



Company report

SUNWAY CONSTRUCTION

(SCGB MK EQUITY, SCOG.KL)

19 Aug 2020

Weak 1HFY20, cushioned by RM747mil job wins

UNDERWEIGHT

(Maintained)

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Rationale for report: Company results

Price	RM1.79
Fair Value	RM1.42
52-week High/Low	RM2.10/RM1.25

Key Changes

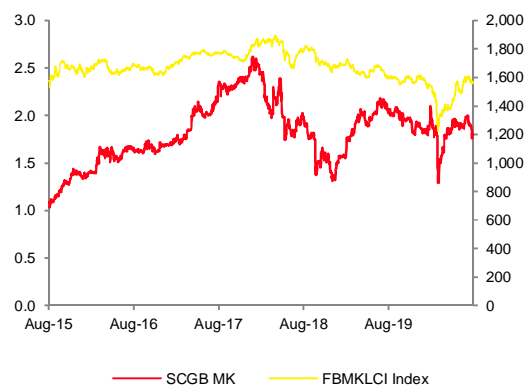
Fair value	↔
EPS	↔

YE to Dec	FY19	FY20F	FY21F	FY22F
Revenue (RM mil)	1,768.7	1,875.1	2,298.0	2,173.8
Core net profit (RM mil)	129.3	83.0	152.7	149.6
FD Core EPS (sen)	10.0	6.4	11.8	11.6
FD Core EPS growth (%)	(10.5)	(35.8)	83.9	(2.0)
Consensus Net Profit (RM mil)	-	88.0	148.2	150.8
DPS (sen)	7.0	2.5	7.0	7.0
PE (x)	17.9	27.9	15.2	15.5
EV/EBITDA (x)	10.5	13.2	8.0	7.9
Div yield (%)	3.9	1.4	3.9	3.9
ROE (%)	21.3	12.8	21.7	19.5
Net Gearing (%)	nm	nm	nm	nm

Stock and Financial Data

Shares Outstanding (million)	1,292.9
Market Cap (RM mil)	2,314.3
Book Value (RM/share)	0.48
P/BV (x)	3.7
ROE (%)	21.3
Net Gearing (%)	-
Major Shareholders	Sunway Bhd & Cheah family(65.1%) EPF(7.5%)
Free Float	27.4
Avg Daily Value (RM mil)	1.2

Price performance	3mth	6mth	12mth
Absolute (%)	(3.8)	(9.1)	(13.5)
Relative (%)	(14.0)	(11.5)	(12.4)



Investment Highlights

- We maintain our UNDERWEIGHT call, forecasts and fair value of RM1.42 based on 12x FY21F EPS, in line with our benchmark forward P/E of 12x for large and mid-cap construction stocks. However, we reduce FY20F dividend forecast to 2.5 sen (from 7 sen) in response to Sunway Construction's cut in its FY20F first interim dividend to 1.25 sen (from 3.5 sen a year ago).
- Sunway Construction's 1HFY20 net profit came in at only 22% and 21% of our full-year forecast and full-year consensus estimates respectively. However, we consider the results within expectations as we expect a stronger 2H with construction activities normalising to pre-pandemic levels. We understand that Sunway Construction has been able to adopt and adapt to the Covid-19 prevention standard operating procedure rather quickly and has been normalising its operations locally since June 2020.
- Its 1HFY20 net profit fell 71% YoY as construction activities came to a halt during the peak of the pandemic in Mar-May 2020 but Sunway Construction continued to incur certain fixed overheads (such as wages, staff welfare, depreciation, equipment rentals, headquarters expense, etc), severely hurting its bottom line.
- Meanwhile, Sunway Construction has secured building contracts worth a total of RM747mil from related companies comprising:
 - Additional works for a commercial development in Sunway South Quay (Parcel CP2), Bandar Sunway (RM344mil); and
 - Three residential towers in Sunway Belfield, KL (RM403mil).
- The latest job wins have boosted its YTD new construction jobs secured to RM1.4bil and outstanding construction order book to RM5.8bil (Exhibit 2). Meanwhile, its precast product unit has bagged RM38mil of new orders YTD, boosting its order backlog to RM320mil.
- We are keeping our assumptions on construction job wins of RM1.5bil and precast product order replenishment of RM200mil annually in FY20–22F (vs. RM1.6bil and RM160mil secured respectively in FY19). This is slightly more conservative as compared with Sunway Construction's guidance for RM2bil new jobs (construction and precast products combined) in FY20F.

- Given the still elevated national debt, we believe the government has very limited room for fiscal manoeuvre, which means that it is unlikely to roll out new public infrastructure projects in a major way over the short term, such as the MRT3 and the KL–Singapore high-speed rail.
- Already, S&P Global Ratings downgraded Malaysia’s outlook to negative from stable on 26 June 2020 to reflect a heightened risk of fiscal deterioration, weighed down by the economic impact of the Covid-19 pandemic, depressed oil prices and fiscal stimulus.
- We believe Sunway Construction can weather the sector downturn better given its proven ability to compete under an open bidding system, coupled with the availability of building jobs from its parent and sister companies under the Sunway Group. However, valuations are unattractive at 15–28x forward earnings.

EXHIBIT 1: RESULTS SUMMARY

YE Dec (RM mil)	FY20 1Q	FY20 2Q	QoQ Chg	FY19 6M	FY20 6M	YoY Chg
Turnover	365.8	140.2	-62%	880.2	506.0	-43%
Construction	329.6	137.2	-58%	813.3	466.8	-43%
Precast concrete	36.3	3.0	-92%	66.9	39.3	-41%
EBIT	18.7	0.1	-100%	75.8	18.8	-75%
Construction	17.3	3.4	-80%	74.7	20.7	-72%
Precast concrete	1.4	(3.3)	-338%	1.1	(1.9)	nm
Net inc/(exp)	2.5	2.2	-13%	5.5	4.7	-14%
Associates	0.0	0.1	nm	0.0	0.1	nm
EI	0.0	0.0	nm	0.0	0.0	nm
Pre-tax profit	21.2	2.3	-89%	81.3	23.6	-71%
Taxation	(4.3)	(0.2)	-95%	(16.7)	(4.5)	-73%
Minority interest	(0.6)	0.1	nm	(0.4)	(0.5)	nm
Net profit	16.4	2.2	-87%	64.2	18.5	-71%
EPS (sen)	1.3	0.2	-87%	5.0	1.4	-71%
EBIT margin	5%	0%	(5%)	9%	4%	(5%)
Pretax margin	6%	2%	(4%)	9%	5%	(5%)
Effective tax rate	20%	9%	(11%)	21%	19%	(1%)

Source: Company, AmInvestment Bank Bhd

EXHIBIT 2: OUTSTANDING ORDER BOOK

Project	Outstanding Value (RMmil)
GS07 & GS08, LRT3	1,589
Internal building jobs	2,320
Parcel CP2, Bandar Sunway	414
Sunway Belfield, KL	403
Sunway Medical Centre (SMC) 4	351
Sunway Velocity Two	265
Sunway Serene	240
Carnival Mall extension	214
SMC Seberang Jaya	136
Sunway International School	121
Velocity 3C4	64
Big Box, Iskandar	58
Sunway GeoLake	50
Others	4
TNB HQ campus, KL	666
Thorapalli Agraharam – Jittandahalli, India	508
Petronas Leadership Centre, Bangi	283
V201, MRT2	123
Oxley, KL (MEP)	66
PPA1M, Kota Bharu	64
IOI Mall (MEP)	59
Others	163
Total	5,841

Source: Company, AmInvestment Bank Bhd

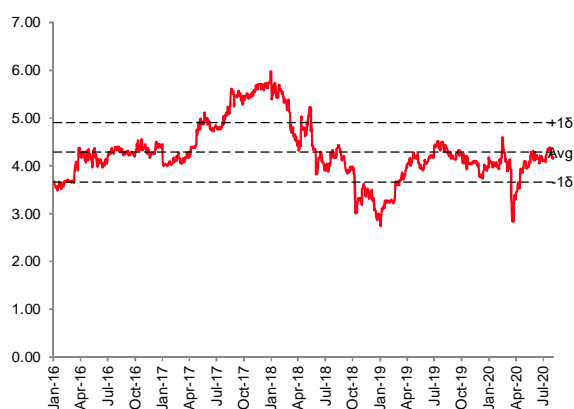
EXHIBIT 3: PB BAND CHART**EXHIBIT 4: PE BAND CHART**

EXHIBIT 5: FINANCIAL DATA

Income Statement (RMmil, YE 31 Dec)	FY18	FY19	FY20F	FY21F	FY22F
Revenue	2,256.8	1,768.7	1,875.1	2,298.0	2,173.8
EBITDA	215.1	181.3	143.9	235.7	236.2
Depreciation/Amortisation	(40.0)	(40.3)	(52.2)	(57.2)	(62.2)
Operating income (EBIT)	175.2	141.0	91.7	178.5	174.0
Other income & associates	0.7	4.4	-	-	-
Net interest	6.8	12.0	12.2	12.6	13.2
Exceptional items	-	-	-	-	-
Pretax profit	182.7	157.4	103.9	191.1	187.2
Taxation	(38.0)	(27.1)	(20.8)	(38.2)	(37.4)
Minorities/pref dividends	(0.3)	(1.0)	(0.1)	(0.1)	(0.1)
Net profit	144.4	129.3	83.0	152.7	149.6
Core net profit	144.4	129.3	83.0	152.7	149.6
Balance Sheet (RMmil, YE 31 Dec)	FY18	FY19	FY20F	FY21F	FY22F
Fixed assets	177.0	138.7	186.5	229.3	267.1
Intangible assets	3.6	3.6	3.6	3.6	3.6
Other long-term assets	50.3	52.8	52.8	52.8	52.8
Total non-current assets	230.9	195.2	243.0	285.8	323.5
Cash & equivalent	484.9	692.6	695.7	715.2	736.7
Stock	-	-	-	-	-
Trade debtors	1,000.2	970.4	970.4	970.4	970.4
Other current assets	52.1	46.8	46.8	46.8	46.8
Total current assets	1,537.1	1,709.8	1,712.9	1,732.4	1,753.9
Trade creditors	939.6	885.2	885.2	885.2	885.2
Short-term borrowings	113.6	233.4	233.4	233.4	233.4
Other current liabilities	9.5	1.6	1.6	1.6	1.6
Total current liabilities	1,062.7	1,120.2	1,120.2	1,120.2	1,120.2
Long-term borrowings	-	52.7	52.7	52.7	52.7
Other long-term liabilities	113.6	107.0	107.0	107.0	107.0
Total long-term liabilities	113.6	159.7	159.7	159.7	159.7
Shareholders' funds	590.2	623.0	673.7	735.9	795.0
Minority interests	1.4	2.2	2.3	2.4	2.6
BV/share (RM)	0.46	0.48	0.52	0.57	0.61
Cash Flow (RMmil, YE 31 Dec)	FY18	FY19	FY20F	FY21F	FY22F
Pretax profit	182.7	157.4	103.9	191.1	187.2
Depreciation/Amortisation	40.0	40.3	52.2	57.2	62.2
Net change in working capital	(10.4)	27.9	-	-	-
Others	(17.9)	(44.7)	(33.0)	(50.8)	(50.6)
Cash flow from operations	194.4	180.8	123.1	197.5	198.8
Capital expenditure	(100.3)	(8.3)	(100.0)	(100.0)	(100.0)
Net investments & sale of fixed assets	1.4	3.5	-	-	-
Others	24.7	(46.6)	-	-	-
Cash flow from investing	(74.2)	(51.4)	(100.0)	(100.0)	(100.0)
Debt raised/(repaid)	(24.5)	167.9	-	-	-
Equity raised/(repaid)	-	(5.7)	-	-	-
Dividends paid	(96.9)	(90.6)	(32.3)	(90.5)	(90.5)
Others	-	-	12.2	12.6	13.2
Cash flow from financing	(121.4)	71.6	(20.1)	(77.9)	(77.3)
Net cash flow	(1.3)	201.1	3.0	19.6	21.5
Net cash/(debt) b/f	487.6	488.4	696.7	699.7	719.3
Net cash/(debt) c/f	486.3	689.4	699.7	719.3	740.7
Key Ratios (YE31 Dec)	FY18	FY19	FY20F	FY21F	FY22F
Revenue growth (%)	8.7	(21.6)	6.0	22.6	(5.4)
EBITDA growth (%)	9.3	(15.7)	(20.6)	63.8	0.2
Pretax margin (%)	8.1	8.9	5.5	8.3	8.6
Net profit margin (%)	6.4	7.3	4.4	6.6	6.9
Interest cover (x)	nm	nm	nm	nm	nm
Effective tax rate (%)	20.8	17.2	20.0	20.0	20.0
Dividend payout (%)	50.0	70.0	38.9	59.3	60.5
Debtors turnover (days)	162	200	189	154	163
Stock turnover (days)	-	-	-	-	-
Creditors turnover (days)	187	236	223	181	193

Source: Company, AmInvestment Bank Bhd estimates

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