



Company report

SUNWAY CONSTRUCTION

(SCGB MK EQUITY, SCOG.KL)

22 May 2020

1QFY20 net profit plunges 47% YoY

UNDERWEIGHT

(Maintained)

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Rationale for report: Company results

Price RM1.96
Fair Value RM1.18
52-week High/Low RM2.20/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	83.2	152.5	147.2
FD Core EPS (sen)	10.0	6.4	11.8	11.4
FD Core EPS growth (%)	(10.5)	(35.7)	83.3	(3.5)
Consensus Net Profit (RM mil)	-	135.5	155.6	153.3
DPS (sen)	7.0	7.0	7.0	7.0
PE (x)	19.6	30.5	16.6	17.2
EV/EBITDA (x)	11.7	15.2	9.3	9.4
Div yield (%)	3.6	3.6	3.6	3.6
ROE (%)	21.3	13.7	25.1	22.9
Net Gearing (%)	nm	nm	nm	nm

Stock and Financial Data

Shares Outstanding (million)	1,292.9
Market Cap (RM mil)	2,534.1
Book Value (RM/share)	0.48
P/BV (x)	4.1
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)	1.5

Price performance	3mth	6mth	12mth
Absolute (%)	0.5	1.6	2.6
Relative (%)	6.0	11.4	13.3



Investment Highlights

- We cut our FY20F net profit forecasts by 40% but keep our FV relatively unchanged at RM1.18 based on 10x FY21F EPS, in line with our benchmark forward P/E of 10x for large and mid-cap construction stocks. Maintain UNDERWEIGHT.
- Sunway Construction's 1QFY20 results came in significantly below expectations at only 12% of both our full-year forecast and full-year consensus estimates. The main culprit was the 2-week impact from the movement control order (MCO) during 1Q which turned out to be much more damaging than expected (and shall continue to wreak havoc until at least in 2Q). We have reflected this in our earnings downgrade.
- Its 1QFY20 net profit fell 47% YoY as construction activities came to a halt from 18 Mar 2020 but Sunway Construction had to continue spending on fixed overheads. We believe, not helping either was the still slow progress at the LRT3 project (even before the MCO) that makes up about a third of its outstanding construction order book.
- Thus far in FY20F, Sunway Construction has secured new construction jobs worth RM0.7bil (including a RM121mil building job for Sunway International School, Bandar Sunway, announced yesterday) but none for precast products as yet. Its outstanding construction and precast product order books stand at RM5.2bil (Exhibit 2) and RM286mil respectively.
- No change to 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 soft construction sector locally, it has stepped up its hunt for jobs in overseas markets, particularly India, Myanmar and Singapore (piling jobs). Already, in Mar 2020, Sunway Construction, via a 60:40 consortium with local partner RNS Infrastructure Ltd, secured a 865 crore (RM508mil) contract for the construction of Thorapalli Agraharam–Jittandahalli Section of NH-844 from Km 25.000 to Km 63.500 in Tamil Nadu, India, from the National Highways Authority of India (NHAI).

- We believe the recent change in the political landscape has not altered the subdued outlook for the local construction sector. Given the still elevated national debt, coupled with the recent collapse of oil prices that will hurt petroleum revenues, 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.
- 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 17–31x forward earnings.

EXHIBIT 1: RESULTS SUMMARY

YE Dec (RMmil)	FY19 4Q	FY20 1Q	QoQ Chg	FY19 3M	FY20 3M	YoY Chg
Turnover	485.9	365.8	-25%	440.0	365.8	-17%
Construction	440.5	329.6	-25%	407.0	329.6	-19%
Precast concrete	45.4	36.3	-20%	33.0	36.3	10%
EBIT	30.8	18.7	-39%	38.2	18.7	-51%
Construction	27.0	17.3	-36%	37.9	17.3	-54%
Precast concrete	3.9	1.4	-64%	0.3	1.4	330%
Net inc/(exp)	5.3	2.5	-52%	1.9	2.5	32%
Associates	4.4	0.0	nm	0.0	0.0	nm
EI	0.0	0.0	nm	0.0	0.0	nm
Pretax profit	40.5	21.2	-48%	40.1	21.2	-47%
Taxation	(7.8)	(4.3)	-45%	(8.5)	(4.3)	-49%
Minority interest	(1.1)	(0.6)	nm	(0.6)	(0.6)	nm
Net profit	31.6	16.4	-48%	31.0	16.4	-47%
EPS (sen)	2.5	1.3	-48%	2.4	1.3	-47%
EBIT margin	6%	5%	(1%)	9%	5%	(4%)
Pretax margin	8%	6%	(3%)	9%	6%	(3%)
Effective tax rate	19%	20%	1%	21%	20%	(1%)

Source: Company, AmInvestment Bank Bhd

EXHIBIT 2: OUTSTANDING ORDER BOOK

Project	Outstanding Value (RMmil)
GS07 & GS08, LRT3	1,622
Internal building jobs	1,638
Sunway Medical Centre (SMC) 4	363
Sunway Velocity Two	286
Sunway Serene	243
Carnival Mall extension	215
SMC Seberang Jaya	137
Sunway International School	121
Parcel CP2, Bandar Sunway	79
Sunway GeoLake	61
Velocity 3C4	66
Big Box, Iskandar	63
Others	4
TNB HQ campus, KL	677
Thorapalli Agraharam – Jittandahalli, India	508
Petronas Leadership Centre, Bangi	287
V201, MRT2	142
PPA1M, Kota Bharu	68
IOI Mall (MEP)	67
Oxley, KL (MEP)	66
Others	173
Total	5,248

Source: Company, AmlInvestment Bank Bhd

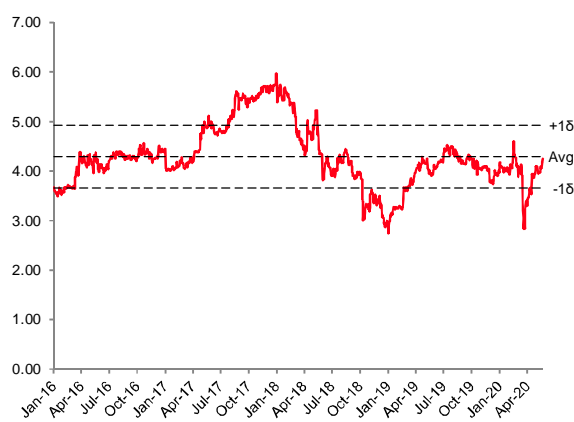
EXHIBIT 3: PB BAND CHART**EXHIBIT 4: PE BAND CHART**

EXHIBIT 5: FINANCIAL DATA

Income Statement (RMmil, YE 31 Dec)	FY18	FY19	FY20F	FY21F	FY22F
Revenue	2,256.8	1,768.7	1,875.1	2,298.0	2,173.8
EBITDA	215.1	181.3	145.3	238.3	236.9
Depreciation/Amortisation	(40.0)	(40.3)	(52.2)	(57.2)	(62.2)
Operating income (EBIT)	175.2	141.0	93.1	181.1	174.7
Other income & associates	0.7	4.4	-	-	-
Net interest	6.8	12.0	11.0	9.7	9.5
Exceptional items	-	-	-	-	-
Pretax profit	182.7	157.4	104.1	190.8	184.1
Taxation	(38.0)	(27.1)	(20.8)	(38.2)	(36.8)
Minorities/pref dividends	(0.3)	(1.0)	(0.1)	(0.1)	(0.1)
Net profit	144.4	129.3	83.2	152.5	147.2
Core net profit	144.4	129.3	83.2	152.5	147.2
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	611.7	605.2	598.3
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	1,628.9	1,622.4	1,615.6
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	589.8	625.9	656.7
Minority interests	1.4	2.2	2.3	2.4	2.6
BV/share (RM)	0.46	0.48	0.46	0.48	0.51
Cash Flow (RMmil, YE 31 Dec)	FY18	FY19	FY20F	FY21F	FY22F
Pretax profit	182.7	157.4	104.1	190.8	184.1
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)	(31.8)	(47.8)	(46.3)
Cash flow from operations	194.4	180.8	124.5	200.2	200.0
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)	(116.4)	(116.4)	(116.4)
Others	-	-	11.0	9.7	9.5
Cash flow from financing	(121.4)	71.6	(105.4)	(106.7)	(106.9)
Net cash flow	(1.3)	201.1	(80.9)	(6.5)	(6.9)
Net cash/(debt) b/f	487.6	488.4	696.7	615.8	609.2
Net cash/(debt) c/f	486.3	689.4	615.8	609.2	602.4
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)	(19.9)	64.0	(0.6)
Pretax margin (%)	8.1	8.9	5.5	8.3	8.5
Net profit margin (%)	6.4	7.3	4.4	6.6	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	50.0	50.0	50.0	50.0
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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