

Wins another highway contract in India

Quick Note

- Today Sunway Construction (SunCon) announced that it has been awarded: **1)** ~MYR315mn highway contract in India in a 60:40 JV with local contractor RNS Infrastructure (RNS); and **2)** ~MYR18mn worth solar project in Malaysia.
- This is the second highway contract win in India in 2020; the first one was won in Mar'20 with the same local partner, RNS (*see our note*). The structure of the contract is also similar to the first project and has two parts – 1) two-laning of a section of highway in Tamil Nadu state which has a contract sum of ~MYR315mn (~INR5.54bn) to be completed in ~2 years; and 2) 15 years' operating and maintenance contract at ~MYR0.85mn (INR15mn) per annum.
- The JV will receive 40% of the project cost in the first two years (construction period) and the remaining 60% in fixed annuity payments over 15 years. This remaining 60% of the sum will be recorded in receivables in SunCon's balance sheet. The payment structure is similar to the highway job won in Mar'20 in India, but is different from SunCon's usual projects that are paid for on completion, but we note that the risk to receivables for the new project is minimal given the project owner is National Highways Authority of India (NHAI), an SOE.
- With these projects, the total orderbook replenishment for YTD 2020 stands at ~MYR2.3bn (this excludes the reduction of MYR883mn in the LRT3 contract sum, also announced this year, *see our note*). Note that the effective YTD orderbook replenishment (taking into account effective share of SunCon) is MYR2bn (*Fig. 1*).
- We are positive on this announcement as we believe that given the fiscal constraints the Malaysian government faces, relying only on Malaysian mega-projects for orderbook replenishment is a risky strategy. As a result, we find contractors are likely to be even more committed to international diversification going forward as flagged in our multi-sector report (*The four 'R's*).
- We maintain our Buy rating for SunCon as: 1) it is likely to be a beneficiary of the positive news flows from project awards in Malaysia and the revival of infra jobs and project support from the parentco, and also overseas job wins from India; 2) we believe SunCon is the best pure-play exposure within our coverage to the construction sector in Malaysia, with strong earnings to cash flow conversion, net cash balance sheet, and high ROE (FY21F: 22%); and 3) we expect its precast business to grow again with the opening of a new precast plant in Singapore. We value SunCon at a FY21F P/E of 20x (current: 16.4x; EPS of 11sen) to arrive at our TP of MYR2.20 (21% implied upside).

Rating Remains	Buy
Target price Remains	MYR 2.20
Closing price 27 October 2020	MYR 1.82

Research Analysts

Malaysia Engineering & Construction

Tushar Mohata, CFA - NSM
tushar.mohata@nomura.com
+60(3)20276895

Alpa Aggarwal, CFA - NSFSP
alpa.aggarwal@nomura.com
+91 22 305 32250

Fig. 1: SunCon: YTD contract wins

Project	Duration	Contract Sum (MYR mn)	Effective Contract Sum (MYR mn)
Thorapalli Agraharam - Jittandahalli	24 months	508	305
Bukit Batok Primary School	various	1	1
Rooftop solar projects	<6months	7	7
Chan Sow Lin KVMRT UG St (MEP)	12 months	54	54
Sunway Intl School	30 months	121	121
Ang Mo Kio N6C34	24 months	37	37
CP2	40 months	344	344
Belfield residential condo	45 months	403	403
Sunway Intl School (add VO)	30 months	15	15
Sunway resort hotel & Spa renovation	13 months	81	81
Sunway Medical Phase 4 (add VO)	22 months	162	162
Sunway Velocity TWO	34 months	253	253
Meensurutti - Chidambarm 32km	24 months	315	189
Rooftop solar	12 months	18	18
Total		2,319	1,990

Source: Company data, Nomura research

Appendix A-1

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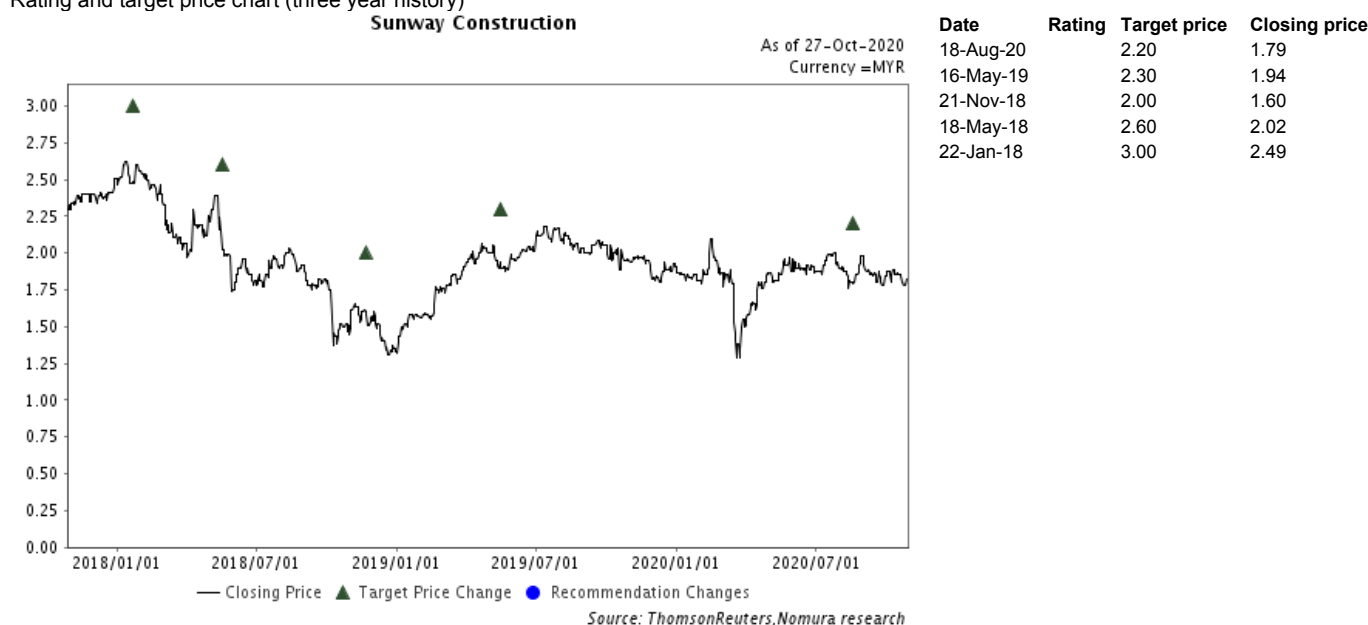
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Issuer	Ticker	Price	Price date	Stock rating	Sector rating	Disclosures
Sunway Construction	SCGB MK	MYR 1.82	27-Oct-2020	Buy	N/A	

Sunway Construction (SCGB MK)

MYR 1.82 (27-Oct-2020) Buy (Sector rating: N/A)

Rating and target price chart (three year history)



For explanation of ratings refer to the stock rating keys located after chart(s)

Valuation Methodology We value SunCon at a target P/E of 20x on FY21F earnings. Using net income of MYR143mn for FY21F and a target P/E of 20x, we arrive at our TP of MYR2.20. The benchmark index for the stock is FTSE Bursa Malaysia KLCI Index.

Risks that may impede the achievement of the target price Downside risks include: 1) delays in construction project awards; 2) lower-than-expected margins; 3) lower pre-cast earnings persisting; 4) a lack of new projects; 5) risk of project cancellation or arbitration.

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As at 30 September 2020.

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