

1 October 2020

Construction & Engineering | Construction

Sunway Construction (SCGB MK)

Buy (Maintained)

Strong, Formidable, Convincing Infra Contractor

Target Price (Return): MYR2.09 (+14%)
 Price: MYR1.84
 Market Cap: USD571m
 Avg Daily Turnover (MYR/USD) 0.97m/0.23m

- **Maintain BUY, MYR2.09 TP, 14% upside with c.2% FY20F yield.** As we believe the sector is moving into a new growth cycle, Sunway Construction is well-positioned to capture opportunities. Our optimism on earnings recovery – due to strength in work execution, aggressive tendering, and the steady flow of in-house jobs – supports our 18x FY21F P/E valuation. In our view, valuations remain attractive – the stock is trading at just 16x FY21F EPS (5-year mean). This counter is still our sector Top Pick.
- **Adding chunky MYR416m projects to new orders.** Sunway Construction announced two new job wins comprising works for the commercial development of Velocity Two, and construction of Sunway Medical Centre (Phase 4). Both jobs were awarded by related parties, namely Sunway Velocity Two and Sunway Medical Centre. In total, both contracts have a total effective value of MYR416m (after deducting MYR450m that was already recognised in the orderbook). After announcing about ten new contracts this year, the group is on course to meet its MYR2bn target – which is in line with our expectation. Note that about 68% of its MYR1.9bn new orders were awarded by related/internal parties, involving building jobs.
- **Outstanding orderbook at MYR5.7bn.** Positively, the unbilled amount still appears sizeable (higher than in 2018 and 2019), which lends longer earnings visibility to its construction division. We do not rule out the possibility of Sunway Construction announcing another job win this year – potentially derived from its tenders related to the precast division.
- **Interest in local rail projects remains.** Sunway Construction reiterated its interest to participate in local rail projects including the Kuala Lumpur-Singapore High-Speed Rail, Johor Singapore Rapid Train System, East Coast Rail Link and Mass Rapid Transit 3. Other potential new jobs include the construction of hospitals in Penang and Johor. It is also exploring options to participate in several transportation projects in Penang.
- **Still our top sector pick.** The company remains a beneficiary of local infrastructure jobs, evidenced by its previous experience participating in the MRT1, MRT2 and LRT3 projects. With its track record and balance sheet strength, Sunway Construction looks to have what it needs to emerge as a strong, convincing and formidable contender in the period leading up to project revival.
- **Key risks.** Downside risks include a failure to secure new contracts, a prolonged downturn in the retail and property markets, and a longer-than-expected delay in the rollout of mega infrastructure projects. We understand that the labour shortage is not an issue in West Malaysia, according to contractors. However, sudden restrictions on activities – possibly due to lockdown measures, if implemented – may present downside risks.

Analyst

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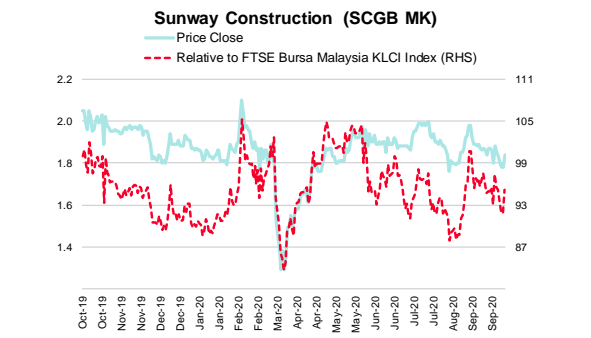


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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(3.7)	(7.1)	(1.6)	18.7	(10.3)
Relative	1.7	(5.7)	(2.2)	6.7	(5.2)
52-wk Price low/high (MYR)	1.29 – 2.10				



Source: Bloomberg

Forecasts and Valuation	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Total turnover (MYRm)	2,257	1,769	1,273	2,005	2,051
Recurring net profit (MYRm)	147	116	69	150	150
Recurring net profit growth (%)	11.6	(20.9)	(40.2)	116.4	(0.2)
Recurring P/E (x)	16.20	20.49	34.28	15.84	15.87
P/B (x)	4.0	3.8	3.6	3.2	2.9
P/CF (x)	12.35	10.05	na	24.18	11.72
Dividend Yield (%)	3.8	3.3	1.5	3.2	3.2
EV/EBITDA (x)	9.15	11.38	16.05	9.07	8.44
Return on average equity (%)	25.5	19.7	10.8	21.6	19.5
Net debt to equity (%)	net cash	net cash	net cash	net cash	net cash

Source: Company data, RHB

Note:

Small cap stocks are defined as companies with a market capitalization of less than USD1bn.

Financial Exhibits

Asia	Financial summary (MYR)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Malaysia	Recurring EPS	0.11	0.09	0.05	0.12	0.12
Construction & Engineering	DPS	0.07	0.06	0.03	0.06	0.06
Sunway Construction	BVPS	0.46	0.48	0.51	0.57	0.62
SCGB MK	Return on average equity (%)	25.5	19.7	10.8	21.6	19.5
Buy						
	Valuation metrics	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Recurring P/E (x)	16.20	20.49	34.28	15.84	15.87
	P/B (x)	4.0	3.8	3.6	3.2	2.9
	FCF Yield (%)	5.7	9.6	(1.4)	0.6	6.2
	Dividend Yield (%)	3.8	3.3	1.5	3.2	3.2
	EV/EBITDA (x)	9.15	11.38	16.05	9.07	8.44
	EV/EBIT (x)	11.11	15.14	24.47	11.48	11.04
	Income statement (MYRm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Total turnover	2,257	1,769	1,273	2,005	2,051
	Gross profit	447	121	222	399	397
	EBITDA	215	170	122	221	227
	Depreciation and amortisation	(38)	(42)	(42)	(46)	(53)
	Operating profit	177	128	80	175	174
	Net interest	8	12	7	6	6
	Pre-tax profit	183	148	87	189	189
	Taxation	(38)	(27)	(18)	(39)	(39)
	Reported net profit	145	120	69	150	150
	Recurring net profit	147	116	69	150	150
	Cash flow (MYRm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Change in working capital	(10)	86	(144)	(98)	(0)
	Cash flow from operations	193	237	(33)	98	203
	Capex	(56)	(8)	(1)	(85)	(55)
	Cash flow from investing activities	(74)	(51)	(1)	(85)	(55)
	Dividends paid	(97)	(91)	(35)	(75)	(75)
	Cash flow from financing activities	(118)	72	3	(67)	(67)
	Cash at beginning of period	487	485	693	662	608
	Net change in cash	0	257	(31)	(54)	81
	Ending balance cash	489	742	662	608	689
	Balance sheet (MYRm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Total cash and equivalents	485	693	682	629	709
	Tangible fixed assets	163	139	98	136	138
	Total investments	45	49	49	49	49
	Total assets	1,754	1,905	1,620	1,971	2,076
	Short-term debt	114	233	253	243	233
	Total long-term debt	0	62	62	62	62
	Total liabilities	1,162	1,280	960	1,236	1,266
	Total equity	593	625	660	735	810
	Total liabilities & equity	1,754	1,905	1,620	1,971	2,076
	Key metrics	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Revenue growth (%)	8.7	(21.6)	(28.0)	57.5	2.3
	Recurrent EPS growth (%)	11.6	(20.9)	(40.2)	116.4	(0.2)
	Gross margin (%)	19.8	6.8	17.5	19.9	19.4
	Operating EBITDA margin (%)	9.5	9.6	9.6	11.0	11.1
	Net profit margin (%)	6.4	6.8	5.5	7.5	7.3
	Capex/sales (%)	2.5	0.5	0.1	4.2	2.7
	Interest cover (x)	21.3	9.7	6.0	12.9	13.3

Source: Company data, RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2020-08-20	Buy	2.09	1.80
2020-08-13	Buy	2.14	1.81
2020-07-23	Neutral	2.14	1.99
2020-05-22	Neutral	1.86	1.92
2020-04-23	Neutral	1.72	1.76
2020-04-09	Neutral	1.51	1.67
2019-11-20	Neutral	1.95	1.97
2019-10-09	Neutral	2.03	1.95
2019-08-20	Neutral	2.09	2.05
2019-05-17	Neutral	2.12	1.90

Source: RHB, Bloomberg

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