



Company report

SUNWAY CONSTRUCTION

(SCGB MK EQUITY, SCOG.KL)

7 Nov 2019

A subdued 9MFY19 expected

UNDERWEIGHT

(Maintained)

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Rationale for report: Company results preview

Price	RM1.96
Fair Value	RM1.20
52-week High/Low	RM2.20/RM1.30

Key Changes

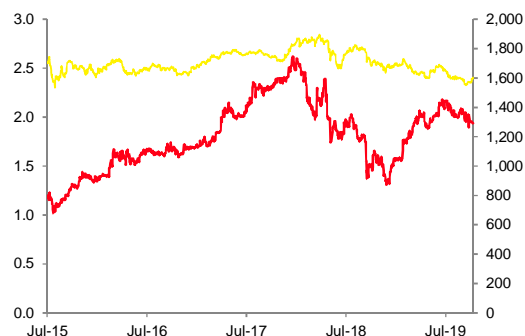
Fair value	↔
EPS	↔

YE to Dec	FY18	FY19F	FY20F	FY21F
Revenue (RM mil)	2,256.8	2,176.8	2,384.0	2,449.6
Core net profit (RM mil)	144.7	130.0	155.6	162.6
FD Core EPS (sen)	11.2	10.1	12.0	12.6
FD Core EPS growth (%)	9.4	(10.1)	19.6	4.5
Consensus Net Profit (RM mil)	-	142.5	161.5	164.3
DPS (sen)	7.0	7.0	7.0	7.0
PE (x)	17.5	19.5	16.3	15.6
EV/EBITDA (x)	10.1	11.0	9.3	8.8
Div yield (%)	3.6	3.6	3.6	3.6
ROE (%)	25.5	21.7	24.9	24.4
Net Gearing (%)	nm	nm	nm	nm

Stock and Financial Data

Shares Outstanding (million)	1,292.9
Market Cap (RM mil)	2,534.1
Book Value (RM/share)	0.46
P/BV (x)	4.3
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)	1.1

Price performance	3mth	6mth	12mth
Absolute (%)	(6.7)	(2.0)	20.2
Relative (%)	(6.5)	(0.1)	27.9



— SCGB MK — FBMKLCI Index

Investment Highlights

- We maintain our UNDERWEIGHT call, forecasts and FV of RM1.20 based on 10x FY20 EPS, in line with our benchmark forward P/E of 10x for large and mid-cap construction stocks.
- We expect Sunway Construction's 9MFY19 results, due to be announced on 19 Nov 2019, to come at RM90–95mil at the net level (an earnings decline of 12–17% YoY). This will be broadly in line with our expectations at 69–73% of our full-year forecast, but fall short of market expectations at only 63–67% of full-year consensus estimates.
- We believe the key earnings drag will come from the slow progress in the LRT3 project. At present, about a third of Sunway Construction's outstanding order book comes from Packages GS07 and GS08 of the LRT3 (Exhibit 1). During a recent analyst briefing conducted by George Kent (one of the two joint turnkey contractors for the LRT3), the company guided for work on the LRT3 to only pick up from 4Q2019 as "contract renegotiations and design changes are still pending". It also means insignificant construction activities on the job during July-Sep 2019.
- We also expect weak profitability from Sunway Construction's precast concrete products during 9MFY19 due to unfavourable contract prices entered into previously amidst stiff competition.
- During a recent meeting, Sunway Construction told us that given the slowdown in the local construction sector, it 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.

- So far in FY19F, it has secured new construction jobs worth RM1.5bil and new precast product orders worth RM60mil. Its outstanding construction and precast product order books stand at RM5.5bil (Exhibit 1) and RM294mil respectively.
- We make no changes to our assumptions on construction job wins of RM1.8bil in FY19F and RM1.5bil annually in FY20–21F, and precast product order replenishment of RM200mil annually in FY19–21F.
- We maintain our view that valuations of construction stocks, Sunway Construction included, have run ahead of their fundamentals in the heat of the euphoria sparked by the recent revival of the East Coast Rail Link (ECRL) and Bandar Malaysia projects (more so, Sunway Construction may not even be participating in the ECRL project as the high-value portions of the Chinese-controlled turnkey construction job are unlikely to be made available to local players).
- We believe the fact remains 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 16–20x forward earnings on muted sector prospects.

EXHIBIT 1: OUTSTANDING ORDER BOOK

Project	Outstanding Value (RMmil)
GS07 & GS08, LRT3	1,882
Internal building jobs	1,910
Sunway Medical Centre (SMC) 4	417
Sunway Velocity Two	328
Sunway Serene	294
Carnival Mall extension	241
SMC Seberang Jaya	159
Sunway Geolake	142
Parcel CP2, Bandar Sunway	119
Big Box Hotel	93
Velocity 3C4	88
Others	29
TNB HQ campus, KL	756
Petronas Leadership Centre, Bangi	310
V201, MRT2	243
PPA1M, Kota Bharu	105
Oxley, KL	68
Parcel F, Putrajaya	50
Nippon Express	30
Others	135
Total	5,489

Source: Company, AmInvestment Bank Bhd

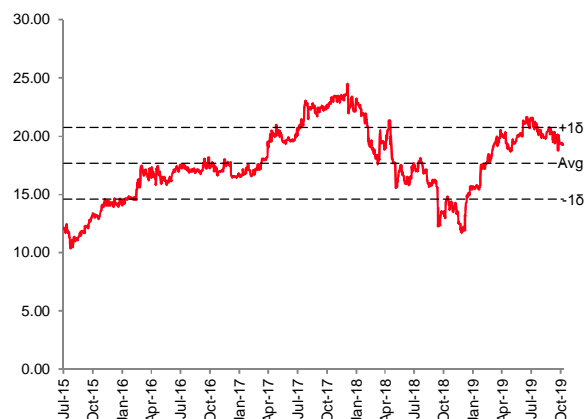
EXHIBIT 2: PB BAND CHART.**EXHIBIT 3: PE BAND CHART.**

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	2,384.0	2,449.6
EBITDA	196.9	214.6	199.4	237.0	250.9
Depreciation/Amortisation	(37.8)	(40.0)	(47.2)	(52.2)	(57.2)
Operating income (EBIT)	159.1	174.6	152.2	184.8	193.6
Other income & associates	2.2	0.7	-	-	-
Net interest	7.4	7.7	10.6	9.8	9.8
Exceptional items	-	-	-	-	-
Pretax profit	168.7	183.1	162.7	194.7	203.4
Taxation	(36.2)	(38.0)	(32.5)	(38.9)	(40.7)
Minorities/pref dividends	(0.1)	(0.3)	(0.1)	(0.1)	(0.2)
Net profit	132.3	144.7	130.0	155.6	162.6
Core net profit	132.3	144.7	130.0	155.6	162.6
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	437.5	441.1
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	1,549.8	1,553.4
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	644.0	690.2
Minority interests	1.1	1.4	1.6	1.7	1.9
BV/share (RM)	0.42	0.46	0.47	0.50	0.53
Cash Flow (RMmil, YE 31 Dec)	FY17	FY18	FY19F	FY20F	FY21F
Pretax profit	168.7	183.1	162.7	194.7	203.4
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)	(48.8)	(50.5)
Cash flow from operations	(114.4)	189.8	166.8	198.1	210.2
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	9.8	9.8
Cash flow from financing	(73.9)	(118.0)	(105.8)	(106.5)	(106.6)
Net cash flow	(153.5)	(2.0)	(39.0)	(8.4)	3.6
Net cash/(debt) b/f	465.3	487.6	488.4	449.4	441.0
Net cash/(debt) c/f	310.4	485.6	449.4	441.0	444.6
Key Ratios (YE31 Dec)	FY17	FY18	FY19F	FY20F	FY21F
Revenue growth (%)	16.1	8.7	(3.5)	9.5	2.8
EBITDA growth (%)	16.2	9.0	(7.1)	18.9	5.8
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	162	158
Stock turnover (days)	-	-	-	-	-
Creditors turnover (days)	250	198	214	196	191

Source: Company, AmInvestment Bank Bhd estimates

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