

27 March 2020

Construction & Engineering | Construction

## Sunway Construction (SCGB MK)

## NEUTRAL (Maintained)

### New Highway Job In India, But Stay NEUTRAL

Target Price (Return): MYR1.51 (0%)  
 Price: MYR1.50  
 Market Cap: USD447m  
 Avg Daily Turnover (MYR/USD) 1.60m/0.38m

- Maintain NEUTRAL, with new TP of MYR1.51 from MYR1.77, 0% upside with c.5% FY20F yield.** Challenging conditions persist, and are affecting sentiment. Consequently, we saw Sunway Construction's share price taking a hit with a 13% 12M drop. Since our last report, the sector's broad outlook has not improved, hence our call. Looking purely at the fundamentals, SunCon's risk-reward is seen as fairly balanced. Our TP is pegged to its FY20 EPS to P/E of 13x (-1SD of five-year mean).
- SunCon announced its first job win this year.** The contract, dubbed as TJ Project, was awarded by the National Highway Authority of India, and is valued at c.MYR508m. The contract was secured via a partnership with a local Indian consortium, RNS Infrastructure Limited (RNS), SunCon's long-time partner since 2001. The scope involves associated works for highway construction, and will take place in Oct 2020.
- JV earnings expected to fully kick in in FY21.** Given SunCon's 60% stake in the JV, the entire MYR508m will be recognised at the topline. Earnings during the two-year construction phase are to be booked progressively until completion. Thereafter, it will be followed by 15-year maintenance works which would allow SunCon to derive income of MYR4.1m/year.
- Comforted by the new win.** The news is positive to SunCon, as it fills up the job gap in the sector. While we are encouraged by the job win, we stay wary on the outlook on the local front. Potential for re-rating catalysts appears weak, as the current economic environment is proving to be challenging. At this juncture, we believe 1H20 earnings will be affected due to the Movement Control Order (MCO) imposed. The COVID-19 pandemic continues to spark concerns, as the number of cases are rising. That said, we stay neutral on prospects with a cautious overtone.
- Earnings adjusted due to progress disruption in 1Q20.** We made adjustments to FY20F-22F by -10%, +4% and +3% as delays in progress appear inevitable. Since our last report, we believe multiple concerns continue to emerge, as a result of health and economic issues. Sentiment is wildly affected, leading the broad-based KLCON index to collapse. While we continue to believe that SunCon's strength is relatively sustained, we view that risks on the downside are pronounced. On that account, our TP is reduced to MYR1.51 from 1.77, after pegging its FY20 EPS to P/E of 13x (-1SD of 5-year mean).
- Key downside risks** include failure to secure new contracts, and prolonged downturn in the sector. On the other hand, upside risks stem from the Government taking a more aggressive tack to pump prime the economy via the resumption of large-scale public infrastructure projects.

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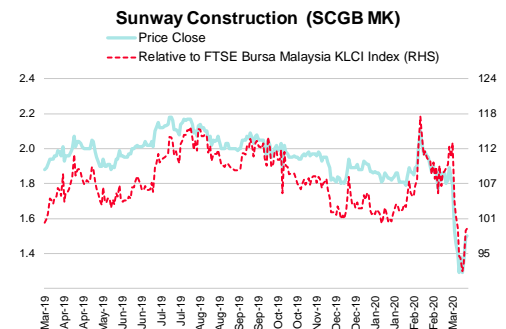


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#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(7.33)	(1.12)	(2.75)	(11.50)	0.57
Relative	(6.68)	(4.45)	(6.39)	(6.74)	(13.18)
52-wk Price low/high (MYR)	1.29 – 2.18				



Source: Bloomberg

Forecasts and Valuation	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Total turnover (MYRm)	2,257	1,769	2,130	2,368	2,055
Net profit (MYRm)	147	121	148	162	143
Net profit growth (%)	11.6	(17.7)	22.7	9.5	(11.8)
Recurring EPS (MYR)	0.11	0.09	0.11	0.13	0.11
Recurring P/E (x)	17.3	21.0	17.1	15.6	17.7
P/B (x)	4.3	4.0	3.7	3.4	3.1
P/CF (x)	5.3	6.1	5.7	5.4	4.6
Dividend Yield (%)	4.7	4.0	4.7	5.2	4.6
EV/EBITDA (x)	13.7	16.4	12.7	11.7	13.1
ROAE (%)	25.9	19.7	22.2	22.3	18.2
Interest cover (x)	21.3	10.0	25.5	27.1	25.0

Source: Company data, RHB

## Financial Exhibits

Asia	Financial summary	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Malaysia	Recurring EPS (MYR)	0.11	0.09	0.11	0.13	0.11
Construction & Engineering	DPS (MYR)	0.07	0.06	0.07	0.08	0.07
<b>Sunway Construction</b>	BVPS (MYR)	0.46	0.49	0.54	0.59	0.63
SCGB MK	ROE (%)	25.90	19.65	22.22	22.33	18.23
Neutral						
<b>Valuation basis</b>	<b>Valuation metrics</b>	<b>Dec-18</b>	<b>Dec-19</b>	<b>Dec-20F</b>	<b>Dec-21F</b>	<b>Dec-22F</b>
We value the company based on FY20F P/E of 13x. Sunway Construction's net cash position allows it to gear up for more jobs moving forward.	Recurring P/E (x)	17.3	21.0	17.1	15.6	17.7
	P/B (x)	4.33	4.01	3.68	3.38	3.15
	FCF Yield (%)	5.20	(0.82)	3.91	5.37	7.20
	Dividend yield (%)	4.7	4.0	4.7	5.2	4.6
	EV/EBITDA (x)	13.7	16.4	12.7	11.7	13.1
	EV/EBIT (x)	16.6	21.4	16.1	14.9	17.8
<b>Key drivers</b>	<b>Income statement (MYRm)</b>	<b>Dec-18</b>	<b>Dec-19</b>	<b>Dec-20F</b>	<b>Dec-21F</b>	<b>Dec-22F</b>
Sunway Construction's earnings are backed by:	Total turnover	2257	1769	2130	2368	2055
i. An outstanding order backlog of MYR5.7bn, of which >90% is from construction, which may keep the firm busy for the next three years;	Gross profit	447	357	436	476	412
ii. Recurring orders from its parent company.	EBITDA (adj.)	215	173	225	247	226
	Depreciation & amortisation	(38)	(40)	(48)	(54)	(59)
	Operating profit	177	133	176	193	167
	Net interest	8	12	6	7	9
	Pre-tax profit	183	153	186	204	180
	Taxation	(38)	(27)	(38)	(42)	(37)
	Net profit	145	124	148	162	143
	Recurring net profit	147	121	148	162	143
<b>Key risks</b>	<b>Cash flow (MYRm)</b>	<b>Dec-18</b>	<b>Dec-19</b>	<b>Dec-20F</b>	<b>Dec-21F</b>	<b>Dec-22F</b>
Upside risks include better-than-expected margins at the construction segment and new job wins coming in ahead of our estimates. Downside risks include possible cost overruns, higher material costs and prolonged slowdown in sector.	Change in working capital	(10)	(135)	(42)	(24)	37
	Cash flow from operations	189	34	155	193	239
	Capex	(55)	(55)	(55)	(55)	(55)
	Cash flow from investing activities	(74)	(55)	(55)	(55)	(55)
	Dividends paid	(97)	(77)	(91)	(100)	(88)
	Cash flow from financing activities	(118)	(47)	(71)	(110)	(98)
	Cash at beginning of period	487	485	417	446	474
	Net change in cash	(3)	(68)	29	27	86
	Ending balance cash	485	417	446	474	560
<b>Company Profile</b>	<b>Balance sheet (MYRm)</b>	<b>Dec-18</b>	<b>Dec-19</b>	<b>Dec-20F</b>	<b>Dec-21F</b>	<b>Dec-22F</b>
Sunway Construction is one of the largest construction companies in Malaysia. Apart from civil & infrastructure construction services, the company also provides the more specialised:	Total cash and equivalents	485	417	446	473	559
i. Foundation & geotechnical engineering services;	Tangible fixed assets	163	175	182	183	178
ii. Mechanical, electrical & plumbing (MEP) services. In addition, it runs a highly profitable precast concrete product manufacturing operation in Malaysia and Singapore. Aside from fulfilling local requirements, it also largely supplies hose concrete products for Housing & Development Board (HDB) projects in the island republic.	Total investments	45	45	45	45	45
	Total assets	1,754	1,638	1,854	2,002	1,927
	Short-term debt	114	144	164	154	144
	Total long-term debt	-	-	-	-	-
	Total liabilities	1,162	997	1,156	1,242	1,112
	Total equity	591	639	696	758	813
	Total liabilities & equity	1,754	1,638	1,854	2,002	1,927
	<b>Key metrics</b>	<b>Dec-18</b>	<b>Dec-19</b>	<b>Dec-20F</b>	<b>Dec-21F</b>	<b>Dec-22F</b>
	Revenue growth (%)	8.7	(21.6)	20.4	11.2	(13.2)
	Recurrent EPS growth (%)	9.4	(14.0)	19.1	9.5	(11.8)
	Gross margin (%)	19.8	20.2	20.5	20.1	20.0
	Operating EBITDA margin (%)	7.8	7.5	8.3	8.2	8.1
	Net profit margin (%)	6.5	6.8	7.0	6.9	7.0
	Capex/sales (%)	2.4	3.1	2.6	2.3	2.7
	Interest cover (x)	21.3	10.0	25.5	27.1	25.0

Source: Company data, RHB

## Guide to Investment Ratings

<b>Buy:</b>	Share price may exceed 10% over the next 12 months
<b>Trading Buy:</b>	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
<b>Neutral:</b>	Share price may fall within the range of +/- 10% over the next 12 months
<b>Take Profit:</b>	Target price has been attained. Look to accumulate at lower levels
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