

Sunway Construction Group Berhad

TP: RM1.43 (-20.1%)

Hit by MCO
Last Traded: RM1.79
SELL

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Results Review

- SUNCON's IHFY20 net profit of RM18.5mn came in below expectations, accounting for 18.6% and 21.1% of ours and consensus full-year estimates. The variance was mainly due to slower-than-expected progress of works recognised in 2Q20.
- A first interim dividend of 1.25sen/share (IH19: 3.5sen/share) was declared.
- IH20 top line plunged by 42.5% YoY to RM506.0mn while the net profit fell at a steeper pace of 71.1% to RM18.5mn. This was due to suspension of works at majority of its work sites during the Movement Control Order (MCO) and Conditional MCO period, from 18 March 2020 to 9 June 2020. Its precast division sank into the red as there were delivery restriction of precast components out from Malaysia due to MCO and Conditional MCO, as well as Circuit Breaker imposed by the Government of Singapore.
- On a sequential basis, 2Q20 revenue and net profit dropped by 61.7% and 86.6% to RM140.2mn and RM2.2mn respectively mainly due to some 2.5 months of idling during MCO and CMCO period. The precast division registered a net loss of RM3.3mn versus net profit of RM0.4mn in the immediate preceding quarter as it was impacted by MCO/CMCO and Circuit Breaker, as mentioned above. At the operating level, it reported a meagre profit of RM0.1mn.
- Its net cash position remains strong, improving from RM359.6mn a quarter ago to RM387.2mn.
- Separately, SUNCON has secured 2 projects amounting to RM747mn from related parties. The first project being the construction of commercial mixed development at Sunway South Quay, for a contract sum of RM344mn, (excluding RM119 of substructure works awarded previously) with a construction period of 40 months. The second project is the construction of 3 blocks of residential condominium at Jalan Belfield, for a contract sum of RM403mn, with a construction period of 45 months.

Impact

- In view of the weaker-than-expected results, we make adjustments to our revenue recognition and margin assumptions. We also take this opportunity to raise our FY20 order book replenishment assumption from RM1.6bn to RM2.0bn, in line with management's target. All in, FY20 earnings forecast is cut by 19.8% but FY21 and FY22 earnings estimates are upgraded by 2.9% and 15.4% respectively as we expect SUNCON to accelerate construction activities to catch up the works progress, coupled with higher FY20 order book replenishment assumption.

Share Information

Bloomberg Code	SCGB MK
Bursa	SUNCON
Stock Code	5263
Listing	Main Market
Share Cap (mn)	1,289.4
Market Cap (RMmn)	2308.0
52-wk Hi/Lo (RM)	2.10/1.25
12-mth Avg Daily Vol ('000 shrs)	626.3
Estimated Free Float (%)	35.4
Beta	1.06

Major Shareholders (%)

Sunholdings	- 54.56
Sungei Way Corp Sdn Bhd	- 10.08
Employee Provident Fund	- 9.07
Amanah Saham Nasional Bhd	- 5.92

Forecast Revision

	FY20	FY21
Forecast Revision (%)	(19.8)	2.9
Net profit (RMmn)	79.8	131.6
Consensus	88.0	155.6
TA's / Consensus (%)	90.6	84.6
Previous Rating	Sell (Maintained)	

Financial Indicators

	FY20	FY21
Net Debt / Equity (%)	net cash	net cash
CFPS (sen)	1.4	(5.6)
Price / CFPS (x)	125.3	(32.0)
ROA (%)	4.3	6.5
NTA/Share (RM)	49.9	53.0
Price/NTA (x)	3.6	3.4

Scorecard

	% of FY	
vs. TA	18.6	Below
vs. Consensus	21.1	Below

Share Performance (%)

Price Change	SUNCON	FBM KLCI
1 mth	(10.1)	(1.2)
3 mth	(6.3)	10.8
6 mth	(9.6)	2.8
12 mth	(11.4)	(1.2)

(12-Mth) Share Price relative to the FBMKLCI



Source: Bloomberg

- FY20 dividend forecast is reduced from 7sen/share to 4.5sen/share.

Outlook

- Backed by RM1,472mn of job win YTD, its outstanding order book is estimated at RM6.2bn (including RM747mn secured on 18 August 2020) as of end-June 2020, translating into 3.5x FY19 revenue. This could provide earnings visibility to the group for the next 2 to 3 years.

Valuation

- With strong outstanding order book, coupled with solid balance sheet, we raise the target PE multiple from 12x to 14x, and upgrade the target price from RM1.19 to **RM1.43**, based on 14x CY21 earnings. However, on valuation ground, we maintain **Sell** on the stock.

Table 1: Earnings Summary (RMmn)

FYE Dec (RMmn)	2018	2019	2020F	2021F	2022F
Revenue	2,256.8	1,768.7	1,329.0	2,080.0	2,400.0
Gross profit	444.7	378.1	225.9	416.0	480.0
EBITDA	215.4	181.3	119.3	202.7	243.4
EBITDA margin (%)	9.5	10.2	9.0	9.7	10.1
EBIT	175.2	141.0	84.7	148.8	175.1
PBT	182.7	157.4	101.0	166.6	189.7
PAT	144.4	129.3	79.8	131.6	149.9
Core net profit	144.4	129.3	79.8	131.6	149.9
Core EPS (sen)	11.2	10.0	6.2	10.2	11.6
PER (x)	16.0	17.9	29.0	17.6	15.4
Gross dividend (sen)	7.0	7.0	4.5	7.0	7.0
Dividend yield (%)	3.9	3.9	2.5	3.9	3.9
ROE (%)	25.5	21.3	12.6	19.8	21.0

Table 2: 2QFY20 Results Analysis (RMmn)

FYE Dec	2Q19	1Q20	2Q20	QoQ (%)	YoY (%)	6MFY19	6MFY20	YoY(%)
Revenue	440.2	365.8	140.2	(61.7)	(68.2)	880.2	506.0	(42.5)
- Construction	406.3	329.6	137.2	(58.4)	(66.2)	813.3	466.8	(42.6)
- Precast	33.9	36.3	3.0	(91.8)	(91.2)	66.9	39.3	(41.3)
Operating profit	37.6	18.7	0.1	(99.6)	(99.8)	75.8	18.8	(75.3)
Finance income	7.2	5.2	4.5	(14.0)	(37.0)	11.4	9.8	(14.3)
Finance costs	(3.6)	(2.7)	(2.3)	(14.7)	(35.6)	(5.9)	(5.0)	(14.7)
Profit before taxation	41.2	21.2	2.3	(89.0)	(94.3)	81.3	23.6	(71.0)
- Construction	41.1	20.4	5.9	(71.3)	(85.7)	81.2	26.3	(67.6)
- Precast	0.1	0.8	(3.5)	(554.0)	<(1000.0)	0.1	(2.8)	<(1000.0)
Income tax expense	(8.2)	(4.3)	(0.2)	(95.0)	(97.4)	(16.7)	(4.5)	(72.9)
Non-controlling interests	(0.2)	0.6	(0.1)	(112.1)	(68.1)	0.4	0.5	22.9
Net profit	33.2	16.4	2.2	(86.6)	(93.4)	64.2	18.5	(71.1)
- Construction	33.1	16.0	5.5	(65.3)	(83.3)	64.2	21.5	(66.5)
- Precast	0.1	0.4	(3.3)	<(1000.0)	<(1000.0)	(0.0)	(3.0)	>1000.0
Core net profit	33.2	16.4	2.2	(86.6)	(93.4)	64.2	18.5	(71.1)
Reported EPS (sen)	2.6	1.3	0.2	(86.6)	(93.4)	5.0	1.4	(71.0)
Core EPS (sen)	2.6	1.3	0.2	(86.6)	(93.4)	5.0	1.4	(71.0)
Dividend (sen)	3.5	0.0	1.3	na	(64.3)	3.5	1.3	(64.3)
Margin (%):				% pts	% pts			% pts
- Operating	8.5	5.1	0.0	(5.1)	(8.5)	8.6	3.7	(4.9)
- Construction	9.1	5.2	2.5	(2.8)	(6.6)	9.2	4.4	(4.8)
- Precast	2.3	3.9	(111.9)	(115.8)	(114.2)	1.6	(4.9)	(6.6)
- PBT	9.4	5.8	1.7	(4.1)	(7.7)	9.2	4.7	(4.6)
- PAT	7.5	4.6	1.5	(3.1)	(6.0)	7.3	3.7	(3.6)
- Effective tax rate	20.0	20.3	9.2	(11.1)	(10.8)	20.6	19.2	(1.3)

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 Wednesday, August 19, 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

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