



Company report

SUNWAY CONSTRUCTION

(SCGB MK EQUITY, SCOG.KL)

24 Feb 2021

FY20 net profit almost halved from a year ago

UNDERWEIGHT

(Maintained)

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Rationale for report: Company results

Price	RM1.66
Fair Value	RM1.54
52-week High/Low	RM2.01/RM1.25

Key Changes

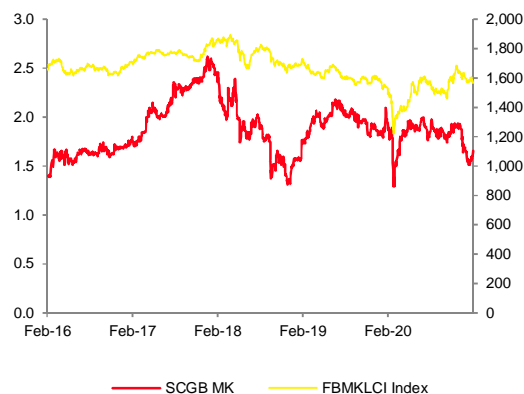
Fair value	↔
EPS	↔

YE to Dec	FY20	FY21F	FY22F	FY23F
Revenue (RM mil)	1,552.7	2,562.4	2,432.6	2,612.0
Core net profit (RM mil)	72.8	165.6	164.0	172.8
FD Core EPS (sen)	5.6	12.8	12.7	13.4
FD Core EPS growth (%)	(43.7)	127.6	(1.0)	5.3
Consensus Net Profit (RM mil)	-	145.5	150.1	-
DPS (sen)	4.0	7.0	7.0	7.0
PE (x)	29.5	13.0	13.1	12.4
EV/EBITDA (x)	14.6	7.0	6.8	6.2
Div yield (%)	2.4	4.2	4.2	4.2
ROE (%)	11.6	24.6	21.9	20.9
Net Gearing (%)	nm	nm	nm	nm

Stock and Financial Data

Shares Outstanding (million)	1,292.9
Market Cap (RM mil)	2,146.2
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)	1.1

Price performance	3mth	6mth	12mth
Absolute (%)	(14.0)	(10.3)	(14.9)
Relative (%)	(12.2)	(9.6)	(16.7)



Investment Highlights

- We keep relatively unchanged our forecasts and fair value of RM1.54 based on 12x FY21F EPS, in line with our benchmark forward P/E of 12x for large and mid-cap construction stocks. Maintain UNDERWEIGHT.
- Sunway Construction's FY20 net profit beat our forecast by 6% but came in within consensus estimates. We believe the variance against our forecast came largely from slightly stronger progress billings as Sunway Construction had been able to adapt to the norms in its operations rather well.
- Nonetheless, its FY20 net profit fell 44% YoY largely due to the earnings vacuum in 2QFY20 when construction activities came a complete halt during the height of the initial movement control order while Sunway Construction continued to incur certain fixed overheads (such as wages, staff welfare, depreciation, equipment rentals, headquarters expense, etc).
- During FY20, Sunway Construction secured new construction jobs worth a total of RM2.2bil and its outstanding construction order book stands at RM5.2bil (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. Thus far in FY21F, Sunway Construction has secured new jobs worth a total of RM366mil.
- We maintain our view that the government will have very limited room for fiscal manoeuvre in 2021 given the elevated national debt, even before the pandemic. The government's fiscal position has been 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. All these have culminated in Fitch Ratings' Dec 2020 downgrade of Malaysia's long-term foreign-currency issuer default rating to 'BBB+' from 'A-', on the heels of S&P Global Ratings' June 2020 downgrade of Malaysia's outlook to negative from stable.

- Under these circumstances, we believe the government is unlikely to roll out new public infrastructure projects in a major way over the short term. Also, given the suspension of parliament following the declaration of a state of emergency until 1 Aug 2021, the tabling of the 12th Malaysia Plan (which, among others, will earmark mega public infrastructure projects to be implemented in 2021–2025) scheduled for March 2021 could now be put on the back burner.
- 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 12x forward earnings on muted sector prospects.

EXHIBIT 1: RESULTS SUMMARY

YE Dec (RMmil)	FY20 1Q	FY20 2Q	FY20 3Q	FY20 4Q	QoQ Chg	FY19 12M	FY20 12M	YoY Chg
Turnover	365.8	140.2	419.4	627.2	50%	1,768.7	1,552.7	-12%
Construction	329.6	137.2	403.4	585.0	45%	1,618.9	1,455.2	-10%
Precast concrete	36.3	3.0	16.0	42.2	164%	149.8	97.4	-35%
EBIT	18.7	0.1	32.9	38.8	18%	141.0	90.5	-36%
Construction	17.3	3.4	31.7	34.8	10%	135.3	87.2	-36%
Precast concrete	1.4	(3.3)	1.3	4.0	nm	5.8	3.3	nm
Net inc/(exp)	2.5	2.2	3.0	2.7	-10%	12.0	10.5	-12%
Associates	0.0	0.1	0.0	0.0	nm	4.4	0.1	nm
EI	0.0	0.0	0.0	0.0	nm	0.0	0.0	nm
Pretax profit	21.2	2.3	36.0	41.6	16%	157.4	101.1	-36%
Taxation	(4.3)	(0.2)	(11.7)	(11.5)	-2%	(27.1)	(27.8)	3%
Minority interest	(0.6)	0.1	(0.2)	0.1	nm	(1.0)	(0.5)	nm
Net profit	16.4	2.2	24.0	30.2	26%	129.3	72.8	-44%
EPS (sen)	1.3	0.2	1.9	2.3	26%	10.0	5.6	-44%
EBIT margin	5%	0%	8%	6%	(2%)	8%	6%	(2%)
Pretax margin	6%	2%	9%	7%	(2%)	9%	7%	(2%)
Effective tax rate	20%	9%	33%	28%	(5%)	17%	27%	10%

Source: Company, AmInvestment Bank Bhd

EXHIBIT 2: OUTSTANDING ORDER BOOK

Project	Outstanding Value (RMmil)
Internal building jobs	2,391
Sunway Velocity Two	447
Sunway Medical Centre (SMC) 4	455
Parcel CP2, Bandar Sunway	344
Sunway Belfield, KL	396
Sunway Serene	188
Carnival Mall extension	151
SMC Seberang Jaya	109
Sunway International School	110
Sunway Resort & Spa renovation	58
Velocity 3C4	53
Big Box, Iskandar	32
Sunway GeoLake	19
Others	29
GS07 & GS08, LRT3	573
TNB HQ campus, KL	508
Thorapalli Agraharam – Jittandahalli, India	508
Meensurutti - Chidambaram, India	315
Petronas Leadership Centre, Bangi	211
Oxley, KL (MEP)	58
PPA1M, Kota Bharu	54
Chan Sow Lin station (MEP)	46
Others	136
New job wins in FY21F thus far	366
Total	5,166

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)	FY19	FY20	FY21F	FY22F	FY23F
Revenue	1,768.7	1,552.7	2,562.4	2,432.6	2,612.0
EBITDA	181.3	124.0	253.8	255.7	270.4
Depreciation/Amortisation	(40.3)	(33.4)	(57.2)	(62.2)	(67.2)
Operating income (EBIT)	141.0	90.5	196.6	193.5	203.2
Other income & associates	4.4	0.1	-	-	-
Net interest	12.0	10.5	10.7	11.7	13.0
Exceptional items	-	-	-	-	-
Pretax profit	157.4	101.1	207.2	205.2	216.2
Taxation	(27.1)	(27.8)	(41.4)	(41.0)	(43.2)
Minorities/pref dividends	(1.0)	(0.5)	(0.2)	(0.2)	(0.2)
Net profit	129.3	72.8	165.6	164.0	172.8
Core net profit	129.3	72.8	165.6	164.0	172.8
Balance Sheet (RMmil, YE 31 Dec)	FY19	FY20	FY21F	FY22F	FY23F
Fixed assets	138.7	107.4	150.2	188.0	220.8
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	206.5	244.3	277.1
Cash & equivalent	692.6	640.1	672.6	708.5	758.1
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	1,774.8	1,810.7	1,860.3
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	712.0	785.5	867.8
Minority interests	2.2	1.7	1.9	2.0	2.2
BV/share (RM)	0.48	0.49	0.55	0.61	0.67
Cash Flow (RMmil, YE 31 Dec)	FY19	FY20	FY21F	FY22F	FY23F
Pretax profit	157.4	101.1	207.2	205.2	216.2
Depreciation/Amortisation	40.3	33.4	57.2	62.2	67.2
Net change in working capital	27.9	-	-	-	-
Others	(39.2)	(59.3)	(52.1)	(52.7)	(56.2)
Cash flow from operations	186.3	75.2	212.3	214.7	227.2
Capital expenditure	(8.3)	(3.4)	(100.0)	(100.0)	(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	(100.0)	(100.0)	(100.0)
Debt raised/(repaid)	167.9	12.0	-	-	-
Equity raised/(repaid)	(5.7)	-	-	-	-
Dividends paid	(90.6)	(62.3)	(90.5)	(90.5)	(90.5)
Others	(52.1)	(97.0)	10.7	11.7	13.0
Cash flow from financing	19.5	(147.3)	(79.8)	(78.8)	(77.5)
Net cash flow	(62.7)	108.7	32.5	35.9	49.6
Net cash/(debt) b/f	488.4	432.9	559.6	592.1	628.0
Net cash/(debt) c/f	425.7	541.6	592.1	628.0	677.6
Key Ratios (YE31 Dec)	FY19	FY20	FY21F	FY22F	FY23F
Revenue growth (%)	(21.6)	(12.2)	65.0	(5.1)	7.4
EBITDA growth (%)	(15.7)	(31.6)	104.7	0.8	5.7
Pretax margin (%)	8.9	6.5	8.1	8.4	8.3
Net profit margin (%)	7.3	4.7	6.5	6.7	6.6
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	71.1	54.6	55.2	52.4
Debtors turnover (days)	200	246	149	157	146
Stock turnover (days)	-	-	-	-	-
Creditors turnover (days)	236	293	175	185	172

Source: Company, AmInvestment Bank Bhd estimates

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