

Sunway Construction Group Bhd SCOG.KL SCGB MK

1Q impacted by MCO, likely to continue in 2QF
Quick Note

Rating Remains	Buy
Target price Remains	MYR 2.30
Closing price 21 May 2020	MYR 1.96

- SunCon reported 1Q20 adjusted net income of MYR16mn, -47% y-y and -48% q-q and formed 11%/12% of our/ Bloomberg consensus full-year estimates.
- The main reason for the decline in income was the 2-week period in March (starting 18-Mar) when movement was restricted in the country owing to COVID-19. During the movement control order (MCO), construction activity was halted in Malaysia, which impacted project billings and therefore impacted revenue and income for SunCon.
- As MCO was further *extended until 9-Jun*, we believe MCO's impact on SunCon's earnings will also be seen in 2Q20F.
- However, SunCon continued its strong orderbook winning momentum this year. In 1Q20, SunCon won MYR513 worth of new contracts, with the largest contract win being a highway job in India worth MYR508mn (*see our note*). This forms ~26% of management's full-year orderbook replenishment target of MYR2bn. At end-1Q20, the outstanding orderbook stood at MYR5.4bn, implying earnings visibility of 2 years based on our estimates. In addition there are 2 project wins in 2Q20 YTD – 1) the *new internal project win worth MYR121mn* that SunCon announced today and 2) MYR54mn MRT2 underground station contract. Altogether, with these projects, YTD orderbook replenishment stands at MYR688mn.
- SunCon also provided a liquidity update. The group has net cash position of MYR360mn, which is able to cover 24 months of fixed overhead. FY20F capital commitment stands at MYR70mn (for ICPH Singapore). The India highway project gearing will only kick in in 2HFY21 (project will only commence 4Q 2020 and there will be advance payment of 10% by the client as per management). Pledged cash (in Singapore) was restructured lower from MYR 264mn (Dec-19) to MYR63mn (Mar-20). Overall the group remains in a robust position to absorb near term shocks.
- **Construction:** Construction revenue for 1Q20 was MYR330mn, down 19% y-y and down 25% q-q due to MCO in Malaysia from 18-Mar. PBT of MYR20mn was down 49% y-y and -46% q-q due to low revenue as well as lower margins.
- **Precast:** Precast revenue for 1Q20 was MYR36mn, up y-y but 20% q-q. Also, PBT from the division was down 64% q-q. This was also a result of the MCO that restricted movement of precast outside Malaysia and also a halt in production.
- We reiterate our Buy and TP of MYR2.30. Based on our forecasts, we believe it 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 (FY19: 21%). We expect its precast business to grow again with the opening of a new precast plant in Singapore. We value SunCon at a FY20F P/E of 19x (current: 16.4x; FY20F EPS of 12sen), which is in line with its peak valuation in 2017, to arrive at our TP of MYR2.30 (implying 17% upside).

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Fig. 1: SunCon – 1Q20 results snapshot

MYR mn	1Q20	NMR FY20F	as % of NMR	Cons FY20F	as % of cons
Revenue	366	1,977	19%	2,169	17%
Adj PBT	21	194	11%	175	12%
Adj NPATAMI	16	155	11%	137	12%
Reported NPATAMI	16	155	11%	136	12%

Source: Company data, Bloomberg, Nomura estimates

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Fig. 2: SunCon – 1Q20 results review

MYR mn	1Q20	1Q19	% chg y-y	4Q19	% chg q-q	FY20F	as % of FY20F
Revenues	366	440	(17%)	486	(25%)	1,977	19%
Construction	330	407	(19%)	440	(25%)	1,760	19%
Precast concrete	36	33	10%	45	(20%)	217	17%
Operating profit	19	38	(51%)	31	(39%)	171	11%
Construction	17	38	(54%)	27	(36%)		
Precast concrete	1	0	>100%	4	(64%)		
Adjusted Pretax profit	21	40	(47%)	41	(48%)	194	11%
Construction	20	40	(49%)	38	(46%)	177	12%
Precast concrete	1	0	>100%	2	(68%)	17	4%
Core PAT	17	32	(47%)	33	(48%)	156	11%
Core PAT - equityholders	16	31	(47%)	32	(48%)	155	11%
Other one-off charges	0	0	NM	0	NM	0	NM
Headline NPAT - equityholders	16	31	(47%)	32	(48%)	155	11%
Adj Pretax margins	6%	9%	-3 ppt	8%	-3 ppt	10%	
Construction	6%	10%	-4 ppt	9%	-2 ppt	10%	
Precast concrete	2%	0%	2 ppt	5%	-3 ppt	8%	

Source: Company data, Nomura estimates

Fig. 3: SunCon's outstanding orderbook

As at Mar'20

MYR mn	Contract Sum	Outstanding order book
Infrastructure/Piling		
MRT V201 + S201 (Sg Buloh-Persiaran Dagang)	1,213	142
LRT3: Package GS07-08	2,178	1,622
Piling Works	99	19
GS06,09 + GS10	60	17
Sentual West Station	57	57
Building		
Putrajaya Parcel F	1,610	25
PPA1M project in Kota Bharu	582	68
TNB HQ Campus	781	677
Petronas Leadership Center	310	287
Oxley Tower	68	66
IOI Mall	68	67
India		
Thorapalli Agraharam - Jittandahalli	508	508
Internal		
Sunway Medical Centre Phase 4	450	363
Sunway Serene - Serviced Residences	413	243
Velo 2	352	286
3C4	100	66
Sunway GEOLake	223	61
Carnival Mall Ext	286	215
SMC Seberang Jaya	180	137
Big Box Hotel	100	63
Parcel CP2	119	79
Renewable Energy (Internal) (new order 2020)	4	4
Singapore		
Precast	331	285
Precast - New order 2020	1	1
Total	10,102	5,359
Orderbook burn rate (FY19, including internal)		2,668
Implied earnings visibility (years)		2.0

Source: Company data, Nomura research

Appendix A-1

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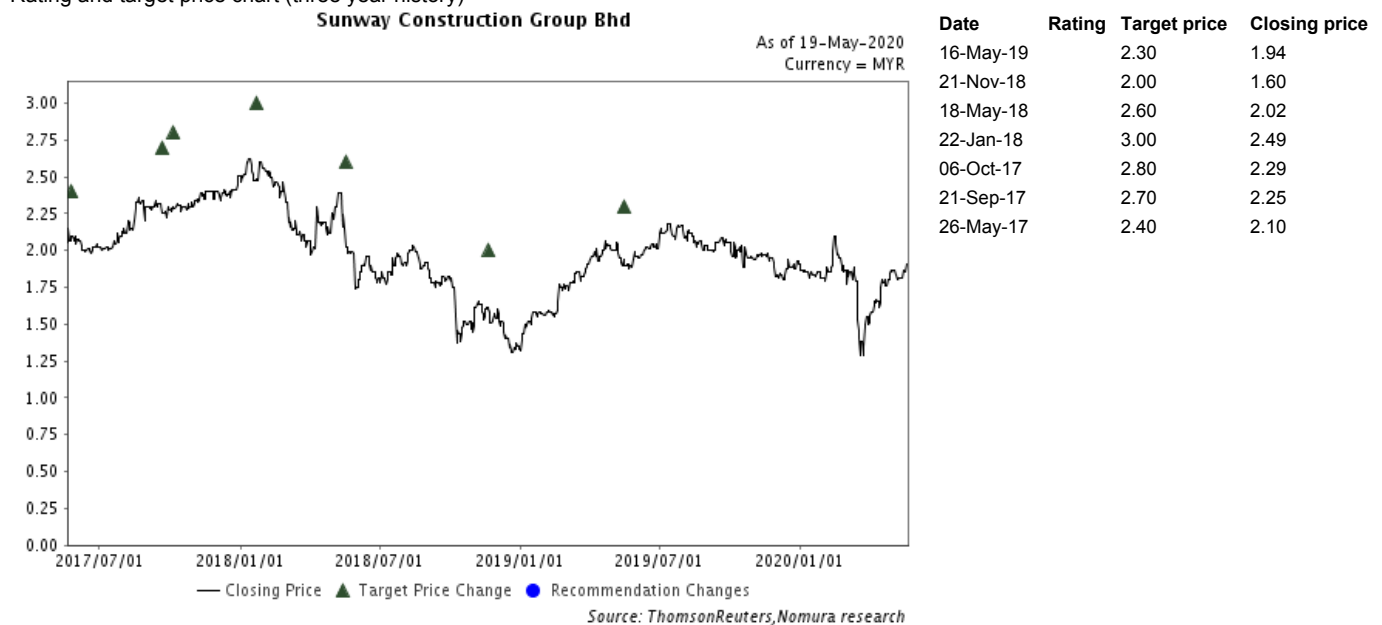
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Issuer	Ticker	Price	Price date	Stock rating	Sector rating	Disclosures
Sunway Construction Group Bhd	SCGB MK	MYR 1.96	21-May-2020	Buy	N/A	

Sunway Construction Group Bhd (SCGB MK)

MYR 1.96 (21-May-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 19x on FY20F earnings. Using net income of MYR155mn for FY20F and a target P/E of 19x, we arrive at our TP of MYR2.30. 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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