

14 August 2020

Construction & Engineering | Construction

Sunway Construction (SCGB MK)

Buy (from Neutral)

No Stopping The Rising Sun; Upgrade To BUY

Target Price (Return): MYR2.14 (+18%)
 Price: MYR1.81
 Market Cap: USD541m
 Avg Daily Turnover (MYR/USD): 1.14m/0.27m

- **Upgrade to BUY from Neutral, MYR2.14 TP, 18% upside with c.2% FY20F yield.** Sunway Construction may emerge as an early winner, should a more bullish scenario unfold for the sector. We remain optimistic on its earnings recovery, supported by strength in work execution, aggressive tendering, and a steady flow of jobs from its parent company. Its share price has retraced ahead of the results announcement, which presents a more favourable entry point. The stock is now trading at 15x to FY21 EPS (5-year mean: 16x).
- **Darkest before dawn.** Sunway Construction is scheduled to report its 2Q20 results on 18 Aug. A weaker set of numbers is expected – likely the lowest since its listing. Recall that activities were halted in March due to the Movement Control Order (MCO), before the sector was partially reopened in May. This largely took place in 2Q20, thereby affecting the group's income. We believe Sunway Construction will likely report a small net profit of MYR2-6m for 2Q20, implying a decline of 82% YoY or 65% QoQ.
- **Tweaking FY20F earnings.** The company's outstanding orderbook is estimated at MYR5.46bn, post deductions for work recognition in 2Q20. This implies three years of earnings visibility. We cut FY20F net profit by 14%, to reflect a lower average net margin assumption. However, we keep FY21-22 estimates unchanged, as we expect earnings to normalise then. In Malaysia, construction activities have resumed to a pace that mirrors the pre-MCO period. However, progress is still rather slow in Singapore, although this is anticipated to improve by year-end.
- **Capex may jump in FY21,** from a low base in FY20 that is likely to be less than MYR1m. Also, Sunway Construction is building a precast plant in Singapore, which is on track for completion by FY21. On these circumstances, we believe capex may surge next year, as the company will need to fund this maiden operation in FY22. We have not imputed any earnings expectations from this plant into our forecasts.
- **TP remains at MYR2.14.** Our FY21F earnings is pegged to 18x P/E (+1SD from its 5-year mean), which is slightly higher to its big-cap peer average of 16x. We believe our target P/E is justified – in view of the company's resilience and strength in job replenishment. For next year, the outlook on earnings recovery also looks intact, which should lend support to its share price. Net cash/share is around MYR0.27.
- **Key risks.** Downside risks include failure to secure new contracts, and prolonged downturns in the retail and property markets. Upside risks could stem from the Government taking a more aggressive tack to pump-prime the economy by resuming large-scale public infrastructure projects.

Analyst

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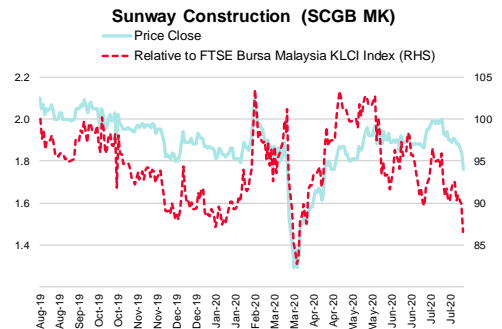


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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(7.9)	(8.3)	(2.8)	(7.4)	(17.0)
Relative	(5.9)	(6.1)	(15.6)	(8.3)	(13.4)
52-wk Price low/high (MYR)				1.29	– 2.10



Source: Bloomberg

Forecasts and Valuation	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Total turnover (MYRm)	2,257	1,769	1,366	2,166	2,216
Recurring net profit (MYRm)	147	116	73	154	154
Recurring net profit growth (%)	11.6	(20.9)	(37.1)	110.3	0.3
Recurring P/E (x)	15.49	19.60	31.17	14.82	14.77
P/B (x)	3.9	3.7	3.5	3.1	2.8
P/CF (x)	11.81	9.62	na	23.40	11.01
Dividend Yield (%)	4.0	3.5	1.6	3.4	3.4
EV/EBITDA (x)	8.67	10.77	14.71	8.48	7.83
Return on average equity (%)	25.5	19.7	11.4	22.0	19.9
Net debt to equity (%)	net cash	net cash	net cash	net cash	net cash

Source: Company data, RHB

Note:

Small cap stocks are defined as companies with a market capitalization of less than USD1bn.

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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	0.06	0.12	0.12
Construction & Engineering	DPS	0.07	0.06	0.03	0.06	0.06
Sunway Construction	BVPS	0.46	0.48	0.51	0.57	0.63
SCGB MK	Return on average equity (%)	25.5	19.7	11.4	22.0	19.9
Buy						
	Valuation metrics	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Recurring P/E (x)	15.49	19.60	31.17	14.82	14.77
	P/B (x)	3.9	3.7	3.5	3.1	2.8
	FCF Yield (%)	6.0	10.0	(1.7)	0.5	6.7
	Dividend Yield (%)	4.0	3.5	1.6	3.4	3.4
	EV/EBITDA (x)	8.67	10.77	14.71	8.48	7.83
	EV/EBIT (x)	10.52	14.33	22.00	10.67	10.17
	Income statement (MYRm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Total turnover	2,257	1,769	1,366	2,166	2,216
	Gross profit	447	121	238	421	421
	EBITDA	215	170	127	226	233
	Depreciation and amortisation	(38)	(42)	(42)	(46)	(53)
	Operating profit	177	128	85	180	179
	Net interest	8	12	7	5	6
	Pre-tax profit	183	148	92	193	194
	Taxation	(38)	(27)	(19)	(40)	(40)
	Reported net profit	145	120	73	154	154
	Recurring net profit	147	116	73	154	154
	Cash flow (MYRm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Change in working capital	(10)	86	(154)	(103)	(1)
	Cash flow from operations	193	237	(39)	97	207
	Capex	(56)	(8)	(1)	(85)	(55)
	Cash flow from investing activities	(74)	(51)	(1)	(85)	(55)
	Dividends paid	(97)	(91)	(37)	(77)	(77)
	Cash flow from financing activities	(118)	72	1	(69)	(69)
	Cash at beginning of period	487	485	693	654	598
	Net change in cash	0	257	(38)	(57)	82
	Ending balance cash	489	742	654	598	680
	Balance sheet (MYRm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Total cash and equivalents	485	693	675	618	700
	Tangible fixed assets	163	139	98	136	138
	Total investments	45	49	49	49	49
	Total assets	1,754	1,905	1,659	2,041	2,150
	Short-term debt	114	233	253	243	233
	Total long-term debt	0	62	62	62	62
	Total liabilities	1,162	1,280	997	1,303	1,335
	Total equity	593	625	662	738	816
	Total liabilities & equity	1,754	1,905	1,659	2,041	2,150
	Key metrics	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Revenue growth (%)	8.7	(21.6)	(22.8)	58.6	2.3
	Recurrent EPS growth (%)	11.6	(20.9)	(37.1)	110.3	0.3
	Gross margin (%)	19.8	6.8	17.4	19.5	19.0
	Operating EBITDA margin (%)	9.5	9.6	9.3	10.4	10.5
	Net profit margin (%)	6.4	6.8	5.3	7.1	7.0
	Capex/sales (%)	2.5	0.5	0.1	3.9	2.5
	Interest cover (x)	21.3	9.7	6.4	13.3	13.7

Source: Company data, RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2020-07-23	Neutral	2.14	1.99
2020-05-22	Neutral	1.86	1.92
2020-04-23	Neutral	1.72	1.76
2020-04-09	Neutral	1.51	1.67
2020-02-21	Neutral	1.95	1.95
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
2018-11-02	Buy	2.00	1.61

Source: RHB, Bloomberg

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