

30 October 2020

Construction & Engineering | Construction

# Sunway Construction (SCGB MK)

**Buy** (Maintained)

## Scores Another Major Contract In India; Keep BUY

Target Price (Return): MYR2.09 (+15%)  
Price: MYR1.81  
Market Cap: USD562m  
Avg Daily Turnover (MYR/USD) 0.70m/0.17m

- **Maintain BUY, MYR2.09 TP, 15% upside with c.2% FY20F yield.** As we believe the sector is moving into a new growth cycle, Sunway Construction is well-positioned to capture opportunities. Our optimism on earnings recovery – due to strength in work execution, aggressive tendering, and the steady flow of in-house jobs – supports our 18x FY21F P/E valuation. In our view, valuations remain attractive – the stock is trading at just 16x FY21F EPS (5-year mean). This counter is still our sector Top Pick.
- **Showing its mettle.** The group has announced multiple job wins this week. It covers the scope of highway construction in India, as well as works related to design, supply, deliver, install, and commission a solar photovoltaic system. These new contracts are worth MYR333m, which takes total new orders secured to date to MYR2.3bn. This is an exciting development for the group – SunCon is the only construction company within our coverage that has met or exceeded its target (of MYR2bn) this year.
- **Secured a second job in India.** About 95% of the contract sum (equivalent to MYR315m) represents works to build a highway in India. We understand earnings will be recognised progressively during a 2-year construction period. After that, it will be followed by a fixed amount of about MYR0.85m pa, derived from a 15-year operating and maintenance contract regarding the highway. However, we note that works for the highway are only expected to commence in 2Q21 (May 2021). The other jobs secured are related to solar power system installations, worth a total of MYR18m.
- **Outstanding orderbook of about MYR5.7bn.** Positively, the unbilled amount still appears sizeable (higher than in 2018 and 2019), which extends the earnings visibility of its construction division. Despite the group exceeding its target this year, we maintain our forecasts – as the India highway contract will only begin contributing to earnings in 2Q21.
- **Local opportunities from mega projects** could create a more robust job pipeline. SunCon is still a strong candidate to participate in local rail projects including the Kuala Lumpur-Singapore High-Speed Rail, Johor Singapore Rapid Train System, and Mass Rapid Transit 3. Other opportunities include the construction of hospitals in Penang and Johor.
- **Our sector Top Pick.** SunCon is still a beneficiary of local infrastructure jobs, evidenced by its participation in the MRT1, MRT2 and LRT3 projects. Its track record and balance sheet emits strength, enabling it to emerge as strong contender for large-scale infrastructure projects.
- **Downside risks** include a failure to secure new contracts, a prolonged downturn in the retail and property markets, and a longer-than-expected delay in the rollout of mega infrastructure projects. Sudden restrictions on activities – possibly due to lockdown measures, if implemented – may present downside risks.

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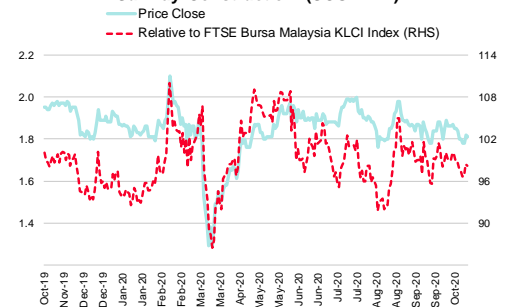
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### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(5.2)	1.7	(5.7)	(3.2)	(7.2)
Relative	0.7	2.8	1.4	(12.2)	(2.4)
52-wk Price low/high (MYR)				1.29	– 2.10

Sunway Construction (SCGB MK)



Source: Bloomberg

Forecasts and Valuation	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Total turnover (MYRm)	2,257	1,769	1,273	2,005	2,051
Recurring net profit (MYRm)	147	116	69	150	150
Recurring net profit growth (%)	11.6	(20.9)	(40.2)	116.4	(0.2)
Recurring P/E (x)	15.93	20.15	33.72	15.59	15.61
P/B (x)	4.0	3.8	3.6	3.2	2.9
P/CF (x)	12.15	9.89	na	23.78	11.53
Dividend Yield (%)	3.9	3.4	1.5	3.2	3.2
EV/EBITDA (x)	8.97	11.15	15.73	8.90	8.27
Return on average equity (%)	25.5	19.7	10.8	21.6	19.5
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.

## Financial Exhibits

Asia	Financial summary (MYR)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Malaysia	Recurring EPS	0.11	0.09	0.05	0.12	0.12
Construction & Engineering	DPS	0.07	0.06	0.03	0.06	0.06
<b>Sunway Construction</b>	BVPS	0.46	0.48	0.51	0.57	0.62
SCGB MK	Return on average equity (%)	25.5	19.7	10.8	21.6	19.5
Buy						
	<b>Valuation metrics</b>	<b>Dec-18</b>	<b>Dec-19</b>	<b>Dec-20F</b>	<b>Dec-21F</b>	<b>Dec-22F</b>
	Recurring P/E (x)	15.93	20.15	33.72	15.59	15.61
	P/B (x)	4.0	3.8	3.6	3.2	2.9
	FCF Yield (%)	5.8	9.8	(1.4)	0.6	6.3
	Dividend Yield (%)	3.9	3.4	1.5	3.2	3.2
	EV/EBITDA (x)	8.97	11.15	15.73	8.90	8.27
	EV/EBIT (x)	10.89	14.83	23.99	11.26	10.82
	<b>Income statement (MYRm)</b>	<b>Dec-18</b>	<b>Dec-19</b>	<b>Dec-20F</b>	<b>Dec-21F</b>	<b>Dec-22F</b>
	Total turnover	2,257	1,769	1,273	2,005	2,051
	Gross profit	447	121	222	399	397
	EBITDA	215	170	122	221	227
	Depreciation and amortisation	(38)	(42)	(42)	(46)	(53)
	Operating profit	177	128	80	175	174
	Net interest	8	12	7	6	6
	Pre-tax profit	183	148	87	189	189
	Taxation	(38)	(27)	(18)	(39)	(39)
	Reported net profit	145	120	69	150	150
	Recurring net profit	147	116	69	150	150
	<b>Cash flow (MYRm)</b>	<b>Dec-18</b>	<b>Dec-19</b>	<b>Dec-20F</b>	<b>Dec-21F</b>	<b>Dec-22F</b>
	Change in working capital	(10)	86	(144)	(98)	(0)
	Cash flow from operations	193	237	(33)	98	203
	Capex	(56)	(8)	(1)	(85)	(55)
	Cash flow from investing activities	(74)	(51)	(1)	(85)	(55)
	Dividends paid	(97)	(91)	(35)	(75)	(75)
	Cash flow from financing activities	(118)	72	3	(67)	(67)
	Cash at beginning of period	487	485	693	662	608
	Net change in cash	0	257	(31)	(54)	81
	Ending balance cash	489	742	662	608	689
	<b>Balance sheet (MYRm)</b>	<b>Dec-18</b>	<b>Dec-19</b>	<b>Dec-20F</b>	<b>Dec-21F</b>	<b>Dec-22F</b>
	Total cash and equivalents	485	693	682	629	709
	Tangible fixed assets	163	139	98	136	138
	Total investments	45	49	49	49	49
	Total assets	1,754	1,905	1,620	1,971	2,076
	Short-term debt	114	233	253	243	233
	Total long-term debt	0	62	62	62	62
	Total liabilities	1,162	1,280	960	1,236	1,266
	Total equity	593	625	660	735	810
	Total liabilities & equity	1,754	1,905	1,620	1,971	2,076
	<b>Key metrics</b>	<b>Dec-18</b>	<b>Dec-19</b>	<b>Dec-20F</b>	<b>Dec-21F</b>	<b>Dec-22F</b>
	Revenue growth (%)	8.7	(21.6)	(28.0)	57.5	2.3
	Recurrent EPS growth (%)	11.6	(20.9)	(40.2)	116.4	(0.2)
	Gross margin (%)	19.8	6.8	17.5	19.9	19.4
	Operating EBITDA margin (%)	9.5	9.6	9.6	11.0	11.1
	Net profit margin (%)	6.4	6.8	5.5	7.5	7.3
	Capex/sales (%)	2.5	0.5	0.1	4.2	2.7
	Interest cover (x)	21.3	9.7	6.0	12.9	13.3

Source: Company data, RHB

## Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2020-08-20	Buy	2.09	1.80
2020-08-13	Buy	2.14	1.81
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
2019-11-20	Neutral	1.95	1.97
2019-10-09	Neutral	2.03	1.95
2019-08-20	Neutral	2.09	2.05

Source: RHB, Bloomberg

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Analyst	Company
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