Sunway Construction Group Berhad

(5263 | SCGB MK) Main | Construction

***Maintain* BUY**

Orderbook replenishment rate to remain robust in FY21

***Unchanged* Target Price: RM2.14**

KEY INVESTMENT HIGHLIGHTS

- **4QFY20 normalised earnings remained resilient, which grew by +4.4%yoy to RM37.9m despite prolonged CMCO**
- **As expected, FY20 normalised earnings came in -31.6%yoy lower at RM92.0m, primarily impacted by MCO 1.0**
- **Solid order book of about RM5.1b which translates into earnings visibility for the next three years**
- **A potential major beneficiary of the impending resumption of mega public transport infrastructure projects in FY21**
- **Maintain BUY with an unchanged target price at RM2.14**

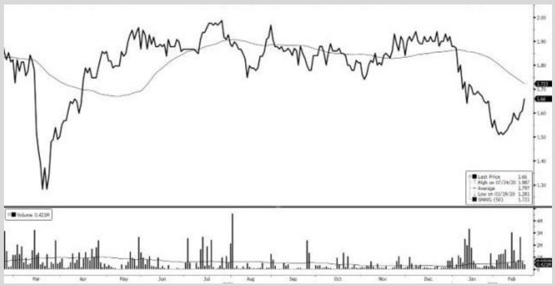
Resilient 4QFY20 earnings. Sunway Construction Group Berhad (SCGB)'s 4QFY20 normalised earnings increased by +4.4%yoy to RM37.9m despite the prolonged CMCO as construction activities are deemed as essential services and allow to operate albeit at 50% capacity. Cumulatively, the group's FY20 normalised earnings was lower by -31.6%yoy to RM92.0m which came in above our and consensus's expectation, accounting for 122.7% and 120.7% of the full year estimates respectively. Moving forward, we expect SCGB's construction and business activities to continue to pick up pace in FY21 as work site operations remain largely unaffected by the MCO 2.0 and possible full resumption of economic activity post-vaccine roll-out.

Construction division on expansion mode. The group managed to record higher construction revenue of RM585.0m (+45.0%yoy) in 4QFY20. This was mainly attributable to the ramping up of the construction progress for the Sunway Carnival Mall extension and the Sunway Medical Centre Seberang Jaya projects in spite of the existing Covid-19 restrictions in place. This enabled the division to post a profit before tax (PBT) of RM37.3m (-1.8%yoy) in the quarter-under-review with a lower PBT margin of 6.4% (-2.2ppt yoy) possibly due to higher Covid-19 related costs incurred. This segment's FY20 PBT declined by -36.4%yoy to RM98.4m led by the halt in operations during MCO 1.0. Moving forward, we opine that the group's construction division is set to achieve stronger earnings recovery premised on possible acceleration of the progress billings as the group continues to ramp up work progress and the kickstart of its India highways projects in May 2021.

Expected healthy order book replenishment in FY21 to support earnings growth momentum. We believe that the group's current outstanding order book stands at about RM5.1b which will translate into a strong earnings visibility over the next three years. Meanwhile, we remain positive on the group's ability to replenish its order book in FY21 by another RM2.0b (the group's target for FY21), where half of it could be primarily coming from its in-house projects. The prospects for the group's job replenishment rate remain bright in view of its outstanding tender book of about RM5.4b with more than half from abroad, which includes India, Singapore and Philippines, as part of its overseas expansion strategy. Note that the group has secured RM823.0m worth of India highway projects in FY20, showcasing the capability of the group to venture into overseas. At the domestic front, the continuation of mega public infrastructure projects as announced in Budget 2021 to bode well for the group.

RETURN STATISTICS	
Price @ 23rd Feb 2021 (RM)	RM1.66
Expected share price return (%)	+28.9
Expected dividend yield (%)	+3.6
Expected total return (%)	+31.5

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	+0.6	+2.6
3 months	-11.7	-12.2
12 months	-14.9	-16.7

KEY STATISTICS	
FBM KLCI	1,565.05
Syariah compliant	Yes
F4BGM Index	No
ESH Grading Band (Star rating)	N/A
Issue shares (m)	1292.90
Estimated free float (%)	19.18
Market Capitalisation (RM'm)	2,140.34
52-wk price range	RM1.25 - RM2.01
Beta vs FBM KLCI (x)	0.78
Monthly velocity (%)	1.61
Monthly volatility (%)	16.09
3-mth average daily volume (m)	0.68
3-mth average daily value (RM'm)	1.15
Top Shareholders (%)	
SUNHOLDINGS	54.56
Sungei Way Corp Sdn Bhd	10.08
Employees Provident Fund Board	9.15

Analyst
Khoo Zhen Ye
khoo.zy@midf.com.my
03-2772 1655

Precast segment. This division posted a decline in revenue of -7.0%yoy to RM42.2m in the quarter-under-review due to Circuit Breaker and movement restriction in Singapore. Nonetheless, the PBT rose by +72.0%yoy to RM4.3m as a result of recognition of higher yielding projects, lifting the profit margin. Thus, the strong recovery seen in 4QFY20 enabled the group to post a full year FY20 PBT of RM2.7m (-3.6%yoy). We also posit that the additional demand for Build-To-Order (BTO) flats to 17k in FY21 in Singapore would also continue to support the earnings from this segment. Note that Singapore's HDB flats account for >90% of the group's precast segment sales.

Table 1: PBT breakdown (RM'm)

Segment	FY20	FY19	Variance (%)	Remarks
Construction	98.4	154.6	-36.4	Lower progress billings due to MCO
Precast Concrete	2.7	2.8	-3.6	Operations impeded due to inability to operate

Source: Company, MIDFR.

Dividend. The group declared a second interim single-tier dividend of 2.75sen to be payable on 7 April 2021. This led to full year FY20 dividend of 4.0sen which is in line with our dividend forecast. We foresee higher net dividend in FY21 and FY22 on healthy earnings recovery momentum as progress billings accelerate and improving business fundamentals.

Earnings estimates. We are maintaining our earnings forecasts at this juncture.

Target price. We are maintaining our target price of **RM2.14** by pegging an unchanged PER of 18.0x to the group's FY21 EPS of 11.9sen. Note that the target PER is +1.5SD premium above the group's two-year historical average. We opine that the premium is justified given the group's solid order book replenishment rate, sound balance sheet and continued job flows from its parent company.

Maintain BUY. We remain sanguine on the group's defensive and quality earnings outlook, predicating on its strong current outstanding order book and prompt resumption of work operations as reflected in its healthy rebound in earnings in 4QFY20 despite CMCO. The defensive nature of the group is underpinned by its well-balanced order book portfolio which made up of its sizeable in-house projects and overseas job wins, especially from India whereby the group has clinched two major highways in FY20 which will kickstart in May 2021. This will bode well with the group's earnings momentum in FY21 onwards. On the intermediate term, the group's prospect is also well-supported by its strong outstanding order book of about RM5.1b which will provide earnings visibility over the next three years. Notably, we posit that SCGB to be a major beneficiary from the impending continuation of the mega public transport infra projects (i.e. MRT3, Pan Borneo Highway, JB-SG RTS, ECRL) as announced in Budget 2021 and the potential domestic KL-JB HSR. This is premised on the group's strong track record and vast experience in railway projects as well as the proximity of its two pre-cast concrete manufacturing plants in Johor. All factors considered, we reiterate **BUY** recommendation on **SCGB.**

INVESTMENT STATISTICS

FYE 31st December	FY18	FY19	FY20F	FY21F	FY22F
Revenue (RM'm)	2,256.8	1,768.7	1,552.7	2,100.4	2,205.4
EBIT (RM'm)	174.6	141.0	90.6	157.9	173.7
Pre-tax Profit (RM'm)	183.1	157.4	101.1	179.8	197.8
Normalised PATANCI (RM'm)	**144.7**	**129.3**	**92.0**	**153.8**	**169.1**
EPS (sen)	11.2	10.0	7.1	11.9	13.1
EPS growth (%)	5.6	-10.4	-28.9	67.1	10.0
PER (x)	17.7	18.2	23.3	13.9	12.7
Net Dividend (sen)	7.0	7.0	4.0	6.0	7.0
Net Dividend Yield (%)	3.5	3.8	2.4	3.6	4.2

Source: Company, MIDFR

SUNWAY CONSTRUCTION GROUP BHD: 4QFY20 RESULTS SUMMARY

(All in RM'm, unless otherwise stated)	Quarterly Results			Cumulative		
FYE 31st Dec	**4Q20**	**% YoY**	**% QoQ**	**FY20**	**FY19**	**% YoY**
Revenue	**627.2**	**29.1**	**49.6**	**1,552.7**	**1,768.7**	**-12.2**
EBITDA	46.7	19.3	13.9	124.1	185.7	-33.2
Depreciation and amortisation	-7.8	101.2	-2.8	-33.4	-40.3	-16.9
EBIT	**38.9**	**10.3**	**18.0**	**90.6**	**145.4**	**-37.7**
Finance costs	3.0	-64.8	-33.5	17.4	25.2	-30.9
Finance income	-0.3	-90.1	-78.7	-6.9	-13.2	-47.6
PBT	**41.6**	**2.6**	**15.6**	**101.1**	**157.4**	**-35.8**
Taxation	-11.5	47.6	-1.8	-27.8	-27.1	2.6
PAT	**30.1**	**-8.1**	**24.1**	**73.3**	**130.3**	**-43.7**
NCI	-0.1	-113.4	-175.9	0.5	1.0	-46.4
PATANCI	30.2	-4.5	25.6	72.8	129.3	-43.7
Normalised PATANCI	**37.9**	**4.4**	**18.8**	**92.2**	**134.5**	**-31.6**
Normalised EPS (sen)	2.9	4.4	+18.8	7.1	10.4	-31.6
	4Q20	**+/- ppts**	**+/- ppts**	**FY20**	**FY19**	**+/- ppts**
EBITDA margin (%)	7.4	-0.6	-2.3	8.0	10.5	-2.5
EBIT margin (%)	6.2	-1.1	-1.7	5.8	8.2	-2.4
PBT margin (%)	6.6	-1.7	-1.9	6.5	8.9	-2.4
Normalised PATAMI margin (%)	6.0	-0.5	-1.6	5.9	7.6	-1.7
Effective tax rate (%)	27.7	47.0	-4.9	27.5	17.2	10.3

Source: Company, MIDFR

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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS	
STOCK RECOMMENDATIONS	
BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to *rise* by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
HOLD	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <-10% over the next 12 months.
TRADING SELL	Stock price is expected to *fall* by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.
SECTOR RECOMMENDATIONS	
POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.
ESG RECOMMENDATIONS* - source Bursa Malaysia and FTSE Russell	
☆☆☆☆	Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆☆	Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆	Top 51%- 75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆	Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell

* ESG Ratings of PLCs in FBM EMAS that have been assessed by FTSE Russell in accordance with FTSE Russell ESG Ratings Methodology