.350 to Km 60.100 (Design Chainage) under Bharatmala Pariyojana Phase-I (National Corridor) on Hybrid Annuity Model in the state of Tamil Nadu.

Project details are favourable and risk contained. The project will be operated under the Hybrid Annuity Model (HAM) for a concession period of 15 years. The construction begins in October 2020 for a period of two years. Under the HAM, NHAI will pay 40% of the project cost in the first two years during the construction period in five equal instalments.

The balance 60% is paid over 15 years as a fixed annuity amount plus interest which is pegged to the RBI (Reserve Bank of India) rate + 3%. There is no toll right for the concessionaire and as such no traffic risk arises. Any cost risk is mitigated through a price fluctuation clause throughout the 2-year construction period and 15 years' maintenance period. Land acquisition has also reached 80%.

First win for FY20F. Based on SCGB's 60% equity stake in the JV, its contract value works out to be RM305m. This represents its first win for FY20F and forms 15% of its new order win forecast of RM2bn and also our forecast.



Flash Note

No funding issues. Based on a debt equity structure of 80:20, SCGB needs to fork out c.RM30m equity portion for its 60% stake. The debt portion will be funded in the local Indian currency and financial close is expected in 195 days. Its balance sheet as at 31 December 2019 was in a net cash position of RM407m.

Valuation and Recommendation

BUY, TP of RM2.60. We continue to like SCGB for i) its steady bedrock of orders from its parent company; ii) its concerted effort to build a construction base overseas with the target of another win in India; and iii) its solid balance sheet with a net cash of RM407m (RM0.32/share).

Flash Note

Target Price & Ratings History



S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	15 Apr 19	1.96	1.66	HOLD
2:	06 May 19	2.00	1.66	HOLD
3:	17 May 19	1.90	1.91	HOLD
4:	27 Jun 19	2.04	1.91	HOLD
5:	08 Jul 19	2.12	2.70	BUY
6:	25 Jul 19	2.17	2.70	BUY
7:	20 Aug 19	2.05	2.70	BUY
8:	15 Nov 19	1.97	2.70	BUY
9:	20 Nov 19	1.97	2.70	BUY
10:	21 Feb 20	1.95	2.60	BUY

Note: Share price and Target price are adjusted for corporate actions.

Source: AllianceDBS

Analyst: Tjen San CHONG

Flash Note

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STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

BUY (>15% total return over the next 12 months for small caps, >10% for large caps)

HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

FULLY VALUED (negative total return, i.e., > -10% over the next 12 months)

SELL (negative total return of > -20% over the next 3 months, with identifiable share price catalysts within this time frame)

*Share price appreciation + dividends

Completed Date: 27 Mar 2020 07:38:49 (MYT)

Dissemination Date: 27 Mar 2020 07:39:35 (MYT)

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Flash Note**DBS Regional Research Offices**

HONG KONG**DBS (Hong Kong) Ltd**

Contact: Carol Wu
13th Floor One Island East,
18 Westlands Road,
Quarry Bay, Hong Kong
Tel: 852 3668 4181
Fax: 852 2521 1812
e-mail: dbsvhk@dbs.com

THAILAND**DBS Vickers Securities (Thailand) Co Ltd**

Contact: Chanpen Sirithanarattanukul
989 Siam Piwat Tower Building,
9th, 14th-15th Floor
Rama 1 Road, Pathumwan,
Bangkok Thailand 10330
Tel: 66 2 857 7831
Fax: 66 2 658 1269
e-mail: research@th.dbs.com
Company Regn. No 0105539127012
Securities and Exchange Commission, Thailand

MALAYSIA**AllianceDBS Research Sdn Bhd**

Contact: Wong Ming Tek (128540 U)
19th Floor, Menara Multi-Purpose,
Capital Square,
8 Jalan Munshi Abdullah 50100
Kuala Lumpur, Malaysia.
Tel.: 603 2604 3333
Fax: 603 2604 3921
e-mail: general@alliancedbs.com

INDONESIA**PT DBS Vickers Sekuritas (Indonesia)**

Contact: Maynard Priajaya Arif
DBS Bank Tower
Ciputra World 1, 32/F
Jl. Prof. Dr. Satrio Kav. 3-5
Jakarta 12940, Indonesia
Tel: 62 21 3003 4900
Fax: 6221 3003 4943
e-mail: indonesiaresearch@dbs.com

SINGAPORE**DBS Bank Ltd**

Contact: Janice Chua
12 Marina Boulevard,
Marina Bay Financial Centre Tower 3
Singapore 018982
Tel: 65 6878 8888
Fax: 65 65353 418
e-mail: equityresearch@dbs.com
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