

Sunway Construction Group Berhad

TP: RM1.38 (-8.0%)
Revisits India
Last Traded: RM1.50
SELL

Ooi Beng Hooi

Tel: +603-2167 9612

benghooi@ta.com.my

www.taonline.com.my

Secures Highway Project in India

A consortium formed by Sunway Construction Sdn Bhd (a 100% subsidiary of SUNCON) and RNS Infrastructure Limited on a 60:40 basis, has secured a highway construction and maintenance contract from National Highway Authority of India (NHAI).

The contract is for the 4-laning of Thorapalli Agraharam – Jittandahalli Section of NH-844 from km25.000 to km63.5000 under Bharatmala Pariyojana Phase I (National Corridor) in the State of Tamil Nadu. The construction contract carries a contract sum of Rs.864.51 Crore (approximately RM498.3mn) while the 15-year operating and maintenance contract is valued at Rs7.08 (approximately RM4.1mn) Crore per annum.

The project will be operated under a hybrid annuity model whereby 40% of the project cost will be paid in 5 equal instalments during the 2-year construction period with the remaining 60% of the project cost to be paid over 15 years as fixed annuity amount plus interest, which is benchmarked at Reserve Bank of India rate of + 3%. The contract does not include toll right and revenue collection from the highway toll, which would be the responsibility of the NHAI.

Our View

The job win does not come as a surprise to us as SUNCON has been exploring ASEAN and India markets to reduce dependency on projects in Malaysia.

While overseas projects typically carry additional execution risk, geopolitical risk and foreign currency risk, SUNCON is no stranger to highway construction jobs in India. It had completed 7 highway projects in India.

Given the higher risks compared with local project, we assume a higher operating margin of 12% versus middle to high single digit margin for local project.

With this job win, SUNCON's outstanding order book is estimated at RM5.1bn.

Impact

We revise FY20/FY21/FY22 earnings forecasts higher by 1.3%/2.0%/6.4% to reflect the higher expected margin for overseas project. FY20 order book replenishment assumption remains at RM1.5bn.

Share Information

Bloomberg Code	SCGB MK
Bursa	SUNCON
Stock Code	5263
Listing	Main Market
Share Cap (mn)	1289.4
Market Cap (RMmn)	1,934.0
52-wk Hi/Lo (RM)	2.20/1.25
12-mth Avg Daily Vol ('000 shrs)	705.5
Estimated Free Float (%)	35.4
Beta	1.19

Major Shareholders (%)

Sunholdings	- 54.56
Sungei Way Corp Sdn Bhd	- 10.08
Employee Provident Fund	- 8.54

Forecast Revision

	FY20	FY21
Forecast Revision (%)	1.3	2.0
Net profit (RMmn)	148.7	124.8
Consensus	160.6	164.5
TA's / Consensus (%)	92.6	75.9
Previous Rating	Sell (Maintained)	

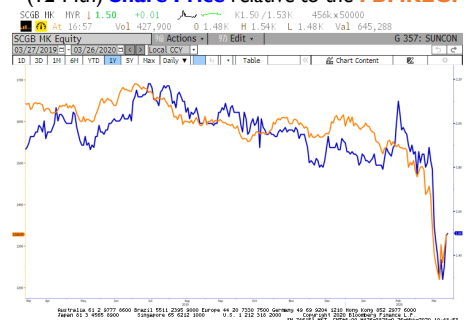
Financial Indicators

	FY20	FY21
Net Debt / Equity (%)	net cash	net cash
CFPS (sen)	(5.1)	(0.3)
Price / CFPS (x)	(29.2)	(548.6)
ROA (%)	7.5	6.2
NTA/Share (sen)	52.7	55.3
Price/NTA (x)	2.8	2.7

Share Performance (%)

Price Change	SUNCON	FBM KLCI
1 mth	(19.4)	(11.8)
3 mth	(22.3)	(17.5)
6 mth	(26.8)	(16.2)
12 mth	(20.2)	(19.2)

(12-Mth) Share Price relative to the FBMKLCI



Source: Bloomberg

Valuation

Following the earnings revision, we raise the target price slightly higher from RM1.36 to **RM1.38**, based on unchanged 12x CY20 EPS. Maintain **SELL** on valuation ground.

Earnings Summary (RMmn)

Profit & Loss (RMmn)

YE Dec 31	2018	2019	2020F	2021F	2021F
Revenue	2,256.8	1,768.7	2,271.0	1,900.0	1,950.0
EBITDA	215.1	181.3	206.6	196.4	215.9
Dep. & amortisation	(40.0)	(40.3)	(34.7)	(53.9)	(68.4)
Net finance cost	(6.8)	(12.0)	(16.3)	(15.4)	(14.2)
PBT	182.7	157.4	188.2	157.9	161.7
Taxation	(38.0)	(27.1)	(39.5)	(33.2)	(34.0)
MI	0.3	1.0	0.0	0.0	0.0
Net profit	144.4	129.3	148.7	124.8	127.8
Core net profit	144.4	129.3	148.7	124.8	127.8
GDPS (sen)	7.0	7.0	7.0	7.0	7.0
Div Yield (%)	4.7	4.7	4.7	4.7	4.7

Cash Flow (RMmn)

YE Dec 31	2018	2019	2020F	2021F	2021F
PBT	182.7	157.4	188.2	157.9	161.7
Adjustments	50.2	28.4	18.4	38.5	54.1
Changes in WC	(10.4)	27.9	(42.6)	25.0	2.0
Others	(29.8)	(25.6)	(23.2)	(17.7)	(19.7)
Operational cash flow	192.6	188.1	140.8	203.7	198.1
Capex	(56.2)	(8.3)	(120.0)	(120.0)	(100.0)
Others	(18.1)	(43.1)	8.3	8.3	8.3
Investment cash flow	(74.2)	(51.4)	(111.7)	(111.7)	(91.7)
Debt raised/(repaid)	(24.5)	167.9	(5.0)	(5.0)	(5.0)
Dividend	(96.9)	(90.4)	(90.5)	(90.5)	(90.5)
Others	0.0	(6.0)	0.0	0.0	0.0
Financial cash flow	(121.4)	71.6	(95.5)	(95.5)	(95.5)
Forex effect	0.9	(0.5)	0.0	0.0	0.0
Deposit	0.2	0.2	0.0	0.0	0.0
Net cash flow	(3.1)	208.3	(66.4)	(3.5)	10.9
Beginning cash	486.8	484.7	692.6	626.2	622.7
Ending cash	484.7	692.4	626.2	622.7	633.6

Balance Sheet (RMmn)

YE Dec 31	2018	2019	2020F	2021F	2022F
Fixed assets	177.0	138.7	215.7	273.5	296.8
Others	53.9	56.5	56.5	56.5	56.5
NCA	230.9	195.2	272.2	330.0	353.3
Cash	484.9	692.6	626.2	622.7	633.6
Others	1,052.3	1,017.2	1,170.1	982.5	1,007.7
CA	1,537.1	1,709.8	1,796.3	1,605.1	1,641.3
Total assets	1,768.0	1,905.0	2,068.5	1,935.1	1,994.6
ST borrowings	113.6	233.4	228.4	223.4	218.4
Other liabilities	949.1	886.8	997.1	834.4	861.7
CL	1,062.7	1,120.2	1,225.5	1,057.8	1,080.1
Shareholders' funds	590.2	623.0	681.1	715.4	752.7
MI	1.4	2.2	2.2	2.2	2.2
LT borrowings	0.0	52.7	52.7	52.7	52.7
Other LT liabilities	113.6	107.0	107.0	107.0	107.0
Total capital	1,768.0	1,905.0	2,068.5	1,935.1	1,994.6

Ratio

YE Dec 31	2018	2019	2020F	2021F	2022F
EBITDA Margins (%)	9.5	10.2	9.1	10.3	11.1
Core EPS (sen)	11.2	10.0	11.5	9.7	9.9
EPS Growth (%)	9.3	(10.4)	14.8	(16.1)	2.4
PER (x)	13.4	15.0	13.0	15.5	15.2
GDPS (sen)	7.0	7.0	7.0	7.0	7.0
Div Yield (%)	4.7	4.7	4.7	4.7	4.7
Net cash (RMmn)	371.2	406.6	345.2	346.6	362.5
Net gearing (%)	net cash	net cash	net cash	net cash	net cash
ROE (%)	25.5	21.3	22.8	17.9	17.4
ROA (%)	8.1	7.0	7.5	6.2	6.5
NTA/share (sen)	45.7	48.2	52.7	55.3	58.2
P/NTA(x)	3.3	3.1	2.8	2.7	2.6

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Stock Recommendation Guideline

- BUY** : Total return within the next 12 months exceeds required rate of return by 5%-point.
HOLD : Total return within the next 12 months exceeds required rate of return by between 0-5%-point.
SELL : Total return is lower than the required rate of return.
Not Rated: The company is not under coverage. The report is for information only.

Total Return is defined as expected share price appreciation plus gross dividend over the next 12 months. Gross dividend is excluded from total return if dividend discount model valuation is used to avoid double counting.

Required Rate of Return of 7% is defined as the yield for one-year Malaysian government treasury plus assumed equity risk premium.

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As of Friday, March 27, 2020, the analyst, Ooi Beng Hooi, who prepared this report, has interest in the following securities covered in this report:
(a) nil

Kaladher Govindan – Head of Research

TA SECURITIES HOLDINGS BERHAD (14948-M)

A Participating Organisation of Bursa Malaysia Securities Berhad

Menara TA One | 22 Jalan P. Ramlee | 50250 Kuala Lumpur | Malaysia | Tel: 603 – 2072 1277 | Fax: 603 – 2032 5048
www.ta.com.my