

# Sunway Construction Group Berhad

(5263 | SCGB MK) Main | Construction

## Maintain Buy

### First overseas job secured in FY20

#### KEY INVESTMENT HIGHLIGHTS

- **Secured RM508m highway job in India**
- **The project consists of development and widening works of the road to 4 lanes**
- **Current order book estimated around RM5.5b**
- **Project completion duration is 2 years**
- **No changes to our earnings estimates**
- **Maintain BUY call with unchanged TP of RM2.21**

**SunCon secured RM508m highway job in India.** Sunway Construction Group Berhad (SunCon) announced on Bursa yesterday that Sunway Construction Sdn Bhd – RNS Infrastructure Limited (a consortium formed by Sunway Construction Sdn Bhd (SCSB) and RNS Infrastructure Limited (RNS)) has accepted the Letter of Award (LOA) on highway construction in India from National Highways Authority of India (NHAI) worth 8.64b rupees (approximately RM508m). To recap, RNS was SCSB's first joint venture partner when SCSB ventured into India in June FY01 and participated together in 2 infrastructure projects.

**Job scope.** Under the LOA, the project consists of development and widening works of the road to 4 lanes from the Thorapalli Agraharam to Jittandahalli section of national highway (NH)-844 on Hybrid Annuity Model in the State of Tamil Nadu. It is also worth pointing out that the highway stretch will shorten the travelling distance between Rayakottai and Palacode by 25km. The highway project will be operated under the Hybrid Annuity Model (HAM), where NHAI will pay 40% of the project cost in the first two years (during the construction period) in five equal installments whereas the remaining 60% is paid over 15 years (during operating and maintenance period).

**Current order book estimated around RM5.5b.** The Consortium between SCSB and RNS for the purpose of jointly bidding for the project was formed with 60:40 (SCSB:RNS) participation interest. Thus the contract implies an addition of RM304.8m to SunCon order book. Consequently, we arrive to an approximate sum of RM5.5b of outstanding order book from RM5.2b as at end of February FY20.

**Duration of contract.** The concession period is 15 years and a concession agreement for the project will be signed in May FY20. As for the scheduled construction period, the estimated completion period of the highway is 2 years and the project is slated to start in October FY20.

**Unchanged Target Price: RM2.21**

#### RETURN STATISTICS

Price @ 26 <sup>th</sup> March 2020 (RM)	RM 1.50
Expected share price return (%)	+47.33
Expected dividend yield (%)	+2.20
<b>Expected total return (%)</b>	<b>+49.53</b>

#### SHARE PRICE CHART




Share price performance (%)	Absolute	Relative
1 month	-19.4	-8.6
3 months	-21.5	-5.7
12 months	-20.2	-1.3

#### KEY STATISTICS

FBM KLCI	1328.1
Syariah compliant	Yes
Issue shares (m)	1289.4
Estimated free float (%)	19.9
Market Capitalisation (RM'm)	1934.04
52-wk price range	RM1.25 - RM2.2
Beta vs FBM KLCI (x)	1.2
Monthly velocity (%)	11.0
Monthly volatility (%)	28.9
3-mth average daily volume (m)	0.90
3-mth average daily value (RM'm)	1.64
Top Shareholders (%)	
<b>SUNHOLDINGS</b>	<b>54.56</b>
Sungei Way Corp Sdn Bhd	10.08
Employees Provident Fund Board	8.54

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**Impact on earnings.** We also note that the LoA includes 15-year operating and maintenance contract which will bring about another 70.8m rupees, approximately RM4.0m per annum. Altogether the impact is positive and falls within our job replenishment assumptions hence we make no changes to our earnings forecasts at this juncture. The downside risks includes price fluctuation clause throughout the construction period maintenance period.

**Recommendation.** We maintain our **BUY** call with unchanged TP of **RM2.21** pegging its FY20F EPS to PE of 18x (+1std of 1-year average). 

## INVESTMENT STATISTICS

FYE December	FY16	FY17	FY18	FY19	FY20F	FY21F
Revenue (RM'm)	1788.8	2076.2	2256.8	1768.7	2371.8	2362.89
EBIT (RM'm)	149.5	164.6	174.6	141.0	212.5	194.30
Pre-tax Profit (RM'm)	153.6	174.1	183.1	157.4	194.5	198.58
Normalised PATAMI (RM'm)	123.5	137.8	144.7	129.3	158.9	160.86
EPS (sen)	9.6	10.6	11.2	10.0	12.3	12.47
EPS growth (%)	-35.9	10.4	5.6	-10.5	24.2	1.23
PER (x)	20.6	18.7	17.7	19.6	16.7	15.72
Net Dividend (sen)	1.8	1.8	7.0	7.0	3.3	6.32
Net Dividend Yield (%)	0.9	0.9	3.5	3.6	1.7	3.22

Source: Company, MIDFR

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### MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

#### STOCK RECOMMENDATIONS

<b>BUY</b>	Total return is expected to be >10% over the next 12 months.
<b>TRADING BUY</b>	Stock price is expected to <i>rise</i> by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
<b>NEUTRAL</b>	Total return is expected to be between -10% and +10% over the next 12 months.
<b>SELL</b>	Total return is expected to be <10% over the next 12 months.
<b>TRADING SELL</b>	Stock price is expected to <i>fall</i> by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

#### SECTOR RECOMMENDATIONS

<b>POSITIVE</b>	The sector is expected to outperform the overall market over the next 12 months.
<b>NEUTRAL</b>	The sector is to perform in line with the overall market over the next 12 months.
<b>NEGATIVE</b>	The sector is expected to underperform the overall market over the next 12 months.