

## Sunway Construction Group (SCGB MK) : BUY

Mkt. Cap: US\$582m | 3m Avg. Daily Val: US\$0.33m

Last Traded Price ( 21 May 2020): RM1.96

Price Target 12-mth: RM2.30 (17% upside) (Prev RM2.30)

### Analyst

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### MCO dents profits but contract wins continue

- 1Q20 earnings missed expectations; expect weaker 2Q20 before a stronger pick-up in 2H20
- Secures Sunway International School project worth RM121m
- Cut FY20-22F earnings by 13-24%
- BUY rating with SOP-derived TP of RM2.30

#### Forecasts and Valuation

FY Dec (RMm)	2019A	2020F	2021F	2022F
Revenue	1,769	2,006	2,462	2,441
EBITDA	181	182	220	220
Pre-tax Profit	157	147	182	191
Net Profit	129	117	145	153
Net Pft (Pre Ex.)	129	117	145	153
Net Pft Gth (Pre-ex) (%)	(11.3)	(9.2)	23.9	5.0
EPS (sen)	10.0	9.08	11.2	11.8
EPS Pre Ex. (sen)	10.0	9.08	11.2	11.8
EPS Gth Pre Ex (%)	(11)	(9)	24	5
Diluted EPS (sen)	10.0	9.08	11.2	11.8
Net DPS (sen)	6.99	5.90	7.31	7.68
BV Per Share (sen)	48.2	51.4	55.3	59.4
PE (X)	19.6	21.6	17.4	16.6
PE Pre Ex. (X)	19.6	21.6	17.4	16.6
P/Cash Flow (X)	13.5	11.6	22.7	14.0
EV/EBITDA (X)	12.3	11.7	9.8	9.7
Net Div Yield (%)	3.6	3.0	3.7	3.9
P/Book Value (X)	4.1	3.8	3.5	3.3
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	21.3	18.2	21.1	20.6

Source of all data on this page: Company, AllianceDBS, Bloomberg Finance L.P.

### Company Guide



Summary of our point of view, and highlights the relevant data points, which are actively tracked

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### What's New

**Below expectations.** Sunway Construction Group Berhad (SCGB) reported a 1Q20 net profit of RM16m (-47% y-o-y, -48% q-o-q). This was on the back of a 17% y-o-y decline in 1Q20 revenue to RM366m. The results were below our forecast and consensus estimate due to impact of the movement control order (MCO) on its business which was more apparent than expected. We expect 2Q20 to be weaker sequentially before a stronger pick-up in 2H20.

**2-week impact from MCO.** Construction revenue for 1Q20 was lower by 19% y-o-y to RM330m. For the quarter, there was about a 2-week impact from the MCO that started on 18 March 2020. As such, 1Q20 construction pretax margin eased to 6.2% vs. 1Q19's 9.8%. Its outstanding construction orderbook as at 31 March 2020 stood at RM5.4bn.

**Precast division showed marginal improvement.** For 1Q20, its precast division was barely profitable with a pretax profit of RM0.8m vs. RM0.1m in 1Q20. The normalisation of profits in 2H20 may not materialise now given the impact of the circuit breaker in Singapore. 1Q20 revenue increased by 9% y-o-y to RM36m. The outstanding precast orderbook as at 31 March 2020 stood at RM285m.

### Outlook

**Secures contract win for Sunway International School.** SCGB announced that it has accepted the Letter of Award issued by Sunway Education Group Sdn Bhd for the proposed



## Flash Note

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development of Sunway International School for a total contract sum of RM121m. The project shall commence on 15 June 2020 and is scheduled for completion on 30 June 2022. This brings YTD contract wins to RM688m. There is no change to our FY20F RM2bn new order wins projection for now.

**Cutting earnings.** Although we had already accounted for some MCO impact on earnings in our last company update, we cut our FY20-22F earnings further by 13-24% to adopt a more conservative stance – factoring in potential bottlenecks and delays from testing while also toning down margins for both construction and precast segments (due to high operating leverage impact). SCGB remains confident that the force majeure clauses will be honoured for all its projects.

### Valuation and Recommendation

**BUY rating and TP of RM2.30 retained.** We maintain our BUY rating and keep our TP unchanged at RM2.30, as it is based on SOP. SCGB remains the least impacted construction stock under our coverage by Covid-19, given its net cash balance sheet of RM360m and pipeline of jobs from its parent company. Its tenderbook remains at a healthy level of RM7.3bn.

**Flash Note**
**Quarterly Income Statement (RMm)**

FY Dec	1Q2019	4Q2019	1Q2020	% chg yoy	% chg qoq
Revenue	440	486	366	(16.9)	(24.7)
Other Oper. (Exp)/Inc	(402)	(455)	(347)	(13.6)	(23.7)
<b>Operating Profit</b>	<b>38.2</b>	<b>30.8</b>	<b>18.7</b>	<b>(51.1)</b>	<b>(39.4)</b>
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	nm	nm
Associates & JV Inc	0.0	4.42	0.0	nm	nm
Net Interest (Exp)/Inc	1.93	5.26	2.54	31.5	(51.7)
Exceptional Gain/(Loss)	0.0	0.0	0.0	nm	nm
<b>Pre-tax Profit</b>	<b>40.1</b>	<b>40.5</b>	<b>21.2</b>	<b>(47.1)</b>	<b>(47.6)</b>
Tax	(8.5)	(7.8)	(4.3)	(49.2)	(44.7)
Minority Interest	(0.6)	(1.1)	(0.6)	8.6	(47.1)
<b>Net Profit</b>	<b>31.0</b>	<b>31.6</b>	<b>16.4</b>	<b>(47.3)</b>	<b>(48.3)</b>
Net profit bef Except.	31.0	31.6	16.4	(47.3)	(48.3)
EBITDA	38.2	35.3	18.7	(51.1)	(47.0)

**Margins (%)**

Opg Profit Margins	8.7	6.3	5.1
Net Profit Margins	7.0	6.5	4.5

Source of all data: Company, AllianceDBS

**Target Price & Ratings History**


S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	27 Jun 19	2.04	1.91	HOLD
2:	08 Jul 19	2.12	2.70	BUY
3:	25 Jul 19	2.17	2.70	BUY
4:	20 Aug 19	2.05	2.70	BUY
5:	15 Nov 19	1.97	2.70	BUY
6:	20 Nov 19	1.97	2.70	BUY
7:	21 Feb 20	1.95	2.60	BUY
8:	27 Mar 20	1.55	2.60	BUY
9:	01 Apr 20	1.56	2.30	BUY

Note: Share price and Target price are adjusted for corporate actions.

Source: AllianceDBS

Analyst: Tjen San CHONG

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**STRONG BUY** (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

**BUY** (>15% total return over the next 12 months for small caps, >10% for large caps)

**HOLD** (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

**FULLY VALUED** (negative total return, i.e., > -10% over the next 12 months)

**SELL** (negative total return of > -20% over the next 3 months, with identifiable share price catalysts within this time frame)

\*Share price appreciation + dividends

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