

Sunway Construction Group (SCGB MK)

Getting back on track

3Q20 to see earnings rebound; maintain HOLD

Work momentum at SCGB's construction projects are back to pre-MCO levels, but its precast supply to Singapore (SG) is still slow. 2Q20 should be its worst quarter amid Malaysia's (MY) MCO and SG's CB which have disrupted works/precast supply during most of the quarter. We maintain our earnings forecasts which have imputed 2.5 months of disruption. Our TP pegs valuation to 16.5x FY21E PER. Maintain HOLD. Catalyst is mega infra projects roll-out by the Government to pump-prime the economy; SCGB is a strong beneficiary due to its delivery track records.

Back on track in MY, still slow at SG

Work pace at SCGB's construction projects in MY have returned to pre-MCO levels since end-June. Cost relating to SOP compliance and preparatory works to re-start its ops are small; substantially incurred in 2Q20. However, its precast supply to SG is still slow with just about 20% of its clients having received the green light to re-start operations from June. Nonetheless, 3Q20 should see better earnings. A key risk ahead is sporadic COVID-19 cases which could disrupt the work pace again.

MYR0.7b wins YTD; retains MYR2b target for 2020

New jobs in 2Q20 totaled MYR121m, lifting 1H20 wins to MYR725m. 2Q20 job wins comprised: (i) MEP works for KVMRT2 Chan Sow Lin underground station, (ii) Sunway International School building construction, and (iii) precast supply to SG (Fig.1). We estimate an outstanding orderbook of MYR5.57b (Fig.2) before deducting for works recognition in 2Q20. SCGB retains its MYR2b job win target for 2020 of which about half is to come from Sunway Group. Our forecasts have imputed a lower MYR1.6b.

Maintaining our forecasts and TP

SCGB will report its 2Q20 results on 18 Aug. We maintain our forecasts which have imputed 2.5 months of operations disruption. Despite the setback, SCGB's sizeable outstanding orderbook offers earnings visibility into FY22E. We continue to peg valuation to 16.5x PER, which implies -0.75D of mean. Maintain HOLD on SCGB. Our BUY recommendations in the construction/infra sector are CMS and LTK (Fig.6).

FYE Dec (MYR m)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue	2,257	1,769	1,909	2,818	2,325
EBITDA	215	185	108	230	189
Core net profit	144	129	65	159	121
Core EPS (sen)	11.2	10.0	5.1	12.3	9.4
Core EPS growth (%)	9.2	(10.3)	(49.5)	143.7	(23.9)
Net DPS (sen)	7.0	7.0	3.5	7.0	7.0
Core P/E (x)	11.9	19.1	37.1	15.2	20.0
P/BV (x)	2.9	4.0	3.8	3.4	3.3
Net dividend yield (%)	5.3	3.7	1.9	3.7	3.7
ROAE (%)	25.5	21.3	10.3	23.5	16.7
ROAA (%)	8.1	7.0	3.3	6.9	4.9
EV/EBITDA (x)	6.3	11.1	18.4	8.1	10.1
Net gearing (%) (incl perp: net cash)					
Consensus net profit	-	-	86	154	149
MKE vs. Consensus (%)	-	-	(24.0)	3.4	(18.7)

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HOLD

Share Price	MYR 1.88
12m Price Target	MYR 2.03 (+12%)
Previous Price Target	MYR 2.03

Company Description

Sunway Construction Group offers integrated construction services and has precast concrete business in Singapore.

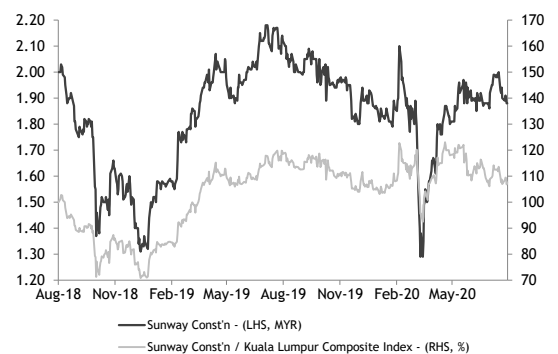
Statistics

52w high/low (MYR)	2.14/1.29
3m avg turnover (USDm)	0.3
Free float (%)	25.5
Issued shares (m)	1,293
Market capitalisation	MYR2.4B USD581M

Major shareholders:

Sunway Bhd.	54.4%
Active Equity Sdn. Bhd.	10.1%
Employees Provident Fund	8.7%

Price Performance



	-1M	-3M	-12M
Absolute (%)	0	4	(12)
Relative to index (%)	(1)	(9)	(10)

Source: FactSet

Abbreviation

MCO = Movement Control Order (from 18 Mar 2020)

CB = Circuit Breaker (from 7 Apr 2020)

SOP = Standard Operating Procedures, to break the chain of COVID-19 infection

MEP = Mechanical, Electrical and Plumbing

Operations update

MYR5.57b outstanding; retains MYR2b target for 2020

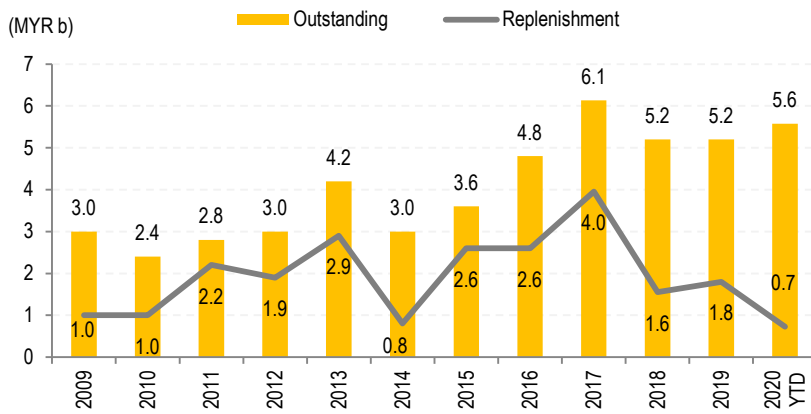
Our estimate of MYR5.57b outstanding orderbook takes into consideration MYR5.36b outstanding as of end-Mar 2020 and MYR212m wins in 2Q20, but before incorporating works recognition in 2Q20, which should be smaller, considering Malaysia's MCO which led to virtually no construction activities generally until early-May with the exception of some critical works. SCGB retains its MYR2b job win target for 2020 (1H20: +MYR0.7b) of which about half is expected to come from Sunway Group's property projects.

Fig 1: Outstanding orderbook of MYR5.57b

As at end-Mar 2020	Completion	Contract value (MYR m)	Outstanding (MYR m)
Infrastructure			
KVMRT 2, V201 (Sg Buloh-Persiaran Dagang)	2Q21	1,213	142
LRT 3 : Package GS07-08	2Q21	2,178	1,622
Piling Works	-	99	19
Piling Works #	-	60	17
Sentul West Station (MEP) #	1Q21	57	57
Tamil Nadu 4-lane highway construction @	4Q22	508	508
KVMRT 2, Chan Sow Lin underground station (MEP) @	2Q21	54	54
Building			
Putrajaya Parcel F	1Q19	1,610	25
PPA1M Project in Kota Bahru	2Q21	582	68
TNB HQ Campus #	2Q21	781	677
Petronas Learning Centre #	2Q21	310	287
Oxley Tower #	2Q22	68	66
IOI Mall (MEP) #	2Q21	68	67
Internal			
Sunway Medical Centre 4 (2 towers)	4Q21	450	363
Sunway Property - Kelana Jaya Condo	3Q21	413	243
Sunway Carnival 2 Extension - PDP contract	1Q21	286	215
SunGeo Lake 44 storey residential tower	1Q21	223	61
SMC Seberang Jaya	1Q21	180	137
Sunway Velocity Two	4Q21	352	286
Sunway Velocity 3C4	2Q21	100	66
BigBox Hotel #	3Q20	100	63
Parcel CP2 (piling) #	3Q21	119	79
BB Solar #	2Q20	8	0
Sunway Pyramid Solar #	2Q20	3	3
Sunway International School @	2Q22	121	121
New order in 2020 @	2Q20	4	4
Precast			
Secured pre 2019	-	331	285
New order in 2020 #	-	38	38
Total		10,316	5,573

#Secured in 2019; @ Secured in 2020; Source: Company data

Fig 2: Outstanding orderbook & replenishment

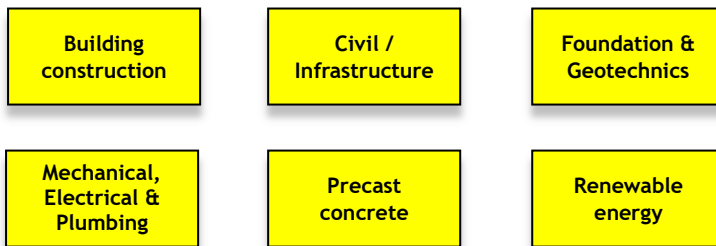


Note: Includes precast; Source: Company data

Renewable energy is its latest ‘core’

Renewable energy has been carved out (in 2019) as a core operation. Opportunities are in the large scale solar (LSS) farm projects (SCGB had tendered for MY’s LSS3 in 2019), biomass and hydroelectric plants. With the LSS4 now open for bids (the total project value is c.MYR4b for 1GB capacity, according to press articles), SCGB is eyeing for a slice of the pie. Related to renewable energy, SCGB has recently inked an MoU with ENGIE SEA for a JV to undertake, as a project owner and developer (including O&M), district cooling systems in MY. SCGB is not new in district cooling system engineering - it completed its 3rd gas district cooling project in Putrajaya in 2018. Renewable energy made up 17%/25% of its mechanical, electrical and plumbing (MEP) revenue in FY17/18; it was lower at 2% in FY19 following completion of its project in Putrajaya in 2018.

Fig 3: Core operation services



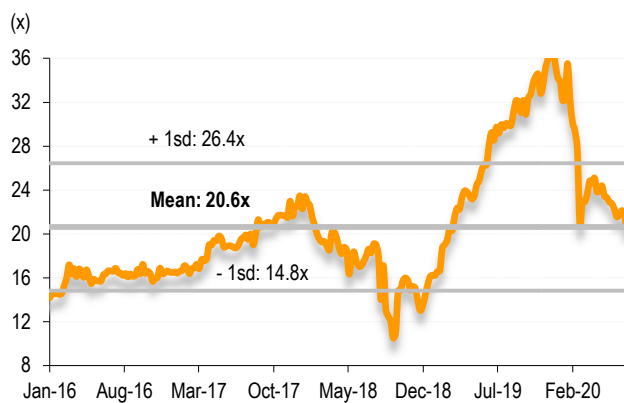
Source: Company 2019 Annual Report

Financials & valuation

Maintaining our forecasts and TP

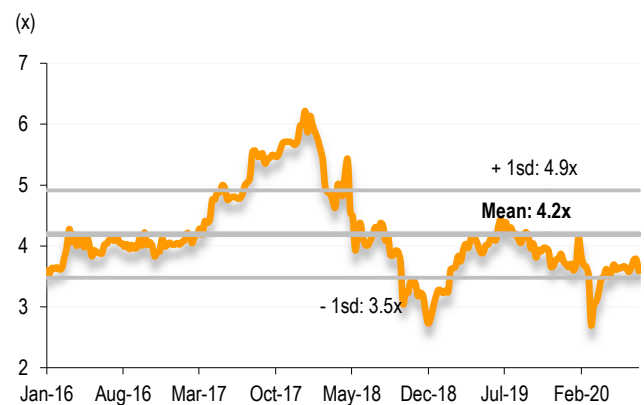
We retain our forecasts, expecting a 50% earnings fall in FY20, before rebounding by 144% in FY21. We continue to peg valuation to 16.5x FY21E to derive a TP of MYR2.03. Our 16.5x target PER is 10% above our base-line for the sector; this considers SCGB's strong delivery track record which positions SCGB as a beneficiary of mega infra project roll-outs; SCGB also has good pipeline projects from its parent, and its ROE is above peers. Against historical valuation, 16.5x is -0.7SD of mean, but this is amid a strong earnings rebound expected in FY21E with many jobs to complete during the year, based on their original timeline.

Fig 4: 12M forward PER



Source: Company data, Maybank Kim Eng

Fig 5: 12M forward PB



Source: Company data, Maybank Kim Eng

Fig 6: Peers comparison

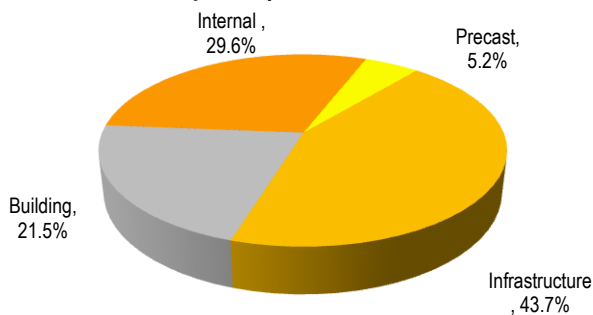
	Rec	Shr px	Mkt cap	TP	PER	PER	PER	P/B	P/B	ROE	ROE	Net	Px chg
		(MYR)	(MYRm)	(MYR)	(x)	(x)	(x)	(x)	(x)	(%)	(%)	yield	(%)
					CY19A	CY20F	CY21F	CY19A	CY20F	CY20F	CY21F	CY20F	YTD
GAM MK	Hold	3.41	8,571.1	3.75	13.5	15.8	14.1	1.0	1.0	6.2	6.8	2.5	(12.6)
IJM MK	Hold	1.44	5,229.0	2.00	11.4	17.4	17.5	0.5	0.5	3.1	3.0	2.1	(33.6)
CMS MK	Buy	1.61	1,726.9	2.50	11.9	18.3	11.5	0.7	0.6	3.5	5.3	1.2	(29.1)
SCGB MK	Hold	1.88	2,424.0	2.03	18.8	36.9	15.3	3.9	3.5	10.2	22.3	1.9	(1.6)
LTK MK	Buy	3.95	2,101.8	5.15	8.2	9.8	8.5	2.0	1.7	18.7	19.5	5.4	(13.9)

Source: Maybank KE

Value Proposition

- SCGB is Malaysia's largest pure play construction group with an established brandname having started business in 1981 with a cumulative revenue of MYR28b.
- SCGB operates on a fully integrated business model with 6 core ops: (i) building construction; (ii) civil/infrastructure, (iii) foundation & geotechnics; (iv) mechanical, electrical & plumbing (MEP); (v) precast concrete (with two plants in Johor - and another under construction in SG - supplying IBS components largely to SG); (vi) renewable energy.
- Its completed special purpose building projects include KL Convention Centre, Sunway Shopping Mall; completed civil projects include SILK, MEX, SKVE, BRT, KVMRT and KVLRT.
- A highly experienced senior management team and continuing support from the Sunway Group add onto its value proposition. It is listed in the FTSE4Good Index.

29.6% of MYR5.5b outstanding orderbook at end-Mar 2020 came from Sunway Group

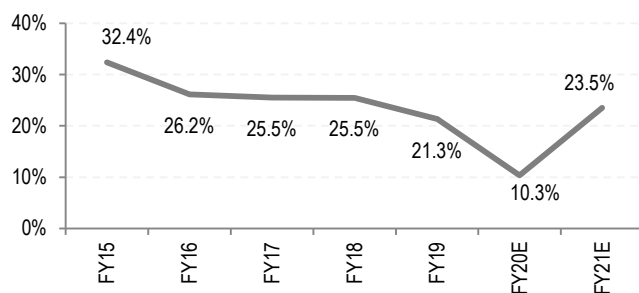


Source: Company

Financial Metrics

- Two main earning growth drivers are rising orderbook and higher margins which may come from value engineering.
- ROEs of >20% since its relisting in 2015 were above peers, but this will see a set-back in FY20E due to work disruption from Malaysia's MCO; we expect ROE to rebound to >20% in FY21E.
- Balance sheet is strong with a net cash of MYR407m (32sen/shr) as of end-FY19; we expect SCGB to remain in net cash over the medium term.
- DPR is a minimum 35% of PATMI; since its relisting, SCGB has been paying up to 70% (FY19).

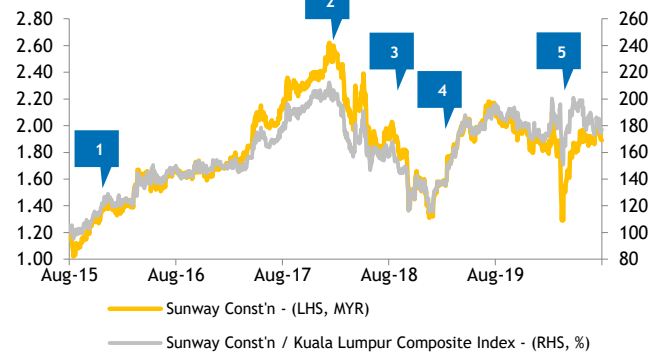
ROEs



Source: Company

Price Drivers

Historical share price trend



Source: Company, Maybank Kim Eng

- Relisted on Bursa Malaysia on 28 Jul 2015 (earlier listing was from 1997 to 2004).
- Secured work packages under KVMRT 2 and KVLRT 3; outstanding orderbook reached a high of MYR6.1b as of end-2017.
- Post GE14 (9 May 2018) concerns, as the new government sought to review the cost of major infrastructure projects awarded during the previous government.
- Investor sentiment towards the overall construction sector improved.
- Malaysia's Movement Control Order (MCO) from 18 Mar 2020 led to work disruption at all of SCGB's projects.

Swing Factors

Upside

- Larger-than-expected orderbook replenishment could lift sentiment on the stock although the earnings impact will only be felt in full at least a year later.
- Significant margin expansion on existing orderbook coming from value engineering breakthrough.
- Government's policy reaffirmation on rising usage of IBS in building construction as a long-term plan to reduce the country's over-reliance on foreign labour; this will be positive for SCGB's precast concrete business.

Downside

- Slower-than-expected work progress at existing major construction projects will affect the timing of earnings recognition.
- The timing of mega infrastructure project roll-outs by the government could affect orderbook replenishment.
- At the precast segment, any significant increase in steel prices and stiffer competition could also affect margins.

FYE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
Key Metrics					
P/E (reported) (x)	17.4	19.1	37.1	15.2	20.0
Core P/E (x)	11.9	19.1	37.1	15.2	20.0
P/BV (x)	2.9	4.0	3.8	3.4	3.3
P/NTA (x)	2.9	4.0	3.8	3.4	3.3
Net dividend yield (%)	5.3	3.7	1.9	3.7	3.7
FCF yield (%)	8.0	7.4	3.0	9.0	1.7
EV/EBITDA (x)	6.3	11.1	18.4	8.1	10.1
EV/EBIT (x)	7.7	14.6	27.0	9.8	13.9
INCOME STATEMENT (MYR m)					
Revenue	2,256.8	1,768.7	1,909.1	2,818.3	2,324.8
Gross profit	441.8	391.7	315.0	437.0	395.9
EBITDA	215.1	185.3	108.5	230.5	189.4
Depreciation	(40.0)	(44.2)	(34.7)	(40.3)	(51.4)
EBIT	175.2	141.0	73.8	190.1	138.0
Net interest income /(exp)	6.8	12.0	7.6	8.4	12.2
Associates & JV	0.7	4.4	0.0	0.0	0.0
Exceptionals	0.0	0.0	0.0	0.0	0.0
Pretax profit	182.7	157.4	81.4	198.5	150.2
Income tax	(38.0)	(27.1)	(16.0)	(39.3)	(28.9)
Minorities	(0.3)	(1.0)	0.0	0.0	0.0
Reported net profit	144.4	129.3	65.3	159.3	121.3
Core net profit	144.4	129.3	65.3	159.3	121.3
BALANCE SHEET (MYR m)					
Cash & Short Term Investments	484.9	692.6	719.4	846.8	797.4
Accounts receivable	1,000.2	970.4	1,052.9	1,402.9	1,208.4
Inventory	30.0	25.1	29.1	43.4	35.2
Property, Plant & Equip (net)	177.0	138.7	161.3	205.5	223.9
Intangible assets	3.6	3.6	3.6	3.6	3.6
Investment in Associates & JVs	44.7	48.4	48.4	48.4	48.4
Other assets	27.6	26.2	26.2	26.2	27.2
Total assets	1,768.0	1,905.0	2,040.9	2,576.8	2,344.1
ST interest bearing debt	113.6	233.4	233.4	233.4	233.4
Accounts payable	939.6	885.2	1,000.9	1,467.9	1,203.3
LT interest bearing debt	0.0	52.7	52.7	52.7	52.7
Other liabilities	123.0	109.0	109.0	109.0	110.0
Total Liabilities	1,176.3	1,279.9	1,395.5	1,862.5	1,598.9
Shareholders Equity	590.2	623.0	643.1	712.1	743.0
Minority Interest	1.4	2.2	2.2	2.2	2.2
Total shareholder equity	591.7	625.2	645.3	714.3	745.2
Total liabilities and equity	1,768.0	1,905.0	2,040.9	2,576.8	2,344.1
CASH FLOW (MYR m)					
Pretax profit	182.7	157.4	81.4	198.5	150.2
Depreciation & amortisation	40.0	44.2	34.7	40.3	51.4
Adj net interest (income)/exp	6.8	12.0	7.6	8.4	12.2
Change in working capital	(10.4)	27.9	29.2	102.7	(61.9)
Cash taxes paid	(37.4)	(38.4)	(16.0)	(39.3)	(28.9)
Other operating cash flow	10.9	(15.0)	(7.6)	(8.4)	(12.2)
Cash flow from operations	192.6	188.1	129.2	302.3	110.7
Capex	(54.8)	(4.8)	(57.3)	(84.5)	(69.7)
Free cash flow	137.8	183.3	72.0	217.7	41.0
Dividends paid	(96.9)	(90.4)	(45.2)	(90.3)	(90.3)
Change in Debt	(24.5)	167.9	0.0	0.0	0.0
Other invest/financing cash flow	(18.1)	(43.4)	0.0	0.0	0.0
Net cash flow	(1.7)	217.5	26.8	127.4	(49.4)

FYE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
Key Ratios					
Growth ratios (%)					
Revenue growth	8.7	(21.6)	7.9	47.6	(17.5)
EBITDA growth	9.3	(13.9)	(41.4)	112.5	(17.8)
EBIT growth	10.1	(19.5)	(47.7)	157.6	(27.4)
Pretax growth	8.3	(13.9)	(48.3)	143.9	(24.3)
Reported net profit growth	9.2	(10.5)	(49.5)	143.7	(23.9)
Core net profit growth	9.2	(10.5)	(49.5)	143.7	(23.9)
Profitability ratios (%)					
EBITDA margin	9.5	10.5	5.7	8.2	8.1
EBIT margin	7.8	8.0	3.9	6.7	5.9
Pretax profit margin	8.1	8.9	4.3	7.0	6.5
Payout ratio	62.6	69.9	69.1	56.7	74.5
DuPont analysis					
Net profit margin (%)	6.4	7.3	3.4	5.7	5.2
Revenue/Assets (x)	1.3	0.9	0.9	1.1	1.0
Assets/Equity (x)	3.0	3.1	3.2	3.6	3.2
ROAE (%)	25.5	21.3	10.3	23.5	16.7
ROAA (%)	8.1	7.0	3.3	6.9	4.9
Liquidity & Efficiency					
Cash conversion cycle	(29.8)	(30.8)	(16.1)	(24.3)	(39.8)
Days receivable outstanding	169.0	200.5	190.8	156.8	202.2
Days inventory outstanding	5.4	7.2	6.1	5.5	7.3
Days payables outstanding	204.1	238.5	213.0	186.6	249.3
Dividend cover (x)	1.6	1.4	1.4	1.8	1.3
Current ratio (x)	1.4	1.5	1.5	1.4	1.4
Leverage & Expense Analysis					
Asset/Liability (x)	1.5	1.5	1.5	1.4	1.5
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Net gearing (%) (excl. perps)	net cash	net cash	net cash	net cash	net cash
Net interest cover (x)	na	na	na	na	na
Debt/EBITDA (x)	0.5	1.5	2.6	1.2	1.5
Capex/revenue (%)	2.4	0.3	3.0	3.0	3.0
Net debt/ (net cash)	(371.2)	(406.6)	(433.4)	(560.8)	(511.4)

Source: Company; Maybank

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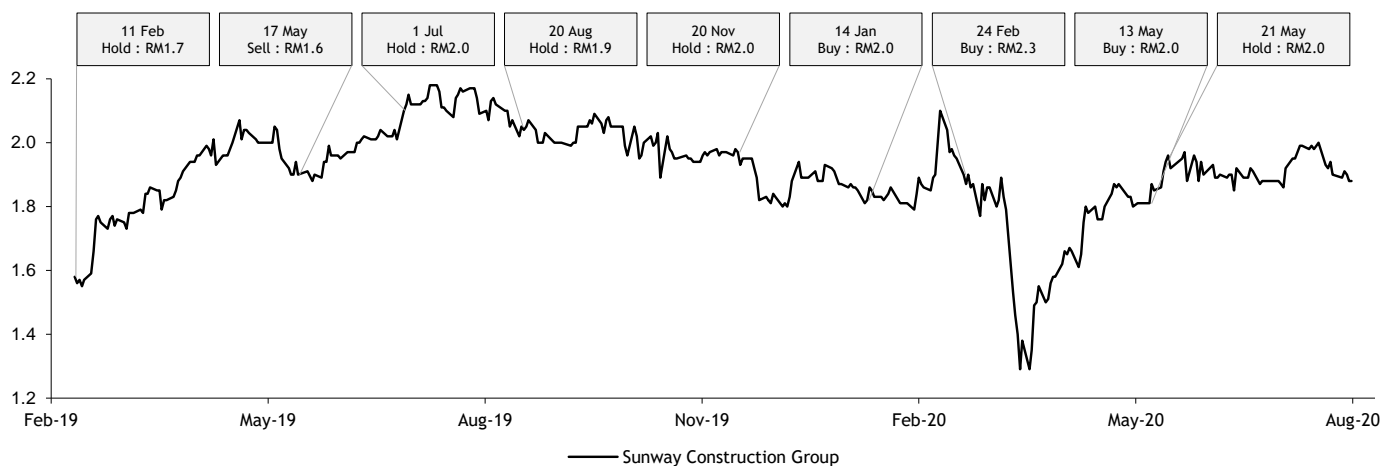
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