

# Sunway Construction Group (SCGB MK)

## 3Q20: Above expectation

### Strong pick-up + final account; maintain BUY

SCGB's 3Q20 net profit of MYR24m was above our expectation at 41% of FY20E, due to final account of a completed job. Positively, work pace at its construction projects in MY picked up strongly after 2.5 months of inactivity (18 Mar - 31 May). We raise FY20E earnings by 4%, FY21E/22E by 2% each. Maintain BUY with a new MYR1.97 TP (+4sen) on unchanged 16.5x FY21E PER (-0.5SD of mean). Catalysts are major infra project roll-outs by the Government; SCGB is a potential beneficiary.

### MY ops back to pre-MCO levels

SCGB's 3Q20 construction revenue (all MY projects) rebounded 194% QoQ to MYR403m (+11% YoY), back to pre-MCO levels. This mainly came from the ramp up of its KVMRT2 and TNB Bangsar projects. Construction margins recovered with blended EBIT margin up 5.4ppts QoQ to 7.8%. Its precast ops in SG also recovered, though not in full, still affected by SG's CB in 3Q. That said, as of end-Sep, all its precast jobs in SG have been given the go-ahead to re-start (vs. 19% end-Jun). Management expects a gradual resumption in its SG ops back to pre-COVID levels in 4Q20.

### MYR2.3b job wins YTD; MYR5.6b outstanding

Job wins YTD totaled MYR2.3b; this has exceeded management's target of MYR2b. The internal job win target for FY21E is MYR2b, with the value of active tender now at MYR5.3b of which >50% are overseas i.e. India, SG and Philippines. Major wins this year are two NHIA projects in India (c.MYR823m) under fixed annuity payment and MYR1.37b building jobs from Sunway Group. Our earnings revisions have taken into consideration our revised expectations of MYR2.3b job wins in FY20E (vs. MYR1.8b previously) and MYR2.0b in FY21E (vs. MYR2.6b previously).

### Balance sheet remains strong

As of 30 Sep 2020, SCGB remained in net cash of MYR318m (25sen/shr). The group is expected to remain in net cash until 2022, when works on its two fixed annuity projects in India progress further (payment term is 40% by NHAI during construction, 60% in fixed annuity over 15 years).

FYE Dec (MYR m)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue	2,257	1,769	1,949	2,927	2,400
EBITDA	219	181	105	212	157
Core net profit	144	129	61	154	107
Core EPS (sen)	11.2	10.0	4.7	11.9	8.3
Core EPS growth (%)	9.2	(10.3)	(53.2)	154.4	(30.2)
Net DPS (sen)	7.0	7.0	3.5	7.0	7.0
Core P/E (x)	11.9	19.1	39.0	15.3	22.0
P/BV (x)	2.9	4.0	3.7	3.4	3.3
Net dividend yield (%)	5.3	3.7	1.9	3.8	3.8
ROAE (%)	25.5	21.3	9.6	23.0	15.1
ROAA (%)	8.0	7.0	3.1	6.6	4.3
EV/EBITDA (x)	6.2	11.4	18.3	8.5	11.6
Net gearing (%) (incl perp: net cash)					
Consensus net profit	-	-	73	151	154
MKE vs. Consensus (%)	-	-	(17.1)	1.8	(30.1)

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# BUY

Share Price	MYR 1.83
12m Price Target	MYR 1.97 (+11%)
Previous Price Target	MYR 1.93

### Company Description

Sunway Construction Group offers integrated construction services and has precast concrete business in Singapore.

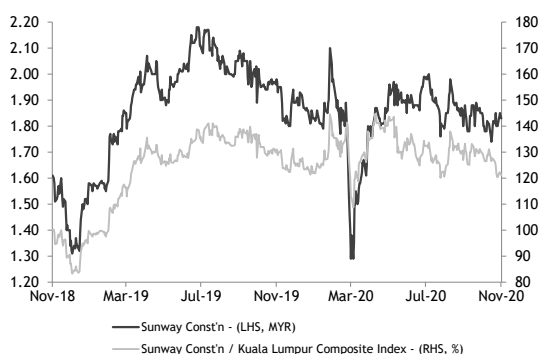
### Statistics

52w high/low (MYR)	2.10/1.29
3m avg turnover (USDm)	0.1
Free float (%)	25.6
Issued shares (m)	1,293
Market capitalisation	MYR2.4B USD579M

### Major shareholders:

Sunway Bhd.	54.4%
Active Equity Sdn. Bhd.	10.1%
Employees Provident Fund	8.4%

### Price Performance



	-1M	-3M	-12M
Absolute (%)	(1)	2	(8)
Relative to index (%)	(6)	(0)	(8)

Source: FactSet

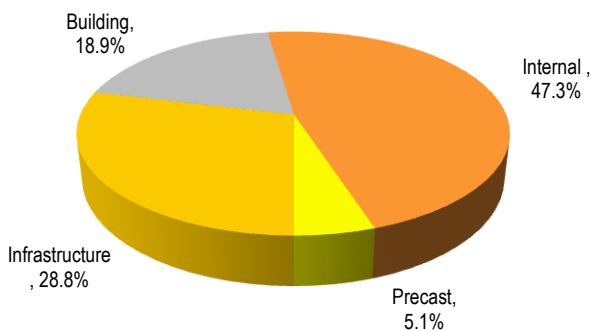
### Abbreviation

- MY = Malaysia
- MCO = Movement Control Order (from 18 Mar 2020)
- SG = Singapore
- CB = Circuit Breaker (from 7 Apr 2020)
- NHIA = National Highway Authority of India

## Value Proposition

- Malaysia's largest pure play construction group with an established brandname having commenced operations in 1981 with a cumulative revenue of MYR28b.
- Operates on a fully integrated business model with 6 core ops: (i) building construction; (ii) civil/infrastructure, (iii) foundation & geotechnics; (iv) mechanical, electrical & plumbing (MEP); (v) precast concrete (with two plants in Johor - and another under construction in SG - supplying IBS components largely to SG); (vi) renewable energy.
- Completed special purpose building projects include KL Convention Centre, Sunway Shopping Mall; completed civil projects include SILK, MEX, SKVE, BRT, KVMRT and KVLRT.
- Highly experienced senior management team and continuing support from the Sunway Group add onto its value proposition. A FTSE4Good Index constituent.

### MYR5.6b outstanding orderbook as of 19 Nov 2020

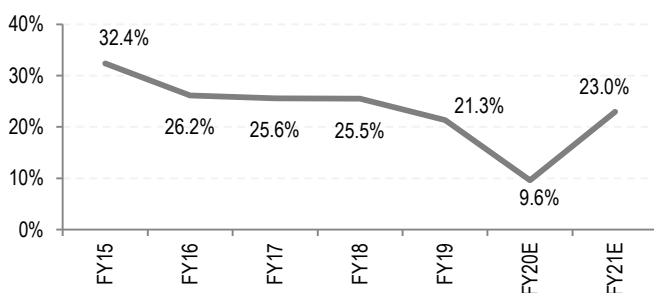


Source: Company

## Financial Metrics

- Two main earning growth drivers are rising orderbook and higher margins which may come from value engineering.
- ROEs of >20% since its relisting in 2015 were above peers, but this will see a set-back in FY20E due to work disruption from Malaysia's MCO; we expect ROE to rebound to >20% in FY21E.
- Balance sheet is strong with a net cash of MYR318m (25sen/shr) as of 30 Sep 2020.
- DPR is a minimum 35% of PATMI; since its relisting, SCGB has been paying up to 70% (FY19).

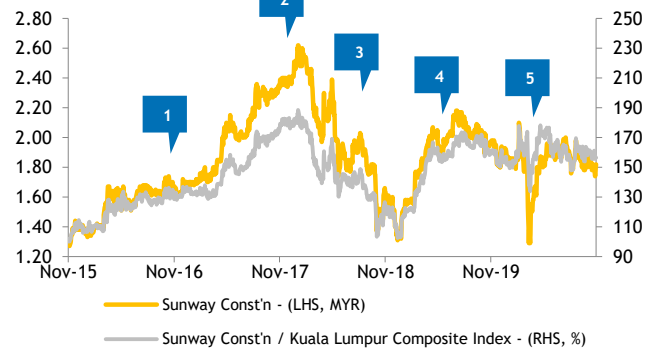
### ROEs



Source: Company

## Price Drivers

### Historical share price trend



Source: Company, Maybank Kim Eng

- Secured MYR2.7b new jobs in 2016, bringing outstanding order book to a new high of MYR4.8b as of end-2016.
- Secured work packages under KVMRT 2 and KVLRT 3; outstanding orderbook reached another high of MYR6.1b as of end-2017.
- Post GE14 (9 May 2018) concerns, as the new government sought to review the cost of major infrastructure projects awarded during the previous government.
- Investor sentiment towards the overall construction sector improved.
- Malaysia's Movement Control Order (MCO) from 18 Mar 2020 led to work disruption at all of SCGB's projects.

## Swing Factors

### Upside

- Larger-than-expected orderbook replenishment could lift sentiment on the stock although the earnings impact will only be felt in full at least a year later.
- Significant margin expansion for its existing orderbook coming from value engineering breakthrough.
- Government's policy reaffirmation on rising usage of IBS in building construction as a long-term plan to reduce the country's over-reliance on foreign labour; this will be positive for SCGB's precast concrete business.

### Downside

- Slower-than-expected work progress at existing major construction projects will affect the timing of earnings recognition.
- Sporadic COVID-19 cases could disrupt work pace again.
- The timing of mega infrastructure project roll-outs by the government could affect orderbook replenishment.
- At the precast segment, any significant increase in steel prices and stiffer competition could also affect margins.

Fig 1: Results summary

FY Dec (MYR m)	Quarterly					Cumulative		
	3Q20	3Q19	% YoY	2Q20	% QoQ	9M20	9M19	% YoY
Revenue	419.4	402.6	4.2	140.2	199.2	925.4	1,282.8	(27.9)
EBIT	32.9	34.4	(4.2)	0.1	NM	51.7	110.2	(53.1)
Net interest inc/(exp)	3.0	1.2	154.3	2.2	36.6	7.8	6.7	15.9
Assoc, JV profits	-	-	NM	0.1	NM	0.1	-	NM
<b>Pre-tax profit</b>	<b>36.0</b>	<b>35.6</b>	<b>1.1</b>	<b>2.3</b>	<b>NM</b>	<b>59.5</b>	<b>116.9</b>	<b>(49.1)</b>
Tax	(11.7)	(2.5)	362.2	(0.2)	NM	(16.3)	(19.3)	(15.6)
Minority Interests	(0.2)	0.5	NM	0.1	NM	(0.7)	0.1	NM
<b>Net profit</b>	<b>24.0</b>	<b>33.5</b>	<b>(28.2)</b>	<b>2.2</b>	<b>996.4</b>	<b>42.6</b>	<b>97.7</b>	<b>(56.4)</b>
EPS (sen)	1.86	2.60	(28.5)	0.17	994.1	3.30	7.57	(56.4)
DPS (sen)	-	-	NM	1.25	NM	1.25	3.50	(64.3)
	<b>3Q20</b>	<b>3Q19</b>	<b>+/- ppt</b>	<b>2Q20</b>	<b>+/- ppt</b>	<b>9M20</b>	<b>9M19</b>	<b>+/- ppt</b>
<i>EBIT margin (%)</i>	7.9	8.5	(0.7)	0.0	7.8	5.6	8.6	(3.0)
<i>Pretax margin (%)</i>	8.6	8.8	(0.3)	1.7	6.9	6.4	9.1	(2.7)
<i>Tax rate (%)</i>	32.6	7.1	25.5	9.2	23.4	27.3	16.5	10.8
<b>Revenue</b>	<b>3Q20</b>	<b>3Q19</b>	<b>% YoY</b>	<b>2Q20</b>	<b>% QoQ</b>	<b>9M20</b>	<b>9M19</b>	<b>% YoY</b>
Construction	403.4	365.1	10.5	137.2	194.1	870.2	1,178.4	(26.2)
Precast concrete	16.0	37.5	(57.4)	3.0	434.4	55.2	104.4	(47.1)
<b>Total</b>	<b>419.4</b>	<b>402.6</b>	<b>4.2</b>	<b>140.2</b>	<b>199.2</b>	<b>925.4</b>	<b>1,282.8</b>	<b>(27.9)</b>
<b>EBIT</b>								
Construction	31.7	33.6	(5.7)	3.4	826.8	52.4	108.3	(51.7)
Precast concrete	1.3	0.8	59.2	(3.3)	NM	(0.7)	1.9	NM
<b>Total</b>	<b>32.9</b>	<b>34.4</b>	<b>(4.2)</b>	<b>0.1</b>	<b>NM</b>	<b>51.7</b>	<b>110.2</b>	<b>(53.1)</b>
<b>EBIT margin (%)</b>	<b>3Q20</b>	<b>3Q19</b>	<b>+/- ppt</b>	<b>2Q20</b>	<b>+/- ppt</b>	<b>9M20</b>	<b>9M19</b>	<b>+/- ppt</b>
Construction	7.8	9.2	(1.3)	2.5	5.4	6.0	9.2	(3.2)
Precast concrete	8.1	2.2	5.9	(111.9)	120.0	(1.2)	1.8	(3.0)
<b>Total</b>	<b>7.9</b>	<b>8.5</b>	<b>(0.7)</b>	<b>0.0</b>	<b>7.8</b>	<b>5.6</b>	<b>8.6</b>	<b>(3.0)</b>

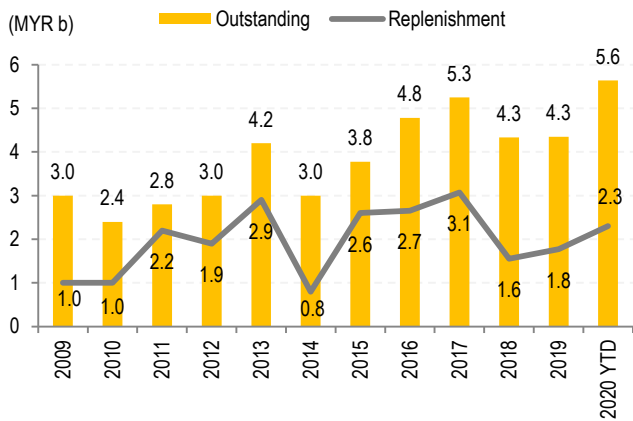
Source: Company

**Fig 2: Outstanding orderbook of MYR5.6b**

As at 30 Sep 2020 + new wins in 4Q20 QTD	Completion	Contract value (MYR m)	Outstanding (MYR m)
<b>Infrastructure</b>			
KVMRT 2, V201 (Sg Buloh-Persiaran Dagang)	4Q20	1,213	36
LRT 3 : Package GS07-08	4Q22	1,295	655
Piling Works	-	99	7
Sentul West Station (MEP) #	1Q21	57	50
Tamil Nadu Highway (Thorapalil Agraharam-Jittandahalli, of NH-844) @	Mid-23	508	508
KVMRT 2, Chan Sow Lin underground station (MEP) @	4Q21	54	52
Tamil Nadu Highway (Meensurutti-Chidambaram, of NH-227)	Mid-23	315	315
<b>Building</b>			
Putrajaya Parcel F	Maintenance	1,610	20
PPA1M Project in Kota Bahru	2Q21	582	58
TNB HQ Campus #	2Q21	781	614
Petronas Learning Centre #	2Q21	310	248
Oxley Tower #	2Q22	68	63
IOI Mall (MEP) #	2Q21	68	45
Roof top solar @	3Q21	18	18
<b>Internal</b>			
Sunway Medical Centre 4 (2 towers)	4Q21	450	327
Sunway Serene - Kelana Jaya Condo	4Q21	413	218
Sunway Carnival 2 Extension - PDP contract	1Q21	286	196
SunGeo Lake 44 storey residential tower	1Q21	223	36
SMC Seberang Jaya	1Q21	180	129
Sunway Velocity Two	4Q21	352	231
Sunway Velocity 3C4	2Q21	100	58
BigBox Hotel #	3Q20	100	42
Sunway South Key - Parcel CP2 (piling) #	3Q21	119	49
Sunway International School @	4Q22	121	117
Renewable energy @	-	7	7
Sunway South Quay - Comm mixed devt @	3Q21	344	344
Service apartments at Jln Belfield @	2Q24	403	403
Sunway International School (VO) @	1Q23	15	15
Sunway Resort Hotel & Spa renovation @	4Q21	81	78
Sunway Medical Centre 4 (VO) @	3Q22	162	162
Sunway Velocity Two - 2 blocks of service apartments @	3Q23	253	253
<b>Precast</b>			
Secured pre 2020	-	331	247
New order in 2020 @	-	37	38
<b>Total</b>		<b>10,955</b>	<b>5,639</b>

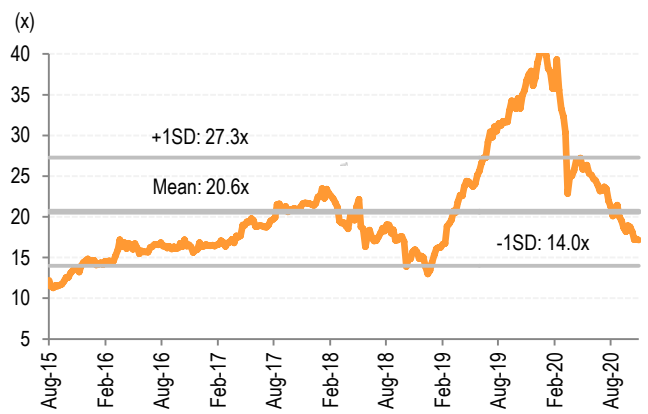
#Secured in 2019; @ Secured in 2020; Source: Company

**Fig 3: Outstanding orderbook vs. replenishment**



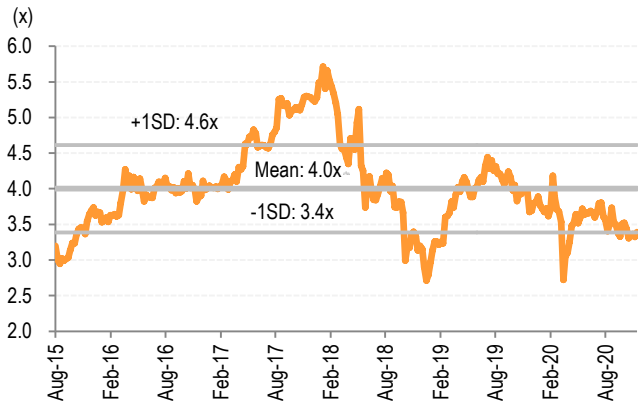
Note: Including precast, adjusted for revised value of LRT3 project;  
Source: Company data, Maybank KE

**Fig 4: 12M forward PER**



Source: Company data, Maybank KE

**Fig 5: 12M forward P/B**



Company data, Maybank KE

FYE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
<b>Key Metrics</b>					
P/E (reported) (x)	17.4	19.1	39.0	15.3	22.0
Core P/E (x)	11.9	19.1	39.0	15.3	22.0
P/BV (x)	2.9	4.0	3.7	3.4	3.3
P/NTA (x)	2.9	4.0	3.7	3.4	3.3
Net dividend yield (%)	5.3	3.7	1.9	3.8	3.8
FCF yield (%)	8.3	7.7	3.6	9.2	2.6
EV/EBITDA (x)	6.2	11.4	18.3	8.5	11.6
EV/EBIT (x)	7.7	14.6	28.3	9.8	15.1
<b>INCOME STATEMENT (MYR m)</b>					
Revenue	2,256.8	1,768.7	1,948.7	2,927.2	2,399.9
Gross profit	441.2	378.1	306.5	413.6	358.9
EBITDA	218.9	181.3	104.7	211.8	157.1
Depreciation	(43.7)	(40.3)	(36.8)	(28.4)	(36.4)
EBIT	175.2	141.0	67.8	183.3	120.6
Net interest income / (exp)	6.8	12.0	7.6	8.7	12.6
Associates & JV	0.7	4.4	0.0	0.0	0.0
Exceptionals	0.0	0.0	0.0	0.0	0.0
Pretax profit	182.7	157.4	75.4	192.1	133.2
Income tax	(38.0)	(27.1)	(14.9)	(38.1)	(25.7)
Minorities	(0.3)	(1.0)	0.0	0.0	0.0
Reported net profit	144.4	129.3	60.5	154.0	107.4
Core net profit	144.4	129.3	60.5	154.0	107.4
<b>BALANCE SHEET (MYR m)</b>					
Cash & Short Term Investments	484.9	692.6	731.5	858.9	829.1
Accounts receivable	1,000.2	970.4	1,112.1	1,514.8	1,281.0
Inventory	30.0	25.1	29.6	45.4	36.8
Property, Plant & Equip (net)	176.5	138.5	106.9	137.0	148.6
Intangible assets	4.1	3.9	3.9	3.9	3.9
Investment in Associates & JVs	44.7	48.4	48.4	48.4	48.4
Other assets	27.6	26.2	26.2	26.2	27.2
<b>Total assets</b>	<b>1,768.0</b>	<b>1,905.0</b>	<b>2,058.5</b>	<b>2,634.5</b>	<b>2,374.9</b>
ST interest bearing debt	113.6	233.4	233.4	233.4	233.4
Accounts payable	939.6	885.2	1,023.3	1,535.6	1,258.0
LT interest bearing debt	0.0	52.7	52.7	52.7	52.7
Other liabilities	123.0	109.0	109.0	109.0	110.0
<b>Total Liabilities</b>	<b>1,176.3</b>	<b>1,279.9</b>	<b>1,417.9</b>	<b>1,930.3</b>	<b>1,653.6</b>
Shareholders Equity	590.2	623.0	638.3	702.0	719.1
Minority Interest	1.4	2.2	2.2	2.2	2.2
<b>Total shareholder equity</b>	<b>591.7</b>	<b>625.2</b>	<b>640.5</b>	<b>704.2</b>	<b>721.3</b>
<b>Total liabilities and equity</b>	<b>1,768.0</b>	<b>1,905.0</b>	<b>2,058.5</b>	<b>2,634.5</b>	<b>2,374.9</b>
<b>CASH FLOW (MYR m)</b>					
Pretax profit	182.7	157.4	75.4	192.1	133.2
Depreciation & amortisation	43.7	40.3	36.8	28.4	36.4
Adj net interest (income)/exp	11.9	17.4	7.6	8.7	12.6
Change in working capital	(10.4)	32.7	(8.1)	93.8	(35.3)
Cash taxes paid	(37.4)	(38.4)	(14.9)	(38.1)	(25.7)
Other operating cash flow	7.2	(15.9)	(7.6)	(8.7)	(12.6)
Cash flow from operations	197.7	193.5	89.3	276.3	108.6
Capex	(54.8)	(4.7)	(5.2)	(58.5)	(48.0)
Free cash flow	142.9	188.8	84.0	217.7	60.6
Dividends paid	(96.9)	(90.4)	(45.2)	(90.3)	(90.3)
Change in Debt	(24.5)	167.9	0.0	0.0	0.0
Other invest/financing cash flow	(18.1)	(307.1)	0.0	0.0	0.0
Net cash flow	3.4	(40.7)	38.9	127.4	(29.8)

FYE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
<b>Key Ratios</b>					
<b>Growth ratios (%)</b>					
Revenue growth	8.7	(21.6)	10.2	50.2	(18.0)
EBITDA growth	11.2	(17.2)	(42.3)	102.3	(25.8)
EBIT growth	10.1	(19.5)	(51.9)	170.2	(34.2)
Pretax growth	8.3	(13.9)	(52.1)	154.7	(30.7)
Reported net profit growth	9.2	(10.5)	(53.2)	154.4	(30.2)
Core net profit growth	9.2	(10.5)	(53.2)	154.4	(30.2)
<b>Profitability ratios (%)</b>					
EBITDA margin	9.7	10.2	5.4	7.2	6.5
EBIT margin	7.8	8.0	3.5	6.3	5.0
Pretax profit margin	8.1	8.9	3.9	6.6	5.5
Payout ratio	62.6	69.9	74.6	58.7	84.1
<b>DuPont analysis</b>					
Net profit margin (%)	6.4	7.3	3.1	5.3	4.5
Revenue/Assets (x)	1.3	0.9	0.9	1.1	1.0
Assets/Equity (x)	3.0	3.1	3.2	3.8	3.3
ROAE (%)	25.5	21.3	9.6	23.0	15.1
ROAA (%)	8.0	7.0	3.1	6.6	4.3
<b>Liquidity &amp; Efficiency</b>					
Cash conversion cycle	(29.9)	(28.5)	(10.8)	(16.3)	(29.4)
Days receivable outstanding	169.0	200.5	192.4	161.5	209.7
Days inventory outstanding	5.4	7.1	6.0	5.4	7.2
Days payables outstanding	204.3	236.2	209.2	183.2	246.4
Dividend cover (x)	1.6	1.4	1.3	1.7	1.2
Current ratio (x)	1.4	1.5	1.5	1.4	1.5
<b>Leverage &amp; Expense Analysis</b>					
Asset/Liability (x)	1.5	1.5	1.5	1.4	1.4
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Net gearing (%) (excl. perps)	net cash	net cash	net cash	net cash	net cash
Net interest cover (x)	na	na	na	na	na
Debt/EBITDA (x)	0.5	1.6	2.7	1.4	1.8
Capex/revenue (%)	2.4	0.3	0.3	2.0	2.0
Net debt/ (net cash)	(371.2)	(406.6)	(445.4)	(572.8)	(543.1)

Source: Company; Maybank

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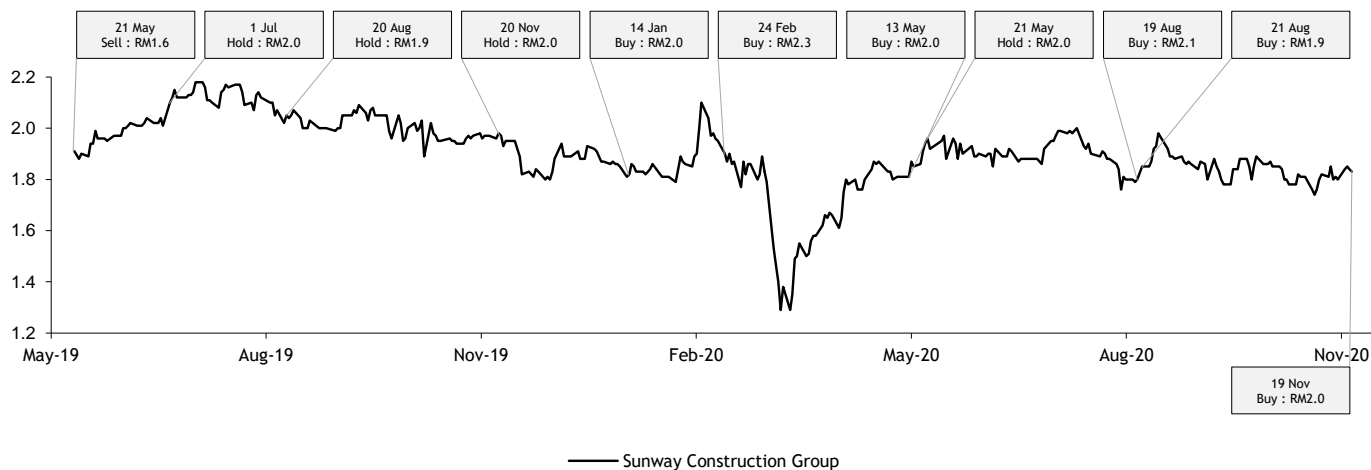
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