

20 November 2020

Sunway Construction Group

9MFY20 Within Expectations

By Lum Joe Shen | lumjs@kenanga.com.my

9MFY20 CNP of RM44.9m is deemed within our, but slightly below consensus' aggressive, target. Construction and precast works have fully resumed since Aug 2020 and we expect sequential improvement in the quarters ahead. No changes to our FY20-21E earnings forecast and we maintain OP with an unchanged TP of RM2.45.

Within our estimate but below consensus'. 3QFY20 CNP of RM22.7m* brought 9MFY20 to RM44.9m – deemed within our estimate at 64% but slightly below consensus at 59%. While we expect Suncon to see better profitability of RM25m in 4QFY20, we think consensus FY20 CNP forecast of RM76m is slightly aggressive - implying RM31m for 4QFY20 which is pre-Covid-19 level. We think it is more prudent to expect profitability level to normalise only from FY21. No dividends as expected. Note that the re-imposed MCO on October 14 has minimal work disruption according to management.

*3QFY20 CNP adjusted for reversal of: (i) RM9m of staff bonus previously recognised in 2019, (ii) disposal gains of RM3.7m, (iii) receivable impairments worth RM5.0m, (iv) FX loss of RM2.5m, (v) goodwill impairment of RM3.6m, and (vi) FV loss of RM0.1m.

Results' review. 3QFY20 CNP of RM22.7m surged 395% **QoQ** as the quarter was not disrupted by a 2-month MCO as in 2QFY20.

Dissecting 3QFY20 further, Suncon's construction revenue bounced back to pre-pandemic level as work progress resumed. That said, PAT margin of 5.7% is still lower than pre-pandemic levels probably due to the stricter SOP compliance. Meanwhile, 3QFY20 precast revenue was still below the normalised levels as works only fully resumed in mid-August – hence, Suncon only experienced half a quarter worth of optimum precast deliveries. **YoY**, 9MFY20 CNP of RM44.9m was down 53% mainly from MCO lockdowns.

Achievements. YTD, Suncon has secured RM2.3b worth of contracts – exceeding initial projections of RM2.0b. While management guides for no other contracts for the remainder of the year, we keep our FY20E replenishment target of RM2.5b unchanged (upgraded back in Oct 2020) to cater for unexpected wins potentially from (i) precast segment or (ii) rooftop solar projects.

For FY21E, our replenishment target is pegged at RM2.0b backed by an existing tender-book of RM5.3b with replenishment prospects coming from: (i) LSS4, and (ii) further housing projects i.e. Sunway Valley City, Penang. Current outstanding order-book of RM5.3b (as of Sept 2020) provides c.2.5x revenue cover.

Minimal collection risk. Contrary to belief that the Covid-19 pandemic would lead to higher receivables, we highlight that Suncon's 3QFY20 total receivables of RM820m is in a relatively healthy position vis-à-vis previous quarters and receivables past due of RM80m are actually lower than that in 2019 (refer chart 1) – indicating low collection issues. That said, the RM5m impairment registered this quarter was from a single client that will not be recurring moving forward.

No change to our earnings forecast post results.

Maintain OUTPERFORM with an unchanged SoP-derived TP of RM2.45 based on a construction PER of 18x (+1SD above its 5-year mean). We think our premium PER valuations is justified vs. other contractors given Suncon's low risks profile from the receivable, replenishment, and execution perspectives – the three key risks that really matter to a contractor.

OUTPERFORM ↔

Price : RM1.83
Target Price : RM2.45 ↔

Share Price Performance



KLCI 1,583.68
YTD KLCI chg -0.3%
YTD stock price chg -4.2%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	SCGB MK EQUITY
Market Cap (RM m)	2,359.5
Shares Outstanding	1,289.4
52-week range (H)	2.10
52-week range (L)	1.25
3-mth avg daily vol:	284,292
Free Float	19%
Beta	0.8

Major Shareholders

Sunway Holdings Sdn Bhd	54.6%
Sungei Way Corp Sdn Bhd	10.1%
Empeyes Provident Fund Board	9.1%

Summary Earnings Table

FYE Dec (RM m)	2019A	2020E	2021E
Turnover	1768.7	1429.9	2383.7
EBIT	142.7	77.3	195.5
PBT	157.4	88.9	204.5
Net Profit	129.3	70.1	160.0
Core PATAMI	131.0	70.1	160.0
Consensus (NP)	n.a.	76.6	147.9
Earnings Revision	n.a.	0%	0%
Core EPS (sen)	10	5	12
Core EPS growth (%)	-5	-46	128
NDPS (sen)	7.0	2.5	8.0
NTA per Share (RM)	0.53	0.56	0.61
Price to NTA (x)	3.4	3.3	3.0
PER (x)	18.0	33.7	14.8
Debt-to-Equity ratio (x)	N.cash	N.cash	N.cash
Return on Equity (%)	19	10	20
Net Div. Yield (%)	3.8	1.4	4.4

20 November 2020

Risks include a resurgence of Covid-19 cases, lower-than-expected margins, delay in work progress.

Results Highlight								
FYE Dec (RM m)	3Q20	2Q20	QoQ	3Q19	YoY	9M20	9M19	YoY
Turnover	419.4	140.2	199%	402.6	-65%	925.4	1282.8	-28%
EBIT (adjusted for EI)	31.6	2.5	1149%	37.4	-93%	54.1	107.2	-50%
Interest income	4.6	4.5	2%	5.1	-12%	14.3	16.5	-13%
Interest expense	-1.6	-2.3	-32%	-3.9	-41%	-6.6	-9.8	-33%
Associates	0.0	0.0	n.a.	0.0	n.a.	0.0	0.0	n.a.
Exceptional items	1.3	-2.4	-154%	-3.0	-20%	-2.3	3.0	-177%
PBT	36.0	2.3	1437%	35.6	-93%	59.5	116.9	-49%
Tax	-11.7	-0.2	5356%	-2.5	-92%	-16.3	-19.3	-16%
Minority interest	0.2	-0.1	-375%	-0.5	-85%	0.7	-0.1	-1316%
PATAMI	24.0	2.2	996%	33.5	-93%	42.6	97.7	-56%
CNP	22.7	4.6	395%	36.5	-87%	44.9	94.7	-53%
Net DPS (sen)	0.0	1.3		0.0		1.3	3.5	
Margins								
EBIT	7.5%	1.8%		9.3%		5.8%	8.4%	
PBT	8.6%	1.7%		8.8%		6.4%	9.1%	
PATAMI	5.7%	1.6%		8.3%		4.6%	7.6%	
CNP	5.4%	3.3%		9.1%		4.9%	7.4%	

Source: Company, Kenanga Research

Segmental Breakdown								
	3Q20	2Q20	QoQ	3Q19	YoY	9M20	9M19	YoY
Revenue								
Construction	403.4	137.2	194%	365.1	-62%	870.2	1178.4	-26%
Precast concrete	16.0	3.0	434%	37.5	-92%	55.2	104.4	-47%
Total	419.4	140.2	199%	402.6	-65%	925.4	1282.8	-28%
EBIT								
Construction	31.7	3.4	827%	33.6	-90%	52.4	108.3	-52%
Precast concrete	1.3	-3.3	-138%	0.8	-514%	-0.7	1.9	-134%
Total	32.9	0.1	46966%	34.4	-100%	51.7	110.2	-53%
Pretax profit								
Construction	34.8	5.9	492%	35.4	-83%	61.1	116.6	-48%
Precast concrete	1.2	-3.5	-134%	0.2	-1831%	-1.6	0.3	-590%
Total	36.0	2.3	1437%	35.6	-93%	59.5	116.9	-49%
Net profit								
Construction	23.2	5.5	318%	33.8	-84%	44.7	98.0	-54%
Precast concrete	0.9	-3.3	-126%	-0.3	-1031%	-2.1	-0.3	601%
Total	24.0	2.2	996%	33.5	-93%	42.6	97.7	-56%
PAT Margins								
Construction	5.7%	4.0%		9.3%		5.1%	8.3%	
Precast	5.4%	-112.0%		-0.8%		-3.8%	-0.3%	
Total	5.7%	1.6%		8.3%		4.6%	7.6%	

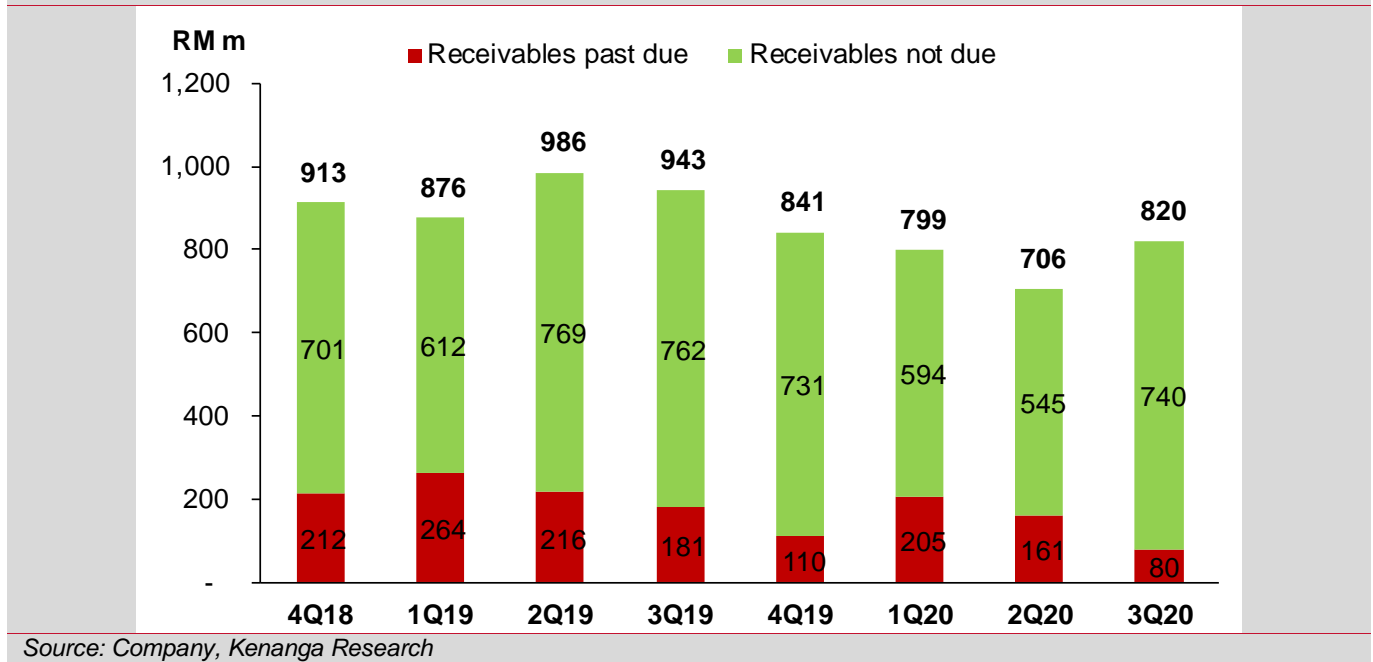
Source: Company, Kenanga Research

Sum of Parts Target Price		
Items	Value (RM m)	Remarks
Construction	2,651	Apply 18x FY21F PE
Precast concrete	127	Apply 10x FY21F PE
Business equity value	2,778	
Net cash/(debt) as of 1Q20	360	
Equity value	3,138	
No. of shares (m)	1,293	
Equity value per share (RM)	2.45	

Source: Kenanga Research

20 November 2020

Chart 1: Total Receivables



This page is intentionally left blank

20 November 2020

Peer Comparison

Name	Last Price (RM)	Market Cap (RM'm)	Shariah Compliant	Current FYE	PER (x) - Core Earnings			PBV (x)		ROE (%)		Net Div Yld (%)	Target Price	Rating
					Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.			
STOCKS UNDER COVERAGE														
GAMUDA BHD	3.62	9,099.0	Y	07/2021	17.2	13.3	15.1	1.1	1.0	7.8%	1.7%	4.10	OP	
GEORGE KENT (MALAYSIA) BHD	0.765	402.8	Y	01/2021	10.2	12.3	8.1	0.8	0.8	6.7%	2.1%	0.510	UP	
HOCK SENG LEE BERHAD	0.915	502.8	Y	12/2020	9.1	17.3	8.2	0.6	0.6	3.5%	1.1%	1.25	OP	
IJM CORP BHD	1.60	5,794.1	Y	03/2021	17.2	25.4	20.8	0.6	0.6	2.3%	1.9%	2.00	OP	
KERJAYA PROSPEK GROUP BHD	0.935	1,157.0	Y	12/2020	7.7	11.0	7.4	1.2	1.1	10.2%	3.2%	1.50	OP	
KIMLUN CORP BHD	0.720	244.7	Y	12/2020	4.2	9.6	5.5	0.4	0.3	3.8%	6.5%	0.960	OP	
MITRAJAYA HOLDINGS BHD	0.220	182.1	Y	12/2020	N.A.	13.8	11.6	0.3	0.3	1.8%	0.0%	0.215	MP	
MUHIBBAH ENGINEERING (M) BHD	1.13	546.3	Y	12/2020	14.3	226.0	9.0	0.5	0.4	0.2%	0.9%	1.05	OP	
SUNWAY CONSTRUCTION GROUP BHD	1.83	2,359.5	Y	12/2020	17.9	33.9	14.8	3.8	3.6	10.9%	1.4%	2.45	OP	
WCT HOLDINGS BHD	0.420	589.6	Y	12/2020	3.8	42.0	11.1	0.2	0.2	0.4%	0.0%	0.470	OP	
Simple Average					11.3	40.4	11.2	0.9	0.9	4.8%	1.9%			

Source: Bloomberg, Kenanga Research

20 November 2020

Stock Ratings are defined as follows:**Stock Recommendations**

OUTPERFORM	: A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM	: A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM	: A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT	: A particular sector's Expected Total Return is MORE than 10%
NEUTRAL	: A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT	: A particular sector's Expected Total Return is LESS than -5%

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

This document has been prepared for general circulation based on information obtained from sources believed to be reliable but we do not make any representations as to its accuracy or completeness. Any recommendation contained in this document does not have regard to the specific investment objectives, financial situation and the particular needs of any specific person who may read this document. This document is for the information of addressees only and is not to be taken in substitution for the exercise of judgement by addressees. Kenanga Investment Bank Berhad accepts no liability whatsoever for any direct or consequential loss arising from any use of this document or any solicitations of an offer to buy or sell any securities. Kenanga Investment Bank Berhad and its associates, their directors, and/or employees may have positions in, and may effect transactions in securities mentioned herein from time to time in the open market or otherwise, and may receive brokerage fees or act as principal or agent in dealings with respect to these companies.

Published and printed by:

KENANGA INVESTMENT BANK BERHAD (15678-H)

Level 17, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia
Telephone: (603) 2172 0880 Website: www.kenanga.com.my E-mail: research@kenanga.com.my

