

Sunway Construction Group (SCGB MK)

2Q20: Down, but not out

Valuation turns compelling; U/G to BUY

Weak 2Q20 results are expected; at MYR2m net profit, this is in-line with our border-line loss expectation. MYR747m latest job win lifts its YTD win to MYR1.47b and outstanding orderbook to MYR6.16b. We tweak FY20/21E net profit by +1% p.a.. Our new TP, on unchanged 16.5x FY21E PER, is MYR2.06 (+3sen). With 19% total return, the stock is now a BUY. Further catalyst is mega infra projects roll-out by the Government; SCGB is a potential beneficiary due to its delivery track records.

2Q20 net profit fell 93% YoY

Group revenue fell 68% YoY; construction EBIT margin shrunk 6.6ppts YoY to 2.5%; precast fell into a loss - in 2Q20. SCGB's construction operations suffered a 2.5-month impact from MY's MCO (18 Mar to 9 Jun) with activities resuming only in early-June after all its foreign workers were screened for COVID-19. At the same time, its precast supply to SG was disrupted by SG's CB; just 19% of its jobs were given the green light to re-start in June. 1H20 net profit of MYR19m (-71% YoY) made up just 14% of our FY20E - we expect a recovery from 3Q20. Despite the weak set of results, SCGB declared a 1st interim 1.25sen DPS (87% DPR; ex- on 9 Sep).

Substantial orderbook boost to MYR6.16b

Together with its results release, SCGB announced MYR747m new jobs from Sunway Group, lifting its YTD job wins to MYR1.47b and outstanding orderbook to MYR6.16b. This closes in to its internal MYR2b job win target for 2020. Our forecasts have imputed a lower MYR1.6b win for 2020 which we maintain for now; note that any further wins from now will see contributions only in FY21E. At MYR6.16b outstanding, this is a shade above its record-high MYR6.14b as of end-2017.

Now at just 14.3x FY21E PER

Our earnings revisions are largely due to housekeeping, after updating for its recently released 2019 AR. Current valuation at 14.3x FY21E (vs. -1SD of 14.9x) offers a good entry point into Malaysia's largest pure play construction group. 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.

FYE Dec (MYR m)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue	2,257	1,769	1,921	2,922	2,383
EBITDA	219	181	111	221	173
Core net profit	144	129	66	161	121
Core EPS (sen)	11.2	10.0	5.1	12.5	9.4
Core EPS growth (%)	9.2	(10.3)	(49.0)	144.5	(25.1)
Net DPS (sen)	7.0	7.0	3.5	7.0	7.0
Core P/E (x)	11.9	19.1	35.0	14.3	19.1
P/BV (x)	2.9	4.0	3.6	3.2	3.1
Net dividend yield (%)	5.3	3.7	2.0	3.9	3.9
ROAE (%)	25.5	21.3	10.4	23.7	16.5
ROAA (%)	8.0	7.0	3.3	6.9	4.8
EV/EBITDA (x)	6.2	11.4	16.7	7.8	10.1
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Consensus net profit	-	-	83	153	150
MKE vs. Consensus (%)	-	-	(20.6)	5.2	(19.7)

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BUY

[Prior:HOLD]

Share Price MYR 1.79
12m Price Target MYR 2.06 (+19%)
Previous Price Target MYR 2.03

Company Description

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

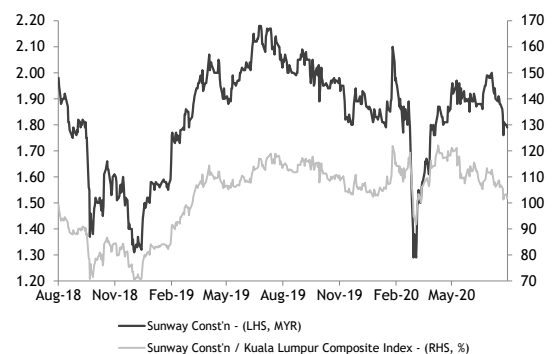
Statistics

52w high/low (MYR) 2.10/1.29
3m avg turnover (USDm) 0.3
Free float (%) 25.6
Issued shares (m) 1,293
Market capitalisation MYR2.3B
USD553M

Major shareholders:

Sunway Bhd. 54.4%
Active Equity Sdn. Bhd. 10.1%
Employees Provident Fund 8.4%

Price Performance



	-1M	-3M	-12M
Absolute (%)	(10)	(4)	(14)
Relative to index (%)	(8)	(13)	(11)

Source: FactSet

Abbreviation

MY = Malaysia
MCO = Movement Control Order (from 18 Mar 2020)
SG = Singapore
CB = Circuit Breaker (from 7 Apr 2020)

Fig 1: Results summary

FY Dec (MYR m)	Quarterly					Cumulative		
	2Q20	2Q19	% YoY	1Q20	% QoQ	1H20	1H19	% YoY
Revenue	140.2	440.2	(68.2)	365.8	(61.7)	506.0	880.2	(42.5)
EBIT	0.1	37.6	(99.8)	18.7	(99.6)	18.8	75.8	(75.3)
Net interest inc/(exp)	2.2	3.6	(38.4)	2.5	(13.1)	4.7	5.5	(13.9)
Assoc, JV profits	0.1	-	NM	-	NM	0.1	-	NM
Pre-tax profit	2.3	41.2	(94.3)	21.2	(89.0)	23.6	81.3	(71.0)
Tax	(0.2)	(8.2)	(97.4)	(4.3)	(95.0)	(4.5)	(16.7)	(72.9)
Minority Interests	0.1	0.2	(68.1)	(0.6)	NM	(0.5)	(0.4)	22.9
Net profit	2.2	33.2	(93.4)	16.4	(86.6)	18.5	64.2	(71.1)
EPS (sen)	0.17	2.57	(93.4)	1.27	(86.6)	1.44	4.97	(71.0)
DPS (sen)	1.25	3.50	(64.3)	-	NM	1.25	3.50	(64.3)
	2Q20	2Q19	+/- ppt	1Q20	+/- ppt	1H20	1H19	+/- ppt
<i>EBIT margin (%)</i>	0.0	8.5	(8.5)	5.1	(5.1)	3.7	8.6	(4.9)
<i>Pretax margin (%)</i>	1.7	9.4	(7.7)	5.8	(4.1)	4.7	9.2	(4.6)
<i>Tax rate (%)</i>	9.2	20.0	(10.8)	20.3	(11.1)	19.2	20.6	(1.3)
Revenue	2Q20	2Q19	% YoY	1Q20	% QoQ	1H20	1H19	% YoY
Construction	137.2	406.3	(66.2)	329.6	(58.4)	466.8	813.3	(42.6)
Precast concrete	3.0	33.9	(91.2)	36.3	(91.8)	39.3	66.9	(41.3)
Total	140.2	440.2	(68.2)	365.8	(61.7)	506.0	880.2	(42.5)
EBIT								
Construction	3.4	36.9	(90.7)	17.3	(80.2)	20.7	74.7	(72.3)
Precast concrete	(3.3)	0.8	NM	1.4	NM	(1.9)	1.1	NM
Total	0.1	37.6	(99.8)	18.7	(99.6)	18.8	75.8	(75.3)
EBIT margin (%)	2Q20	2Q19	+/- ppt	1Q20	+/- ppt	1H20	1H19	+/- ppt
Construction	2.5	9.1	(6.6)	5.2	(2.8)	4.4	9.2	(4.8)
Precast concrete	(loss)	2.3	NM	3.9	NM	(loss)	1.6	NM
Total	0.0	8.5	(8.5)	5.1	(5.1)	3.7	8.6	(4.9)

Source: Company

Balance sheet remains strong

As of end-Jun 2020, SCGB remained in a net cash position of MYR387m (30sen/shr). Its receivables have retreated by 18% QoQ which is positive amid a difficult MCO period.

Substantial orderbook boost

Together with its results release, SCGB announced MYR747m new jobs from Sunway Group, comprising the construction of:

- A commercial mixed development at Sunway South Quay for MYR344.2m (excluding a sub-structure package worth MYR119m awarded in Jun 2019 to SCGB). The sub-structure work package have started on 15 July 2019 and the whole project is expected to complete on 14 Dec 2023;
- Three blocks of service apartments at Jln Belfield, KL for MYR402.9m. Works are expected to start on 23 Sep 2020 and to complete in Jun 2024.

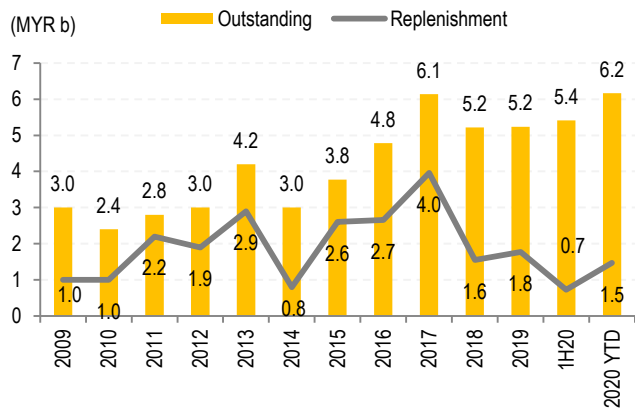
These new jobs have lifted SCGB's YTD job wins to MYR1.47b and outstanding orderbook to MYR6.16b. We expect earnings contribution from FY21.

Fig 2: Outstanding orderbook of MYR6.16b

As at 18 Aug 2020	Completion	Contract value (MYR m)	Outstanding (MYR m)
Infrastructure			
KVMRT 2, V201 (Sg Buloh-Persiaran Dagang)	4Q20	1,213	123
LRT 3 : Package GS07-08	4Q22	2,178	1,589
Piling Works	-	99	19
Piling Works #	-	60	13
Sentul West Station (MEP) #	1Q21	57	57
Tamil Nadu 4-lane highway construction @	4Q22	508	508
KVMRT 2, Chan Sow Lin underground station (MEP) @	4Q21	54	54
Building			
Putrajaya Parcel F	Maintenance	1,610	20
PPA1M Project in Kota Bahru	2Q21	582	64
TNB HQ Campus #	2Q21	781	666
Petronas Learning Centre #	2Q21	310	283
Oxley Tower #	2Q22	68	66
IOI Mall (MEP) #	2Q21	68	59
Internal			
Sunway Medical Centre 4 (2 towers)	4Q21	450	351
Sunway Serene - Kelana Jaya Condo	4Q21	413	240
Sunway Carnival 2 Extension - PDP contract	1Q21	286	214
SunGeo Lake 44 storey residential tower	1Q21	223	50
SMC Seberang Jaya	1Q21	180	136
Sunway Velocity Two	4Q21	352	265
Sunway Velocity 3C4	2Q21	100	64
BigBox Hotel #	3Q20	100	58
Sunway South Key - Parcel CP2 (piling) #	3Q21	119	70
Sunway International School @	4Q22	121	121
Renewable energy @	2Q20	5	4
Sunway South Quay - Comm mixed devt @	4Q23	344	344
Service apartments at Jln Belfield @	2Q24	403	403
Precast			
Secured pre 2019	-	331	282
New order in 2020 @	-	37	38
Total		11,052	6,161

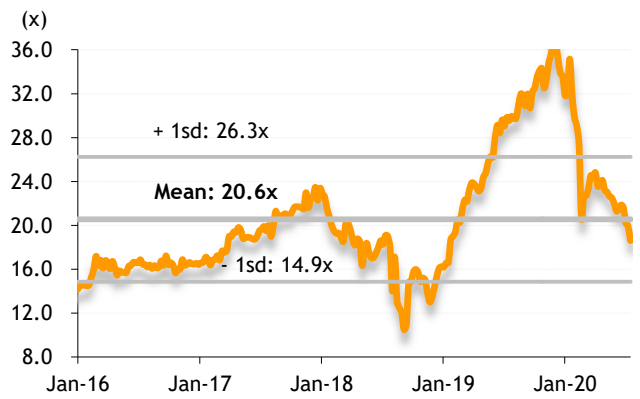
#Secured in 2019; @ Secured in 2020; Source: Company

Fig 3: Outstanding orderbook vs. replenishment



*Including precast; Source: Company data

Fig 4: 12M forward PER

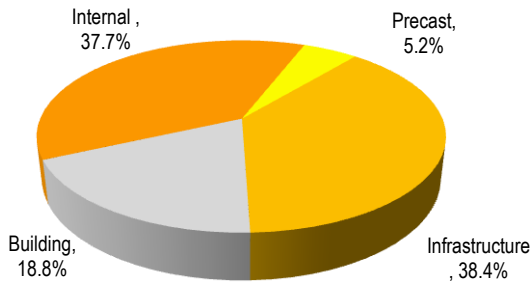


Source: Company data, Maybank KE

Value Proposition

- SCGB is Malaysia's largest pure play construction group with an established brandname having commenced operations 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.

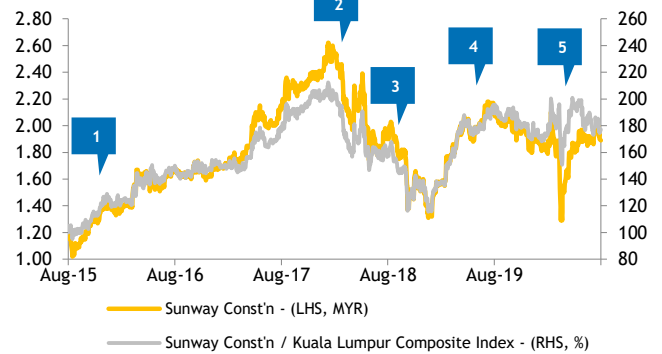
37.7% of MYR6.16b outstanding orderbook as of 18 Aug 2020 came from Sunway Group



Source: Company

Price Drivers

Historical share price trend



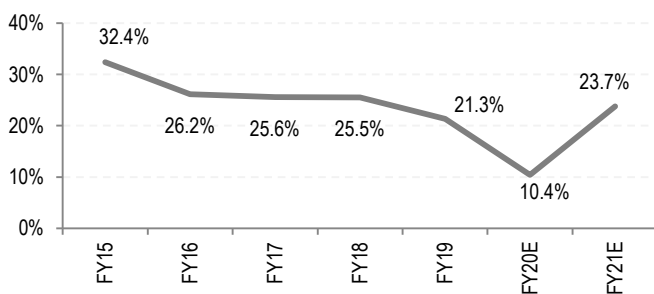
Source: Company, Maybank Kim Eng

- 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.

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 MYR387m (30sen/shr) as of end-Jun 2020; 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

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.
- Sporadic COVID-19 cases could disrupt work pace again.
- 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	35.0	14.3	19.1
Core P/E (x)	11.9	19.1	35.0	14.3	19.1
P/BV (x)	2.9	4.0	3.6	3.2	3.1
P/NTA (x)	2.9	4.0	3.6	3.3	3.1
Net dividend yield (%)	5.3	3.7	2.0	3.9	3.9
FCF yield (%)	8.3	7.7	3.7	9.8	3.0
EV/EBITDA (x)	6.2	11.4	16.7	7.8	10.1
EV/EBIT (x)	7.7	14.6	25.0	9.0	12.8
INCOME STATEMENT (MYR m)					
Revenue	2,256.8	1,768.7	1,920.6	2,922.1	2,383.1
Gross profit	441.2	378.1	308.3	417.5	369.9
EBITDA	218.9	181.3	111.4	220.7	173.0
Depreciation	(43.7)	(40.3)	(36.8)	(28.4)	(36.4)
EBIT	175.2	141.0	74.6	192.3	136.6
Net interest income / (exp)	6.8	12.0	7.6	8.8	12.9
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	82.2	201.1	149.5
Income tax	(38.0)	(27.1)	(16.2)	(39.8)	(28.8)
Minorities	(0.3)	(1.0)	0.0	0.0	0.0
Reported net profit	144.4	129.3	66.0	161.3	120.7
Core net profit	144.4	129.3	66.0	161.3	120.7
BALANCE SHEET (MYR m)					
Cash & Short Term Investments	484.9	692.6	732.7	869.4	848.6
Accounts receivable	1,000.2	970.4	1,099.9	1,512.6	1,273.8
Inventory	30.0	25.1	29.1	45.2	36.3
Property, Plant & Equip (net)	176.5	138.5	106.8	136.8	148.1
Intangible assets	4.1	3.9	3.9	3.9	3.9
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	2,046.9	2,642.4	2,386.2
ST interest bearing debt	113.6	233.4	233.4	233.4	233.4
Accounts payable	939.6	885.2	1,006.3	1,530.9	1,243.3
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	1,400.9	1,925.5	1,638.9
Shareholders Equity	590.2	623.0	643.8	714.7	745.1
Minority Interest	1.4	2.2	2.2	2.2	2.2
Total shareholder equity	591.7	625.2	646.0	716.9	747.3
Total liabilities and equity	1,768.0	1,905.0	2,046.9	2,642.4	2,386.2
CASH FLOW (MYR m)					
Pretax profit	182.7	157.4	82.2	201.1	149.5
Depreciation & amortisation	43.7	40.3	36.8	28.4	36.4
Adj net interest (income)/exp	11.9	17.4	7.6	8.8	12.9
Change in working capital	(10.4)	32.7	(12.4)	95.8	(39.9)
Cash taxes paid	(37.4)	(38.4)	(16.2)	(39.8)	(28.8)
Other operating cash flow	7.2	(15.9)	(7.6)	(8.8)	(12.9)
Cash flow from operations	197.7	193.5	90.4	285.5	117.2
Capex	(54.8)	(4.7)	(5.2)	(58.4)	(47.7)
Free cash flow	142.9	188.8	85.2	227.0	69.6
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)	(307.1)	0.0	0.0	0.0
Net cash flow	3.4	(40.7)	40.1	136.7	(20.8)

FYE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
Key Ratios					
Growth ratios (%)					
Revenue growth	8.7	(21.6)	8.6	52.1	(18.4)
EBITDA growth	11.2	(17.2)	(38.5)	98.1	(21.6)
EBIT growth	10.1	(19.5)	(47.1)	157.8	(28.9)
Pretax growth	8.3	(13.9)	(47.8)	144.7	(25.6)
Reported net profit growth	9.2	(10.5)	(49.0)	144.5	(25.1)
Core net profit growth	9.2	(10.5)	(49.0)	144.5	(25.1)
Profitability ratios (%)					
EBITDA margin	9.7	10.2	5.8	7.6	7.3
EBIT margin	7.8	8.0	3.9	6.6	5.7
Pretax profit margin	8.1	8.9	4.3	6.9	6.3
Payout ratio	62.6	69.9	68.5	56.0	74.8
DuPont analysis					
Net profit margin (%)	6.4	7.3	3.4	5.5	5.1
Revenue/Assets (x)	1.3	0.9	0.9	1.1	1.0
Assets/Equity (x)	3.0	3.1	3.2	3.7	3.2
ROAE (%)	25.5	21.3	10.4	23.7	16.5
ROAA (%)	8.0	7.0	3.3	6.9	4.8
Liquidity & Efficiency					
Cash conversion cycle	(29.9)	(28.5)	(11.1)	(16.1)	(30.3)
Days receivable outstanding	169.0	200.5	194.0	160.9	210.5
Days inventory outstanding	5.4	7.1	6.0	5.3	7.3
Days payables outstanding	204.3	236.2	211.2	182.3	248.0
Dividend cover (x)	1.6	1.4	1.5	1.8	1.3
Current ratio (x)	1.4	1.5	1.5	1.4	1.5
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	1.6	2.6	1.3	1.7
Capex/revenue (%)	2.4	0.3	0.3	2.0	2.0
Net debt/ (net cash)	(371.2)	(406.6)	(446.6)	(583.3)	(562.6)

Source: Company; Maybank

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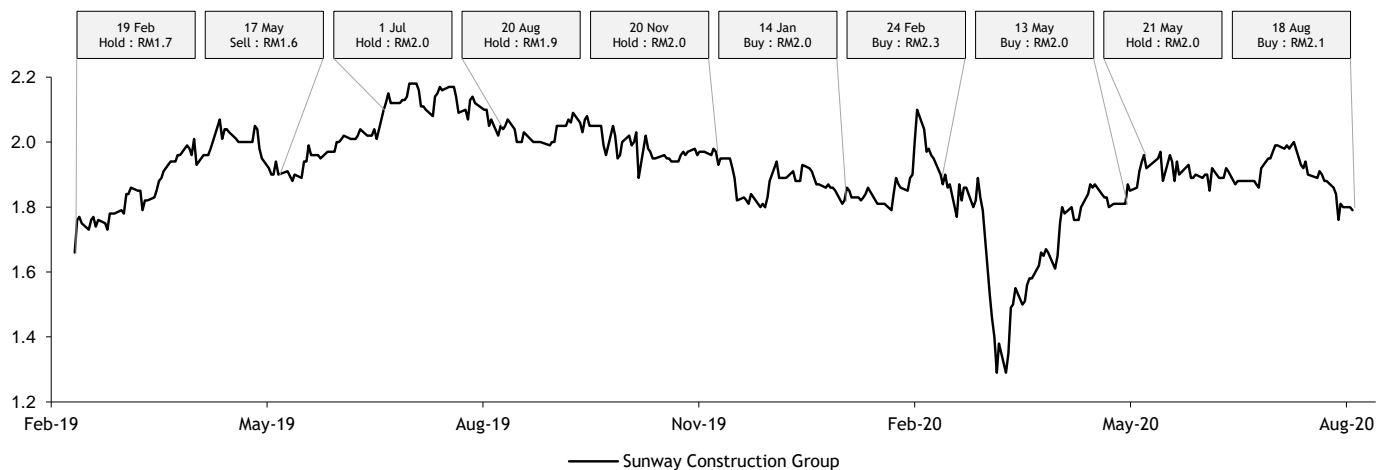
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