



AmInvestment Bank

Company report

SUNWAY CONSTRUCTION

(SCGB MK EQUITY, SCOG.KL)

20 Nov 2020

9MFY20 net profit declines 56% YoY

UNDERWEIGHT

(Maintained)

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Rationale for report: Company results

Price	RM1.83
Fair Value	RM1.55
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	1,562.1	2,562.4	2,432.6
Core net profit (RM mil)	129.3	68.6	167.0	165.4
FD Core EPS (sen)	10.0	5.3	12.9	12.8
FD Core EPS growth (%)	(10.5)	(46.9)	143.3	(0.9)
Consensus Net Profit (RM mil)	-	76.1	147.6	153.8
DPS (sen)	7.0	2.5	7.0	7.0
PE (x)	18.3	34.5	14.2	14.3
EV/EBITDA (x)	10.8	15.6	7.6	7.4
Div yield (%)	3.8	1.4	3.8	3.8
ROE (%)	21.3	10.7	23.9	21.4
Net Gearing (%)	nm	nm	nm	nm

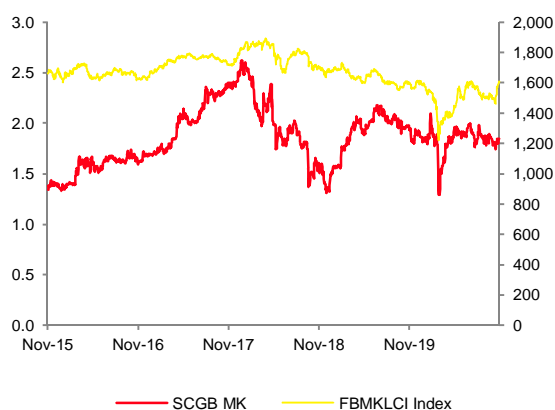
Stock and Financial Data

Shares Outstanding (million)	1,292.9
Market Cap (RM mil)	2,366.0
Book Value (RM/share)	0.48
P/BV (x)	3.8
ROE (%)	21.3
Net Gearing (%)	-

Major Shareholders	Sunway Bhd & Cheah family(65.3%) EPF(9.1%)
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Free Float	25.6
Avg Daily Value (RM mil)	0.5

Price performance	3mth	6mth	12mth
Absolute (%)	1.7	(4.2)	(7.6)
Relative (%)	1.1	(13.9)	(6.3)



Investment Highlights

- We maintain our UNDERWEIGHT call, forecasts and fair value of RM1.55 based on 12x FY21F EPS, in line with our benchmark forward P/E of 12x for large and mid-cap construction stocks.
- Sunway Construction's 9MFY20 net profit came in at only 62% and 56% of our full-year forecast and full-year consensus estimates respectively. However, we consider the results within expectations as we expect earnings recovery to gain further momentum in 4Q, with construction activities returning to almost 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 9MFY20 net profit fell 56% YoY largely due to the earnings vacuum in 2QFY20 when construction activities came a complete halt during the height of the movement control order while Sunway Construction continued to incur certain fixed overheads (such as wages, staff welfare, depreciation, equipment rentals, headquarters expense, etc).
- Meanwhile, YTD, Sunway Construction has secured new construction jobs worth a total of RM2.28bil (vs. our assumption of RM2.3bil) and its outstanding construction order book stands at RM5.4bil (Exhibit 2). For FY21–22F, our assumption for Sunway Construction's construction job wins is RM1.5bil annually as we are more inclined to see FY20F as an exceptional year that may not recur given the still weak outlook for the local construction and property sectors.
- Given the still elevated national debt, we believe the government has very limited room for fiscal manoeuvre, which means that it is unlikely to immediately 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 in 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 14–35x forward earnings on muted sector prospects.

EXHIBIT 1: RESULTS SUMMARY

YE Dec (RM mil)	FY20 1Q	FY20 2Q	FY20 3Q	QoQ Chg	FY19 9M	FY20 9M	YoY Chg
Turnover	365.8	140.2	419.4	>100%	1,282.8	925.4	-28%
Construction	329.6	137.2	403.4	>100%	1,178.4	870.2	-26%
Precast concrete	36.3	3.0	16.0	>100%	104.4	55.2	-47%
EBIT	18.7	0.1	32.9	>100%	110.2	51.7	-53%
Construction	17.3	3.4	31.7	>100%	108.3	52.4	-52%
Precast concrete	1.4	(3.3)	1.3	nm	1.9	(0.7)	nm
Net inc/(exp)	2.5	2.2	3.0	37%	6.7	7.8	16%
Associates	0.0	0.1	0.0	nm	0.0	0.1	nm
EI	0.0	0.0	0.0	nm	0.0	0.0	nm
Pretax profit	21.2	2.3	36.0	>100%	116.9	59.5	-49%
Taxation	(4.3)	(0.2)	(11.7)	nm	(19.3)	(16.3)	-16%
Minority interest	(0.6)	0.1	(0.2)	nm	0.1	(0.7)	nm
Net profit	16.4	2.2	24.0	>100%	97.7	42.6	-56%
EPS (sen)	1.3	0.2	1.9	>100%	7.6	3.3	-56%
EBIT margin	5%	0%	8%	8%	9%	6%	(3%)
Pretax margin	6%	2%	9%	7%	9%	6%	(3%)
Effective tax rate	20%	9%	33%	23%	16%	27%	11%

Source: Company, AmInvestment Bank Bhd

EXHIBIT 2: OUTSTANDING ORDER BOOK

Project	Outstanding Value (RMmil)
GS07 & GS08, LRT3	655
Internal building jobs	2,666
Sunway Velocity Two	485
Sunway Medical Centre (SMC) 4	489
Parcel CP2, Bandar Sunway	393
Sunway Belfield, KL	403
Sunway Serene	218
Carnival Mall extension	196
SMC Seberang Jaya	129
Sunway International School	132
Sunway Resort & Spa renovation	78
Velocity 3C4	58
Big Box, Iskandar	42
Sunway GeoLake	36
Others	7
TNB HQ campus, KL	614
Thorapalli Agraharam – Jittandahalli, India	508
Meensurutti - Chidambaram, India	315
Petronas Leadership Centre, Bangi	248
V201, MRT2	36
Oxley, KL (MEP)	63
PPA1M, Kota Bharu	58
IOI Mall (MEP)	45
Others	147
Total	5,355

Source: Company, AmlInvestment Bank Bhd

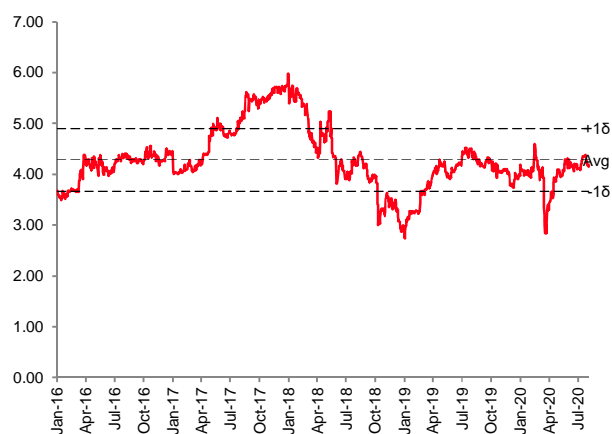
EXHIBIT 3: PB BAND CHART**EXHIBIT 4: PE BAND CHART**

EXHIBIT 5: FINANCIAL DATA

Income Statement (RMmil, YE 31 Dec)	FY18	FY19	FY20F	FY21F	FY22F
Revenue	2,256.8	1,768.7	1,562.1	2,562.4	2,432.6
EBITDA	215.1	181.3	126.1	253.8	255.7
Depreciation/Amortisation	(40.0)	(40.3)	(52.2)	(57.2)	(62.2)
Operating income (EBIT)	175.2	141.0	73.9	196.6	193.5
Other income & associates	0.7	4.4	-	-	-
Net interest	6.8	12.0	12.0	12.4	13.4
Exceptional items	-	-	-	-	-
Pretax profit	182.7	157.4	85.9	208.9	207.0
Taxation	(38.0)	(27.1)	(17.2)	(41.8)	(41.4)
Minorities/pref dividends	(0.3)	(1.0)	(0.1)	(0.2)	(0.2)
Net profit	144.4	129.3	68.6	167.0	165.4
Core net profit	144.4	129.3	68.6	167.0	165.4
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	681.2	715.1	752.4
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	1,698.4	1,732.3	1,769.6
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	659.3	735.8	810.7
Minority interests	1.4	2.2	2.3	2.4	2.6
BV/share (RM)	0.46	0.48	0.51	0.57	0.63
Cash Flow (RMmil, YE 31 Dec)	FY18	FY19	FY20F	FY21F	FY22F
Pretax profit	182.7	157.4	85.9	208.9	207.0
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)	(29.2)	(54.2)	(54.8)
Cash flow from operations	194.4	180.8	108.9	212.0	214.3
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	-	-	12.0	12.4	13.4
Cash flow from financing	(121.4)	71.6	(20.3)	(78.1)	(77.1)
Net cash flow	(1.3)	201.1	(11.4)	33.9	37.3
Net cash/(debt) b/f	487.6	488.4	696.7	685.3	719.1
Net cash/(debt) c/f	486.3	689.4	685.3	719.1	756.4
Key Ratios (YE31 Dec)	FY18	FY19	FY20F	FY21F	FY22F
Revenue growth (%)	8.7	(21.6)	(11.7)	64.0	(5.1)
EBITDA growth (%)	9.3	(15.7)	(30.5)	101.3	0.8
Pretax margin (%)	8.1	8.9	5.5	8.2	8.5
Net profit margin (%)	6.4	7.3	4.4	6.5	6.8
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	47.1	54.2	54.7
Debtors turnover (days)	162	200	227	138	146
Stock turnover (days)	-	-	-	-	-
Creditors turnover (days)	187	236	270	162	172

Source: Company, AmlInvestment Bank Bhd estimates

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