

# Malaysia Company Update

# Sunway Construction Group

Bloomberg: SCGB MK | Reuters: SCOG.KL

Refer to important disclosures at the end of this report

DBS Group Research . Equity

20 Nov 2020

## BUY

Last Traded Price (19 Nov 2020): RM1.83 (KLCI : 1,583.68)

Price Target 12-mth: RM2.30 (26% upside) (Prev RM2.30)

### Analyst

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### What's New

- In-line 3Q20 earnings; expect a bumper 4Q
- Manufacturing earnings back in the black
- Surpassed new order guidance – leading to stronger earnings recovery in FY21F
- BUY with SOP-derived TP of RM2.30

### Price Relative



### Forecasts and Valuation

FY Dec (RMm)	2019A	2020F	2021F	2022F
Revenue	1,769	1,532	1,758	1,771
EBITDA	181	150	202	211
Pre-tax Profit	157	115	164	182
Net Profit	129	91.9	131	146
Net Pft (Pre Ex.)	129	91.9	131	146
Net Pft Gth (Pre-ex) (%)	(11.3)	(28.9)	42.8	10.9
EPS (sen)	10.0	7.11	10.2	11.3
EPS Pre Ex. (sen)	10.0	7.11	10.2	11.3
EPS Gth Pre Ex (%)	(11)	(29)	43	11
Diluted EPS (sen)	10.0	7.11	10.2	11.3
Net DPS (sen)	6.99	4.62	6.60	7.32
BV Per Share (sen)	48.2	50.7	54.2	58.2
PE (X)	18.3	25.7	18.0	16.2
PE Pre Ex. (X)	18.3	25.7	18.0	16.2
P/Cash Flow (X)	12.6	11.6	22.6	14.0
EV/EBITDA (X)	11.3	13.1	9.9	9.3
Net Div Yield (%)	3.8	2.5	3.6	4.0
P/Book Value (X)	3.8	3.6	3.4	3.1
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	21.3	14.4	19.4	20.0

### Earnings Rev (%)

Consensus EPS (sen):	-	-	-
Other Broker Recs:	B: 10	S: 2	H: 3

Source of all data on this page: Company, AllianceDBS, Bloomberg Finance L.P.

## Marked improvement in 3Q performance

### Investment Thesis:

**Earnings rebound in 3Q; expect bumper 4Q.** 3Q20 results for both construction and manufacturing divisions showed a marked improvement with 3Q20 net profit surging 578% q-o-q. We expect a bumper 4Q as the progress of works continues to normalise.

**Poised for more wins.** More importantly, we believe SCGB is poised to participate in the revival of key mega projects like MRT 3 and HSR with its strong track record, rail experience and balance sheet strength. Additionally, SCGB has also been successful in clinching two Hybrid Annuity Model projects in India.

**Surpassed order win target.** SCGB has surpassed its RM2bn new order target for FY20F with YTD wins of RM2.3bn. The approval of Budget 2021 and more clarity on the timeline of awards for MRT 3 and HSR will be the next major catalysts. Also a flawless execution track record post-Movement Control Order (MCO), faster recovery in its precast division leading to a potential uplift in earnings and sustained dividend payouts could also act as the next catalysts for the stock.

### Valuation:

**TP of RM2.30.** Our target price (TP) is based on sum-of-parts (SOP) valuation to reflect the growing contribution from its high-margin precast business.

### Where we differ:

Despite seemingly higher valuations, we expect this premium to sustain given its impeccable execution, net cash balance sheet with sustainable dividend payouts and improving visibility of project flows.

### Key Risks to Our View:

The timely execution of its orderbook post-MCO is crucial to minimising the risk of any further earnings cuts.

### At A Glance

Issued Capital (m shrs)	1,289
Mkt. Cap (RMm/US\$m)	2,360 / 576
Major Shareholders (%)	
SunwayBerhad	55.6
Tan Sri Jeffrey Cheah & Family	7.6
Free Float (%)	36
3m Avg. Daily Val (US\$m)	0.13
GIC Industry : Industrials / Capital Goods	



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## WHAT'S NEW

### Recovery intact

**Within expectations.** Sunway Construction Group Berhad (SCGB) reported a 3Q20 headline net profit of RM32m, bringing 9M20 net profit to RM43m. Stripping out some one offs, 3Q20 core net profit stood at RM32m (-13% y-o-y and +578% q-o-q) and 9M20 core net profit came in at RM54m (-44% y-o-y). This was on the back of a 28% y-o-y decline in 9M20 revenue to RM925m. The results were within our forecast and consensus estimate as we expect a much stronger 4Q20.

**Strong pick-up post MCO.** Construction revenue for 3Q20 was higher by 10% y-o-y and also surged 194% q-o-q to RM403m. The much higher revenue sequentially can be attributed to the conclusion of the conditional movement control order (CMCO) on 9 June 2020, which commenced in the form of MCO on 18 March 2020. There was much higher revenue recognition from its Tenaga project during 3Q20 which led to the y-o-y revenue growth. 3Q20 construction pretax margin was 8.6% vs. 3Q19's 9.7% and 2Q20's 4.2%. Its outstanding construction orderbook as at 30 September 2020 stood at RM5bn.

**Precast division back in the black.** For 3Q20, its precast division was back in the black with a pretax profit of RM1.2m vs. a pretax loss of RM3.5m in 2Q20. 3Q20 revenue declined by 57% y-o-y but jumped 5-fold q-o-q to RM16m. Revenue for 3Q20 was still impacted by the circuit breaker and movement restriction in the foreign workers dormitories in Singapore (50% man power efficiency). The precast business is expected to resume operation to pre-COVID 19 levels in 4Q20. The outstanding precast orderbook as a 30 September 2020 stood at RM285m.

**YTD wins surpassed forecast.** SCGB's YTD wins have hit RM2.3bn that surpassed its guidance of RM2bn. The more recent wins have been from another Hybrid Annuity Model

project in India worth RM315m and also RM18m roof top solar projects for F&N. This new Indian win is for the Meensurutti to Chidambaram Section of NH-227 from Km 98.433 to Km 129.965 under Bharatmala Pariyojana Phase-I. The payment terms are for 40% during the construction period and balance 60% in a 15 year annuity concession. There is no traffic risk given the fixed annuity structure.

It has a current outstanding tenderbook of RM5.3bn, of which half comprises overseas jobs in India, Singapore and the Philippines. The recent solar jobs wins while small may put it in good stead to bid for the LSS 4 projects.

**BUY rating and TP of RM2.30 retained.** We maintain our BUY rating and keep our TP unchanged at RM2.30 which is based on SOP. SCGB remains the least impacted construction stock under our coverage from the COVID-19 virus given its strong net cash balance sheet and pipeline of jobs from its parent company. On top of this, we expect to be present in the revival of mega projects such as MRT 3 and HSR.

### Company Background

An established player with 30 years of heritage, Sunway Construction Group (SCGB) is one of Malaysia's largest construction companies. It adopts an integrated business model that covers various phases of construction activities, from project design to completion.

## Sunway Construction Group

### Quarterly / Interim Income Statement (RMm)

FY Dec	3Q2019	2Q2020	3Q2020	% chg yoy	% chg qoq
Revenue	403	140	419	4.2	199.2
Other Oper. (Exp)/Inc	(368)	(140)	(386)	5.0	175.8
<b>Operating Profit</b>	<b>34.4</b>	<b>0.07</b>	<b>33.0</b>	<b>(4.2)</b>	<b>nm</b>
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	nm	nm
Associates & JV Inc	0.0	0.06	0.0	nm	nm
Net Interest (Exp)/Inc	1.19	2.21	3.01	154.3	36.6
Exceptional Gain/(Loss)	0.0	0.0	0.0	nm	nm
<b>Pre-tax Profit</b>	<b>35.6</b>	<b>2.34</b>	<b>36.0</b>	<b>1.1</b>	<b>nm</b>
Tax	(2.5)	(0.2)	(11.7)	362.2	nm
Minority Interest	0.46	0.07	(0.2)	nm	nm
<b>Net Profit</b>	<b>33.5</b>	<b>2.19</b>	<b>24.0</b>	<b>(28.2)</b>	<b>nm</b>
Net profit bef Except.	33.5	2.19	24.0	(28.2)	nm
EBITDA	34.4	0.13	33.0	(4.2)	nm
<b>Margins (%)</b>					
Opg Profit Margins	8.5	0.0	7.9		
Net Profit Margins	8.3	1.6	5.7		

### Historical PE and PB band



Source: Bloomberg Finance L.P., AllianceDBS estimates



Source: Bloomberg Finance L.P., AllianceDBS estimates

## Sunway Construction Group

### Key Assumptions

FY Dec	2018A	2019A	2020F	2021F	2022F
New order wins	1,553	2,014	150	2,150	2,150
Construction EBIT margins	8.17	8.35	8.07	9.05	10.1
Precast EBIT margins	0.81	3.85	(10.0)	10.0	10.0

### Segmental Breakdown

FY Dec	2018A	2019A	2020F	2021F	2022F
<b>Revenues (RMm)</b>					
Construction	2,123	1,619	1,459	1,618	1,606
Precast Concrete	134	150	72.5	140	165
<b>Total</b>	<b>2,257</b>	<b>1,769</b>	<b>1,532</b>	<b>1,758</b>	<b>1,771</b>
<b>EBIT (RMm)</b>					
Construction	174	135	118	147	161
Precast Concrete	1.09	5.77	(7.3)	14.0	16.5
<b>Total</b>	<b>175</b>	<b>141</b>	<b>111</b>	<b>161</b>	<b>178</b>

### Income Statement (RMm)

FY Dec	2018A	2019A	2020F	2021F	2022F
Revenue	2,257	1,769	1,532	1,758	1,771
Cost of Goods Sold	(1,782)	(1,397)	(1,183)	(1,355)	(1,357)
<b>Gross Profit</b>	<b>474</b>	<b>372</b>	<b>349</b>	<b>403</b>	<b>414</b>
Other Opng (Exp)/Inc	(299)	(231)	(238)	(243)	(236)
<b>Operating Profit</b>	<b>176</b>	<b>141</b>	<b>111</b>	<b>161</b>	<b>178</b>
Other Non Opng (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	0.73	4.42	0.0	0.0	0.0
Net Interest (Exp)/Inc	7.74	12.0	4.39	3.63	4.24
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
<b>Pre-tax Profit</b>	<b>184</b>	<b>157</b>	<b>115</b>	<b>164</b>	<b>182</b>
Tax	(38.0)	(27.1)	(23.0)	(32.8)	(36.4)
Minority Interest	(0.3)	(1.0)	0.0	0.0	0.0
Preference Dividend	0.0	0.0	0.0	0.0	0.0
<b>Net Profit</b>	<b>146</b>	<b>129</b>	<b>91.9</b>	<b>131</b>	<b>146</b>
Net Profit before Except.	146	129	91.9	131	146
EBITDA	218	181	150	202	211
<b>Growth</b>					
Revenue Gth (%)	8.7	(21.6)	(13.4)	14.8	0.7
EBITDA Gth (%)	6.5	(16.9)	(17.2)	34.7	4.2
Opng Profit Gth (%)	6.1	(19.7)	(21.6)	45.2	10.8
Net Profit Gth (Pre-ex) (%)	5.0	(11.3)	(28.9)	42.8	10.9
<b>Margins &amp; Ratio</b>					
Gross Margins (%)	21.0	21.0	22.8	22.9	23.4
Opng Profit Margin (%)	7.8	8.0	7.2	9.1	10.0
Net Profit Margin (%)	6.5	7.3	6.0	7.5	8.2
ROAE (%)	25.5	21.3	14.4	19.4	20.0
ROA (%)	7.9	7.0	4.9	6.8	7.3
ROCE (%)	20.5	15.5	9.3	12.6	13.4
Div Payout Ratio (%)	66.5	69.9	65.0	65.0	65.0
Net Interest Cover (x)	NM	NM	NM	NM	NM

Source: Company, AllianceDBS

## Sunway Construction Group

### Quarterly Income Statement (RMm)

FY Dec	3Q2019	4Q2019	1Q2020	2Q2020	3Q2020
Revenue	403	486	366	140	419
Cost of Goods Sold	0.0	0.0	0.0	0.0	0.0
<b>Gross Profit</b>	<b>403</b>	<b>486</b>	<b>366</b>	<b>140</b>	<b>419</b>
Other Oper. (Exp)/Inc	(368)	(455)	(347)	(140)	(386)
<b>Operating Profit</b>	<b>34.4</b>	<b>30.8</b>	<b>18.7</b>	<b>0.07</b>	<b>33.0</b>
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	0.0	4.42	0.0	0.06	0.0
Net Interest (Exp)/Inc	1.19	5.26	2.54	2.21	3.01
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
<b>Pre-tax Profit</b>	<b>35.6</b>	<b>40.5</b>	<b>21.2</b>	<b>2.34</b>	<b>36.0</b>
Tax	(2.5)	(7.8)	(4.3)	(0.2)	(11.7)
Minority Interest	0.46	(1.1)	(0.6)	0.07	(0.2)
<b>Net Profit</b>	<b>33.5</b>	<b>31.6</b>	<b>16.4</b>	<b>2.19</b>	<b>24.0</b>
Net profit bef Except.	33.5	31.6	16.4	2.19	24.0
EBITDA	34.4	35.3	18.7	0.13	33.0

### Growth

Revenue Gth (%)	(8.5)	20.7	(24.7)	(61.7)	199.2
EBITDA Gth (%)	(8.6)	2.5	(47.0)	(99.3)	nm
Opg Profit Gth (%)	(8.6)	(10.3)	(39.4)	(99.6)	nm
Net Profit Gth (Pre-ex) (%)	0.9	(5.5)	(48.3)	(86.6)	nm

### Margins

Opg Profit Margins (%)	8.5	6.3	5.1	0.0	7.9
Net Profit Margins (%)	8.3	6.5	4.5	1.6	5.7

### Balance Sheet (RMm)

FY Dec	2018A	2019A	2020F	2021F	2022F
Net Fixed Assets	164	139	149	158	175
Invts in Associates & JVs	44.7	48.4	48.4	48.4	48.4
Other LT Assets	6.58	7.81	7.81	7.81	7.81
Cash & ST Invts	485	693	787	756	781
Inventory	30.0	25.1	16.4	18.4	18.3
Debtors	1,059	970	839	964	970
Other Current Assets	22.9	21.7	21.7	21.7	21.7
<b>Total Assets</b>	<b>1,812</b>	<b>1,905</b>	<b>1,870</b>	<b>1,974</b>	<b>2,022</b>
ST Debt	114	233	233	233	233
Creditor	995	885	818	876	873
Other Current Liab	14.6	1.56	1.56	1.56	1.56
LT Debt	96.3	148	148	148	148
Other LT Liabilities	0.57	11.2	11.2	11.2	11.2
Shareholder's Equity	591	623	655	701	752
Minority Interests	1.44	2.22	2.22	2.22	2.22
<b>Total Cap. &amp; Liab.</b>	<b>1,812</b>	<b>1,905</b>	<b>1,870</b>	<b>1,974</b>	<b>2,022</b>
Non-Cash Wkq. Capital	103	130	58.1	127	136
Net Cash/(Debt)	275	311	405	374	399
Debtors Turn (avg days)	182.3	209.4	215.6	187.1	199.3
Creditors Turn (avg days)	228.6	252.9	271.9	235.3	241.0
Inventory Turn (avg days)	5.7	7.4	6.6	4.8	5.1
Asset Turnover (x)	1.2	1.0	0.8	0.9	0.9
Current Ratio (x)	1.4	1.5	1.6	1.6	1.6
Quick Ratio (x)	1.4	1.5	1.5	1.5	1.6
Net Debt/Equity(X)	CASH	CASH	CASH	CASH	CASH
Net Debt/Equityex MI (X)	CASH	CASH	CASH	CASH	CASH
Capex to Debt (%)	26.8	2.2	13.1	13.1	13.1
Z-Score (X)	3.3	2.9	2.8	2.8	2.8

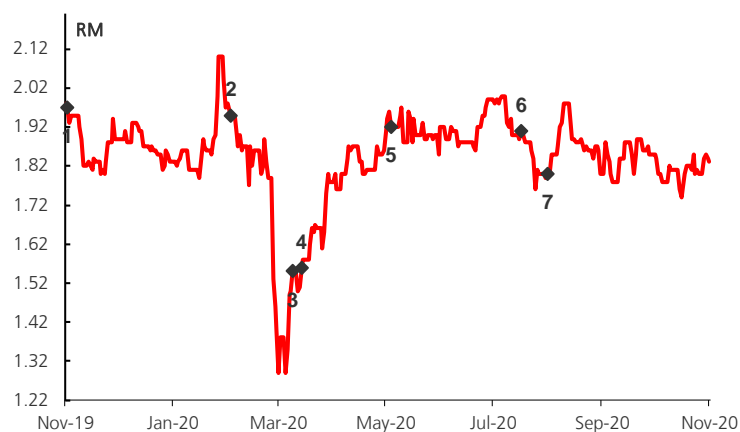
Source: Company, AllianceDBS

## Cash Flow Statement (RMm)

FY Dec	2018A	2019A	2020F	2021F	2022F
Pre-Tax Profit	184	157	115	164	182
Dep. & Amort.	42.5	40.3	39.6	41.8	33.0
Tax Paid	(38.0)	(27.1)	(23.0)	(32.8)	(36.4)
Assoc. & JV Inc/(loss)	0.0	0.0	0.0	0.0	0.0
Chg in Wkq. Cap.	(59.3)	(15.6)	72.3	(68.4)	(9.4)
Other Operating CF	59.7	33.1	0.0	0.0	0.0
<b>Net Operating CF</b>	<b>189</b>	<b>188</b>	<b>204</b>	<b>105</b>	<b>169</b>
Capital Exp.(net)	(56.2)	(8.3)	(50.0)	(50.0)	(50.0)
Other Invt.(net)	0.0	0.0	0.0	0.0	0.0
Invt in Assoc. & JV	0.0	0.0	0.0	0.0	0.0
Div from Assoc & JV	0.0	0.0	0.0	0.0	0.0
Other Investing CF	(17.7)	(43.1)	0.0	0.0	0.0
<b>Net Investing CF</b>	<b>(73.8)</b>	<b>(51.4)</b>	<b>(50.0)</b>	<b>(50.0)</b>	<b>(50.0)</b>
Div Paid	(96.9)	(90.4)	(59.8)	(85.4)	(94.7)
Chg in Gross Debt	75.3	172	0.0	0.0	0.0
Capital Issues	0.0	0.0	0.0	0.0	0.0
Other Financing CF	(95.9)	(10.5)	0.0	0.0	0.0
<b>Net Financing CF</b>	<b>(118)</b>	<b>71.1</b>	<b>(59.8)</b>	<b>(85.4)</b>	<b>(94.7)</b>
Currency Adjustments	0.0	0.0	0.0	0.0	0.0
Chg in Cash	(2.4)	208	94.1	(30.6)	24.6
Opq CFPS (sen)	19.2	15.8	10.2	13.4	13.8
Free CFPS (sen)	10.3	13.9	11.9	4.24	9.22

Source: Company, AllianceDBS

## Target Price &amp; Ratings History



S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	20 Nov 19	1.97	2.70	BUY
2:	21 Feb 20	1.95	2.60	BUY
3:	27 Mar 20	1.55	2.60	BUY
4:	01 Apr 20	1.56	2.30	BUY
5:	22 May 20	1.92	2.30	BUY
6:	04 Aug 20	1.91	2.30	BUY
7:	19 Aug 20	1.80	2.30	BUY

Note: Share price and Target price are adjusted for corporate actions.

Source: AllianceDBS

Analyst: Malaysian Research Team

AllianceDBS recommendations are based on an Absolute Total Return \* Rating system, defined as follows:

**STRONG BUY** (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

**BUY** (>15% total return over the next 12 months for small caps, >10% for large caps)

**HOLD** (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

**FULLY VALUED** (negative total return, i.e., > -10% over the next 12 months)

**SELL** (negative total return of > -20% over the next 3 months, with identifiable share price catalysts within this time frame)

\*Share price appreciation + dividends

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Sources for all charts and tables are AllianceDBS unless otherwise specified.

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