

22 May 2020

Sunway Construction Group

Washout 2020 but Watch for Record 2021

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1QFY20 disappointed due to slower-than-expected work progress on the back of running fixed costs during the MCO period. While we cut FY20E core net profit down 43% by deferring revenue recognition, we remain undeterred by the weak results and upgrade SUNCON to OUTPERFORM with a higher TP of RM2.45 as we anticipate an impending sector rerating once the government pivots their focus onto construction to lead an economic recovery.

Under-estimated the impact of MCO. 1QFY20 earnings of RM16.4m came in below at 13%/12% of our/consensus' estimate due to our overly aggressive billings assumption during the MCO period.

Dragged by operating leverage. With running fixed costs on the back of a sharp decrease in revenue of 25% QoQ and 17% YoY, 1QFY20 earnings decreased by 55% QoQ and 41% YoY.

Inching towards RM2b target. Along with its results, SUNCON announced a new contract worth RM121m from its parent SUNWAY to build an international school in Subang. With RM688m wins YTD, we are reassured that our/management's FY20E target replenishment of RM2b is intact, underpinned by its RM7.3b tender-book.

Slash FY20E earnings by 43% to RM70m after deferring revenue recognition for ongoing projects. We anticipate SUNCON to slip into losses in 2Q20 as the MCO period is slightly >2x 1Q20. In line with the revenue deferment, FY21E earnings is raised by 3% to **potentially record an all-time high** backed by an orderbook of RM5.4b.

Market to focus less on weak results and more on stimulus. With the number of daily Covid cases normalizing at low double digits, we believe the Malaysian government will gradually pivot their focus onto economic recovery measures. Accordingly, so will the market. We are convinced that construction will be a key lever for the government to kick start the recovery through implementing mega projects and SUNCON would be a direct beneficiary given their robust track record.

We believe an apt time to anticipate a rally in the construction space would be from late August - November 2020 when the worst results season (ie 2QCY20 results season) for contractors would then be flushed out; while the anticipation of mega projects for budget 2021 intensifies. That said, we still advocate dollar cost averaging as it is never easy to 'time' the market.

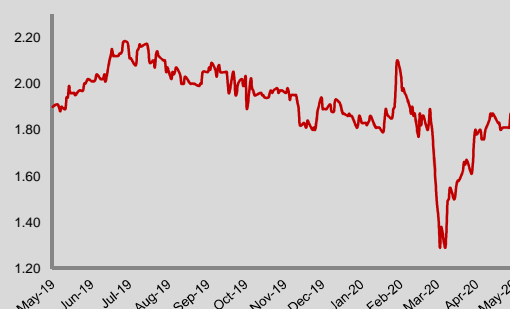
Look past 2020 and bet on 2021. With construction works resuming and earnings visibility reverting to normalcy beginning May, we switch our valuation method back to SoP (from PBV) and roll valuation base year forward to FY21. Coupled with our expectations that market interest will gradually gravitate towards the construction sector from now till Budget 2021, we **upgrade SUNCON to OUTPERFORM with a higher TP of RM2.45** (from RM1.80; MP). Our SoP-based TP is derived from a construction PE of 18x (+1SD from its 5-year mean).

Risks include: Snap GE due to a successful vote of no confidence by Tun Mahathir in July 2020, and a resurgence of Covid cases.

OUTPERFORM ↑

Price : **RM1.96**
Target Price : **RM2.45** ↑

Share Price Performance



KLCI	1,452.11
YTD KLCI chg	-8.6%
YTD stock price chg	2.6%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	SCGB MK EQUITY
Market Cap (RM m)	2,527.1
Shares Outstanding	1,289.4
52-week range (H)	2.20
52-week range (L)	1.25
3-mth avg daily vol:	852,510
Free Float	20%
Beta	1.3

Major Shareholders

Sunway Holdings Sdn Bhd	54.6%
Sungei Way Corp Sdn Bhd	10.1%
Employees Provident Fund Board	8.7%

Summary Earnings Table

FYE Dec (RM m)	2019A	2020E	2021E
Turnover	1769	1430	2384
EBIT	143	77	195
PBT	157	89	204
Net Profit	129	70	160
Core PATAMI	131	70	160
Consensus (NP)	n.a.	137	156
Earnings Revision	n.a.	-43%	+3%
Core EPS (sen)	10	5	12
Core EPS growth (%)	-5%	-46%	128%
NDPS (sen)	7.0	2.5	7.0
NTA per Share (RM)	0.53	0.56	0.62
Price to NTA (x)	3.7	3.5	3.2
PER (x)	19.3	36.1	15.8
Debt-to-Equity ratio (x)	-0.8	-0.6	-0.4
Return on Equity (%)	19	10	20
Net Div. Yield (%)	3.6	1.3	3.6

22 May 2020

Results Highlight					
FYE Dec (RM'm)	1Q20	4Q19	QoQ	1Q19	YoY
Turnover	365.8	485.9	-25%	440.0	-17%
EBIT (adjusted for EI)	18.7	35.5	-47%	35.1	-47%
Interest income	5.2	8.7	-39%	4.2	24%
Interest expense	-2.7	-3.4	-20%	-2.3	18%
Associates	0.0	4.4	-100%	0.0	n.a.
Exceptional items	0.0	-4.7	-100%	3.1	-100%
PBT	21.2	40.5	-48%	40.1	-47%
Tax	-4.3	-7.8	-45%	-8.5	-49%
Minority interest	0.6	1.1	-47%	0.6	-9%
PATAMI	16.4	31.6	-48%	31.0	-47%
Normalised net profit	16.4	36.3	-55%	27.9	-41%
Net DPS (sen)	0.0	3.5		0.0	
Margins					
EBIT	5.1%	7.3%		8.0%	
PBT	5.8%	8.3%		9.1%	
PATAMI	4.5%	6.5%		7.0%	
Normalised net profit	4.5%	7.5%		6.3%	

Source: Company, Kenanga Research

Segmental Breakdown					
FYE Dec (RM'm)	1Q20	4Q19	QoQ	1Q19	YoY
Revenue					
Construction	329.6	440.5	-25%	407.0	-19%
Precast concrete	36.3	45.4	-20%	33.0	10%
Total	365.8	485.9	-25%	440.0	-17%
EBIT					
Construction	17.3	27.0	-36%	37.9	-54%
Precast concrete	1.4	3.9	-64%	0.3	330%
Total	18.7	30.8	-39%	38.2	-51%
Pretax profit					
Construction	20.4	38.1	-46%	40.1	-49%
Precast concrete	0.8	2.4	-68%	0.1	1155%
Total	21.2	40.5	-48%	40.1	-47%
Net profit					
Construction	16.0	28.0	-43%	31.1	-49%
Precast concrete	0.4	3.7	-90%	-0.1	654%
Total	16.4	31.6	-48%	31.0	-47%
PAT Margins					
Construction	4.8%	6.3%		7.6%	
Precast	1.0%	8.1%		-0.2%	
Total	4.5%	6.5%		7.0%	

Source: Company, Kenanga Research

Sum of Parts Target Price		
Items	Value (RM m)	Remarks
Construction	2,651	Apply 18x FY21F PE
Precast concrete	127	Apply 10x FY21F PE
Business equity value	2,778	
Net cash/(debt) as of 1Q20	360	
Equity value	3,138	
No. of shares (m)	1,293	
Equity value per share (RM)	2.45	

Source: Kenanga Research

22 May 2020

Peer Comparison

Name	Last Price (RM)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)	Net Div Yld (%)	Target Price (RM)	Rating
					1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.			
STOCKS UNDER COVERAGE																	
GAMUDA BHD	3.80	9,551.4	Y	07/2020	33.5%	9.7%	-25.2%	-19.3%	11.7	15.6	19.3	1.2	1.1	7.3%	3.1%	3.18	MP
GEORGE KENT (MALAYSIA) BHD	0.715	378.5	Y	01/2020	-11.2%	34.0%	30.0%	27.4%	9.6	7.4	5.8	0.8	0.7	10.5%	3.5%	0.510	UP
HOCK SENG LEE BERHAD	1.11	610.0	Y	12/2020	21.8%	16.2%	18.2%	21.5%	11.1	9.4	7.7	0.8	0.7	8.1%	2.2%	1.37	OP
IJM CORP BHD	1.92	6,968.5	Y	03/2020	4.9%	8.6%	-32.6%	13.9%	16.7	24.7	21.7	0.7	0.7	2.8%	1.6%	1.85	OP
KERJAYA PROSPEK GROUP BHD	1.00	1,227.6	Y	12/2020	33.7%	18.8%	12.6%	20.6%	8.2	7.3	6.1	1.3	1.1	16.4%	3.3%	1.10	OP
KIMLUN CORP BHD	0.725	246.4	Y	12/2020	-9.3%	-1.5%	11.5%	-4.0%	4.0	3.6	3.8	0.4	0.3	9.7%	6.5%	1.25	OP
MITRAJAYA HOLDINGS BHD	0.220	186.8	Y	12/2020	-4.8%	-52.3%	-316.7%	-176.9%	N.A.	N.A.	N.A.	0.3	0.3	-14.0%	N.A.	0.080	UP
MUHIBBAH ENGINEERING (M) BHD	0.950	459.3	Y	12/2020	2.3%	9.3%	157.7%	7.4%	9.0	3.5	3.3	0.4	0.4	11.2%	5.9%	1.41	OP
SUNWAY CONSTRUCTION GROUP BHD	1.96	2,527.1	Y	12/2020	-19.2%	66.7%	-46.5%	128.2%	19.7	20.7	16.3	4.1	3.8	10.9%	1.3%	2.45	OP
WCT HOLDINGS BHD	0.580	809.6	Y	12/2020	0.8%	-0.2%	-29.6%	4.5%	6.5	9.3	8.9	0.3	0.2	2.7%	N.A.	0.470	OP
Simple Average					5.3%	10.9%	-22.1%	2.3%	10.7	11.3	10.3	1.0	0.9	6.6%	3.4%		

Source: Bloomberg, Kenanga Research

22 May 2020

Stock Ratings are defined as follows:**Stock Recommendations**

OUTPERFORM	: A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM	: A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM	: A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT	: A particular sector's Expected Total Return is MORE than 10%
NEUTRAL	: A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT	: A particular sector's Expected Total Return is LESS than -5%

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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