

Sunway Construction Group Berhad

TP: RM1.84 (+1.7%)
Secures Highway and Solar Projects
Last Traded: RM1.81
SELL

Ooi Beng Hooi

Tel: +603-2167 9612

benghooi@ta.com.my

www.taonline.com.my

Secures 1 Indian Highway Project and 3 Solar PV System Projects

In India, a consortium formed by Sunway Construction Sdn Bhd (SCSB), a wholly-owned subsidiary of SUNCON, and RNS Infrastructure Limited (RNS), on a 60:40 basis, has accepted the Letter of Award (LOA) issued by the National Highways Authority of India, for “two laning with paved shoulder of Meensurutti to Chidambaram section of NH-227 under Bharatmala Pariyojana Phase I in the State of Tamil Nadu”, with a length of 31.53km, for a total contract sum of Rs.553.83 Crore (approximately RM315.0mn). This is in addition to a 15-year operating and maintenance contract at Rs1.50 Crore (approximately RM0.85mn) per annum.

The project will be implemented under the hybrid annuity mode for a concession period of 15 years plus 2-year construction period, with construction expected to start within 195 days from the LOA.

There is no toll right for the concession. 40% of the project cost will be paid in the first 2 years during the construction period in 5 equal instalments whereas the remaining 60% will be paid over 15 years as fixed annuity amount plus interest which is benchmarked at Reserve Bank of India rate +3%.

Separately, SUNCON has secured 3 rooftop solar PV system contracts. They are to design, supply, deliver, install, commission and apply and secure SEDTA quota for solar PV system for:

- Borneo Springs Sdn Bhd, for a contract sum RM1.3mn;
- F&N Dairies Manufacturing Sdn Bhd, for a contract sum of RM6.6mn; and
- F&N Beverages Manufacturing Sdn Bhd, for a contract sum of RM10.2mn.

The 3 solar PV system projects above have a construction period of 12 months from the dates of commencement to be agreed upon between the parties.

Our View

YTD, SUNCON has secured RM2.3bn of new jobs. With these new jobs, we estimate SUNCON's current outstanding order book to be about RM5.6bn.

Share Information

Bloomberg Code	SCGB MK
Bursa	SUNCON
Stock Code	5263
Listing	Main Market
Share Cap (mn)	1289.4
Market Cap (RMmn)	2,333.7
52-wk Hi/Lo (RM)	2.10/1.25
12-mth Avg Daily Vol ('000 shrs)	579.1
Estimated Free Float (%)	35.4
Beta	0.89

Major Shareholders (%)

Sunholdings	- 54.56
Sungei Way Corp Sdn Bhd	- 10.08
Employee Provident Fund	- 9.11
Amanah Saham Nasional Bhd	- 5.92

Forecast Revision

	FY20	FY21
Forecast Revision (%)	5.9	6.7
Net profit (RMmn)	84.5	132.0
Consensus	75.8	146.5
TA's / Consensus (%)	111.4	90.1
Previous Rating	Sell (Maintained)	

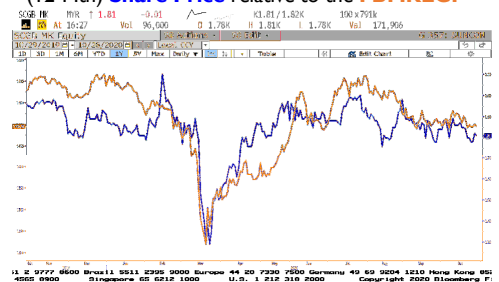
Financial Indicators

	FY20	FY21
Net Debt / Equity (%)	net cash	net cash
CFPS (sen)	(4.8)	1.4
Price / CFPS (x)	(38.5)	133.8
ROA (%)	6.5	6.5
NTA/Share (sen)	53.4	57.9
Price/NTA (x)	3.4	3.2

Share Performance (%)

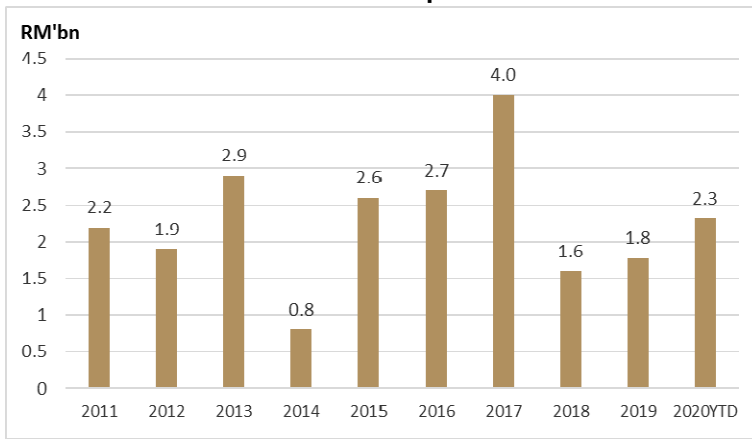
Price Change	SUNCON	FBM KLCI
1 mth	1.7	(1.1)
3 mth	(5.7)	(7.1)
6 mth	(3.2)	9.0
12 mth	(7.2)	(4.8)

(12-Mth) Share Price relative to the FBMKLCI



Source: Bloomberg

Exhibit I: Historical Order Book Replenishment



Source: Company, TA

Impact

We raise FY20 order book replenishment assumption from RM2.0bn to RM2.3bn and raise FY20/FY21/FY22 earnings forecasts by 5.9%/6.7%/5.9% respectively.

Valuation

Following the earnings revision, we adjust the target price for SUNCON from RM1.72 to **RM1.84**, based on unchanged 18x CY21 EPS. However, we maintain **SELL** on SUNCON on valuation ground.

[THE REMAINING OF THIS PAGE IS INTENTIONALLY LEFT BLANK]

Earnings Summary (RMmn)

Profit & Loss (RMmn)

YE Dec 31	2018	2019	2020F	2021F	2021F
Revenue	2,256.8	1,768.7	1,429.0	2,030.0	2,299.0
EBITDA	215.4	181.3	125.3	203.2	241.3
Dep. & amortisation	(40.3)	(40.3)	(34.6)	(53.9)	(68.3)
Net finance cost	(6.8)	(12.0)	(16.3)	(17.8)	(14.9)
PBT	182.7	157.4	107.0	167.1	187.9
Taxation	(38.0)	(27.1)	(22.5)	(35.1)	(39.5)
MI	0.3	1.0	0.0	0.0	0.0
Net profit	144.4	129.3	84.5	132.0	148.4
Core net profit	144.4	129.3	84.5	132.0	148.4
GDPS (sen)	7.0	7.0	4.5	7.0	7.0
Div Yield (%)	3.9	3.9	2.5	3.9	3.9

Cash Flow (RMmn)

YE Dec 31	2018	2019	2020F	2021F	2021F
PBT	182.7	157.4	107.0	167.1	187.9
Adjustments	50.2	27.9	18.3	36.1	53.4
Changes in WC	(10.4)	27.9	72.2	(40.4)	(11.8)
Others	(24.8)	(20.1)	(6.2)	(17.3)	(24.5)
Operational cash flow	197.7	193.5	191.4	145.4	205.0
Capex	(56.2)	(8.3)	(120.0)	(120.0)	(100.0)
Others	(42.5)	(260.2)	8.3	8.3	8.3
Investment cash flow	(98.6)	(268.5)	(111.7)	(111.7)	(91.7)
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
Financial cash flow	(102.1)	19.5	(63.2)	(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)	(55.5)	16.5	(61.8)	17.8
Beginning cash	486.8	484.7	692.6	709.1	647.3
Ending cash	484.7	428.7	709.1	647.3	665.1

YE Dec 31	2018	2019	2020F	2021F	2021F
Order book replenishment	1553	1772	2319	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
NCA	230.9	195.2	272.3	330.1	353.4
Cash	484.9	692.6	709.1	647.3	665.1
Others	1,052.3	1,017.2	896.8	1,200.6	1,336.7
CA	1,537.1	1,709.8	1,605.9	1,848.0	2,001.8
Total assets	1,768.0	1,905.0	1,878.1	2,178.0	2,355.2
ST borrowings	113.6	233.4	228.4	223.4	218.4
Other liabilities	949.1	886.8	838.6	1,102.0	1,226.2
CL	1,062.7	1,120.2	1,067.0	1,325.4	1,444.6
Shareholders' funds	590.2	623.0	649.3	690.8	748.7
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	1,878.1	2,178.0	2,355.2

Ratio

YE Dec 31	2018	2019	2020F	2021F	2022F
EBITDA Margins (%)	9.5	10.2	8.8	10.0	10.5
Core EPS (sen)	11.2	10.0	6.5	10.2	11.5
EPS Growth (%)	9.3	(10.4)	(34.8)	56.2	12.5
PER (x)	16.2	18.1	27.7	17.7	15.8
GDPS (sen)	7.0	7.0	4.5	7.0	7.0
Div Yield (%)	3.9	3.9	2.5	3.9	3.9
Net cash (RMmn)	371.2	406.6	428.1	371.3	394.1
Net gearing (%)	net cash	net cash	net cash	net cash	net cash
ROE (%)	25.5	21.3	13.3	19.7	20.6
ROA (%)	8.1	7.0	4.5	6.5	6.5
NTA/share (sen)	45.7	48.2	50.2	53.4	57.9
P/NTA(x)	4.0	3.8	3.6	3.4	3.1

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.

Disclaimer

The information in this report has been obtained from sources believed to be reliable. Its accuracy and/ or completeness is not guaranteed and opinions are subject to change without notice. This report is for information only and not to be construed as a solicitation for contracts. We accept no liability for any direct or indirect loss arising from the use of this document. We, our associates, directors, employees may have an interest in the securities and/or companies mentioned herein.

As of Friday, October 30, 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