

24 February 2021

Sunway Construction Group

FY20 Surpassed Expectations

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Despite strong 4QFY20 CNP of RM37.9m (+67% QoQ; +4% YoY) lifting FY20 above our/consensus expectations at 118%/109%, we dial down our earnings optimism for FY21E by 18% to RM132m after factoring: (i) hindered productivity arising from MCO 2.0 and (ii) slightly lower margins for potential disruptions. Consequently, SoP-TP is lowered to RM2.10 (from RM2.45). However, it is still our top pick in the construction space; thus, reiterate OP.

Above expectations. 4QFY20 CNP of RM37.9m* lifted FY20 CNP to RM82.8m – coming above our/consensus expectations at 118%/109% due to higher-than-expected revenue led by more works done during the quarter. Despite CMCO being imposed in 4QCY20 (starting 14th Oct 20), works were unaffected, progressing at 100%.

Dividends were also above. 4QFY20 dividend of 2.75 sen lifted FY20 DPS to 4.0 sen – surpassing our estimates of 2.5 sen.

*4QFY20 CNP adjusted for reversal of: (i) disposal loss of RM1.1m, (ii) receivable impairments worth RM5.5m, (iii) FX loss of RM0.5m, and (iv) accretion of financial liabilities of RM0.6m.

Highlights. 4QFY20 CNP of RM37.9m surged 67% QoQ on higher progress/deliveries at both construction and precast divisions that boosted segmental PAT contribution by 13% and 354%, respectively. Note that precast margins for the quarter registered a healthy 9.3% - a level not seen since FY17. We expect such margins to remain sustainable forward as demand for precast in Singapore continues to grow.

YoY, FY20 CNP of RM82.8m was down 37% mainly due to reduced productivity from the pandemic that led to multiple lockdowns.

Targeting RM2b replenishment in FY21 (in line with management) backed by potential awards from: (i) Sunway Valley City (GDV of RM2.4b ~ potentially RM700m awards), (ii) solar-related contracts (tendered for four 30MW packages of LSS4 at RM150m each), (iii) KLCC basement + podium, (iv) piling jobs in Philippines (RM50- RM100m/package), and (v) precast orders from Singapore.

YTD, it has replenished RM366m new jobs with precast contributing RM110m and the balance comprising in-house jobs. Outstanding order-book of RM5.1b (as of Dec-20) provides c.2.5x revenue cover.

MCO 2.0 which begun on 13 Jan 2021 shrank construction productivity to 50% (vs 100% in 4QFY20 during the CMCO) as Suncon strictly adhered to the SOPs where activities at sites without dedicated accommodation/logistics were halted. That said, works have gradually picked up, currently at c.80% utilisation now. Meanwhile, precast segment's productivity uninterrupted at 100% as Singapore's operation has been back to normal since mid Aug 2020.

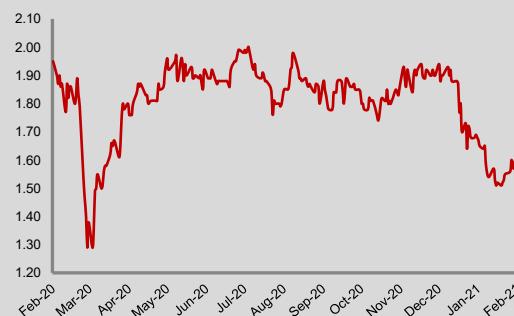
Reduce FY21E earnings by 18% after factoring for lower productivity during MCO 2.0 and a slower recovery arising from potential disruptions in case of new infection on sites. **Introduce FY22E CNP of RM149m.**

Maintain OUTPERFORM with a lower SoP-derived TP of RM2.10 (from RM2.45) anchored by an unchanged construction PER of 18x (+1SD above its 5-year mean). Continue to favour the name for their robust balance sheet, timely execution and replenishment support from Sunway.

OUTPERFORM ↔

Price : RM1.66
Target Price : RM2.10 ↓

Share Price Performance



KLCI 1,565.05
YTD KLCI chg -3.8%
YTD stock price chg -11.7%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	SCGB MK EQUITY
Market Cap (RM m)	2,140.3
Shares Outstanding	1,289.4
52-week range (H)	2.01
52-week range (L)	1.25
3-mth avg daily vol:	681,520
Free Float	19%
Beta	0.8

Major Shareholders

Sunway Holdings Sdn Bhd	54.6%
Sungei Way Corp Sdn Bhd	10.1%
Employees Provident Fund Board	9.2%

Summary Earnings Table

FYE Dec (RM m)	2020A	2021E	2022E
Turnover	1552.7	1991.6	2246.3
EBIT	100.6	160.4	193.7
PBT	101.1	169.5	191.4
Net Profit	72.8	131.9	148.9
Core PATAMI	82.8	131.9	148.9
Consensus (NP)	76.2	144.9	150.1
Earnings Revision	n.a.	-18%	NEW
Core EPS (sen)	6.4	10.2	11.5
Core EPS growth (%)	-37	59	13
NDPS (sen)	4.0	7.0	8.0
NTA per Share (RM)	0.49	0.52	0.56
Price to NTA (x)	3.7	3.5	3.3
PER (x)	0.5	17.9	15.9
Debt-to-Equity ratio (x)	N.Cash	N.Cash	0.35
Return on Equity (%)	10	17	18
Net Div. Yield (%)	2.2	3.8	4.4

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Risks include a resurgence of Covid-19 cases, lower-than-expected margins, and delay in work progress.

Results Highlight

FYE Dec (RM m)	4Q20	3Q20	QoQ	4Q19	YoY	FY20	FY19	YoY
Turnover	627.2	419.4	50%	485.9	29%	1552.7	1768.7	-12%
EBIT (adjusted for EI)	46.5	31.6	47%	35.5	31%	100.6	142.7	-30%
Interest income	3.0	4.6	-34%	8.7	-65%	17.4	25.2	-31%
Interest expense	-0.3	-1.6	-79%	-3.4	-90%	-6.9	-13.2	-48%
Associates	0.0	0.0	n.a.	4.4	-100%	0.0	4.4	n.a.
Exceptional items	-7.7	1.3	-690%	-4.7	63%	-10.0	-1.7	487%
PBT	41.6	36.0	16%	40.5	3%	101.1	157.4	-36%
Tax	-11.5	-11.7	-2%	-7.8	48%	-27.8	-27.1	3%
Minority interest	-0.1	0.2	-176%	1.1	-113%	0.5	1.0	-46%
PATAMI	30.2	24.0	26%	31.6	-5%	72.8	129.3	-44%
CNP	37.9	22.7	67%	36.3	4%	82.8	131.0	-37%
Net DPS (sen)	2.75	0.0		3.5		4.0	7.0	
Margins								
EBIT	7.4%	7.5%		7.3%		6.5%	8.1%	
PBT	6.6%	8.6%		8.3%		6.5%	8.9%	
PATAMI	4.8%	5.7%		6.5%		4.7%	7.3%	
CNP	6.0%	5.4%		7.5%		5.3%	7.4%	

Source: Company, Kenanga Research

Segmental Breakdown

	4Q20	3Q20	QoQ	4Q19	YoY	FY20	FY19	YoY
Revenue								
Construction	585.0	403.4	45%	440.5	33%	1455.2	1618.9	-10%
Precast concrete	42.2	16.0	164%	45.4	-7%	97.4	149.8	-35%
Total	627.2	419.4	50%	485.9	29%	1552.7	1768.7	-12%
EBIT								
Construction	34.8	31.7	10%	27.0	29%	87.2	135.3	-36%
Precast concrete	4.0	1.3	210%	3.9	4%	3.3	5.8	-42%
Total	38.8	32.9	18%	30.8	26%	90.5	141.0	-36%
Pretax profit								
Construction	37.3	34.8	7%	38.1	-2%	98.4	154.6	-36%
Precast concrete	4.3	1.2	257%	2.4	76%	2.7	2.8	-1%
Total	41.6	36.0	16%	40.5	3%	101.1	157.4	-36%
Net profit								
Construction	26.3	23.2	13%	28.0	-6%	71.0	125.9	-44%
Precast concrete	3.9	0.9	354%	3.7	7%	1.8	3.4	-46%
Total	30.2	24.0	26%	31.6	-5%	72.8	129.3	-44%
PAT Margins								
Construction	4.5%	5.7%		6.3%		4.9%	7.8%	
Precast	9.3%	5.4%		8.1%		1.9%	2.3%	
Total	4.8%	5.7%		6.5%		4.7%	7.3%	

Source: Company, Kenanga Research

Sum of Parts Target Price

Items	Value (RM m)	Remarks
Construction	2,280	Apply 18x FY21F PE
Precast concrete	53	Apply 10x FY21F PE
Business equity value	2,333	
Net cash/(debt)	360	
Equity value	2,692	
No. of shares (m)	1,293	
Equity value per share (RM)	2.10	

Source: Kenanga Research

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Peer Comparison

Sector Comparison:														
Name	Last Price (RM)	Market Cap (RM'm)	Shariah Compliant	Current FYE	PER (x) - Core Earnings			PBV (x)		ROE (%)		Net Div Yld (%)	Target Price	Rating
					Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.			
STOCKS UNDER COVERAGE														
GAMUDA BHD	3.31	8,319.8	Y	07/2021	15.7	15.3	13.8	1.0	0.9	6.2%	1.8%	4.17	OP	
GEORGE KENT (MALAYSIA) BHD	0.755	395.2	Y	03/2021	10.1	12.2	8.0	0.8	0.8	6.7%	2.1%	0.560	UP	
HOCK SENG LEE BERHAD	0.955	524.8	Y	12/2020	9.5	18.4	8.9	0.6	0.6	3.4%	1.0%	1.30	OP	
IJM CORP BHD	1.52	5,504.3	Y	03/2021	16.3	23.8	18.8	0.6	0.6	3.1%	2.0%	2.20	OP	
KERJAYA PROSPEK GROUP BHD	1.15	1,423.0	Y	12/2020	9.5	15.7	10.8	1.5	1.3	8.8%	2.6%	1.50	OP	
KIMLUN CORP BHD	0.785	277.4	Y	12/2020	4.6	32.7	6.0	0.4	0.4	1.2%	0.6%	1.30	OP	
MITRAJAYA HOLDINGS BHD	0.255	209.8	Y	12/2020	N.A.	21.3	13.0	0.3	0.3	1.3%	0.0%	0.215	UP	
MUHIBBAH ENGINEERING (M) BHD	0.970	468.9	Y	12/2020	12.3	N.A.	18.0	0.4	0.4	-6.1%	0.0%	1.25	OP	
SUNWAY CONSTRUCTION GROUP BHD	1.66	2,140.3	Y	12/2021	25.9	16.3	14.4	3.4	3.2	20.1%	4.2%	2.10	OP	
WCT HOLDINGS BHD	0.480	673.5	Y	12/2020	4.4	16.3	8.8	0.2	0.2	2.6%	0.0%	0.710	OP	
Simple Average					12.0	19.1	12.1	0.9	0.9	4.7%	1.4%			

Source: Bloomberg, Kenanga Research

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Stock Ratings are defined as follows:**Stock Recommendations**

OUTPERFORM	: A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM	: A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM	: A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT	: A particular sector's Expected Total Return is MORE than 10%
NEUTRAL	: A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT	: A particular sector's Expected Total Return is LESS than -5%

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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Published and printed by:

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