

23 April 2020

Construction & Engineering | Construction

Sunway Construction (SCGB MK)

Neutral (Maintained)

Keeping Things Alive; Stay NEUTRAL

Target Price (Return): MYR1.72 (-2%)
 Price: MYR1.76
 Market Cap: USD516m
 Avg Daily Turnover (MYR/USD) 1.63m/0.39m

- Maintain NEUTRAL, new MYR1.72 TP from MYR1.51, -2% downside plus c.3% yield.** Sunway Construction's progress on jobs continues to face constraints despite some restrictions being relaxed during the Movement Control Order (MCO). This will stagger its billings cycle and limit earnings. Its valuation looks fair, and the stock is trading at 14x P/E to FY21 EPS. Our 13.2x target P/E is already higher than its peers' 12x to reflect the strength of its job pipeline. Nonetheless, choppy waters have not receded.
- SunCon has put in applications to re-start works for certain qualified projects.** Referring to Ministry of Trade and Industry guidelines for phase 3 of the MCO, certain segments of construction activities have been allowed to resume. On that account, note that several of SunCon's resumption requests have already received the green light, albeit piecemeal. However, workers are first required to obtain clearance after taking COVID-19 swab tests, before being allowed to return to work.
- Despite the resumption,** the Government still imposed strict operating procedures to companies, to ensure that environment is kept safe and minimize risks for any potential virus spread. We note that some of SunCon's large-scale jobs include packages of Mass Rapid Transit 2, Putrajaya Parcel F and Light Rail Transit 3. While we note that those projects involve significant manpower, most sites are equipped with central living quarters (CLQ). The CLQ will house site workers, which will enable SunCon to closely facilitate and limit their movement. As the operational environment for those projects look mostly controlled, SunCon should have strong grounds to resume operations gradually.
- Progress is still limited.** Workers still need to exercise social distancing at all times. On top of the limited work hours and manpower, we expect progress to be slightly delayed due to the mobilisation of materials and manpower during the period.
- Completion timeline likely to be extended.** Due to the stoppages, we understand that time extension could be granted automatically. In particular, the length is likely to vary – subject to type and construction period. At the minimum, the extension given is likely to be as long as the MCO period imposed. Under a *force majeure* clause, extensions do look likely.
- TP adjusted higher.** We roll over our base year to FY21 to reflect valuations beyond the short-term horizon. Our TP is derived from pegging 13.2x target P/E (close to -1SD from KLCON's 5-year mean) to FY21F EPS.
- Key downside risks** include failure to secure new contracts, and a prolonged downturn in the sector. On the other hand, the upside risk stems from the Government taking a more aggressive approach to pump-prime the economy via the resumption of large-scale public infrastructure projects.

Analyst

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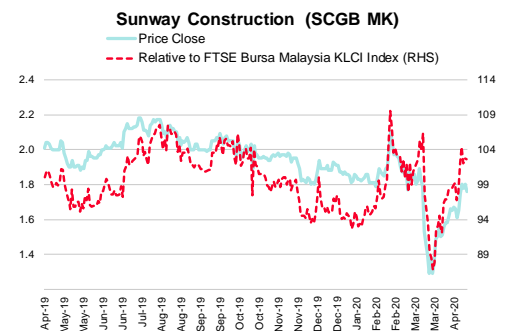


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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(7.9)	27.5	(3.3)	(12.9)	(12.0)
Relative	5.1	21.5	9.7	(0.8)	2.8
52-wk Price low/high (MYR)	1.29 – 2.18				



Source: Bloomberg

Forecasts and Valuation	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Total turnover (MYRm)	2,257	1,769	2,130	2,368	2,055
Recurring net profit (MYRm)	147	116	148	163	145
Recurring net profit growth (%)	11.6	(20.9)	27.2	10.5	(11.3)
Recurring P/E (x)	15.49	19.60	15.40	13.94	15.72
P/B (x)	3.9	3.7	3.3	2.9	2.7
P/CF (x)	11.81	9.62	na	12.96	9.54
Dividend Yield (%)	4.0	3.5	3.2	3.6	3.2
EV/EBITDA (x)	8.67	10.77	8.91	7.85	8.01
Return on average equity (%)	25.5	19.7	22.4	22.1	17.8
Net debt to equity (%)	net cash	net cash	net cash	net cash	net cash

Source: Company data, RHB

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Financial Exhibits

Asia	Financial summary (MYR)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Malaysia	Recurring EPS	0.11	0.09	0.11	0.13	0.11
Construction & Engineering	DPS	0.07	0.06	0.06	0.06	0.06
Sunway Construction	BVPS	0.46	0.48	0.54	0.60	0.66
SCGB MK	Return on average equity (%)	25.5	19.7	22.4	22.1	17.8
Neutral						
	Valuation metrics	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Recurring P/E (x)	15.49	19.60	15.40	13.94	15.72
	P/B (x)	3.9	3.7	3.3	2.9	2.7
	FCF Yield (%)	6.0	10.0	(4.5)	5.3	8.1
	Dividend Yield (%)	4.0	3.5	3.2	3.6	3.2
	EV/EBITDA (x)	8.67	10.77	8.91	7.85	8.01
	EV/EBIT (x)	10.52	14.33	11.19	9.90	10.68
	Income statement (MYRm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Total turnover	2,257	1,769	2,130	2,368	2,055
	Gross profit	447	121	387	458	391
	EBITDA	215	170	221	244	223
	Depreciation and amortisation	(38)	(42)	(45)	(50)	(56)
	Operating profit	177	128	176	193	167
	Net interest	8	12	5	4	7
	Pre-tax profit	183	148	186	205	182
	Taxation	(38)	(27)	(38)	(42)	(37)
	Reported net profit	145	120	148	163	145
	Recurring net profit	147	116	148	163	145
	Cash flow (MYRm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Change in working capital	(10)	86	(240)	(38)	38
	Cash flow from operations	193	237	(47)	176	238
	Capex	(56)	(8)	(55)	(55)	(55)
	Cash flow from investing activities	(74)	(51)	(55)	(55)	(55)
	Dividends paid	(97)	(91)	(74)	(82)	(72)
	Cash flow from financing activities	(118)	72	(36)	(74)	(65)
	Cash at beginning of period	487	485	693	554	601
	Net change in cash	0	257	(138)	47	119
	Ending balance cash	489	741	554	601	720
	Balance sheet (MYRm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Total cash and equivalents	485	693	575	622	740
	Tangible fixed assets	163	139	149	154	153
	Total investments	45	49	49	49	49
	Total assets	1,754	1,905	1,993	2,163	2,125
	Short-term debt	114	233	253	243	233
	Total long-term debt	0	62	62	62	62
	Total liabilities	1,162	1,280	1,294	1,383	1,272
	Total equity	593	625	699	781	853
	Total liabilities & equity	1,754	1,905	1,993	2,163	2,125
	Key metrics	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Revenue growth (%)	8.7	(21.6)	(3.3)	38.4	(13.2)
	Recurrent EPS growth (%)	11.6	(20.9)	27.2	10.5	(11.3)
	Gross margin (%)	19.8	6.8	18.2	19.3	19.0
	Operating EBITDA margin (%)	9.5	9.6	10.4	10.3	10.8
	Net profit margin (%)	6.4	6.8	6.9	6.9	7.0
	Capex/sales (%)	2.5	0.5	2.6	2.3	2.7
	Interest cover (x)	21.3	9.7	13.2	14.3	12.7

Source: Company data, RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2020-04-09	Neutral	1.51	1.67
2020-02-21	Neutral	1.95	1.95
2020-02-18	Neutral	1.95	1.97
2020-02-18	Neutral	1.95	1.97
2019-11-20	Neutral	1.95	1.97
2019-10-09	Neutral	2.03	1.95
2019-08-20	Neutral	2.09	2.05
2019-05-17	Neutral	2.12	1.90
2019-02-26	Buy	2.12	1.76

Source: RHB, Bloomberg

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