

# Sunway Construction Group (SCGB MK)

## Secures new piling works

### Maintain HOLD

SCG's win of the two piling jobs with a combined value of e.MYR87m has brought its YTD 2019 job win to MYR868m. Its outstanding orderbook of e.MYR6.1b should continue to present near-term earnings visibility. We make no change to our earnings having already factored in for job wins. Our TP of MYR1.70, pegged to 14x FY19 PER (-1 SD), is also unchanged.

### Secures MYR87m of new piling jobs

SCG, through its wholly-owned subsidiary, Sunway Geotechnics (M) Sdn Bhd, was awarded the bored piles works for package GS10 of the KVLRT 3 by S.N Akmda Holdings Sdn Bhd with a contract sum of MYR48m. The project is expected to complete within 12 months in Mar 2020. Additionally, SCG has also secured another contract for piling and earthworks for a proposed Transit Oriented Development at Plot 7MD7 in Precinct 7, Putrajaya for a value of MYR39m. The construction period is for 16 months with completion by Jul 2020.

### YTD job win of MYR868m

Assuming a pretax profit margin of 10% for both the piling projects, we forecast a net profit contribution of MYR6.6m (0.51sen EPS) into FY20E. With YTD job wins already hitting MYR868m, we believe SCG's internal target of MYR1.5b for 2019 remains in check.

### No change to earnings

Our earnings forecasts are unchanged having already imputed MYR1.5b of construction job wins for FY19E. Other potential job wins could come from property projects within Sunway Group and a property/hospital project in Myanmar. Orderbook wildcard could stem from the Large Scale Solar 3 (LSS 3), government hospital projects and Subang Aerotech Park by Khazanah.

| FYE Dec (MYR m)              | FY17A    | FY18A    | FY19E    | FY20E    | FY21E    |
|------------------------------|----------|----------|----------|----------|----------|
| Revenue                      | 2,076    | 2,257    | 2,508    | 2,469    | 2,247    |
| EBITDA                       | 197      | 215      | 232      | 231      | 220      |
| Core net profit              | 132      | 145      | 153      | 151      | 144      |
| Core EPS (sen)               | 10.2     | 11.2     | 11.8     | 11.7     | 11.1     |
| Core EPS growth (%)          | 7.2      | 9.4      | 5.4      | (1.0)    | (4.6)    |
| Net DPS (sen)                | 7.0      | 7.0      | 4.1      | 4.1      | 3.9      |
| Core P/E (x)                 | 24.5     | 11.9     | 15.2     | 15.3     | 16.1     |
| P/BV (x)                     | 5.9      | 2.9      | 3.4      | 2.9      | 2.6      |
| Net dividend yield (%)       | 2.8      | 5.3      | 2.3      | 2.3      | 2.2      |
| ROAE (%)                     | 25.3     | 25.3     | 23.8     | 20.4     | 17.2     |
| ROAA (%)                     | 7.6      | 7.8      | 8.0      | 7.5      | 7.0      |
| EV/EBITDA (x)                | 14.7     | 6.3      | 8.3      | 8.0      | 8.0      |
| Net gearing (%) (incl perps) | net cash | net cash | net cash | net cash | net cash |
| Consensus net profit         | -        | -        | 152      | 151      | 160      |
| MKE vs. Consensus (%)        | -        | -        | 0.5      | 0.1      | (9.7)    |

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# HOLD

|                       |                |
|-----------------------|----------------|
| Share Price           | MYR 1.79       |
| 12m Price Target      | MYR 1.70 (-5%) |
| Previous Price Target | MYR 1.70       |

### Company Description

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

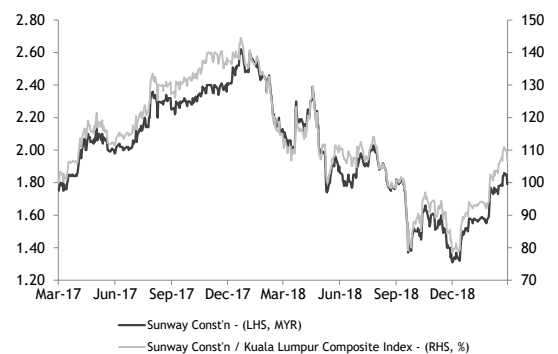
### Statistics

|                        |                    |
|------------------------|--------------------|
| 52w high/low (MYR)     | 2.39/1.31          |
| 3m avg turnover (USDm) | 0.4                |
| Free float (%)         | 26.1               |
| Issued shares (m)      | 1,293              |
| Market capitalisation  | MYR2.3B<br>USD569M |

### Major shareholders:

|                          |       |
|--------------------------|-------|
| Sunway Bhd.              | 54.4% |
| Active Equity Sdn. Bhd.  | 10.1% |
| Employees Provident Fund | 8.1%  |

### Price Performance



|                       | -1M | -3M | -12M |
|-----------------------|-----|-----|------|
| Absolute (%)          | 2   | 36  | (16) |
| Relative to index (%) | 4   | 33  | (8)  |

Source: FactSet

## Sunway Construction: Outstanding orderbook of MYR6.1b as of YTD-Mar 2019

| YTD-Mar 2019                                     | Contract value<br>(MYR m) | Outstanding<br>(MYR m) |
|--|---------------------------|------------------------|
| <b>Infrastructure</b>                            |                           |                        |
| KVMRT 2, V201 (Sg Buloh-Persiaran Dagang)        | 1,213                     | 459                    |
| LRT 3 : Package GS07-08                          | 2,178                     | 1,969                  |
| Others   | 87                        | 3                      |
| <b>Piling Works*</b>                             | <b>128</b>                | <b>99</b>              |
| <b>Building</b>                                  |                           |                        |
| Putrajaya Parcel F                               | 1,610                     | 170                    |
| PPA1M Project in Kota Bahru                      | 582                       | 180                    |
| Warehouse in Shah Alam                           | 70                        | 48                     |
| <b>GDC (Plant 2)*</b>                            | <b>14</b>                 | <b>14</b>              |
| Others   | 487                       | 21                     |
| <b>Internal</b>                                  |                           |                        |
| Sunway Velocity Medical Centre                   | 185                       | 32                     |
| Sunway Medical Centre 4 (2 towers)               | 512                       | 439                    |
| Sunway Iskandar - Emerald Residences             | 175                       | 15                     |
| Sunway Iskandar - Retail Complex                 | 170                       | 74                     |
| Sunway Property - Kelana Jaya Condo              | 449                       | 339                    |
| Sunway Carnival 2 Extension - PDP contract *     | 286                       | 256                    |
| SunGeo Lake 44 storey residential tower *        | 223                       | 177                    |
| SMC Seberang Jaya*                               | 180                       | 167                    |
| Velocity Ecodeck*                                | 11                        | 10                     |
| M&E Works*                                       | 30                        | 11                     |
| Sunway Velocity Two*                             | 352                       | 352                    |
| Sunway Velocity 3C4*                             | 100                       | 99                     |
| <b>Precast</b>                                   | <b>331</b>                | <b>53</b>              |
| <b>Precast new-order 2018*</b>                   | <b>229</b>                | <b>233</b>             |
| TNB HQ Campus <sup>#</sup>                       | 781                       | 781                    |
| KVLRT 3 Piling Works (Package GS10) <sup>#</sup> | 48                        | 48                     |
| Putrajaya Piling Works <sup>#</sup>              | 39                        | 39                     |
| <b>Total</b>                                     | <b>10,469</b>             | <b>6,087</b>           |

\*Secured in 2018; <sup>#</sup>Secured in 2019

Source: Company

## Risk statement

There are several risk factors for our earnings estimates, price target and rating for SCG. Slower-than-expected work progress at major construction projects may affect timing of earnings recognition. The review of major infrastructure projects by the new government could also delay implementation of new projects affecting future orderbook replenishment. At the precast segment, any significant increase in steel prices and stiffer competition could also affect project margins.

| FYE 31 Dec                          | FY17A          | FY18A          | FY19E          | FY20E          | FY21E          |
|-------------------------------------|----------------|----------------|----------------|----------------|----------------|
| <b>Key Metrics</b>                  |                |                |                |                |                |
| P/E (reported) (x)                  | 20.2           | 17.4           | 15.2           | 15.3           | 16.1           |
| Core P/E (x)                        | 24.5           | 11.9           | 15.2           | 15.3           | 16.1           |
| P/BV (x)                            | 5.9            | 2.9            | 3.4            | 2.9            | 2.6            |
| P/NTA (x)                           | 5.9            | 2.9            | 3.4            | 2.9            | 2.6            |
| Net dividend yield (%)              | 2.8            | 5.3            | 2.3            | 2.3            | 2.2            |
| FCF yield (%)                       | 0.4            | 7.8            | 3.2            | 5.6            | 5.5            |
| EV/EBITDA (x)                       | 14.7           | 6.3            | 8.3            | 8.0            | 8.0            |
| EV/EBIT (x)                         | 18.2           | 7.7            | 10.1           | 9.8            | 10.1           |
| <b>INCOME STATEMENT (MYR m)</b>     |                |                |                |                |                |
| Revenue                             | 2,076.3        | 2,256.8        | 2,508.0        | 2,469.0        | 2,246.9        |
| Gross profit                        | 428.6          | 444.9          | 450.2          | 435.7          | 435.6          |
| EBITDA                              | 196.9          | 214.6          | 232.1          | 230.8          | 220.0          |
| Depreciation                        | (37.8)         | (40.0)         | (40.9)         | (43.2)         | (44.8)         |
| EBIT                                | 159.1          | 174.6          | 191.2          | 187.6          | 175.2          |
| Net interest income / (exp)         | 7.4            | 7.7            | 8.7            | 9.4            | 12.1           |
| Associates & JV                     | 2.2            | 0.7            | 0.0            | 0.0            | 0.0            |
| Exceptionals                        | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            |
| Pretax profit                       | 168.7          | 183.1          | 199.8          | 197.0          | 187.3          |
| Income tax                          | (36.2)         | (38.0)         | (47.3)         | (46.0)         | (43.3)         |
| Minorities                          | (0.1)          | (0.3)          | 0.0            | 0.0            | 0.0            |
| Reported net profit                 | 132.3          | 144.7          | 152.6          | 151.0          | 144.0          |
| Core net profit                     | 132.3          | 144.7          | 152.6          | 151.0          | 144.0          |
| <b>BALANCE SHEET (MYR m)</b>        |                |                |                |                |                |
| Cash & Short Term Investments       | 487.2          | 484.9          | 504.9          | 581.9          | 659.8          |
| Accounts receivable                 | 1,195.3        | 1,059.5        | 1,192.3        | 1,194.2        | 1,109.3        |
| Inventory                           | 24.4           | 30.0           | 33.8           | 33.4           | 29.8           |
| Property, Plant & Equip (net)       | 149.8          | 163.7          | 172.9          | 179.1          | 179.2          |
| Intangible assets                   | 2.2            | 0.0            | 0.0            | 0.0            | 0.0            |
| Investment in Associates & JVs      | 0.0            | 44.7           | 44.7           | 44.7           | 44.7           |
| Other assets                        | 28.2           | 29.7           | 29.7           | 29.7           | 29.7           |
| <b>Total assets</b>                 | <b>1,887.2</b> | <b>1,812.5</b> | <b>1,978.4</b> | <b>2,063.0</b> | <b>2,052.6</b> |
| ST interest bearing debt            | 134.7          | 113.6          | 113.6          | 113.6          | 113.6          |
| Accounts payable                    | 1,185.1        | 994.8          | 1,061.6        | 1,048.1        | 944.0          |
| LT interest bearing debt            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            |
| Other liabilities                   | 13.0           | 111.0          | 111.0          | 111.0          | 111.0          |
| <b>Total Liabilities</b>            | <b>1,332.3</b> | <b>1,219.9</b> | <b>1,286.7</b> | <b>1,273.2</b> | <b>1,169.2</b> |
| Shareholders Equity                 | 553.7          | 591.1          | 690.2          | 788.4          | 882.0          |
| Minority Interest                   | 1.1            | 1.4            | 1.4            | 1.4            | 1.4            |
| <b>Total shareholder equity</b>     | <b>554.8</b>   | <b>592.5</b>   | <b>691.7</b>   | <b>789.8</b>   | <b>883.4</b>   |
| <b>Total liabilities and equity</b> | <b>1,887.2</b> | <b>1,812.5</b> | <b>1,978.4</b> | <b>2,063.0</b> | <b>2,052.6</b> |
| <b>CASH FLOW (MYR m)</b>            |                |                |                |                |                |
| Pretax profit                       | 168.7          | 183.1          | 199.8          | 197.0          | 187.3          |
| Depreciation & amortisation         | 37.8           | 40.0           | 40.9           | 43.2           | 44.8           |
| Adj net interest (income)/exp       | 7.4            | 7.7            | 8.7            | 9.4            | 12.1           |
| Change in working capital           | (112.0)        | (10.5)         | (69.8)         | (15.1)         | (15.5)         |
| Cash taxes paid                     | (37.1)         | (37.0)         | (47.3)         | (46.0)         | (43.3)         |
| Other operating cash flow           | (1.8)          | 5.7            | (8.7)          | (9.4)          | (12.1)         |
| Cash flow from operations           | 62.8           | 189.0          | 123.6          | 179.1          | 173.3          |
| Capex                               | (48.4)         | (54.8)         | (50.2)         | (49.4)         | (44.9)         |
| Free cash flow                      | 14.4           | 134.2          | 73.5           | 129.8          | 128.3          |
| Dividends paid                      | (71.1)         | (96.9)         | (53.4)         | (52.8)         | (50.4)         |
| Change in Debt                      | (1.9)          | (21.1)         | 0.0            | 0.0            | 0.0            |
| Other invest/financing cash flow    | 89.6           | (17.7)         | 0.0            | 0.0            | 0.0            |
| Net cash flow                       | 31.0           | (1.5)          | 20.1           | 76.9           | 77.9           |

| FYE 31 Dec                             | FY17A    | FY18A    | FY19E    | FY20E    | FY21E    |
|--|----------|----------|----------|----------|----------|
| <b>Key Ratios</b>                      |          |          |          |          |          |
| <b>Growth ratios (%)</b>               |          |          |          |          |          |
| Revenue growth                         | 16.1     | 8.7      | 11.1     | (1.6)    | (9.0)    |
| EBITDA growth                          | 4.6      | 9.0      | 8.2      | (0.5)    | (4.7)    |
| EBIT growth                            | 6.6      | 9.7      | 9.5      | (1.9)    | (6.6)    |
| Pretax growth                          | 9.7      | 8.5      | 9.2      | (1.4)    | (4.9)    |
| Reported net profit growth             | 7.1      | 9.4      | 5.4      | (1.0)    | (4.6)    |
| Core net profit growth                 | 7.1      | 9.4      | 5.4      | (1.0)    | (4.6)    |
| <b>Profitability ratios (%)</b>        |          |          |          |          |          |
| EBITDA margin                          | 9.5      | 9.5      | 9.3      | 9.4      | 9.8      |
| EBIT margin                            | 7.7      | 7.7      | 7.6      | 7.6      | 7.8      |
| Pretax profit margin                   | 8.1      | 8.1      | 8.0      | 8.0      | 8.3      |
| Payout ratio                           | 68.4     | 62.5     | 35.0     | 35.0     | 35.0     |
| <b>DuPont analysis</b>                 |          |          |          |          |          |
| Net profit margin (%)                  | 6.4      | 6.4      | 6.1      | 6.1      | 6.4      |
| Revenue/Assets (x)                     | 1.1      | 1.2      | 1.3      | 1.2      | 1.1      |
| Assets/Equity (x)                      | 3.4      | 3.1      | 2.9      | 2.6      | 2.3      |
| ROAE (%)                               | 25.3     | 25.3     | 23.8     | 20.4     | 17.2     |
| ROAA (%)                               | 7.6      | 7.8      | 8.0      | 7.5      | 7.0      |
| <b>Liquidity &amp; Efficiency</b>      |          |          |          |          |          |
| Cash conversion cycle                  | (43.5)   | (31.3)   | (12.7)   | (6.8)    | (7.1)    |
| Days receivable outstanding            | 185.0    | 179.8    | 161.6    | 174.0    | 184.5    |
| Days inventory outstanding             | 5.3      | 5.4      | 5.6      | 6.0      | 6.3      |
| Days payables outstanding              | 233.8    | 216.6    | 179.9    | 186.8    | 198.0    |
| Dividend cover (x)                     | 1.5      | 1.6      | 2.9      | 2.9      | 2.9      |
| Current ratio (x)                      | 1.3      | 1.4      | 1.5      | 1.6      | 1.7      |
| <b>Leverage &amp; Expense Analysis</b> |          |          |          |          |          |
| Asset/Liability (x)                    | 1.4      | 1.5      | 1.5      | 1.6      | 1.8      |
| 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)                        | 0.7      | 0.5      | 0.5      | 0.5      | 0.5      |
| Capex/revenue (%)                      | 2.3      | 2.4      | 2.0      | 2.0      | 2.0      |
| Net debt/ (net cash)                   | (352.6)  | (371.2)  | (391.3)  | (468.2)  | (546.2)  |

Source: Company; Maybank

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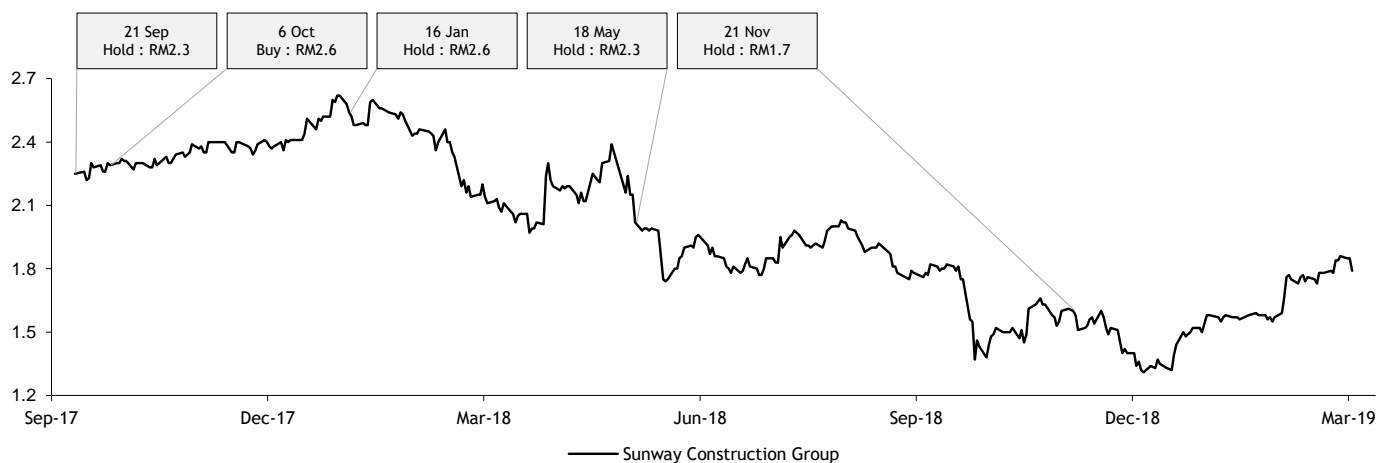
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