

9 April 2020

Construction & Engineering | Construction

Sunway Construction (SCGB MK)

Neutral (Maintained)

Not At Full Strength; Stay NEUTRAL

Target Price (Return): MYR1.51 (-9%)
 Price: MYR1.66
 Market Cap: USD493m
 Avg Daily Turnover (MYR/USD) 1.63m/0.39m

- **Maintain NEUTRAL and TP of MYR1.51, 9% downside.** There is no certainty when sites will resume work, giving rise to downside risks. Consequently, this should pressure near-term earnings and take the shine away from Sunway Construction. Its current share price appears fair, trading at 14.5x P/E to FY20F EPS. Our 13x P/E target is already higher than peers' 12x to reflect strength in orderbook replenishment. In view of broad-based sector uncertainties, our call looks justified.
- **Big task ahead.** We recently hosted a conference call with SunCon. According to management, it is confident of achieving the MYR2bn target replenishment this year. This is despite a broad-based slowdown in the sector and scarcity of new jobs locally. Its tenderbook stands at a robust MYR6.5bn, with India jobs forming 40% of the total. On earnings, current outstanding orders of MYR5.7bn will provide visibility in the next 3-4 years.
- **Delay in progress is inevitable.** Nonetheless, construction works are expected to commence immediately after the Movement Control Order (MCO) ends. However, it will take about a month before it is in full swing, considering that construction workers still need to exercise social distancing at work sites, as well as the post-MCO mobilisation of materials and manpower. In FY20, key projects which are expected to contribute most to revenue are Tenaga Nasional's (TNB MK, NEUTRAL, TP: MYR12.88) HQ Campus, Light Rail Transit Line 3, and the Petronas Leadership Centre. Despite the MCO, SunCon's hospital jobs have continued, as their completion is prioritised.
- **Despite the temporary work disruption,** management expects to achieve higher revenue in 2020 (2019: MYR1.8bn). We note that the target falls within our assumption at c.MYR2.1bn. Nonetheless, net margin could be slightly impacted, as the group continues to incur some running costs during the MCO period. In view of potential earnings deferral this year, the possibility of a reduced dividend payout cannot be ruled out. SunCon has a 35% dividend payout policy (at c.4 sen/share).
- **The newly clinched project in India is worth MYR508m.** We understand that the project will only contribute financially in FY21F. SunCon continues to be aggressive in bidding for projects in India, which currently contributes 40% of its current tenderbook.
- **Key downside risks** include failure to secure new contracts and a prolonged downturn in the sector. On the other hand, 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.

Analysts

Muhammad Danial bin Abd Razak
 +603 9280 8682
muhammad.danial.abd@rhbgroup.com

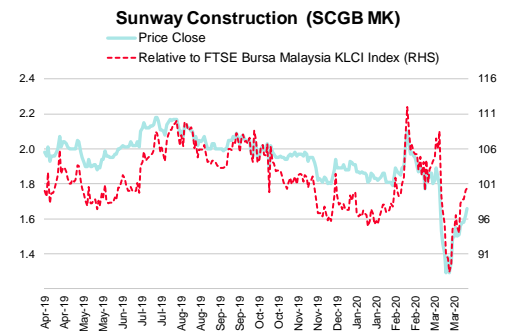


Eddy Do Wey Qing
 +603 9280 8856
wey.qing.do@rhbgroup.com



Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(13.1)	(10.8)	(11.2)	(19.0)	(15.3)
Relative	0.7	(3.2)	3.8	(6.9)	1.3
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	124	148	163	144
Recurring net profit growth (%)	11.6	(15.8)	20.0	9.8	(11.5)
Recurring P/E (x)	14.61	17.35	14.46	13.17	14.87
P/B (x)	3.6	3.4	3.0	2.7	2.5
P/CF (x)	11.34	58.25	13.82	11.11	8.93
Dividend Yield (%)	4.2	3.6	3.5	3.8	3.4
EV/EBITDA (x)	8.07	10.25	8.03	7.06	7.21
Return on average equity (%)	25.5	20.7	22.0	21.6	17.4
Net debt to equity (%)	net cash	net cash	net cash	net cash	net cash

Source: Company data, RHB

Financial Exhibits

Asia	Financial summary (MYR)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Malaysia	Recurring EPS	0.11	0.10	0.11	0.13	0.11
Construction & Engineering	DPS	0.07	0.06	0.06	0.06	0.06
Sunway Construction	BVPS	0.46	0.49	0.55	0.61	0.67
SCGB MK	Return on average equity (%)	25.5	20.7	22.0	21.6	17.4
Neutral						
	Valuation metrics	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Recurring P/E (x)	14.61	17.35	14.46	13.17	14.87
	P/B (x)	3.6	3.4	3.0	2.7	2.5
	FCF Yield (%)	6.2	(0.8)	4.7	6.4	8.6
	Dividend Yield (%)	4.2	3.6	3.5	3.8	3.4
	EV/EBITDA (x)	8.07	10.25	8.03	7.06	7.21
	EV/EBIT (x)	9.79	13.50	10.24	9.04	9.78
	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	363	436	476	412
	EBITDA	215	178	225	247	226
	Depreciation and amortisation	(38)	(43)	(48)	(54)	(59)
	Operating profit	177	135	176	193	167
	Net interest	8	12	6	7	10
	Pre-tax profit	183	155	187	205	182
	Taxation	(38)	(27)	(38)	(42)	(37)
	Reported net profit	145	127	148	163	144
	Recurring net profit	147	124	148	163	144
	Cash flow (MYRm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Change in working capital	(10)	(135)	(42)	(24)	37
	Cash flow from operations	189	37	155	193	240
	Capex	(56)	(55)	(55)	(55)	(55)
	Cash flow from investing activities	(74)	(55)	(55)	(55)	(55)
	Dividends paid	(97)	(77)	(74)	(81)	(72)
	Cash flow from financing activities	(118)	(47)	(54)	(91)	(82)
	Cash at beginning of period	487	485	417	463	510
	Net change in cash	(3)	(65)	46	47	103
	Ending balance cash	485	420	463	510	613
	Balance sheet (MYRm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Total cash and equivalents	485	417	463	510	613
	Tangible fixed assets	163	173	180	181	176
	Total investments	45	45	45	45	45
	Total assets	1,754	1,636	1,870	2,037	1,979
	Short-term debt	114	144	164	154	144
	Total liabilities	1,162	997	1,156	1,242	1,112
	Total equity	593	639	714	795	867
	Total liabilities & equity	1,754	1,636	1,870	2,037	1,979
	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	(15.8)	20.0	9.8	(11.5)
	Gross margin (%)	19.8	20.5	20.5	20.1	20.0
	Operating EBITDA margin (%)	9.5	10.1	10.5	10.4	11.0
	Net profit margin (%)	6.4	7.2	7.0	6.9	7.0
	Capex/sales (%)	2.5	3.1	2.6	2.3	2.7
	Interest cover (x)	21.3	10.3	25.5	27.1	25.0

Source: Company data, RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
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
2019-02-14	Buy	2.12	1.55

Source: RHB, Bloomberg

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Level 3A, Tower One, RHB Centre
Jalan Tun Razak
Kuala Lumpur 50400
Malaysia
Tel : +603 9280 8888
Fax : +603 9200 2216

JAKARTA**PT RHB Sekuritas Indonesia**

Revenue Tower, 11th Floor, District 8
- SCBD
Jl. Jendral Sudirman Kav 52-53
Jakarta 12190
Indonesia
Tel : +6221 509 39 888
Fax : +6221 509 39 777

HONG KONG**RHB Securities Hong Kong Ltd.**

12th Floor, World-Wide House
19 Des Voeux Road
Central
Hong Kong
Tel : +852 2525 1118
Fax : +852 2810 0908

BANGKOK**RHB Securities (Thailand) PCL**

10th Floor, Sathorn Square Office
Tower
98, North Sathorn Road, Silom
Bangrak, Bangkok 10500
Thailand
Tel: +66 2088 9999
Fax :+66 2088 9799

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10 Collyer Quay
#09-08 Ocean Financial Centre
Singapore 049315
Tel : +65 6533 1818
Fax : +65 6532 6211