



## Company report

# SUNWAY CONSTRUCTION

(SCGB MK EQUITY, SCOG.KL)

21 Aug 2020

LRT3 packages downsized by 41%

## UNDERWEIGHT

(Maintained)

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Rationale for report: Company update

Price	RM1.80
Fair Value	RM1.36
52-week High/Low	RM2.10/RM1.25

## Key Changes

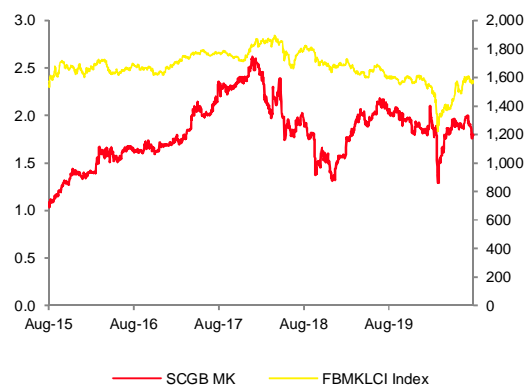
Fair value	⬇️
EPS	⬇️

YE to Dec	FY19	FY20F	FY21F	FY22F
Revenue (RM mil)	1,768.7	1,562.1	2,249.0	2,119.2
Core net profit (RM mil)	129.3	68.6	146.7	144.6
FD Core EPS (sen)	10.0	5.3	11.3	11.2
FD Core EPS growth (%)	(10.5)	(46.9)	113.7	(1.4)
Consensus Net Profit (RM mil)	-	80.0	147.1	151.2
DPS (sen)	7.0	2.5	7.0	7.0
PE (x)	18.0	33.9	15.9	16.1
EV/EBITDA (x)	10.6	15.3	8.4	8.2
Div yield (%)	3.9	1.4	3.9	3.9
ROE (%)	21.3	10.7	21.3	19.5
Net Gearing (%)	nm	nm	nm	nm

## Stock and Financial Data

Shares Outstanding (million)	1,292.9
Market Cap (RM mil)	2,327.2
Book Value (RM/share)	0.48
P/BV (x)	3.7
ROE (%)	21.3
Net Gearing (%)	-
Major Shareholders	Sunway Bhd & Cheah family(65.3%) EPF(9.1%)
Free Float	25.6
Avg Daily Value (RM mil)	1.2

Price performance	3mth	6mth	12mth
Absolute (%)	(7.2)	(8.2)	(12.2)
Relative (%)	(15.5)	(10.5)	(10.7)



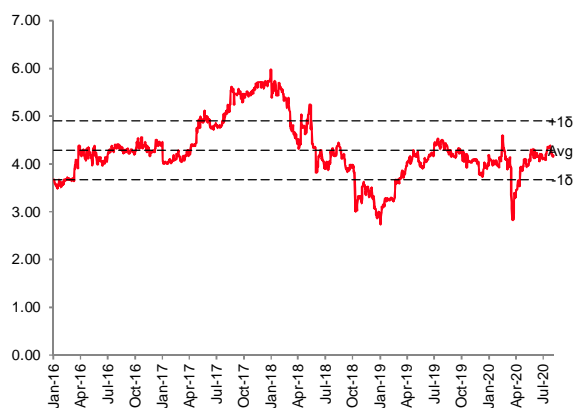
## Investment Highlights

- We cut our FY20–22F net profit forecasts by 17%, 4% and 3% respectively and reduce our fair value by 4% to RM1.36 (from RM1.42) based on 12x revised FY21F EPS, in line with our benchmark forward P/E of 12x for large and mid-cap construction stocks. Maintain UNDERWEIGHT.
- Sunway Construction has executed an agreement with LRT3 turnkey contractor MRCB George Kent to revise down the value of Packages GS07–08 of the LRT3 awarded to Sunway Construction by 41% to RM1,295mil (from RM2,178mil). To recap, this is pursuant to the initiative by the Pakatan Harapan government to downsize the LRT3 project by 47% to RM16.6bil from RM31.7bil.
- While the latest development is negative, it should not come as a surprise to the market. The revision has eroded Sunway Construction's outstanding construction order book by RM883mil or 15% to RM5.0bil (Exhibit 1) from RM5.8mil previously. Similarly, Sunway Construction's outstanding works on Packages GS07–08 of LRT3 have been cut by RM883mil or 56% to RM706mil from RM1,589mil previously. We have reflected these changes in our forecasts.
- Meanwhile, we are keeping our assumption on construction job wins of RM1.5bil annually in FY20–22F. This is slightly more conservative as compared with Sunway Construction's guidance for RM2bil new jobs (construction and precast products combined) in FY20F. So for in FY20F, Sunway Construction has secured RM1.4bil worth of new construction jobs and RM38mil worth of new precast product orders.
- 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 16–34x forward earnings.

**EXHIBIT 1: OUTSTANDING ORDER BOOK**

Project	Outstanding Value (RMmil)
GS07 & GS08, LRT3	706
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
PPA 1M, Kota Bharu	64
IOI Mall (MEP)	59
Others	163
<b>Total</b>	<b>4,958</b>

Source: Company, AmInvestment Bank Bhd

**EXHIBIT 2: PB BAND CHART****EXHIBIT 3: PE BAND CHART**

## EXHIBIT 4: FINANCIAL DATA

Income Statement (RMmil, YE 31 Dec)	FY18	FY19	FY20F	FY21F	FY22F
Revenue	2,256.8	1,768.7	1,562.1	2,249.0	2,119.2
EBITDA	215.1	181.3	126.1	228.7	230.7
Depreciation/Amortisation	(40.0)	(40.3)	(52.2)	(57.2)	(62.2)
Operating income (EBIT)	175.2	141.0	73.9	171.5	168.5
Other income & associates	0.7	4.4	-	-	-
Net interest	6.8	12.0	12.0	12.1	12.5
<b>Exceptional items</b>	-	-	-	-	-
Pretax profit	182.7	157.4	85.9	183.6	181.0
Taxation	(38.0)	(27.1)	(17.2)	(36.7)	(36.2)
<b>Minorities/pref dividends</b>	<b>(0.3)</b>	<b>(1.0)</b>	<b>(0.1)</b>	<b>(0.1)</b>	<b>(0.1)</b>
Net profit	144.4	129.3	68.6	146.7	144.6
Core net profit	144.4	129.3	68.6	146.7	144.6
<b>Balance Sheet (RMmil, YE 31 Dec)</b>	<b>FY18</b>	<b>FY19</b>	<b>FY20F</b>	<b>FY21F</b>	<b>FY22F</b>
Fixed assets	177.0	138.7	186.5	229.3	267.1
Intangible assets	3.6	3.6	3.6	3.6	3.6
<b>Other long-term assets</b>	<b>50.3</b>	<b>52.8</b>	<b>52.8</b>	<b>52.8</b>	<b>52.8</b>
Total non-current assets	230.9	195.2	243.0	285.8	323.5
Cash & equivalent	484.9	692.6	681.2	694.8	711.3
Stock	-	-	-	-	-
Trade debtors	1,000.2	970.4	970.4	970.4	970.4
<b>Other current assets</b>	<b>52.1</b>	<b>46.8</b>	<b>46.8</b>	<b>46.8</b>	<b>46.8</b>
Total current assets	1,537.1	1,709.8	1,698.4	1,712.0	1,728.5
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
<b>Other current liabilities</b>	<b>9.5</b>	<b>1.6</b>	<b>1.6</b>	<b>1.6</b>	<b>1.6</b>
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
<b>Other long-term liabilities</b>	<b>113.6</b>	<b>107.0</b>	<b>107.0</b>	<b>107.0</b>	<b>107.0</b>
<b>Total long-term liabilities</b>	<b>113.6</b>	<b>159.7</b>	<b>159.7</b>	<b>159.7</b>	<b>159.7</b>
Shareholders' funds	590.2	623.0	659.3	715.5	769.6
Minority interests	1.4	2.2	2.3	2.4	2.6
BV/share (RM)	0.46	0.48	0.51	0.55	0.60
<b>Cash Flow (RMmil, YE 31 Dec)</b>	<b>FY18</b>	<b>FY19</b>	<b>FY20F</b>	<b>FY21F</b>	<b>FY22F</b>
Pretax profit	182.7	157.4	85.9	183.6	181.0
Depreciation/Amortisation	40.0	40.3	52.2	57.2	62.2
Net change in working capital	(10.4)	27.9	-	-	-
<b>Others</b>	<b>(17.9)</b>	<b>(44.7)</b>	<b>(29.2)</b>	<b>(48.8)</b>	<b>(48.7)</b>
Cash flow from operations	194.4	180.8	108.9	192.0	194.5
Capital expenditure	(100.3)	(8.3)	(100.0)	(100.0)	(100.0)
Net investments & sale of fixed assets	1.4	3.5	-	-	-
<b>Others</b>	<b>24.7</b>	<b>(46.6)</b>	-	-	-
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)
<b>Others</b>	-	-	<b>12.0</b>	<b>12.1</b>	<b>12.5</b>
<b>Cash flow from financing</b>	<b>(121.4)</b>	<b>71.6</b>	<b>(20.3)</b>	<b>(78.4)</b>	<b>(78.0)</b>
<b>Net cash flow</b>	<b>(1.3)</b>	<b>201.1</b>	<b>(11.4)</b>	<b>13.6</b>	<b>16.5</b>
<b>Net cash/(debt) b/f</b>	<b>487.6</b>	<b>488.4</b>	<b>696.7</b>	<b>685.3</b>	<b>698.8</b>
Net cash/(debt) c/f	486.3	689.4	685.3	698.8	715.3
<b>Key Ratios (YE31 Dec)</b>	<b>FY18</b>	<b>FY19</b>	<b>FY20F</b>	<b>FY21F</b>	<b>FY22F</b>
Revenue growth (%)	8.7	(21.6)	(11.7)	44.0	(5.8)
EBITDA growth (%)	9.3	(15.7)	(30.5)	81.4	0.9
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	61.7	62.6
Debtors turnover (days)	162	200	227	157	167
Stock turnover (days)	-	-	-	-	-
Creditors turnover (days)	187	236	270	185	198

Source: Company, AmInvestment Bank Bhd estimates

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