



Company report

SUNWAY CONSTRUCTION

(SCGB MK EQUITY, SCOG.KL)

12 June 2019

Home and away

UNDERWEIGHT

(Maintained)

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Rationale for report: Company update

Price	RM2.00
Fair Value	RM1.09
52-week High/Low	RM2.09/RM1.30

Key Changes

Fair value	↔
EPS	↔

YE to Dec	FY18	FY19F	FY20F	FY21F
Revenue (RM mil)	2,256.8	2,176.8	2,164.0	2,149.6
Core net profit (RM mil)	144.7	130.0	141.4	142.8
FD Core EPS (sen)	11.2	10.1	10.9	11.0
FD Core EPS growth (%)	9.4	(10.1)	8.7	1.0
Consensus Net Profit (RM mil)	-	146.7	157.0	158.0
DPS (sen)	7.0	7.0	7.0	7.0
PE (x)	17.9	19.9	18.3	18.1
EV/EBITDA (x)	10.3	11.3	10.4	10.1
Div yield (%)	3.6	3.6	3.6	3.6
ROE (%)	25.5	21.7	22.9	22.2
Net Gearing (%)	nm	nm	nm	nm

Stock and Financial Data

Shares Outstanding (million)	1,292.9
Market Cap (RM mil)	2,585.8
Book Value (RM/share)	0.46
P/BV (x)	4.4
ROE (%)	25.5
Net Gearing (%)	-
Major Shareholders	Sunway Bhd & Cheah family(65.1%) EPF(7.5%)
Free Float	27.4
Avg Daily Value (RM mil)	1.9

Price performance	3mth	6mth	12mth
Absolute (%)	11.7	37.9	4.7
Relative (%)	12.6	38.1	12.6



Investment Highlights

- We maintain our UNDERWEIGHT call, forecasts and FV of RM1.09 based on 10x FY20 EPS, in line with our benchmark forward P/E of 10x for large- and mid-cap construction stocks.
- The key message we gathered from Sunway Construction during a recent visit is the company is bracing itself for an extended lull period in the local construction sector, and it has acted on this belief by intensifying its pursuit of overseas construction jobs.
- The company spoke of the discrepancy between the news flow on the revival of mega projects in Malaysia and the reality on the ground at present. It said that there is still hardly any sizeable new public infrastructure project up for bidding in the open market currently. It did not appear to be too excited over the RM44bil East Coast Rail Link project, of which details on the job scope/work packages available to local contractors are still lacking. It will only be keen to participate in the project if higher-value jobs such as piling, relocation of utilities and elevated structures are offered to the local contractors.
- Having said that, subject to the final investment decisions by the project owners, locally, Sunway Construction may bid for a high-rise commercial property project by parent Sunway Bhd, a public hospital project (we gathered from sources, in East Malaysia) and a superstructure job within the Kuala Lumpur City Centre enclave. We estimate that these jobs could be worth about RM200mil each.
- Sunway Construction has stepped up its hunt for jobs outside Malaysia. In India, it has reopened an office staffed with full-time engineers relocated from Malaysia. The team is currently working on tenders for three toll-road projects worth about RM1bil each in India. In Myanmar, Sunway Construction, via a JV with local conglomerate Capital Diamond Star Group, stands a good chance of winning a building job worth RM200-300mil for the maiden phase of a mixed project in Mandalay jointly developed by the conglomerate and a Singaporean real estate group. Meanwhile, Sunway Construction has mobilised three boring rigs to Singapore (we believe, they would otherwise be underutilised in Malaysia) to better position itself in the piling sector in the city state.

- **Out of conservatism, Sunway Construction reiterated its guidance for order book replenishment in FY19F of RM1.5bil (including new precast product orders). So far in FY19F, it has secured new construction jobs worth RM1bil and new precast product orders worth RM31mil. No change to our forecasts that assume the respective construction and precast product job wins of RM1.3bil and RM200mil annually in FY19–21F.**
- **At present, Sunway Construction’s outstanding construction and precast product order books stand at RM5.4bil (Exhibit 1) and RM316mil respectively.**
- **We acknowledge that the revival of the East Coast Rail Link (ECRL) and Bandar Malaysia projects shall result in more jobs available in the market for local construction players. However, we believe the market has not priced in enough risk premium to reflect:**
 1. **The fact that the latest mega projects are driven by world-class Chinese contractors (and Chinese funding) which probably leaves the local contractors with only low-value/low-margin supporting roles in the projects; and**
 2. **The fact that given the still elevated national debt, the government has no choice but to remain steadfastly committed to fiscal prudence which means the revival of the ECRL project could be a “zero-sum game” as it impedes the government’s ability to implement other public infrastructure projects.**
- **We believe Sunway Construction can weather the sector downturn better given its proven ability to compete under an open bidding system, coupled with the availability of building jobs from its parent and sister companies under the Sunway group. However, valuations are unattractive at 18–20x forward earnings on muted sector prospects.**

EXHIBIT 1: OUTSTANDING ORDER BOOK

Project	Outstanding Value (RMmil)
GS07 & GS08, LRT3	1,929
Internal building jobs	1,923
Sunway Medical Centre (SMC) 4	429
Sunway Serene	306
Sunway Velocity Two	343
Carnival Mall extension	247
Sunway GeoLake	161
SMC Seberang Jaya	163
Big Box, Iskandar	145
Velocity 3C4	96
Others	33
TNB HQ campus, KL	781
V201, MRT2	359
Parcel F, Putrajaya	69
PPA1M, Kota Bharu	141
Nippon Express	48
Others	166
Total	5,416

Source: Company, AmInvestment Bank Bhd

EXHIBIT 2: PB BAND CHART



EXHIBIT 3: PE BAND CHART



EXHIBIT 4: FINANCIAL DATA

Income Statement (RMmil, YE 31 Dec)	FY17	FY18	FY19F	FY20F	FY21F
Revenue	2,076.3	2,256.8	2,176.8	2,164.0	2,149.6
EBITDA	196.9	214.6	199.4	219.4	226.9
Depreciation/Amortisation	(37.8)	(40.0)	(47.2)	(52.2)	(57.2)
Operating income (EBIT)	159.1	174.6	152.2	167.2	169.6
Other income & associates	2.2	0.7	-	-	-
Net interest	7.4	7.7	10.6	9.6	9.0
Exceptional items	-	-	-	-	-
Pretax profit	168.7	183.1	162.7	176.9	178.7
Taxation	(36.2)	(38.0)	(32.5)	(35.4)	(35.7)
Minorities/pref dividends	(0.1)	(0.3)	(0.1)	(0.1)	(0.1)
Net profit	132.3	144.7	130.0	141.4	142.8
Core net profit	132.3	144.7	130.0	141.4	142.8
Balance Sheet (RMmil, YE 31 Dec)	FY17	FY18	FY19F	FY20F	FY21F
Fixed assets	152.1	163.7	216.5	264.3	307.1
Intangible assets	3.6	3.6	3.6	3.6	3.6
Other long-term assets	2.6	48.0	48.0	48.0	48.0
Total non-current assets	158.3	215.3	268.1	315.9	358.7
Cash & equivalent	487.2	484.9	445.9	423.2	407.0
Stock	-	-	-	-	-
Trade debtors	1,184.4	1,059.5	1,059.5	1,059.5	1,059.5
Other current assets	46.4	52.8	52.8	52.8	52.8
Total current assets	1,718.0	1,597.2	1,558.2	1,535.5	1,519.3
Trade creditors	1,185.1	994.8	994.8	994.8	994.8
Short-term borrowings	134.7	113.6	113.6	113.6	113.6
Other current liabilities	5.2	14.1	14.1	14.1	14.1
Total current liabilities	1,324.9	1,122.6	1,122.6	1,122.6	1,122.6
Long-term borrowings	-	-	-	-	-
Other long-term liabilities	7.0	0.6	0.6	0.6	0.6
Total long-term liabilities	7.0	0.6	0.6	0.6	0.6
Shareholders' funds	542.9	591.1	604.8	629.8	656.2
Minority interests	1.1	1.4	1.6	1.7	1.8
BV/share (RM)	0.42	0.46	0.47	0.49	0.51
Cash Flow (RMmil, YE 31 Dec)	FY17	FY18	FY19F	FY20F	FY21F
Pretax profit	168.7	183.1	162.7	176.9	178.7
Depreciation/Amortisation	37.8	40.0	47.2	52.2	57.2
Net change in working capital	(112.1)	(10.5)	-	-	-
Others	(208.7)	(22.7)	(43.1)	(45.0)	(44.8)
Cash flow from operations	(114.4)	189.8	166.8	184.1	191.1
Capital expenditure	(54.7)	(100.3)	(100.0)	(100.0)	(100.0)
Net investments & sale of fixed assets	6.2	1.4	-	-	-
Others	83.3	25.1	-	-	-
Cash flow from investing	34.9	(73.8)	(100.0)	(100.0)	(100.0)
Debt raised/(repaid)	-	(21.1)	-	-	-
Equity raised/(repaid)	-	-	-	-	-
Dividends paid	(68.5)	(96.9)	(116.4)	(116.4)	(116.4)
Others	(5.5)	-	10.6	9.6	9.0
Cash flow from financing	(73.9)	(118.0)	(105.8)	(106.7)	(107.3)
Net cash flow	(153.5)	(2.0)	(39.0)	(22.7)	(16.2)
Net cash/(debt) b/f	465.3	487.6	488.4	449.4	426.7
Net cash/(debt) c/f	310.4	485.6	449.4	426.7	410.5
Key Ratios (YE31 Dec)	FY17	FY18	FY19F	FY20F	FY21F
Revenue growth (%)	16.1	8.7	(3.5)	(0.6)	(0.7)
EBITDA growth (%)	16.2	9.0	(7.1)	10.1	3.4
Pretax margin (%)	8.1	8.1	7.5	8.2	8.3
Net profit margin (%)	6.4	6.4	6.0	6.5	6.6
Interest cover (x)	nm	nm	nm	nm	nm
Effective tax rate (%)	21.5	20.8	20.0	20.0	20.0
Dividend payout (%)	40.0	50.0	50.0	50.0	50.0
Debtors turnover (days)	208	171	178	179	180
Stock turnover (days)	-	-	-	-	-
Creditors turnover (days)	250	198	214	216	218

Source: Company, AmInvestment Bank Bhd estimates

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