

Sunway Construction Group Berhad

TP: RM1.68 (-8.2%)

Rebound in Earnings Post-MCO
Last Traded: RM1.83
SELL

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Results Review

- SUNCON's 9MFY20 net profit of RM42.6mn came in below our expectation but within consensus forecast, accounting for 50.4% and 55.9% of ours and consensus full-year estimates. The variance was mainly due to lower-than-expected construction margin and higher-than-expected taxation.
- 9M20 revenue and net profit plunged by 27.9% and 56.4% YoY to RM925.4mn and RM42.6mn respectively mainly due to suspension of works for about 2.5 months during the Movement Control Order (MCO) and Conditional MCO period in 2Q20.
- On a sequential basis, 3Q20 revenue rebounded strongly by 199.2% to RM419.4mn while net profit surged by almost 10 folds from RM2.2mn to RM24mn as construction works resumed after the MCO and CMCO period in 2Q20. Its precast division turned profitable in 3Q20 by recording PBT of RM1.2mn versus a LBT of RM3.5mn in the immediate preceding quarter as more projects were allowed to resume operations in Singapore.
- Its net cash position eased from RM387.2mn a quarter ago to RM317.9mn.

Impact

- In view of the weaker-than-expected results, we adjust our revenue recognition and margin forecasts, as well as FY20 tax rate assumption. All in, FY20/FY21/FY22 earnings forecasts are lowered by 16.0%/8.5%/8.7% respectively.

Outlook

- The estimated outstanding order book of RM5.6bn (including RM333mn secured on October 2020) as of end-September 2020, which is equivalent to 3.2x FY19 revenue, could provide earnings visibility to the group for the next 2 to 3 years.
- Meanwhile, its tender book stands at RM5.3bn, with more than 50% of it coming from overseas markets.

Valuation

- Following the earnings revision, we reduce the target price from RM1.84 to **RM1.68**, based on unchanged 18xCY21 EPS. Maintain SELL on valuation ground.

Share Information

Bloomberg Code	SCGB MK
Bursa	SUNCON
Stock Code	5263
Listing	Main Market
Share Cap (mn)	1,289.4
Market Cap (RMmn)	2359.5
52-wk Hi/Lo (RM)	2.1/1.25
12-mth Avg Daily Vol ('000 shrs)	583.7
Estimated Free Float (%)	19.3
Beta	0.70

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 (%)	(16.0)	(8.5)
Net profit (RMmn)	71.0	120.8
Consensus	76.1	147.6
TA's / Consensus (%)	93.3	81.8
Previous Rating	Sell (Maintained)	

Financial Indicators

	FY20	FY21
Net Debt / Equity (%)	net cash	net cash
CFPS (sen)	0.5	(5.6)
Price / CFPS (x)	373.0	(32.4)
ROA (%)	3.8	6.1
NTA/Share (RM)	49.2	51.5
Price/NTA (x)	3.7	3.6

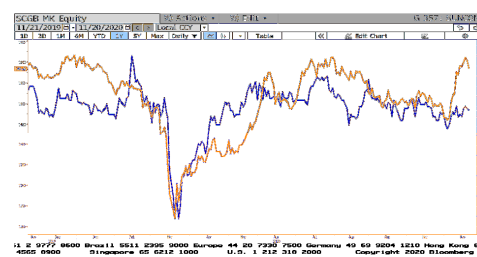
Scorecard

	% of FY	
vs. TA	50.4	Below
vs. Consensus	55.9	Within

Share Performance (%)

Price Change	SUNCON	FBM KLCI
1 mth	(1.1)	4.3
3 mth	1.7	0.5
6 mth	(4.2)	11.2
12 mth	(7.6)	(1.3)

(12-Mth) Share Price relative to the FBMKLCI



Source: Bloomberg

Table 1: Earnings Summary (RMmn)

FYE Dec (RMmn)	2018	2019	2020F	2021F	2022F
Revenue	2,256.8	1,768.7	1,379.0	1,980.0	2,249.0
Gross profit	444.7	378.1	234.4	396.0	449.8
EBITDA	215.4	181.3	118.5	196.2	232.3
EBITDA margin (%)	9.5	10.2	8.6	9.9	10.3
EBIT	175.2	141.0	83.9	142.3	164.0
PBT	182.7	157.4	94.7	152.9	171.5
PAT	144.4	129.3	71.0	120.8	135.5
Core net profit	144.4	129.3	71.0	120.8	135.5
Core EPS (sen)	11.2	10.0	5.5	9.3	10.5
PER (x)	16.4	18.3	33.3	19.6	17.5
Gross dividend (sen)	7.0	7.0	4.5	7.0	7.0
Dividend yield (%)	3.8	3.8	2.5	3.8	3.8
ROE (%)	25.5	21.3	11.3	18.6	19.7

Table 2: 3QFY20 Results Analysis (RMmn)

FYE Dec	3Q19	2Q20	3Q20	QoQ (%)	YoY (%)	9MFY19	9MFY20	YoY(%)
Revenue	402.6	140.2	419.4	199.2	4.2	1282.8	925.4	(27.9)
- Construction	365.1	137.2	403.4	194.1	10.5	1178.4	870.2	(26.2)
- Precast	37.5	3.0	16.0	434.4	(57.4)	104.4	55.2	(47.1)
Operating profit	34.4	0.1	32.9	>1000.0	(4.2)	110.2	51.7	(53.1)
Finance income	5.1	4.5	4.6	1.7	(10.3)	16.5	14.3	(13.0)
Finance costs	(3.9)	(2.3)	(1.6)	(31.8)	(59.9)	(9.8)	(6.6)	(32.8)
Profit before taxation	35.6	2.3	36.0	>1000.0	1.1	116.9	59.5	(49.1)
- Construction	35.4	5.9	34.8	492.0	(1.7)	116.6	61.1	(47.6)
- Precast	0.2	(3.5)	1.2	(134.0)	488.2	0.3	(1.6)	(590.2)
Income tax expense	(2.5)	(0.2)	(11.7)	>1000.0	362.2	(19.3)	(16.3)	(15.6)
Non-controlling interests	(0.5)	(0.1)	0.2	(375.0)	(140.8)	(0.1)	0.7	<(1000.0)
Net profit	33.5	2.2	24.0	996.4	(28.2)	97.7	42.6	(56.4)
- Construction	33.8	5.5	23.2	317.9	(31.4)	98.0	44.7	(54.4)
- Precast	(0.3)	(3.3)	0.9	(125.9)	(392.9)	(0.3)	(2.1)	601.3
Core net profit	33.5	2.2	24.0	996.4	(28.2)	97.7	42.6	(56.4)
Reported EPS (sen)	2.6	0.2	1.9	994.1	(28.5)	7.6	3.3	(56.4)
Core EPS (sen)	2.6	0.2	1.9	994.1	(28.5)	7.6	3.3	(56.4)
Dividend (sen)	0.0	1.3	0.0	(100.0)	#DIV/0!	3.5	1.3	(64.3)
Margin (%):				% pts	% pts			% pts
- Operating	8.5	0.0	7.9	7.8	(0.7)	8.6	5.6	(3.0)
- Construction	9.2	2.5	7.8	5.4	(1.3)	9.2	6.0	(3.2)
- Precast	2.2	(111.9)	8.1	120.0	5.9	1.8	(1.2)	(3.0)
- PBT	8.8	1.7	8.6	6.9	(0.3)	9.1	6.4	(2.7)
- PAT	8.2	1.5	5.8	4.3	(2.4)	7.6	4.6	(3.0)
- Effective tax rate	7.1	9.2	32.6	23.4	25.5	16.5	27.3	10.8

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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, November 20, 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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