

HLIB Research

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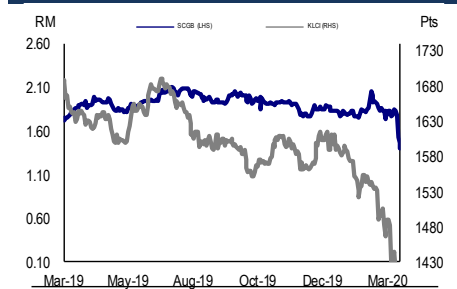
BUY (Maintain)

Target Price: **RM1.73**
Previously: **RM1.73**
Current Price: **RM1.50**

Capital upside	15.3%
Dividend yield	4.9%
Expected total return	20.2%

Sector coverage: Construction

Company description: SunCon is involved in construction and precast products.

Share price


Historical return (%)	1M	3M	12M
Absolute	-19.6	-18.7	-15.7
Relative	-8.4	-1.5	3.8

Stock information

Bloomberg ticker	SCGB MK
Bursa code	5263
Issued shares (m)	1,289
Market capitalisation (RM m)	2,334
3-mth average volume ('000)	361
SC Shariah compliant	Yes

Major shareholders

Sunway Berhad	64.5%
EPF	8.4%

Earnings summary

FYE (Dec)	FY19	FY20f	FY21f
PATMI - core (RM m)	134	148	161
EPS - core (sen)	10.4	11.5	12.4
P/E (x)	14.5	13.1	12.1

Sunway Construction Group

Indian job award

SunCon announced that its 60% owned JV was awarded a Rs.864.5 Crore (c.RM500m) Indian highway project. The project will be undertaken through a hybrid annuity model which significantly lowers risk for the contractor. Management guided that PBT margins for the project are expected to come in above 10%. Post-funding, we reckon SunCon will sustain its net cash position. Cut FY20 earnings by -0.6% and increase FY21-22 earnings by 3.5% and 1.5% due to project timing. Maintain BUY with unchanged TP of RM1.73, based on an unchanged 15x PE multiple tagged to FY20 earnings.

NEWSBREAK

Overseas venture. SunCon announced that its JV, SunCon-RNS Infrastructure Limited (60:40) accepted the Letter of Award (LoA) issued by the National Highway Authority of India (NHAI) for tolled highway project with total contract sum amounting to Rs.864.5 Crore (c.RM500m). Additionally, the JV has been awarded a 15 year operating and maintenance contract worth Rs.7.08 Crore p.a. (c.RM4m p.a.). The scope of works entails the four laning of Thorapalli Agraharam – Jittandahalli Section of NH-844 from Km 25.000 to Km 63.500 (existing chainage) corresponding to Km 23.350 to Km 60.100 (Design Chainage) under Bharatmala Pariyojana Phase-I (National Corridor). Works are expected to commence in Oct-20 with a construction period of 2 years.

HLIB'S VIEW

Low risk model. The project will be undertaken through a hybrid annuity model (HAM) in which SunCon does not undertake traffic volume risks with regards to the repayment (no tolling rights). Based on the terms of the agreement, NHAI will pay 40% of the project cost within the first two years of the construction period in five equal instalments whereas the remaining 60% is paid over 15 years as fixed annuity amount plus interest (benchmarked at Reserve Bank of India rate + 3%). Essentially, compared to the BOT model, HAM transfers traffic volume and financing (partially) risks to the government resulting in significantly lower risk for the contractor. Management guided that PBT margins for the project are expected to come in above 10%. We anticipate relatively stable margins for the project as it carries a built-in price escalation clause.

Funding. For the project, the JV (60% SunCon) intends to inject c.RM50m cash with the remaining to be financed through debt facilities. We gather that the terms of the debt mirror the fixed annuity amount plus interest paid by NHAI. Effectively, this allows SunCon to hedge against interest rate risks arising from the debt. Post-funding requirements, we estimate SunCon will preserve its net cash position (approximately 12% of market cap post-funding).

Familiar partner. Its JV partner, RNS (40%) is an Indian local company that provides wide range of infrastructure construction services such as construction of dams, highways, bridges, tunnels, power houses, and residential buildings. RNS was also SunCon's JV partner during its first foray into India in 2001.

Forecast. While the job award falls within our replenishment assumptions, we cut FY20 earnings by -0.6% and increase FY21-22 earnings by 3.5% and 1.5% after factoring in recognition timing for the project.

Maintain BUY, TP: RM1.73. Maintain BUY with unchanged TP of RM1.73, based on an unchanged 15x PE multiple tagged to FY20 earnings. We like SunCon due to (i) strong balance sheet (net cash: 21% of market cap) (ii) solid execution track record and (iii) strong support from parent-co.

Financial Forecast

All items in (RM m) unless otherwise stated

Balance Sheet

FYE Dec (RM m)	FY18	FY19f	FY20f	FY21f	FY22f
Cash	485	545	623	719	801
Receivables	917	933	1,000	1,096	999
Inventories	30	23	25	27	25
PPE	163	142	119	94	66
Others	160	160	160	160	160
Assets	1,754	1,803	1,926	2,095	2,051
Debts	114	119	127	139	127
Payables	874	888	945	1,036	944
Others	175	175	175	175	175
Liabilities	1,162	1,183	1,247	1,350	1,246
Shareholder's equity	591	619	678	743	802
Minority interest	1	1	1	1	2
Equity	593	620	679	744	805

Cash Flow Statement

FYE Dec (RM m)	FY18	FY19f	FY20f	FY21f	FY22f
Profit before taxation	183	156	191	207	187
Depreciation & amortisation	40	41	43	45	47
Changes in working capital	21	5	(12)	(7)	7
Share of JV profits	(1)	-	-	-	-
Taxation	(38)	(34)	(42)	(45)	(41)
Others	(16)	-	-	-	1
Operating cash flow	189	168	180	199	201
Net capex	(50)	(20)	(20)	(20)	(20)
Others	(25)	-	-	-	-
Investing cash flow	(74)	(20)	(20)	(20)	(20)
Changes in borrowings	(21)	6	8	12	(12)
Issuance of shares	-	-	-	-	-
Dividends paid	(90)	(94)	(90)	(96)	(87)
Others	(7)	-	-	-	-
Financing cash flow	(118)	(88)	(82)	(83)	(99)
Net cash flow	(3)	60	78	96	82
Forex	1	-	-	-	-
Others	-	-	-	-	-
Beginning cash	487	485	545	623	719
Ending cash	485	545	623	719	801

Income Statement

FYE Dec (RM m)	FY18	FY19f	FY20f	FY21f	FY22f
Revenue	2,257	1,769	2,281	2,499	2,279
EBITDA	215	186	223	242	224
EBIT	175	146	180	197	177
Net finance income/ (cost)	8	12	10	10	10
Associates & JV	1	4	-	-	-
Profit before tax	183	162	191	207	187
Tax	(38)	(27)	(42)	(45)	(41)
Net profit	145	135	149	161	146
Minority interest	(0)	(1)	(0)	(0)	(0)
Core earnings	145	134	148	161	146
Exceptional items	-	(5)	-	-	-
Reported earnings	145	129	148	161	146

Valuation & Ratios

FYE Dec (RM m)	FY18	FY19f	FY20f	FY21f	FY22f
Core EPS (sen)	11.2	10.4	11.5	12.4	11.3
P/E (x)	13.4	14.5	13.1	12.1	13.3
EV/EBITDA (x)	7.1	8.1	6.8	6.3	6.8
DPS (sen)	7.0	7.0	6.9	7.4	6.7
Dividend yield	4.7%	4.7%	4.6%	4.9%	4.5%
BVPS (RM)	0.46	0.48	0.52	0.57	0.62
P/B (x)	3.3	3.1	2.9	2.6	2.4
EBITDA margin	9.5%	10.5%	9.8%	9.7%	9.8%
EBIT margin	7.7%	8.2%	7.9%	7.9%	7.8%
PBT margin	8.1%	8.8%	8.4%	8.3%	8.2%
Net margin	6.4%	7.6%	6.5%	6.4%	6.4%
ROE	25.3%	22.2%	22.9%	22.6%	18.8%
ROA	7.9%	6.5%	6.1%	6.0%	5.1%
Net gearing	CASH	CASH	CASH	CASH	CASH

Assumptions

FYE Dec (RM m)	FY18	FY19f	FY20f	FY21f	FY22f
Construction	1,324	1,600	2,000	2,000	2,000
Precast	229	150	200	200	200
Total new job wins	1,553	1,750	2,200	2,200	2,200

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Stock rating definitions

BUY	Expected absolute return of +10% or more over the next 12 months.
HOLD	Expected absolute return of -10% to +15% over the next 12 months.
SELL	Expected absolute return of -10% or less over the next 12 months.
UNDER REVIEW	Rating on the stock is temporarily under review which may or may not result to a change from the previous rating.
NOT RATED	Stock is not or no longer within regular coverage.

Sector rating definitions

OVERWEIGHT	Sector expected to outperform the market over the next 12 months.
NEUTRAL	Sector expected to perform in-line with the market over the next 12 months.
UNDERWEIGHT	Sector expected to underperform the market over the next 12 months.