



AmInvestment Bank

SUNWAY CONSTRUCTION

(SCGB MK EQUITY, SCOG.KL)

21 May 2021

Company report

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Rationale for report: Company results

HOLD

(Maintained)

Price **RM1.68**
Fair Value **RM1.69**
52-week High/Low RM2.01/RM1.50

Key Changes

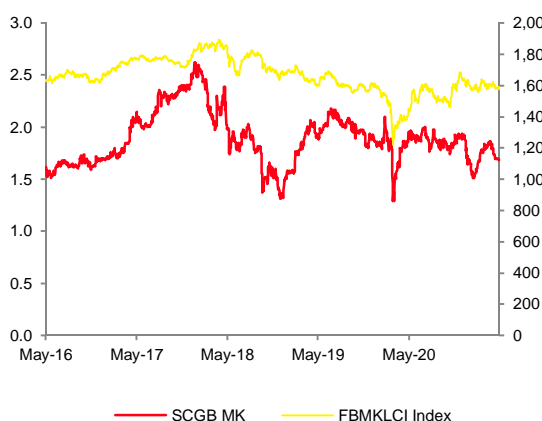
Fair value **⬇️**
EPS **⬇️**

YE to Dec	FY20	FY21F	FY22F	FY23F
Revenue (RM mil)	1,552.7	2,014.5	2,713.0	2,748.7
Core net profit (RM mil)	72.8	116.3	152.0	164.6
FD Core EPS (sen)	5.6	9.0	11.8	12.7
FD Core EPS growth (%)	(43.7)	59.7	30.7	8.3
Consensus Net Profit (RM mil)	-	139.8	153.7	158.3
DPS (sen)	2.5	3.5	7.0	7.0
PE (x)	29.8	18.7	14.3	13.2
EV/EBITDA (x)	14.8	9.8	8.1	7.3
Div yield (%)	1.5	2.1	4.2	4.2
ROE (%)	11.6	17.3	20.6	20.4
Net Gearing (%)	nm	nm	nm	nm

Stock and Financial Data

Shares Outstanding (million)	1,292.9
Market Cap (RM mil)	2,172.1
Book Value (RM/share)	0.49
P/BV (x)	3.4
ROE (%)	11.6
Net Gearing (%)	-
Major Shareholders	Sunway Bhd & Cheah family(65.3%) EPF(9.2%)
Free Float	25.6
Avg Daily Value (RM mil)	1.4

Price performance	3mth	6mth	12mth
Absolute (%)	5.0	(9.7)	(13.4)
Relative (%)	5.6	(8.6)	(21.1)



Investment Highlights

- We cut our FY21–23F net profit forecasts by 12%, 6% and 6% respectively, and reduce our fair value by 6% to RM1.69 (from RM1.80) based on 14x revised FY22F EPS plus a 3% premium to reflect our 4-star ESG rating (Exhibit 5). The 14x multiple is in line with our benchmark forward PE for large-cap construction stocks. Maintain HOLD.
- Sunway Construction's 1QFY20 net profit came in below expectations at only 15% and 14% of our full-year forecast and the full-year consensus estimates respectively. We believe the variance against our forecast came largely from weaker-than-expected construction earnings due to: (1) the still sub-optimal productivity on various operational restrictions amidst the pandemic; and (2) the elevated steel bar price.
- Nonetheless, its 1QFY21 net profit rose 24% YoY as it began to adapt to operating under the new norms. This was reflected in its 1QFY21 construction billings surging 28% while construction EBIT margin inched up to 5.3% from 5.2% despite the higher steel bar price.
- Our earnings downgrade is to reflect: (1) slightly weaker FY21F construction billings on the recent resurgence in Covid-19 infections nationwide; and (2) higher cost pressure, particularly, from steel.
- Typically, steel bar makes up about 3–4% of total construction cost and the steel bar content is higher for infrastructure jobs vs. building jobs, and it could go as high as 25–30% for piling jobs. The higher steel bar price has also hit Sunway Construction's precast business as steel bar makes up about 30% of total production cost. In FY20, the precast unit contributed 6% and 4% of group turnover and EBIT respectively. Meanwhile, the higher copper price has resulted in higher cost of electrical cables, eroding slightly margins of mechanical, electrical and plumbing jobs (that make up of 3–4% of Sunway Construction's outstanding construction order book).
- During our recent engagement with the company, Sunway Construction reiterated its guidance for RM2bil overall job wins (including the supply of precast products) in FY21F. Thus far in FY21F, it has secured new jobs worth a total of RM462mil (comprising RM277mil construction jobs and RM185mil precast product supply contracts in Singapore). Its outstanding construction and precast product order backlogs stand at RM4.6bil (Exhibit 2) and RM422mil respectively.

- For the rest of the year, Sunway Construction is eyeing:
 1. Infrastructure jobs locally (assuming the MRT3 project is to get off the ground) and India (but preferably a non-hybrid annuity model type given that Sunway Construction has already committed significant financial resources for its two Indian highway projects based on a hybrid annuity model, both in Tamil Nadu, i.e. the Thorapalli Agraharam–Jittandahalli section of NH-844 (RM508mil) and the Meensurutti–Chidambaram section of NH-227 (RM315mil));
 2. External piling jobs (including those in overseas markets such as Singapore and the Philippines);
 3. Related-party building jobs (from another private hospital project and the Sunway Valley City project in Penang Island);
 4. Potential sub-contract works from the recently announced fourth cycle of the large-scale solar project (LSS4) as we understand that Sunway Construction is the “technical partner” for some of the bidders; and
 5. More precast product supply contracts from Singapore.

We maintain our slightly more conservative assumption for Sunway Construction’s construction job wins of RM1.5bil annually in FY21–23F.

- We remain cautious on the outlook of the local construction sector. The recent news on the MRT3 potentially commencing work in the second half of the year aside, the fact remains that the government will have very limited room for fiscal manoeuvre given the elevated national debt, weighed down further by the economic impact of the pandemic (including reduced tax and petroleum revenues), as well as the massive relief spending to cushion the economic impact of the pandemic.
- 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, its valuations are fair at 13–19x forward earnings on muted sector prospects.

EXHIBIT 1: RESULTS SUMMARY

YE Dec (RMmil)	FY20 4Q	FY21 1Q	QoQ Chg	FY20 3M	FY21 3M	YoY Chg
Turnover	627.2	455.2	-27%	365.8	455.2	24%
Construction	585.0	421.3	-28%	329.6	421.3	28%
Precast concrete	42.2	33.9	-20%	36.3	33.9	-7%
EBIT	38.8	26.1	-33%	18.7	26.1	40%
Construction	34.8	22.3	-36%	17.3	22.3	29%
Precast concrete	4.0	3.8	nm	1.4	3.8	nm
Net inc/(exp)	2.7	(0.8)	-131%	2.5	(0.8)	-133%
Associates	0.0	2.0	nm	0.0	2.0	nm
EI	0.0	0.0	nm	0.0	0.0	nm
Pretax profit	41.6	27.2	-34%	21.2	27.2	28%
Taxation	(11.5)	(6.9)	-40%	(4.3)	(6.9)	61%
Minority interest	0.1	(0.1)	nm	(0.6)	(0.1)	nm
Net profit	30.2	20.2	-33%	16.4	20.2	24%
EPS (sen)	2.3	1.6	-33%	1.3	1.6	24%
Construction EBIT margin	6.0%	5.3%	(0.6%)	5.2%	5.3%	0.1%
EBIT margin	6%	6%	(0%)	5%	6%	1%
Pretax margin	7%	6%	(1%)	6%	6%	0%
Effective tax rate	28%	25%	(2%)	20%	25%	5%

Source: Company, AmInvestment Bank Bhd

EXHIBIT 2: OUTSTANDING ORDER BOOK

Project	Outstanding Value (RMmil)
Internal building jobs	2,459
Sunway Medical Centre (SMC) 4	430
Sunway Velocity 2 & 2B	419
Sunway Belfield, KL	387
Parcel CP2, Bandar Sunway	344
Sunway Damansara Medical Centre	180
Sunway Serene	162
SMC Seberang Jaya	120
Sunway International School	118
Carnival Mall extension	112
Velocity 3C4	50
Big Box, Iskandar	49
Others	88
Thorapalli Agraharam – Jittandahalli, India	508
GS07 & GS08, LRT3	465
TNB HQ campus, KL	449
Meensurutti - Chidambaram, India	315
Petronas Leadership Centre, Bangi	168
Oxley, KL (MEP)	54
Chan Sow Lin station (MEP)	39
Others	127
Total	4,584

Source: Company, AmlInvestment Bank Bhd

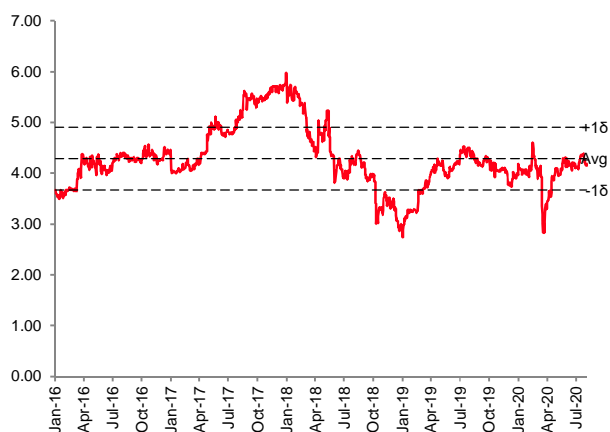
EXHIBIT 3: PB BAND CHART**EXHIBIT 4: PE BAND CHART**

EXHIBIT 5: ESG RATING

Overall	★	★	★	★	
Zero-carbon initiatives	★	★			
Work site safety	★	★	★		
Migrant worker welfare	★	★	★	★	
Corporate social responsibility	★	★	★	★	
Pollution control	★	★	★	★	★
Supply chain auditing	★	★	★	★	
Corruption-free pledge	★	★	★		
Gender diversity	★	★			
Accessibility & transparency	★	★	★	★	★

We accord a discount/premium of -6%, -3%, 0%, +3% and +6% on fundamental fair value based on the overall ESG rating as appraised by us, from 1-star to 5-star

EXHIBIT 6: FINANCIAL DATA

Income Statement (RMmil, YE 31 Dec)	FY19	FY20	FY21F	FY22F	FY23F
Revenue	1,768.7	1,552.7	2,014.5	2,713.0	2,748.7
EBITDA	181.3	124.0	193.6	245.5	266.8
Depreciation/Amortisation	(40.3)	(33.4)	(57.2)	(62.2)	(67.2)
Operating income (EBIT)	141.0	90.5	136.4	183.2	199.5
Other income & associates	4.4	0.1	-	-	-
Net interest	12.0	10.5	9.1	6.9	6.4
Exceptional items	-	-	-	-	-
Pretax profit	157.4	101.1	145.5	190.1	205.9
Taxation	(27.1)	(27.8)	(29.1)	(38.0)	(41.2)
Minorities/pref dividends	(1.0)	(0.5)	(0.1)	(0.1)	(0.2)
Net profit	129.3	72.8	116.3	152.0	164.6
Core net profit	129.3	72.8	116.3	152.0	164.6
Balance Sheet (RMmil, YE 31 Dec)	FY19	FY20	FY21F	FY22F	FY23F
Fixed assets	138.7	107.4	250.2	388.0	420.8
Intangible assets	3.6	-	-	-	-
Other long-term assets	52.8	56.3	56.3	56.3	56.3
Total non-current assets	195.2	163.8	306.5	444.3	477.1
Cash & equivalent	692.6	640.1	568.4	492.2	533.7
Stock	-	-	-	-	-
Trade debtors	970.4	1,048.3	1,048.3	1,048.3	1,048.3
Other current assets	46.8	54.0	54.0	54.0	54.0
Total current assets	1,709.8	1,742.3	1,670.7	1,594.5	1,635.9
Trade creditors	885.2	955.2	955.2	955.2	955.2
Short-term borrowings	233.4	233.7	233.7	233.7	233.7
Other current liabilities	1.6	5.8	5.8	5.8	5.8
Total current liabilities	1,120.2	1,194.7	1,194.7	1,194.7	1,194.7
Long-term borrowings	52.7	67.2	67.2	67.2	67.2
Other long-term liabilities	107.0	5.5	5.5	5.5	5.5
Total long-term liabilities	159.7	72.7	72.7	72.7	72.7
Shareholders' funds	623.0	636.9	707.9	769.4	843.4
Minority interests	2.2	1.7	1.8	2.0	2.1
BV/share (RM)	0.48	0.49	0.55	0.60	0.65
Cash Flow (RMmil, YE 31 Dec)	FY19	FY20	FY21F	FY22F	FY23F
Pretax profit	157.4	101.1	145.5	190.1	205.9
Depreciation/Amortisation	40.3	33.4	57.2	62.2	67.2
Net change in working capital	27.9	-	-	-	-
Others	(39.2)	(59.3)	(38.2)	(44.9)	(47.5)
Cash flow from operations	186.3	75.2	164.5	207.4	225.6
Capital expenditure	(8.3)	(3.4)	(200.0)	(200.0)	(100.0)
Net investments & sale of fixed assets	3.6	2.7	-	-	-
Others	(263.7)	181.4	-	-	-
Cash flow from investing	(268.5)	180.7	(200.0)	(200.0)	(100.0)
Debt raised/(repaid)	167.9	12.0	-	-	-
Equity raised/(repaid)	(5.7)	-	-	-	-
Dividends paid	(90.6)	(62.3)	(45.3)	(90.5)	(90.5)
Others	(52.1)	(97.0)	9.1	6.9	6.4
Cash flow from financing	19.5	(147.3)	(36.2)	(83.6)	(84.1)
Net cash flow	(62.7)	108.7	(71.7)	(76.2)	41.4
Net cash/(debt) b/f	488.4	432.9	559.6	488.0	411.8
Net cash/(debt) c/f	425.7	541.6	488.0	411.8	453.2
Key Ratios (YE31 Dec)	FY19	FY20	FY21F	FY22F	FY23F
Revenue growth (%)	(21.6)	(12.2)	29.7	34.7	1.3
EBITDA growth (%)	(15.7)	(31.6)	56.2	26.8	8.7
Pretax margin (%)	8.9	6.5	7.2	7.0	7.5
Net profit margin (%)	7.3	4.7	5.8	5.6	6.0
Interest cover (x)	nm	nm	nm	nm	nm
Effective tax rate (%)	17.2	27.5	20.0	20.0	20.0
Dividend payout (%)	70.0	44.4	38.9	59.6	55.0
Debtors turnover (days)	200	246	190	141	139
Stock turnover (days)	-	-	-	-	-
Creditors turnover (days)	236	293	224	165	164

Source: Company, AmlInvestment Bank Bhd estimates

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