

Sunway Construction SCOG.KL SCGB MK

EQUITY: ENGINEERING & CONSTRUCTION

4Q20 reflects normalized works pace

1Q21 likely to be a short-term blip; Indian projects and select Malaysia jobs to drive replenishment

4Q20 results review; adjust earnings, but maintain Buy rating

- SunCon reported 4Q20 adjusted net income of MYR30mn, down 5% y-y. However, sequentially net income was up strongly (+26% q-q) as works went on at a normalized pace in Malaysia and Singapore after the lockdowns were relaxed. Cumulatively, FY20 adjusted net income of MYR73mn (-44% y-y) formed 93%/ 98% of our revised/consensus estimates for the full-year. Also, note that FY20 has one-off charges of ~MYR20mn due to impairment on trade receivables, without which net income would have been higher (we have not adjusted for it in our numbers).
- Due to the implementation of MCO 2.0 in mid-January in Malaysia, the Malaysian projects suffered a drop in works' progress to ~50% of normalized pace. With the revision in construction SOPs, currently the pace is at ~80% levels. As such, 1Q21F earnings are likely to fall q-q, before a recovery in 2Q, in our view.
- SunCon reported operating cash flows (OCF) of MYR 25mn in 4Q20 vs negative MYR55mn in 3Q20. The group has net cash position of MYR339mn as of end-2020. 2020 orderbook replenishment stands at ~MYR2.3bn (effective share ~MYR2bn). Management maintains an order book target of MYR2bn for FY21F. We believe this is based on its internal jobs target of MYR 700-800mn+, Malaysia civil works of MYR 500mn+, precast jobs of MYR 200-300mn+, amongst others.
- We cut our FY21F/22F earnings by 13%/ 2% due to MCO 2.0 in 2021F and change in orderbook replenishment mix. Orderbook replenishment targets for FY21F/ 22F are at MYR2bn each (vs MYR1.9bn/ MYR2bn earlier).

Maintain Buy rating and TP unchanged at MYR2.20, implying 33% upside

We reiterate our Buy rating on SunCon as: 1) it is likely to be a beneficiary of the positive news flows from select project awards in Malaysia (such as MRT3) and projects from the parentco, and also overseas job wins from India; 2) we believe SunCon is the best pure-play exposure within our coverage to the construction sector in Malaysia with strong earnings to cash flow conversion, net cash balance sheet, and high ROE (FY21F: 19%); and 3) we expect its precast business to grow again with the opening of a new precast plant in Singapore. We value SunCon at a FY22F P/E of 20x (premium valuation for asset light cash generative business) (current: 15.4x; FY22F EPS of 11sen), to arrive at our TP of MYR2.20 (unchanged).

Year-end 31 Dec	FY20	FY21F		FY22F		FY23F	
Currency (MYR)	Actual	Old	New	Old	New	Old	New
Revenue (mn)	1,553	2,034	1,883	1,934	1,633		1,838
Reported net profit (mn)	73	144	126	141	139		136
Normalised net profit (mn)	73	144	126	141	139		136
FD normalised EPS	5.65c	11.16c	9.74c	10.92c	10.75c		10.48c
FD norm. EPS growth (%)	-43.7	84.4	72.6	-2.1	10.3		-2.4
FD normalised P/E (x)	29.4	-	17.0	-	15.4	-	15.8
EV/EBITDA (x)	14.6	-	9.8	-	8.4	-	8.2
Price/book (x)	3.4	-	3.1	-	2.9	-	2.8
Dividend yield (%)	2.4	-	4.1	-	4.5	-	4.4
ROE (%)	11.6	21.8	19.1	19.7	19.7		18.1
Net debt/equity (%)	net cash	net cash	net cash	net cash	net cash		net cash

Source: Company data, Nomura estimates

Rating Remains	Buy
Target price Remains	MYR 2.20
Closing price 23 February 2021	MYR 1.66
Implied upside	+32.5%
Market Cap (USD mn)	531.0
ADT (USD mn)	0.3

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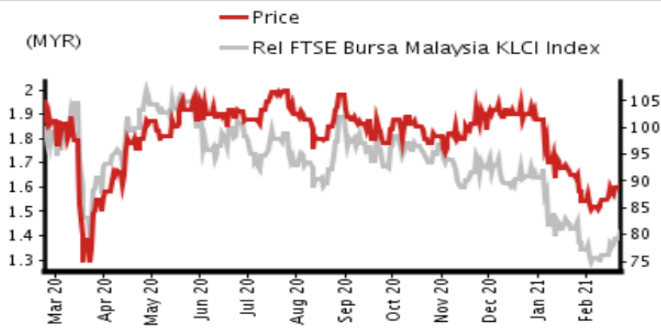
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Key Data on Sunway Construction

Relative Performance Chart



Source: Thomson Reuters, Nomura

Performance

(%)	1M	3M	12M		
Absolute (MYR)	0.6	-14.0	-14.9	M cap (USDm)	531.0
Absolute (USD)	0.6	-13.0	-11.8	Free float (%)	35.4
Rel to FTSE	2.3	-12.3	-17.4	3-mth ADT (USDm)	0.3
Bursa Malaysia KLCI Index					

Income statement (MYRmn)

Year-end 31 Dec	FY19	FY20	FY21F	FY22F	FY23F
Revenue	1,769	1,553	1,883	1,633	1,838
Cost of goods sold	-1,628	-1,462	-1,731	-1,463	-1,671
Gross profit	141	91	152	170	167
SG&A					
Employee share expense					
Operating profit	141	91	152	170	167
EBITDA	181	124	189	214	215
Depreciation	-40	-33	-37	-44	-48
Amortisation					
EBIT	141	91	152	170	167
Net interest expense	12	10	9	8	9
Associates & JCEs	4	0	0	0	0
Other income					
Earnings before tax	157	101	161	178	176
Income tax	-27	-28	-32	-36	-35
Net profit after tax	130	73	128	142	141
Minority interests	-1	-1	-3	-3	-5
Other items					
Preferred dividends					
Normalised NPAT	129	73	126	139	136
Extraordinary items	0	0	0	0	0
Reported NPAT	129	73	126	139	136
Dividends	-90	-52	-88	-97	-95
Transfer to reserves	39	21	38	42	41

Valuations and ratios

Reported P/E (x)	16.6	29.4	17.0	15.4	15.8
Normalised P/E (x)	16.6	29.4	17.0	15.4	15.8
FD normalised P/E (x)	16.6	29.4	17.0	15.4	15.8
Dividend yield (%)	4.2	2.4	4.1	4.5	4.4
Price/cashflow (x)	11.1	22.9	19.2	11.5	11.8
Price/book (x)	3.4	3.4	3.1	2.9	2.8
EV/EBITDA (x)	9.4	14.6	9.8	8.4	8.2
EV/EBIT (x)	12.0	20.0	12.2	10.6	10.6
Gross margin (%)	8.0	5.8	8.1	10.4	9.1
EBITDA margin (%)	10.2	8.0	10.0	13.1	11.7
EBIT margin (%)	8.0	5.8	8.1	10.4	9.1
Net margin (%)	7.3	4.7	6.7	8.5	7.4
Effective tax rate (%)	17.2	27.5	20.0	20.0	20.0
Dividend payout (%)	69.8	70.9	70.0	70.0	70.0
ROE (%)	21.3	11.6	19.1	19.7	18.1
ROA (pretax %)	11.7	7.3	10.9	11.8	11.7
Growth (%)					
Revenue	-21.6	-12.2	21.2	-13.2	12.5
EBITDA	-17.6	-31.6	52.2	13.4	0.6
Normalised EPS	-13.8	-43.7	72.6	10.3	-2.4
Normalised FDEPS	-13.8	-43.7	72.6	10.3	-2.4

Source: Company data, Nomura estimates

Cashflow statement (MYRmn)

Year-end 31 Dec	FY19	FY20	FY21F	FY22F	FY23F
EBITDA	181	124	189	214	215
Change in working capital	-24	-11	-53	0	-7
Other operating cashflow	36	-20	-23	-28	-26
Cashflow from operations	194	93	112	186	182
Capital expenditure	-8	-3	-70	-44	-48
Free cashflow	185	90	42	142	134
Reduction in investments	-4	-1	0	0	0
Net acquisitions					
Dec in other LT assets	1	-3	0	0	0
Inc in other LT liabilities	4	-101	0	0	0
Adjustments	2	110	0	0	0
CF after investing acts	188	95	42	142	134
Cash dividends	-91	-62	-80	-93	-96
Equity issue					
Debt issue	172	12	0	0	0
Convertible debt issue					
Others	-62	-97	0	0	0
CF from financial acts	19	-147	-79	-92	-96
Net cashflow	208	-53	-37	50	38
Beginning cash	485	693	640	603	653
Ending cash	693	640	603	653	690
Ending net debt	-407	-339	-302	-351	-389

Balance sheet (MYRmn)

As at 31 Dec	FY19	FY20	FY21F	FY22F	FY23F
Cash & equivalents	693	640	603	653	690
Marketable securities					
Accounts receivable	847	1,048	1,271	1,103	1,241
Inventories	25	34	41	34	39
Other current assets	145	20	20	20	20
Total current assets	1,710	1,742	1,934	1,809	1,990
LT investments	49	49	49	49	50
Fixed assets	139	107	140	140	140
Goodwill	4	0	0	0	0
Other intangible assets	0	0	0	0	0
Other LT assets	4	7	7	7	7
Total assets	1,905	1,906	2,131	2,006	2,187
Short-term debt	233	234	234	234	235
Accounts payable	868	955	1,131	956	1,092
Other current liabilities	18	6	6	6	6
Total current liabilities	1,120	1,195	1,371	1,196	1,332
Long-term debt	53	67	67	67	67
Convertible debt					
Other LT liabilities	107	6	6	6	6
Total liabilities	1,280	1,267	1,443	1,269	1,405
Minority interest	2	2	4	8	13
Preferred stock					
Common stock	259	259	259	259	259
Retained earnings	399	410	456	502	542
Proposed dividends					
Other equity and reserves	-34	-31	-31	-31	-31
Total shareholders' equity	623	637	683	730	769
Total equity & liabilities	1,905	1,906	2,131	2,006	2,187

Liquidity (x)

Current ratio	1.53	1.46	1.41	1.51	1.49
Interest cover	-	-	-	-	-

Leverage

Net debt/EBITDA (x)	net cash	net cash	net cash	net cash	net cash
Net debt/equity (%)	net cash	net cash	net cash	net cash	net cash

Per share

Reported EPS (MYR)	10.02c	5.65c	9.74c	10.75c	10.48c
Norm EPS (MYR)	10.02c	5.65c	9.74c	10.75c	10.48c
FD norm EPS (MYR)	10.02c	5.65c	9.74c	10.75c	10.48c
BVPS (MYR)	0.48	0.49	0.53	0.56	0.59
DPS (MYR)	0.07	0.04	0.07	0.08	0.07

Activity (days)

Days receivable	182.0	223.4	224.8	265.2	232.7
Days inventory	6.2	7.4	7.9	9.3	8.0
Days payable	195.3	228.2	219.9	260.3	223.6
Cash cycle	-7.1	2.6	12.8	14.3	17.1

Source: Company data, Nomura estimates

4Q20 results review

- 4Q20 recorded normalized pace of construction progress in both Malaysia and Singapore; hence, a recovery was seen in earnings. However, post the implementation of MCO 2.0 in mid-January in Malaysia, the Malaysian projects suffered a drop in works progress to ~50% of normalized pace. With the revision in construction SOPs, currently progress is at ~80% levels. As such, 1Q21F earnings are likely to fall q-q, before a recovery in 2Q21F.
- Steel prices had gone up in the beginning of the year to MYR 2,900/tonne, but have trended downward to MYR 2,600/tonne, easing the pressure on PBT margins.
- Management maintains its orderbook target of MYR 2bn for FY21F. We believe this is based on its internal jobs target of MYR 700-800mn+, Malaysia civil works of MYR 500mn+, precast jobs of MYR 200-300mn+, among others. We believe that given the fiscal constraints the Malaysian government faces, relying only on Malaysian mega-projects for orderbook replenishment is a risky strategy. As a result, we find contractors like SunCon have to commit to international diversification going forward. Tenders in India are currently on hold till SunCon completes the financial close of the two jobs awarded last year (the company estimates by mid-2021) and then SunCon will bid for more Indian jobs. As per management, there are several opportunities in the Indian infrastructure sector. Regarding Myanmar, management mentioned that it has no exposure at the moment. YTD 2021, SunCon has secured new orders worth MYR366mn.
- Singapore pre-cast plant is expected to commence production by mid-2022, and SunCon aims to build up orderbook this year itself for this new plant's capacity utilization.
- The impairment of trade receivables was for SunCon's job in Kota Bharu.
- Total orderbook replenishment for 2020 stands at ~MYR2.3bn (this excludes the reduction of MYR883mn in the LRT3 contract sum, also announced this year, *see our note*). Note that the effective YTD orderbook replenishment (taking into account the effective share of SunCon) is MYR2bn (*Fig. 4*).
- SunCon reported operating cash flows (OCF) of MYR 25mn in 4Q20 vs negative MYR 55mn in 3Q20. The group has net cash position of MYR339mn as of end-2020.
- **Construction:** Construction revenue for 4Q20 was MYR585mn, up 33% y-y. However, PBT was marginally down 2% y-y.
- **Precast:** Precast revenue for 4Q20 was MYR42mn (-7% y-y) and the division reported PBT of MYR4mn.

Fig. 1: SunCon – FY20 results snapshot

MYR mn	FY20	NMR FY20F	as % of NMR	Cons FY20F	as % of cons
Revenue	1,553	1,383	112%	1,522	102%
Adj PBT	101	97	104%	97	104%
Adj NPATAMI	73	78	93%	76	96%
Reported NPATAMI	73	78	93%	74	98%

Source: Company data, Bloomberg consensus, Nomura estimates

Fig. 2: SunCon – 4Q20 results review

MYR mn	4Q20	4Q19	% chg y-y	3Q20	% chg q-q	FY20	FY19	% chg y-y	FY20F	as % of FY20F
Revenues	627	486	29%	419	50%	1,553	1,769	(12%)	1,383	112%
Construction	585	440	33%	403	45%	1,455	1,619	(10%)	1,297	112%
Precast concrete	42	45	(7%)	16	164%	97	150	(35%)	87	112%
Operating profit	39	31	26%	33	18%	91	141	(36%)	89	101%
Construction	35	27	29%	32	10%	87	135	(36%)		
Precast concrete	4	4	4%	1	210%	3	6	(42%)		
Adjusted Pretax profit	42	41	3%	36	16%	101	157	(36%)	97	104%
Construction	37	38	(2%)	35	7%	98	155	(36%)	98	100%
Precast concrete	4	2	76%	1	257%	3	3	(1%)	(1)	(315%)
Core PAT	30	33	(8%)	24	24%	73	130	(44%)	79	93%
Core PAT - equityholders	30	32	(5%)	24	26%	73	129	(44%)	78	93%
Other one-off charges	0	0	NM	0	NM	0	0	NM	0	NM
Headline NPAT - equityholders	30	32	(5%)	24	26%	73	129	(44%)	78	93%
Adj Pretax margins	7%	8%	-2 ppt	9%	-2 ppt	7%	9%		7%	
Construction	6%	9%	-2 ppt	9%	-2 ppt	7%	10%		8%	
Precast concrete	10%	5%	5 ppt	8%	3 ppt	3%	2%		(1%)	

Source: Company data, Nomura estimates

Fig. 3: SunCon's outstanding orderbook

end-Dec'20

MYR mn	Contract Sum		Outstanding order book	
Infrastructure/Piling				
MRT V201 + S201 (Sg Buloh-Persiaran Dagang)		1,213		7
LRT3: Package GS07-08	2,178	1,295	1,589	573
Sentual West Station		57		39
Chan Sow Lin KVMRT UG St (MEP)		54		46
Building				
Putrajaya Parcel F		1,610		18
PPA1M project in Kota Bharu		582		54
TNB HQ Campus		781		508
Petronas Leadership Center		305		211
Oxley Tower		68		58
IOI Mall		68		34
Renewable energy		32		31
India				
Thorapalli Agraharam - Jittandahalli		508		508
Meensurutti - Chidambarm 32km		315		315
Internal				
Sunway Medical Centre Phase 4		450		293
Sunway Serene - Serviced Residences		413		188
Velo 2		352		196
3C4		100		53
Sunway GEOLake		223		19
Carnival Mall Ext		286		151
SMC Seberang Jaya		180		109
Big Box Hotel		100		32
Parcel CP2		119		27
SIS		121		110
CP2		344		344
Belfield residential condo		403		396
Sunway Velocity TWO		253		251
Sunway resort hotel & Spa renovation		81		58
Sunway Medical Phase 4 (add VO)		162		162
Renewable energy		6		6
Singapore				
Precast		331		207
Precast - New order 2020		51		52
Total		10,865		5,059
Orderbook burn rate (FY20, including internal)				2,057
Implied earnings visibility (years)				2.5

Source: Company data, Nomura research

Fig. 4: SunCon: 2020 contract wins

Project	Duration	Contract Sum (MYR mn)	Effective Contract Sum (MYR mn)
Thorapalli Agraharam - Jittandahalli	24 months	508	305
Bukit Batok Primary School	various	1	1
Rooftop solar projects	<6months	4	4
Chan Sow Lin KVMRT UG St (MEP)	12 months	54	54
Sunway Intl School	30 months	121	121
Ang Mo Kio N6C34	24 months	37	37
CP2	40 months	344	344
Belfield residential condo	45 months	403	403
Sunway resort hotel & Spa renovation	13 months	81	81
Sunway Medical Phase 4 (add VO)	22 months	162	162
Sunway Velocity TWO	34 months	253	253
Rooftop solar projects	<6months	7	7
Meensurutti - Chidambarm 32km	24 months	315	189
Rooftop solar	12 months	18	18
USM Rooftop Solar	12 months	8	8
Toa Payoh NC430	various	3	3
Toa Payoh N1C26	various	11	11
BKE Flyover & Pedestrian Bridge	3 months	4	4
Total		2,334	2,005

Source: Company data, Nomura research

Fig. 5: SunCon – changes to estimates

MYR mn	Old		New		% change	
	FY21F	FY22F	FY21F	FY22F	FY21F	FY22F
Orderbook replenishment	1,900	2,000	2,000	2,000	5%	0%
External	1,200	1,200	800	1,000	(33%)	(17%)
Internal	500	500	1,000	700	100%	40%
Precast	200	300	200	300	0%	0%
Revenue	2,034	1,934	1,883	1,633	(7%)	(16%)
Adj PBT	181	177	161	178	(11%)	1%
PBT margins	8.9%	9.1%	8.5%	10.9%	(0.3 ppt)	1.8 ppt
Adj NPAT	144	141	126	139	(13%)	(2%)

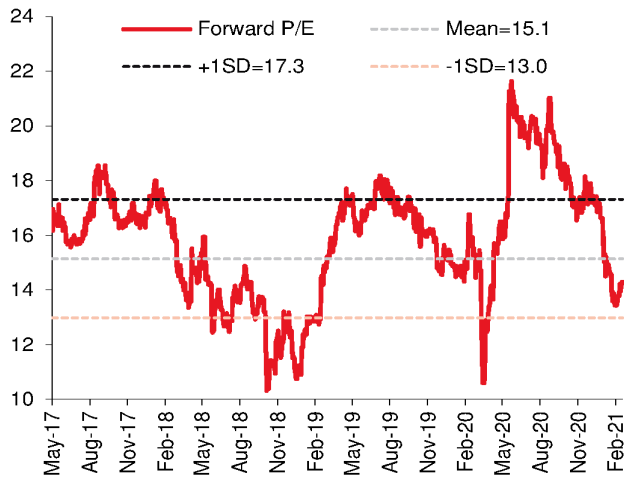
Source: Nomura estimates

Fig. 6: SunCon – Target price valuation methodology

	FY22F
Normalised net profit (MYR mn)	139
FD number of shares outstanding (mn)	1,289
FD EPS (MYR/ sh)	0.11
Target FY22F P/E	20.0 x
Price target (MYR/ sh)	2.20

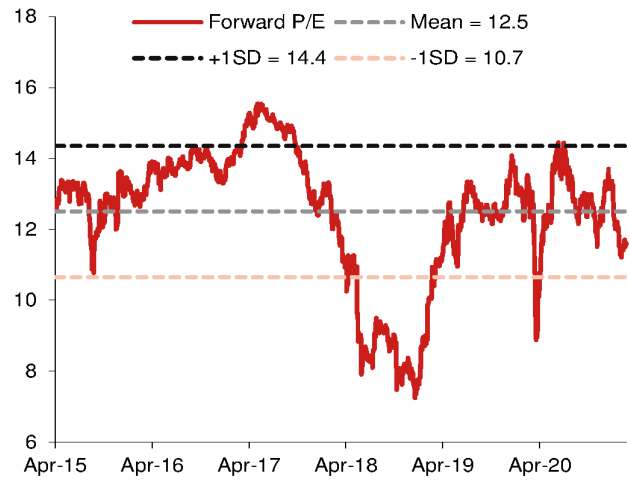
Source: Nomura estimates

Fig. 7: SunCon forward P/E (consensus)



Source: Bloomberg consensus, Nomura research

Fig. 8: KLCON 12M forward P/E - consensus



Source: Bloomberg consensus, Nomura research

Appendix A-1

Analyst Certification

I, Tushar Mohata, hereby certify (1) that the views expressed in this Research report accurately reflect my personal views about any or all of the subject securities or issuers referred to in this Research report, (2) no part of my compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this Research report and (3) no part of my compensation is tied to any specific investment banking transactions performed by Nomura Securities International, Inc., Nomura International plc or any other Nomura Group company.

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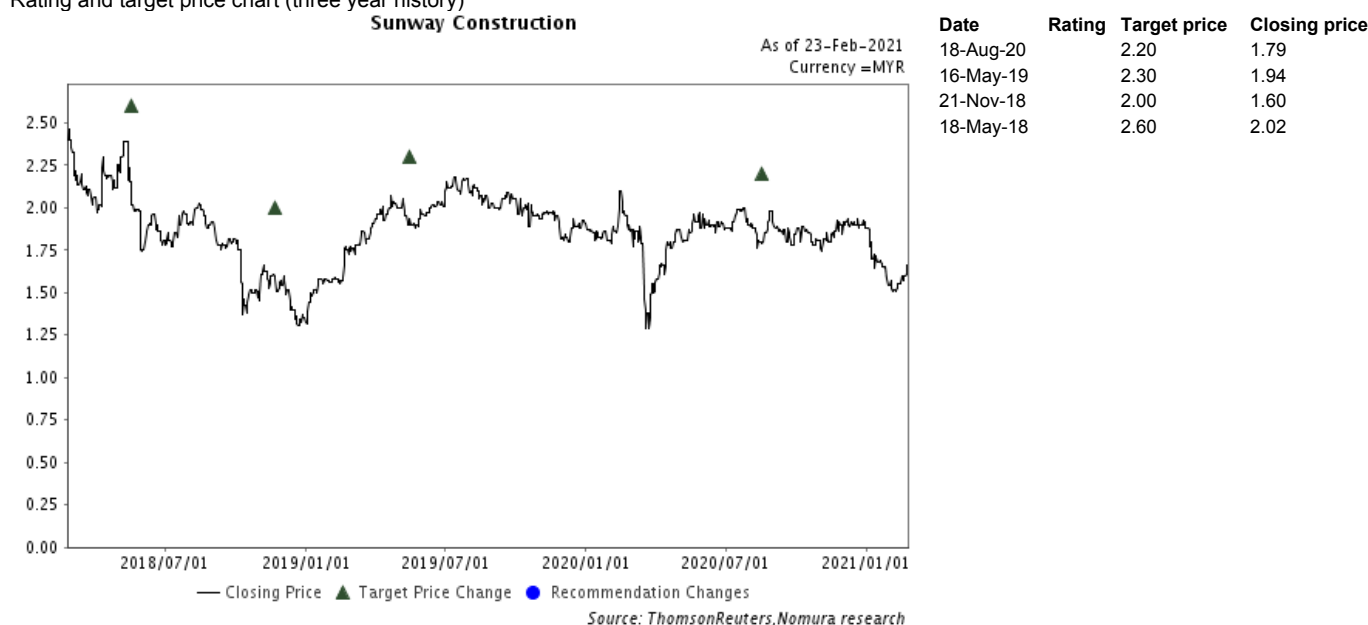
Materially mentioned issuers

Issuer	Ticker	Price	Price date	Stock rating	Sector rating	Disclosures
Sunway Construction	SCGB MK	MYR 1.66	23-Feb-2021	Buy	N/A	

Sunway Construction (SCGB MK)

MYR 1.66 (23-Feb-2021) Buy (Sector rating: N/A)

Rating and target price chart (three year history)



For explanation of ratings refer to the stock rating keys located after chart(s)

Valuation Methodology We value SunCon at a target P/E of 20x on FY22F earnings. Using net income of MYR139mn for FY22F and a target P/E of 20x, we arrive at our TP of MYR2.20. The benchmark index for the stock is FTSE Bursa Malaysia KLCI Index.

Risks that may impede the achievement of the target price Downside risks include: 1) delays in construction project awards; 2) lower-than-expected margins; 3) lower pre-cast earnings persisting; 4) a lack of new projects; 5) risk of project cancellation or arbitration.

Important Disclosures

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As at 31 December 2020.

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** As defined by the EU Market Abuse Regulation

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STOCKS

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SECTORS

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