

Sunway Construction Group Berhad

(5263 | SCGB MK) Main | Construction

Maintain BUY

Resumption of Construction Activities in 2HFY20

Revised Target Price: RM2.14
(previously RM2.26)

KEY INVESTMENT HIGHLIGHTS

- **2QFY20 normalised earnings fell to RM4.6m (-85.5%yoy), impacted by the halt in construction activities**
- **Consequently, 1HFY20 normalised earnings also declined to RM22.2m (-62.6%yoy) which was below our expectation**
- **Secured new in-house jobs worth RM747.0m, bringing its total YTD new job wins to RM1.5b in FY20**
- **Strong outstanding order book of about RM6.0b which translates into earnings visibility for the next three years**
- **Maintain BUY with an revised target price at RM2.14**

Foresee activities to regain pace in 2HFY20. Sunway Construction Group Berhad (SCGB)'s 2QFY20 normalised earnings fell by -85.5%yoy to RM4.6m, primarily due to the disruption brought about by the movement control order (MCO) on construction activities which led to lower-than-expected progress billings. Consequently, the group's cumulative 1HFY20 normalised earnings plunged by -62.6%yoy to RM22.2m which came in below our and consensus's expectation, accounting for 19.6% and 25.2% of the full year estimates respectively (refer to Table 1). Nonetheless, we expect SCGB's construction and business activities to pick up pace in 2HFY20 as work site operations resumed promptly.

Awarded new in-house projects worth RM747.0m. SCGB has accepted two letter of awards from its parent company for the proposed construction of (1) Commercial mixed development with Carparks and Amenities at Bandar Sunway (worth about RM344.2m exclusive of piling works) to be completed by Dec-2023 ("CP2 Project"), and (2) Service Apartments (3 Block of 55/56 storey condominium with Carparks and Amenities at Jalan Belfield (worth about RM402.8m) to be completed by Jun-2024 ("Belfield Project"). This brings the group's total new orders secured in FY20 thus far to approximately RM1.5b or about 75% of its FY20 target of RM2.0b. Note that the total contract sum of the projects awarded falls within our job replenishment assumption.

Solid outstanding order book to underpin earnings momentum.

We believe that the group's current outstanding order book currently stands at about RM6.0b which will translate to an earnings visibility over the next three years. Meanwhile, we also postulate that the group is on track to achieve its job replenishment rate of RM2.0b in FY20, premised on its outstanding tender book of about RM8.5b with more than half from abroad (i.e. India, Singapore and Philippines), as part of its overseas expansion strategy. Note that the group has clinched its 8th highway project in India during 1QFY20 worth about RM508m. We do not discount the possibility of more construction project wins from India in FY20.

RETURN STATISTICS

Price @ 18 th August 2020 (RM)	RM 1.79
Expected share price return (%)	+19.5
Expected dividend yield (%)	+3.4
Expected total return (%)	+22.9

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	-10.1	-9.0
3 months	-4.8	-14.0
12 months	-13.5	-12.4

KEY STATISTICS

FBM KLCI	1,577.85
Syariah compliant	Yes
Issue shares (m)	1,292.90
Estimated free float (%)	19.26
Market Capitalisation (RM'm)	2,307.95
52-wk price range	RM1.25 - RM2.10
Beta vs FBM KLCI (x)	1.06
Monthly velocity (%)	5.34
Monthly volatility (%)	16.09
3-mth average daily volume (m)	0.64
3-mth average daily value (RM'm)	1.25
Top Shareholders (%)	
SUNHOLDINGS	54.56
Sungei Way Corp Sdn Bhd	10.08
Employees Provident Fund Board	9.07

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On the precast segment, we posit that the additional demand for Build-To-Order (BTO) flats to 16k-17k in FY20 in Singapore would also help to support the earnings from this segment in 2HFY20. As of August-20, a total of 10.9k BTO flats have been launched. Note that Singapore's HDB flats account for >90% of the group's precast segment sales.

Table 1: PBT breakdown (RM'm)

Segment	1HFY20	1HFY19	Variance (%)	Remarks
Construction	26.3	81.2	-67.6	Lower progress billings due to MCO
Precast Concrete	-2.7	0.1	>-100.0	Operations impeded due to inability to operate

Source: Company, MIDFR.

Earnings estimates. We are making some housekeeping changes to our earnings estimates to also take into account the impact of the MCO on the group's businesses. We are revising downward our FY20 and FY21 earnings forecasts to RM75.0m and RM153.8m respectively.

Target price. We are revising our TP to **RM2.14** (previously RM2.26) by pegging an unchanged PER of 18.0x to the group's FY21 EPS of 11.9sen. Note that the target PER is +1.5SD premium above the group's two-year historical average. We opine that the premium is justified given the group's solid order book replenishment rate, sound balance sheet and continued job flows from its parent company.

Maintain BUY. In the near term, we expect that the group's revenue and earnings prospects remain healthy in anticipation of recovery in 2HFY20 earnings following the resumption of construction and business activities and increased workforce capacity at work sites as seen during the Recovery MCO period. Coupled with its focus for oversea expansion, we remain positive on the group's prospects as its job replenishments rate remains on track to achieve its RM2.0b order book for FY20. On a longer term horizon, the group's prospect is also well-supported by its strong outstanding order book of about RM6.0b which will provide earnings visibility over the next three years. Notably, we are of the view that SCGB could be one of the main beneficiaries from the revival of Johor-Singapore Rail Transit System project given its existing workforce and two precast concrete manufacturing plants in Johor. All factors considered, we maintain our **BUY** recommendation on **SCGB**.



INVESTMENT STATISTICS

FYE 31 st December	FY18	FY19	FY20F	FY21F	FY22F
Revenue (RM'm)	2,256.8	1,768.7	1,680.3	2,100.4	2,205.4
EBIT (RM'm)	174.6	141.0	98.7	157.9	173.7
Pre-tax Profit (RM'm)	183.1	157.4	107.0	179.8	197.8
Normalised PATANCI (RM'm)	144.7	129.3	75.0	153.8	169.1
EPS (sen)	11.2	10.0	5.8	11.9	13.1
EPS growth (%)	5.6	-10.4	-42.0	105.0	10.0
PER (x)	17.7	17.8	30.8	15.0	13.6
Net Dividend (sen)	7.0	7.0	4.0	6.0	7.0
Net Dividend Yield (%)	3.5	3.9	2.2	3.4	3.9

Source: Company, MIDFR

SUNWAY CONSTRUCTION GROUP BHD: 2QFY20 RESULTS SUMMARY

(All in RM'm, unless otherwise stated)	Quarterly Results			Cumulative		
	FYE 31 st Dec	2Q20	% YoY	% QoQ	1HFY20	1HFY19
Revenue	140.2	-68.2	-62.0	506.0	880.2	-42.5
EBITDA	8.6	-84.0	-68.8	36.4	102.2	-64.4
Depreciation and amortisation	-8.5	-47.8	-5.6	-17.5	-26.4	-33.5
EBIT	0.1	-99.6	-99.3	18.8	75.8	-75.2
Finance costs	4.5	-37.0	-14.0	9.8	11.4	-14.3
Finance income	-2.3	-35.6	-14.7	-5.0	-5.9	-14.7
Share of results of associates/ joint ventures	0.1	N/A	N/A	0.1	0.0	N/A
PBT	2.3	-94.3	-89.0	23.6	81.3	-71.0
Taxation	-0.2	-97.4	-95.0	-4.5	-16.7	-72.9
PAT	2.1	-93.6	-87.4	19.0	64.6	-70.5
NCI	-0.1	-68.1	-112.1	0.5	0.4	22.9
PATANCI	2.2	-93.4	-86.6	18.5	64.2	-71.1
Normalised PATANCI	4.6	-85.5	-73.9	22.2	59.4	-62.6
Normalised EPS (sen)	0.4	-85.5	-73.9	1.7	4.6	-62.6
	2Q20	+/- ppts	+/- ppts	1HFY20	1HFY19	+/- ppts
EBITDA margin (%)	0.1	-8.5	-5.0	3.7	8.6	-4.9
EBIT margin (%)	1.7	-7.7	-4.1	4.7	9.2	-4.6
Normalised PATAMI margin (%)	3.3	-4.3	-1.2	4.4	6.7	-2.4
Effective tax rate (%)	9.2	29.2	-11.1	19.2	20.6	-1.3

Source: Company, MIDFR

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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <10% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.