19 August 2020

Outthink. Outperform.

AFFIN HWANG CAPITAL

Results Note | **RM1.79@ 18 August 2020**

"Results below our expectations but expect better 2H20"

Share price performance

	1M	3M	12M
Absolute (%)	-10.1	-3.8	-13.5
Rel KLCI (%)	-9.0	-14.0	-12.4

	BUY	HOLD	SELL
Consensus	8	3	3

Source: Bloomberg

Stock Data

Sector	Construction
Issued shares (m)	1,289
Mkt cap (RMm)/(US$m)	2,308/552
Avg daily vol - 6mth (m)	0.7
52-wk range (RM)	1.25-2.10
Est free float	19.3%
Stock Beta	1.1
Net cash / (debt) (RMm)	387.2
ROE (2020E)	11.2%
Derivatives	Yes
Shariah Compliant	Yes

Key Shareholders

Sunway Bhd	64.7%
EPF	9.1%
ASN	5.9%

Source: Affin, Bloomberg

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Sunway Construction (SCGB MK)

BUY (maintain)
Up/Downside: +21%

Price Target: RM2.16
Previous Target (Rating): RM2.16 (BUY)

Weak 1H20 results but expect better 2H20

- **Net profit plunged 87% yoy and 93% qoq to RM2.2m in 2Q20 due to the full impact of the government's Movement Control Order (MCO).**
- **SunCon secured 2 building contracts from parent Sunway worth RM866m today, increasing total YTD new contract wins to RM1.47bn.**
- **We expect revenue and earnings to see a strong rebound in 2H20 as progress billings accelerate. SunCon remains a top sector BUY with RM2.16 target price (TP), based on 10% discount to RNAV.**

Below expectations

SunCon's 6M20 results were below market and our expectations. Net profit of RM18.5m (-71% yoy) in 6M20 only comprises 21% of the street's 2020 forecast of RM88m and 24% of our previous estimate of RM76m. SunCon had to stop all construction activities in Malaysia from 18 March 2020 to 9 June 2020 due to the MCO. As a result, revenue plunged 43% yoy to RM506m in 6M20. Most of the revenue of RM140m recognised in 2Q20 was due to the full resumption of construction activities in June after meeting the government Covid-19 prevention requirements including the testing of all workers before being allowed to resume works at sites. Pre-tax profit fell 65% yoy to RM27.3m in 6M20 with construction earnings contracting 68% yoy and the precast concrete division incurring a pre-tax loss of RM2.8m.

New contract win accelerates

SunCon secured RM725m of new contracts in 6M20 and another 2 new contracts from parent Sunway today. The company retained its new contract wins target of RM2bn in 2020 after achieving about RM1.47bn YTD. Active tenders outstanding is RM8.5bn with more than 50% of the tenders for overseas projects in India, Singapore and the Philippines. In addition, SunCon is vying for East Coast Rail Link piling jobs, Iskandar Bus Rapid Transit and more Sunway building contracts.

Mixed earnings revisions but remains a top sector BUY

We cut core EPS by 5% in 2020E to reflect lower precast concrete earnings, partly offset by higher construction earnings. We raise our new contract wins assumption to RM2bn p.a. in 2020-21E (RM1.0-1.2bn p.a. previously), lifting core EPS by 2-3% in 2020-21E. The positive impact is partially offset by lower precast concrete earnings due to profit margin compression on slow resumption of construction works in Singapore due to strict Covid-19 prevention requirements (about 50% capacity utilisation currently). SunCon remains one of our top sector BUYs due to good prospects to grow its order book. Based on 10% discount to unchanged RNAV, our TP remains at RM2.16. Key downside risk: slow award of new public-sector projects.

Earnings & Valuation Summary

FYE 31 December	2018	2019	2020E	2021E	2022E
Revenue (RMm)	2,256.7	1,768.7	1,453.4	2,226.2	2,726.6
EBITDA (RMm)	221.1	185.2	126.2	197.8	231.9
Pretax profit (RMm)	182.7	157.4	93.6	168.3	203.3
Net profit (RMm)	144.4	129.3	69.2	126.9	153.5
EPS (sen)	11.2	10.0	5.4	9.8	11.9
PER (x)	16.0	17.9	33.4	18.2	15.1
Core net profit (RMm)	150.4	133.2	73.0	126.9	153.5
Core EPS (sen)	11.6	10.3	5.7	9.8	11.9
Core EPS growth (%)	15.8	(11.3)	(45.2)	73.9	20.9
Core PER (x)	15.4	17.3	31.6	18.2	15.1
Net DPS (sen)	7.0	7.0	6.0	7.0	7.0
Dividend Yield (%)	3.9	3.9	3.4	3.9	3.9
EV/EBITDA	8.8	10.3	15.0	10.1	8.1
Chg in EPS (%)			(4.5)	3.1	2.0
Affin/Consensus (x)			0.8	0.9	1.0

Source: Company, Affin Hwang estimates

Fig 1: Results Comparison

FYE Dec (RMm)	2Q19	1Q20	2Q20	QoQ % chg	YoY % chg	6M19	6M20	YoY % chg	Comments
Revenue	**440.2**	**365.8**	**140.2**	***(61.7)***	***(68.2)***	**880.2**	**506.0**	***(42.5)***	6M20: Lower construction (-43% yoy) and precast (+41% yoy) revenue due to Covid-19 pandemic stop work orders in Malaysia and Singapore.
Op costs	(387.1)	(337.8)	(129.3)	*(61.7)*	*(66.6)*	(782.0)	(465.9)	*(40.4)*	
EBITDA	**53.1**	**28.0**	**10.9**	***(61.1)***	***(79.4)***	**98.2**	**40.1**	***(59.2)***	
EBITDA margin (%)	*12.1*	*7.7*	*7.8*	*0.1ppt*	*(4.3ppt)*	*11.2*	*7.9*	*(3.2ppt)*	Profit margin squeeze due to fall in revenue.
Depn and amort	(16.3)	(9.0)	(8.5)	*(5.6)*	*(47.8)*	(26.4)	(17.5)	*(33.5)*	
EBIT	**36.8**	**19.0**	**2.4**	***(87.4)***	***(93.5)***	**71.8**	**22.5**	***(68.6)***	
EBIT margin (%)	7.2	5.2	4.5	*(14.0)*	*(37.0)*	11.4	9.8	*(14.3)*	Lower net cash and returns following cuts in deposit rates.
Interest income	(3.6)	(2.7)	(2.3)	*(14.7)*	*(35.6)*	(5.9)	(5.0)	*(14.7)*	
Interest expense	0.0	0.0	0.1	*100.0*	*100.0*	0.0	0.1	*100.0*	
Associates	0.3	0.1	0.1	*(16.4)*	*(69.7)*	0.2	(0.0)	*NA*	
Forex gain (losses)	0.5	(0.5)	(2.4)	*439.1*	*(562.1)*	3.8	(3.8)	*NA*	
Exceptional items	**41.2**	**21.2**	**2.3**	***(89.0)***	***(94.3)***	**81.3**	**23.6**	***(71.0)***	Lower construction earnings (-68% yoy) due to slower progress billings and profit margin squeeze. Losses for precast concrete division.
Pretax profit	**40.3**	**21.6**	**4.7**	***(78.4)***	***(88.4)***	**77.3**	**27.3**	***(64.6)***	
Core pretax	(8.2)	(4.3)	(0.2)	*(95.0)*	*(97.4)*	(16.7)	(4.5)	*(72.9)*	
Tax	*20.0*	*20.3*	*9.4*	*(10.9ppt)*	*(10.5ppt)*	*20.6*	*19.3*	*(1.3ppt)*	
Tax rate (%)	0.2	(0.6)	0.1	*(112.1)*	*(68.1)*	(0.4)	(0.5)	*22.9*	
Net profit	**33.2**	**16.4**	**2.2**	***(86.6)***	***(93.4)***	**64.2**	**18.5**	***(71.1)***	Below expectations.
Core net profit	**32.3**	**16.7**	**4.5**	***(72.9)***	***(86.0)***	**60.2**	**22.3**	***(62.9)***	Below expectations. Exclude one-off items.

Source: Affin Hwang, Company

Fig 2: Segmental revenue breakdown

Segment	2Q19	1Q20	2Q20	% qoq	% yoy	6M19	6M20	% yoy
Construction	406.3	329.6	137.2	*(58.4)*	*(66.2)*	813.3	466.8	*(42.6)*
Precast concrete	33.9	36.3	3.0	*(91.8)*	*(91.2)*	66.9	39.3	*(41.3)*
Total	**440.2**	**365.8**	**140.2**	***(61.7)***	***(68.2)***	**880.2**	**506.0**	***(42.5)***

Source: Affin Hwang, Company

Fig 3: Segmental pre-tax profit breakdown

Segment	2Q19	1Q20	2Q20	% qoq	% yoy	6M19	6M20	% yoy
Construction	41.1	20.4	5.9	*(71.3)*	*(85.7)*	81.2	26.3	*(67.6)*
Precast concrete	0.1	0.8	(3.5)	*NA*	*NA*	0.1	(2.8)	*NA*
Total	**41.2**	**21.2**	**2.3**	***(89.0)***	***(94.3)***	**81.3**	**23.6**	***(71.0)***

Source: Affin Hwang, Company

Fig 4: Segmental pre-tax profit margin

FYE 31 Dec (%)	2Q19	1Q20	2Q20	ppt qoq	ppt yoy	6M19	6M20	ppt yoy
Construction	10.1	6.2	4.3	*(1.9ppt)*	*(3.6ppt)*	10.0	5.6	*(4.3ppt)*
Precast concrete	0.2	2.1	(118.1)	*NA*	*NA*	0.2	(7.0)	*NA*
Total	**9.4**	**5.8**	**1.7**	*(4.1ppt)*	*(3.3ppt)*	**9.2**	**4.7**	*(4.6ppt)*

Source: Affin Hwang, Company

Fig 5: RNAV and target price

Segments	Stake (%)	New RNAV (RMm)
Construction @ PER 16x sustainable earnings of RM140m	100	2,240
Pre-cast concrete @ PER 16x sustainable earnings of RM25m	100	400
Investment in Singapore IPPH JV @ book value	50	44
Net cash/(debt)		407
RNAV		**3,091**
No. of shares (m)		1,291
RNAV/share (RM)		**2.40**
Target price at 10% discount to RNAV/share		**2.16**

Source: Affin Hwang estimates

Important Disclosures and Disclaimer

Equity Rating Structure and Definitions

BUY	Total return is expected to exceed +10% over a 12-month period
HOLD	Total return is expected to be between -5% and +10% over a 12-month period
SELL	Total return is expected to be below -5% over a 12-month period
NOT RATED	Affin Hwang Investment Bank Berhad does not provide research coverage or rating for this company. Report is intended as information only and not as a recommendation

The total expected return is defined as the percentage upside/downside to our target price plus the net dividend yield over the next 12 months.

OVERWEIGHT	Industry, as defined by the analyst's coverage universe, is expected to outperform the KLCI benchmark over the next 12 months
NEUTRAL	Industry, as defined by the analyst's coverage universe, is expected to perform inline with the KLCI benchmark over the next 12 months
UNDERWEIGHT	Industry, as defined by the analyst's coverage universe is expected to under-perform the KLCI benchmark over the next 12 months

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