

## Sunway Construction Group Berhad

**TP: RM1.72** (-6.5%)

*Hits FY20 Order Book Replenishment Target*
*Last Traded: RM1.84*
**SELL**

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### 1 New Job and 1 Variation Order

SUNCON has secured 2 letters of award for the following in-house jobs, totalling RM415.9mn.

i) Main building and associated external works for the proposed commercial development of Sunway Velocity Two – Plot B project, which consists of 2 storeys of business premises, 8 storey of podium carpark, 1 storey of basement carpark, and 2 blocks of 39 storeys of serviced apartment, at Jalan Peel, Kuala Lumpur (see Exhibit 1).

The project carries a contract sum of RM253.6mn, with the project scheduled to commence in November 2020 and to complete by September 2023;

ii) Main building works for the proposed development of Sunway Medical Centre – Phase 4 project comprises 2 blocks of medical centres, 1 block of 9 storeys of elevated carpark, 1 block of 16-storey hotel suite and 1 block of a 9-storey private medical centre, in Bandar Sunway (see Exhibit 2).

Out of the total contract sum of RM612.3mn for the project, RM450mn had been accounted for in the existing order book of SUNCON upon the receipt of letter of intent dated 1 June 2018. The Sunway Medical Centre – Phase 4 project had commenced in August 2018 and is expected to complete in August 2022.

### Our View

With the above job wins, SUNCON has secured RM2.0bn of new jobs YTD, and has achieved the FY20 order book replenishment target of RM2.0bn set by the management.

These projects will improve its outstanding order book to about RM5.4bn as of end-September 2020.

### Impact

Maintain FY20 to FY22 earnings forecasts as the job wins are within our FY20 order book replenishment target of RM2.0bn.

### Valuation

With a strong outstanding order book and a solid balance sheet with strong net cash position, coupled with much better clarity on the roll-out of Bandar Malaysia catalytic development, which we see as a rerating catalyst for the builder, we raise the target PE multiple for SUNCON from 16x to 18x and raise the target price from RM1.53 to **RM1.72**, based on CY21 earnings. However, we maintain **SELL** on SUNCON on valuation ground.

### Share Information

Bloomberg Code	SCGB MK
Bursa	SUNCON
Stock Code	5263
Listing	Main Market
Share Cap (mn)	1289.4
Market Cap (RMmn)	2,372.4
52-wk Hi/Lo (RM)	2.10/1.25
12-mth Avg Daily Vol ('000 shrs)	624.0
Estimated Free Float (%)	35.4
Beta	0.98

### Major Shareholders (%)

Sunholdings	- 54.56
Sungei Way Corp Sdn Bhd	- 10.08
Employee Provident Fund	- 9.10
Amanah Saham Nasional Bhd	- 5.92

### Forecast Revision

	FY20	FY21
Forecast Revision (%)	-	-
Net profit (RMmn)	79.8	123.7
Consensus	78.6	145.1
TA's / Consensus (%)	101.5	85.2
Previous Rating	Sell (Maintained)	

### Financial Indicators

	FY20	FY21
Net Debt / Equity (%)	net cash	net cash
CFPS (sen)	1.4	(5.2)
Price / CFPS (x)	128.8	(35.7)
ROA (%)	4.3	6.3
NTA/Share (sen)	49.9	52.4
Price/NTA (x)	3.7	3.5

### Share Performance (%)

Price Change	SUNCON	FBM KLCI
1 mth	(4.2)	(1.1)
3 mth	(2.1)	(0.6)
6 mth	17.9	13.8
12 mth	(10.2)	(5.3)

### (12-Mth) Share Price relative to the FBMKLCI



Source: Bloomberg

**Exhibit 1: Sunway Velocity 2 – Plot B**



Source: SUNCON

Proposed Construction of:-  
 - Phase 2A – 2-Storey Retail, 8-Storey Podium Carpark & 1-Storey Basement Carpark  
 - Phase 2B & 2C – 2 Blocks of 39-Storey Serviced Apartments  
 at Lot 20056, Jalan Peel, Seksyen 90, Kuala Lumpur (“Velo 2 Plot B Project”)  
**Contract Sum : RM253,564,921**  
**Duration : 34 months (Nov 2020 – Sept 2023)**  
**Project Owner : Sunway Velocity Two Sdn Bhd**  
**Job Scope : Main Building & Associated External Works**

**Exhibit 2: Sunway Medical Centre 4**



Source: SUNCON

**Contract Sum : RM612,305,000**  
 - LI received 1 June 2018 – RM 450,000,000  
 - Additional VO received in Sept 2020 – RM 162,305,000  
**Project Completion : 2 Phases (Dec 2021 and Aug 2022)**  
**Project Owner: Sunway Medical Centre Sdn Bhd**  
**Job Scope : Main Building Works:-**  
 - **Tower D** – Hospital Suites consisting 180 new Outpatient Specialist Consultation Suites across the 3 blocks and 474 units of Senior Living residences  
 - **Tower E** – Hospital Block to be set up as a dedicated Women’s Tower; and  
 - **Tower F** – Hospital Block to be set up as a dedicated Children’s Tower  
 on Lot No. 1356 (HSD 308674), Bandar Sunway, Daerah Petaling, Selangor

## Earnings Summary (RMmn)

### Profit & Loss (RMmn)

YE Dec 31	2018	2019	2020F	2021F	2021F
Revenue	2,256.8	1,768.7	1,329.0	1,880.0	2,150.0
EBITDA	215.4	181.3	119.3	192.7	230.9
Dep. & amortisation	(40.3)	(40.3)	(34.6)	(53.9)	(68.3)
Net finance cost	(6.8)	(12.0)	(16.3)	(17.8)	(14.8)
PBT	182.7	157.4	101.0	156.6	177.4
Taxation	(38.0)	(27.1)	(21.2)	(32.9)	(37.3)
MI	0.3	1.0	0.0	0.0	0.0
Net profit	144.4	129.3	79.8	123.7	140.1
Core net profit	144.4	129.3	79.8	123.7	140.1
GDPS (sen)	7.0	7.0	4.5	7.0	7.0
Div Yield (%)	3.8	3.8	2.4	3.8	3.8

### Cash Flow (RMmn)

YE Dec 31	2018	2019	2020F	2021F	2021F
<b>PBT</b>	<b>182.7</b>	<b>157.4</b>	<b>101.0</b>	<b>156.6</b>	<b>177.4</b>
Adjustments	50.2	27.9	18.3	36.1	53.5
Changes in WC	(10.4)	27.9	79.0	(37.1)	(12.3)
Others	(24.8)	(20.1)	(4.9)	(15.1)	(22.4)
<b>Operational cash flow</b>	<b>197.7</b>	<b>193.5</b>	<b>193.4</b>	<b>140.5</b>	<b>196.2</b>
Capex	(56.2)	(8.3)	(120.0)	(120.0)	(100.0)
Others	(42.5)	(260.2)	8.3	8.3	8.3
<b>Investment cash flow</b>	<b>(98.6)</b>	<b>(268.5)</b>	<b>(111.7)</b>	<b>(111.7)</b>	<b>(91.7)</b>
Debt raised/(repaid)	(21.1)	172.2	(5.0)	(5.0)	(5.0)
Dividend	(96.9)	(90.4)	(58.2)	(90.5)	(90.5)
Others	16.0	(62.3)	0.0	0.0	0.0
<b>Financial cash flow</b>	<b>(102.1)</b>	<b>19.5</b>	<b>(63.2)</b>	<b>(95.5)</b>	<b>(95.5)</b>
Forex effect	0.9	(0.5)	0.0	0.0	0.0
Deposit	0.2	0.2	0.0	0.0	0.0
<b>Net cash flow</b>	<b>(3.1)</b>	<b>(55.5)</b>	<b>18.5</b>	<b>(66.7)</b>	<b>9.0</b>
<b>Beginning cash</b>	<b>486.8</b>	<b>484.7</b>	<b>692.6</b>	<b>711.1</b>	<b>644.4</b>
<b>Ending cash</b>	<b>484.7</b>	<b>428.7</b>	<b>711.1</b>	<b>644.4</b>	<b>653.5</b>

YE Dec 31	2018	2019	2020F	2021F	2021F
Order book replenishment	1553	1772	2000	1600	1600

### Balance Sheet (RMmn)

YE Dec 31	2018	2019	2020F	2021F	2022F
Fixed assets	176.5	138.5	215.6	273.4	296.7
Others	54.4	56.7	56.7	56.7	56.7
<b>NCA</b>	<b>230.9</b>	<b>195.2</b>	<b>272.3</b>	<b>330.1</b>	<b>353.4</b>
Cash	484.9	692.6	711.1	644.4	653.5
Others	1,052.3	1,017.2	846.2	1,124.8	1,261.3
<b>CA</b>	<b>1,537.1</b>	<b>1,709.8</b>	<b>1,557.3</b>	<b>1,769.2</b>	<b>1,914.8</b>
<b>Total assets</b>	<b>1,768.0</b>	<b>1,905.0</b>	<b>1,829.5</b>	<b>2,099.3</b>	<b>2,268.2</b>
ST borrowings	113.6	233.4	228.4	223.4	218.4
Other liabilities	949.1	886.8	794.7	1,036.3	1,160.5
<b>CL</b>	<b>1,062.7</b>	<b>1,120.2</b>	<b>1,023.1</b>	<b>1,259.7</b>	<b>1,378.9</b>
<b>Shareholders' funds</b>	<b>590.2</b>	<b>623.0</b>	<b>644.5</b>	<b>677.8</b>	<b>727.4</b>
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
<b>Total capital</b>	<b>1,768.0</b>	<b>1,905.0</b>	<b>1,829.5</b>	<b>2,099.3</b>	<b>2,268.2</b>

### Ratio

YE Dec 31	2018	2019	2020F	2021F	2022F
EBITDA Margins (%)	9.5	10.2	9.0	10.2	10.7
Core EPS (sen)	11.2	10.0	6.2	9.6	10.8
EPS Growth (%)	9.3	(10.4)	(38.4)	55.1	13.3
PER (x)	16.5	18.4	29.8	19.2	17.0
GDPS (sen)	7.0	7.0	4.5	7.0	7.0
Div Yield (%)	3.8	3.8	2.4	3.8	3.8
Netcash (RMmn)	371.2	406.6	430.1	368.4	382.4
Netgearing (%)	netcash	netcash	netcash	netcash	netcash
ROE (%)	25.5	21.3	12.6	18.7	19.9
ROA (%)	8.1	7.0	4.3	6.3	6.4
NTA/share (sen)	45.7	48.2	49.9	52.4	56.3
P/NTA(x)	4.0	3.8	3.7	3.5	3.3

## 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 Thursday, October 01, 2020, the analyst, Ooi Beng Hooi, who prepared this report, has interest in the following securities covered in this report:  
(a) nil

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