

Sunway Construction Group (SCGB MK)

4Q20: Strong finish ...

... to a very challenging year; maintain BUY

SCGB's net profit rebounded strongly in 4Q20 (+26% QoQ), lifting FY20 to MYR73m, above our MYR61m forecast but within consensus' MYR76m. 4Q20 profit would have been even stronger if not for a provision on one of its debtor. We lower FY21E net profit by 9% on incorporating MCO 2.0's impact on its MY construction projects, but raise FY22E by 21%, and introduce FY23E. BUY call unchanged, with a lower MYR1.84 TP (-13sen) based on updated 17.0x FY21E PER (-0.5SD of mean; previously 16.5x).

Construction & precast rebounded

4Q20's profit rebound was mainly contributed by final settlement for its Uttar Pradesh (India) construction project, and ramping up of work pace at Sunway Carnival Mall Extension and Sunway Medical Centre Seberang Jaya. Precast ops also saw higher profits QoQ as all projects in SG were allowed to restart. 4Q20's outperformance vs. our forecast was on better margins at both construction and precast. A 2nd interim DPS of 2.75sen (payment: 7 Apr) lifts FY20 DPS to 4sen (71% DPR; FY19: 70%).

MYR5.1b o/s orderbook to support recovery

Outstanding orderbook was MYR5.1b end-2020 of which MYR2.3b were wins in 2020, above its internal target of MYR2b. SCGB's job win target for 2021 is MYR2b, of which MYR366m has already been secured. Our earnings model assumes a similar MYR2b win in 2021. Except for its two Indian projects, most of existing projects should complete by 2022. Concession agreement for its two Indian projects was inked in Dec 2020, with construction to start in May 2021, and a 3Q23 completion timeline. We expect a strong earnings recovery in FY21E (+92% YoY).

Tender book, COVID mitigation & MCO 2.0

Active tender at hand is MYR5.4b of which >50% is overseas pipeline in India, SG and Philippines. To mitigate COVID-19 infection risk, all its project teams, including foreign workers, have undergone screening and are abiding by its internal SOP and MoH-MKN directives. MCO 2.0, which started on 13 Jan 2021, has impacted construction work pace in the initial two weeks, but the momentum has since gathered pace.

FYE Dec (MYR m)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue	1,769	1,553	2,426	2,899	2,553
EBITDA	181	124	206	210	218
Core net profit	129	73	140	130	123
Core EPS (sen)	10.0	5.6	10.8	10.1	9.5
Core EPS growth (%)	(10.3)	(43.7)	91.7	(6.9)	(5.4)
Net DPS (sen)	7.0	4.0	7.0	7.0	7.0
Core P/E (x)	19.1	33.3	15.3	16.5	17.4
P/BV (x)	4.0	3.8	3.1	2.9	2.8
Net dividend yield (%)	3.7	2.1	4.2	4.2	4.2
ROAE (%)	21.3	11.6	21.1	18.4	16.6
ROAA (%)	7.0	3.8	6.6	5.0	4.2
EV/EBITDA (x)	11.4	16.8	8.2	9.1	10.2
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	10.9
Consensus net profit	-	-	150	150	na
MKE vs. Consensus (%)	-	-	(6.7)	(13.4)	na

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BUY

Share Price	MYR 1.66
12m Price Target	MYR 1.84 (+15%)
Previous Price Target	MYR 1.97

Company Description

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

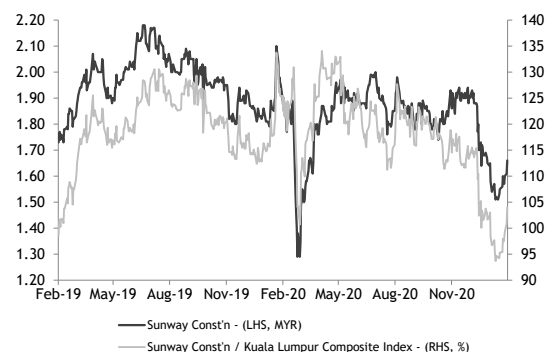
Statistics

52w high/low (MYR)	2.00/1.29
3m avg turnover (USDm)	0.3
Free float (%)	25.0
Issued shares (m)	1,293
Market capitalisation	MYR2.1B
	USD531M

Major shareholders:

Sunway Bhd.	54.4%
Active Equity Sdn. Bhd.	10.1%
Employees Provident Fund	9.2%

Price Performance



	-1M	-3M	-12M
Absolute (%)	1	(14)	(15)
Relative to index (%)	2	(13)	(17)

Source: FactSet

Abbreviation

MCO 2.0 = Movement Control Order 2.0 (from 13 Jan 2021)

MY = Malaysia

SG = Singapore

SOP = Standard Operating Procedures

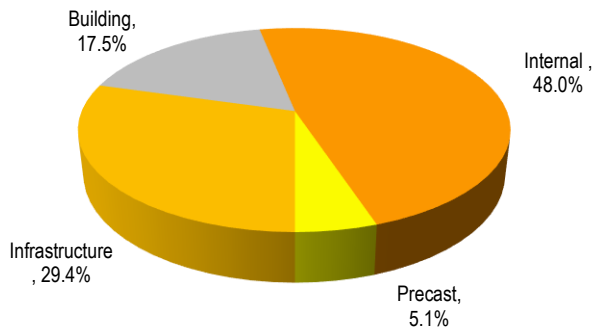
MoH = Ministry of Health

MKN = Majlis Keselamatan Negara / National Security Council

Value Proposition

- Malaysia's largest pure play construction group with an established brand name having commenced operations in 1981 with a cumulative revenue of MYR28b.
- 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.
- Completed special purpose building projects include KL Convention Centre, Sunway Shopping Mall; completed civil projects include SILK, MEX, SKVE, BRT, KVMRT and KVLRT.
- Highly experienced senior management team and continuing support from the Sunway Group add onto its value proposition.

MYR5.1b outstanding orderbook as of end-2020

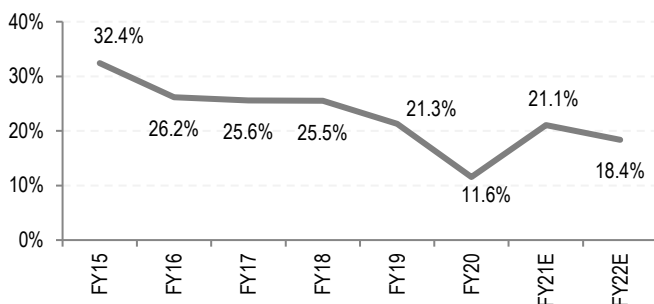


Source: Company

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 suffered a set-back in FY20 due to work disruption from Malaysia's MCO; we expect ROE to rebound in FY21E.
- Balance sheet is strong with a net cash of MYR339m (26sen/shr) as of 31 Dec 2020.
- DPR is a minimum 35% of PATMI; since its relisting, SCGB has been paying up to 71% (FY20).

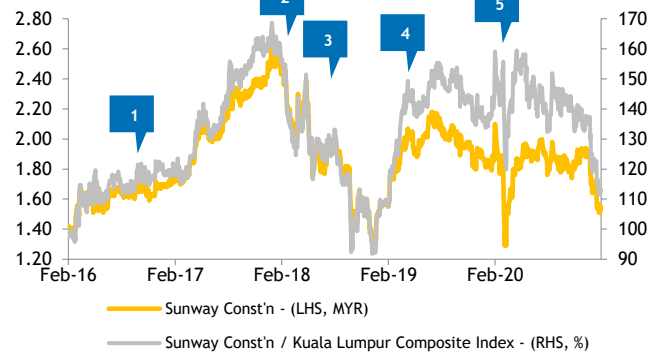
ROEs



Source: Company

Price Drivers

Historical share price trend



Source: Company, Maybank Kim Eng

- Secured MYR2.7b new jobs in 2016, bringing outstanding order book to a new high of MYR4.8b as of end-2016.
- Secured work packages under KVMRT 2 and KVLRT 3; outstanding orderbook reached another 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 for its existing orderbook coming from value engineering breakthrough.
- Government's policy reaffirmation on higher 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.

Fig 1: Results summary

FY Dec (MYR m)	Quarterly					Cumulative		
	4Q20	4Q19	% YoY	3Q20	% QoQ	12M20	12M19	% YoY
Revenue	627.2	485.9	29.1	419.4	49.6	1,552.7	1,768.7	(12.2)
EBIT	38.8	30.8	25.9	32.9	17.8	90.5	141.0	(35.8)
Net interest inc/(exp)	2.7	5.3	(48.4)	3.0	(10.0)	10.5	12.0	(12.4)
Assoc, JV profits	0.0	4.4	NM	-	NM	0.1	4.4	(97.5)
Pre-tax profit	41.6	40.5	2.6	36.0	15.6	101.1	157.4	(35.8)
Tax	(11.5)	(7.8)	47.6	(11.7)	(1.8)	(27.8)	(27.1)	2.6
Minority Interests	0.1	(1.1)	NM	(0.2)	NM	(0.5)	(1.0)	(46.4)
Net profit	30.2	31.6	(4.5)	24.0	25.6	72.8	129.3	(43.7)
EPS (sen)	2.34	2.45	(4.5)	1.86	25.8	5.64	10.02	(43.7)
DPS (sen)	2.75	3.50	NM	-	NM	4.00	7.00	(42.9)
	4Q20	4Q19	+/- ppt	3Q20	+/- ppt	12M20	12M19	+/- ppt
EBIT margin (%)	6.2	6.3	(0.2)	7.9	(1.7)	5.8	8.0	(2.1)
Pretax margin (%)	6.6	8.3	(1.7)	8.6	(1.9)	6.5	8.9	(2.4)
Tax rate (%)	27.7	19.3	8.4	32.6	(4.9)	27.5	17.2	10.3
Revenue	4Q20	4Q19	% YoY	3Q20	% QoQ	12M20	12M19	% YoY
Construction	585.0	440.5	32.8	403.4	45.0	1,455.2	1,618.9	(10.1)
Precast concrete	42.2	45.4	(7.1)	16.0	164.1	97.4	149.8	(35.0)
Total	627.2	485.9	29.1	419.4	49.6	1,552.7	1,768.7	(12.2)
EBIT								
Construction	34.8	27.0	29.1	31.7	10.0	87.2	135.3	(35.6)
Precast concrete	4.0	3.9	3.5	1.3	210.2	3.3	5.8	(42.0)
Total	38.8	30.8	25.9	32.9	17.8	90.5	141.0	(35.8)
EBIT margin (%)	4Q20	4Q19	+/- ppt	3Q20	+/- ppt	12M20	12M19	+/- ppt
Construction	6.0	6.1	(0.2)	7.8	(1.9)	6.0	8.4	(2.4)
Precast concrete	9.5	8.5	1.0	8.1	1.4	3.4	3.8	(0.4)
Total	6.2	6.3	(0.2)	7.9	(1.7)	5.8	8.0	(2.1)

Source: Company

4Q20 results review

- Construction drove the YoY/QoQ increase in group revenue, mainly contributed by final settlement for its Uttar Pradesh project in India, and ramping up of work pace at its Sunway Carnival Mall Extension and Sunway Medical Centre Seberang Jaya projects. Blended construction EBIT margin was down QoQ (-1.9ppts) due to a MYR7.4m impairment for receivables during the quarter (4Q19: MYR5m impairment).
- Precast revenue improved significantly QoQ as all projects in SG were allowed to restart. On a YoY comparison, precast revenue was still down as SG's Circuit Breaker and movement restrictions in foreign workers' dormitories affected work pace during early-4Q20. Precast EBIT margins improved QoQ/YoY due to better yielding projects.

FY20 results review

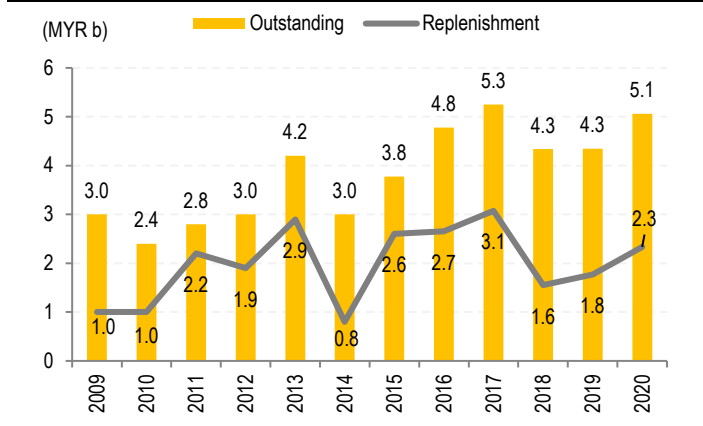
- Lower construction revenue and EBIT margins were due to >2.5 months of no activity (18 Mar to 31 May 2020) following MY's Movement Control Order.
- Lower precast revenue and EBIT were due to no activity for most of 2Q20 in SG and <50% in 3Q20.

Fig 2: Outstanding orderbook of MYR5.1b

As at 31 Dec 2020	Completion	Contract value (MYR m)	Outstanding (MYR m)
Infrastructure			
KVMRT 2, V201 (Sg Buloh-Persiaran Dagang)	Finalisation	1,213	7
LRT 3 : Package GS07-08	2Q22	1,295	573
Sentul West Station (MEP) #	4Q21	57	39
KVMRT 2, Chan Sow Lin underground station (MEP) @	4Q21	54	46
Tamil Nadu Highway (Thorapalil Agraharam-Jittandahalli, of NH-844) @	3Q23	508	508
Tamil Nadu Highway (Meensurutti-Chidambarm, of NH-227)	3Q23	315	315
Building			
Putrajaya Parcel F	Maintenance	1,610	18
PPA1M Project in Kota Bahru	2Q21	582	54
TNB HQ Campus #	2Q22	781	508
Petronas Learning Centre #	4Q21	305	211
Oxley Tower #	2Q22	68	58
IOI Mall (MEP) #	4Q21	68	34
Internal			
Sunway Medical Centre 4 (2 towers)	3Q22	450	293
Sunway Serene - Kelana Jaya Condo	2Q22	413	188
Sunway Carnival 2 Extension - PDP contract	4Q21	286	151
SunGeo Lake 44 storey residential tower	2Q21	223	19
SMC Seberang Jaya	4Q21	180	109
Sunway Velocity Two	4Q21	352	196
Sunway Velocity 3C4	2Q21	100	53
BigBox Hotel #	1Q21	100	32
Sunway South Key - Parcel CP2 (piling) #	2Q21	119	27
BKE (Seberang Jaya)	2Q21	4	4
Sunway International School @	4Q22	121	110
Sunway South Quay - Comm mixed devt @	3Q21	344	344
Service apartments at Jln Belfield @	1Q24	403	396
Sunway Resort Hotel & Spa renovation @	2Q21	81	58
Sunway Medical Centre 4 (VO) @	3Q22	162	162
Sunway Velocity Two - 2 blocks of service apartments @	3Q23	253	251
Renewable energy - internal @	2021	6	6
Renewable energy - external @	4Q21	32	31
Precast			
Secured pre 2020	-	331	207
New order in 2020 @	-	51	52
Total		10,867	5,060

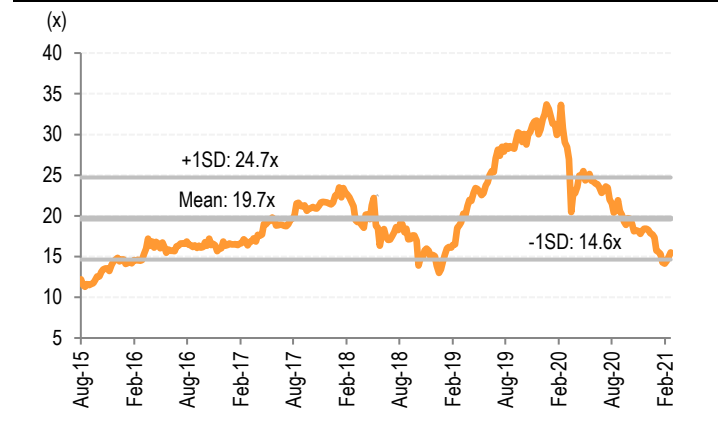
#Secured in 2019; @ Secured in 2020; Source: Company

Fig 3: Outstanding orderbook vs. replenishment



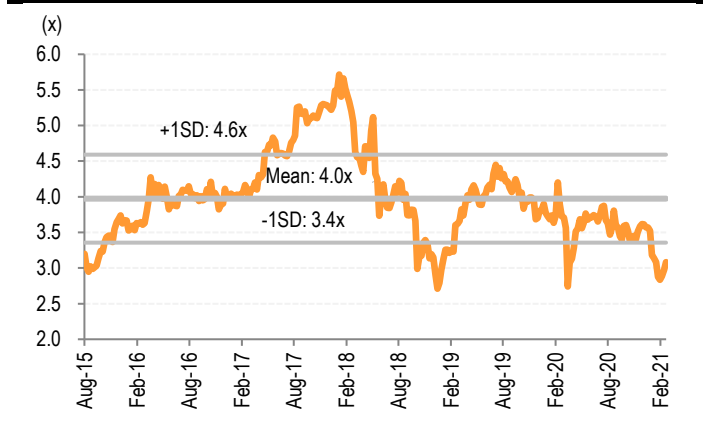
Note: Including precast, adjusted for revised value of LRT3 project; Source: Company data, Maybank KE

Fig 4: 12M forward PER



Source: Company data, Maybank KE

Fig 5: 12M forward P/B



Company data, Maybank KE

FYE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
Key Metrics					
P/E (reported) (x)	19.1	32.6	15.3	16.5	17.4
Core P/E (x)	19.1	33.3	15.3	16.5	17.4
P/BV (x)	4.0	3.8	3.1	2.9	2.8
P/NTA (x)	4.0	3.8	3.1	3.0	2.8
Net dividend yield (%)	3.7	2.1	4.2	4.2	4.2
FCF yield (%)	7.7	3.8	10.2	7.6	3.6
EV/EBITDA (x)	11.4	16.8	8.2	9.1	10.2
EV/EBIT (x)	14.6	23.1	9.4	11.3	13.5
INCOME STATEMENT (MYR m)					
Revenue	1,768.7	1,552.7	2,426.0	2,898.7	2,552.5
Gross profit	378.1	325.8	407.8	411.8	419.5
EBITDA	181.3	124.0	206.0	210.0	217.6
Depreciation	(40.3)	(33.4)	(25.9)	(40.1)	(52.8)
EBIT	141.0	90.5	180.1	169.9	164.8
Net interest income / (exp)	12.0	10.5	12.3	9.8	3.8
Associates & JV	4.4	0.1	0.0	0.0	0.0
Exceptionals	0.0	0.0	0.0	0.0	0.0
Pretax profit	157.4	101.1	192.3	179.6	168.7
Income tax	(27.1)	(27.8)	(52.8)	(49.8)	(45.8)
Minorities	(1.0)	(0.5)	0.0	0.0	0.0
Reported net profit	129.3	72.8	139.5	129.8	122.8
Core net profit	129.3	72.8	139.5	129.8	122.8
BALANCE SHEET (MYR m)					
Cash & Short Term Investments	692.6	640.1	747.5	780.6	767.7
Accounts receivable	970.4	1,048.3	1,255.6	1,446.0	1,312.9
Inventory	25.1	34.3	56.4	69.4	59.6
Property, Plant & Equip (net)	138.7	107.4	166.4	219.1	191.8
Intangible assets	3.6	0.0	0.0	0.0	0.0
Investment in Associates & JVs	48.4	48.9	48.9	48.9	48.9
Other assets	26.2	27.1	47.1	337.1	637.1
Total assets	1,905.0	1,906.1	2,321.9	2,901.1	3,018.1
ST interest bearing debt	233.4	233.7	233.7	233.7	233.7
Accounts payable	885.2	955.2	1,321.8	1,610.5	1,394.8
LT interest bearing debt	52.7	67.2	67.2	317.2	617.2
Other liabilities	109.0	11.0	11.0	12.0	12.0
Total Liabilities	1,279.9	1,267.5	1,634.0	2,173.7	2,258.0
Shareholders Equity	623.0	636.9	686.2	725.8	758.3
Minority Interest	2.2	1.7	1.7	1.7	1.7
Total shareholder equity	625.2	638.6	687.9	727.5	760.0
Total liabilities and equity	1,905.0	1,906.1	2,321.9	2,901.1	3,018.1
CASH FLOW (MYR m)					
Pretax profit	157.4	101.1	192.3	179.6	168.7
Depreciation & amortisation	40.3	33.4	25.9	40.1	52.8
Adj net interest (income)/exp	17.4	11.6	12.3	9.8	3.8
Change in working capital	32.7	(29.1)	137.2	85.2	(72.8)
Cash taxes paid	(38.4)	(28.8)	(52.8)	(49.8)	(45.8)
Other operating cash flow	(15.9)	5.0	(12.3)	(9.8)	(3.8)
Cash flow from operations	193.5	93.3	302.6	255.1	102.9
Capex	(4.7)	(1.9)	(84.9)	(92.8)	(25.5)
Free cash flow	188.8	91.4	217.7	162.4	77.4
Dividends paid	(90.4)	(61.2)	(90.3)	(90.3)	(90.3)
Change in Debt	167.9	12.0	0.0	250.0	300.0
Other invest/financing cash flow	(307.1)	87.2	(20.0)	(289.0)	(300.0)
Net cash flow	(40.7)	129.4	107.4	33.1	(12.9)

FYE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
Key Ratios					
Growth ratios (%)					
Revenue growth	(21.6)	(12.2)	56.3	19.5	(11.9)
EBITDA growth	(17.2)	(31.6)	66.1	2.0	3.6
EBIT growth	(19.5)	(35.8)	98.9	(5.7)	(3.0)
Pretax growth	(13.9)	(35.8)	90.2	(6.6)	(6.1)
Reported net profit growth	(10.5)	(43.7)	91.7	(6.9)	(5.4)
Core net profit growth	(10.5)	(43.7)	91.7	(6.9)	(5.4)
Profitability ratios (%)					
EBITDA margin	10.2	8.0	8.5	7.2	8.5
EBIT margin	8.0	5.8	7.4	5.9	6.5
Pretax profit margin	8.9	6.5	7.9	6.2	6.6
Payout ratio	69.9	70.9	64.7	69.5	73.5
DuPont analysis					
Net profit margin (%)	7.3	4.7	5.8	4.5	4.8
Revenue/Assets (x)	0.9	0.8	1.0	1.0	0.8
Assets/Equity (x)	3.1	3.0	3.4	4.0	4.0
ROAE (%)	21.3	11.6	21.1	18.4	16.6
ROAA (%)	7.0	3.8	6.6	5.0	4.2
Liquidity & Efficiency					
Cash conversion cycle	(28.5)	(27.3)	(24.1)	(35.4)	(48.2)
Days receivable outstanding	200.5	234.0	170.9	167.8	194.6
Days inventory outstanding	7.1	8.7	8.1	9.1	10.9
Days payables outstanding	236.2	270.0	203.1	212.2	253.6
Dividend cover (x)	1.4	1.4	1.5	1.4	1.4
Current ratio (x)	1.5	1.5	1.3	1.3	1.3
Leverage & Expense Analysis					
Asset/Liability (x)	1.5	1.5	1.4	1.3	1.3
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	10.9
Net gearing (%) (excl. perps)	net cash	net cash	net cash	net cash	10.9
Net interest cover (x)	na	na	na	na	na
Debt/EBITDA (x)	1.6	2.4	1.5	2.6	3.9
Capex/revenue (%)	0.3	0.1	3.5	3.2	1.0
Net debt/ (net cash)	(406.6)	(339.2)	(446.6)	(229.7)	83.2

Source: Company; Maybank

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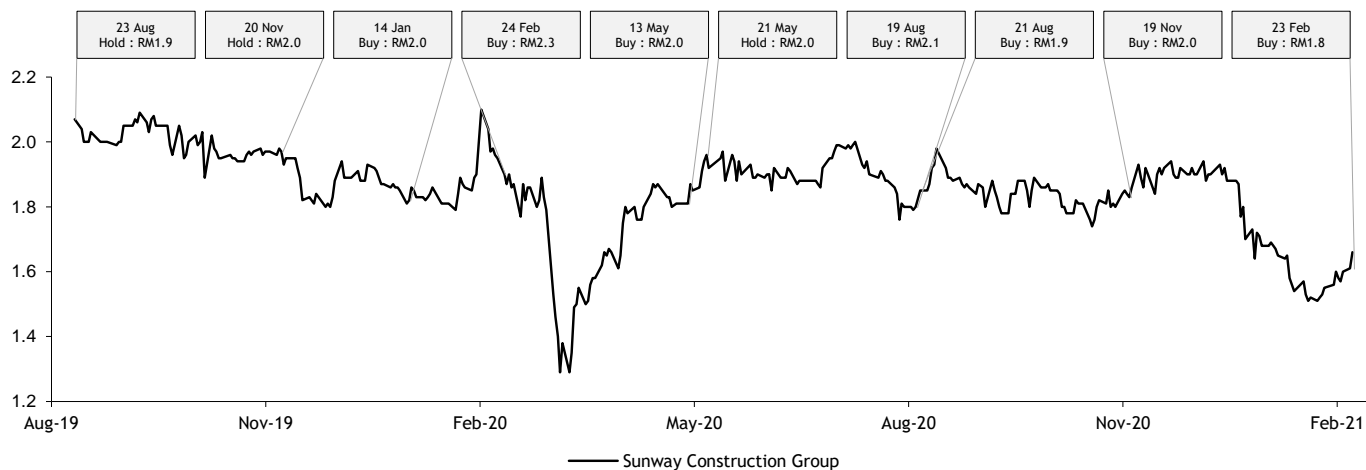
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