

Sunway Construction Group Berhad

(5263 | SCGB MK) Main | Construction

Healthy order book to underpin future growth

KEY INVESTMENT HIGHLIGHTS

- **Top line weakened in 1QFY20**
- **Construction activities disappoint**
- **Precast segment revenue shrank**
- **Another project clinched in FY20**
- **Current order book at more than RM5b**
- **Maintain BUY call with adjusted TP of RM2.26 as we roll forward our valuation base year to FY21**

Top line weakened as SunCon reported lower revenue in 1QFY20 at RM365.8m (-16.9%yoy) on the back of lower contribution from construction division. Similarly, the Group's profit before tax (PBT) shrank by -47.1%yoy to RM21.2m (from RM40.1m in 1QY19). As for the Group's PATANCI, it registered RM16.4m (-47.3%yoy) in 1QFY20 which was below expectations as it constitutes only 10.3% and 11.5% of our and consensus full year estimates.

Construction activities disappoint. SunCon's construction segment, which contributed 90.1% of total revenue during the quarter, reported revenue growth of -19.0%yoy to RM329.6m in 1QFY20 from RM407.0m in the same quarter last year. Two weeks of Movement Control Order (MCO) effective 18 March 2020 was a contributing factor.

Precast segment revenue shrank. The precast segment recorded revenue of RM36.2m (-20.3%yoy) in 1QFY20. At PBT level, we saw a massive drop to RM0.8m (-68.4%yoy) from RM2.5m in 1QFY19. The significant drop in revenue as well as profit before tax was attributable to (1) the suspension of production, and (2) delivery restriction of precast components due to the 2 weeks MCO in 1QFY20.

Another project clinched in FY20. Based on Bursa Announcement dated 21st May 2020, SunCon has accepted the Letter of Award (LOA) issued by Sunway Education Group Sdn Bhd (SEG). The project awarded was for the proposed development of Sunway International School (SIS) at USJ 1, Mukim Damansara, Daerah Petaling, Selangor. The project worth a total contract sum of RM121.1m.

Current order book at more than RM5b. The SIS project is slated to start next month on 15 June 2020 and is expected to be completed on 30 June 2022. It is worthwhile to note that the total new projects secured by SunCon this year (including the SIS project) amounted to RM688m. Currently, SunCon's outstanding order book stands at RM5.4b.

Maintain Buy

Adjusted Target Price: RM2.26

(from RM2.21)

RETURN STATISTICS

Price @ 21 th May 2020 (RM)	RM 1.96
Expected share price return (%)	+15.38
Expected dividend yield (%)	+3.16
Expected total return (%)	+18.55

SHARE PRICE CHART




Share price performance (%)	Absolute	Relative
1 month	11.4	6.0
3 months	29.8	6.0
12 months	2.6	13.3

KEY STATISTICS

FBM KLCI	1,452.1
Syariah compliant	Yes
Issue shares (m)	1292.9
Estimated free float (%)	19.7
Market Capitalisation (RM'm)	2,527.14
52-wk price range	RM1.25 - RM2.20
Beta vs FBM KLCI (x)	1.29
Monthly velocity (%)	1.22
Monthly volatility (%)	16.1
3-mth average daily volume (m)	0.85
3-mth average daily value (RM'm)	1.47
Top Shareholders (%)	
SUNHOLDINGS	54.6
Sungei Way Corp Sdn Bhd	10.1
Employees Provident Fund Board	8.7

KIFNI Kamaruddin
 Head, Strategy
smkifni@midf.com.my
 03 -2173 8383

Recommendation. Looking ahead, we are quite sanguine on SunCon's prospects as the Group has targeted RM2b order book for FY20 and is planning to continue its strategy of overseas expansion as well as to focus on its in-house pipeline projects for sustained growth. We slashed our FY20 estimate by -28.9% to RM113.0m (from RM158.9m) but kept FY21 and FY22 numbers unchanged. We adjusted our TP to RM2.26 (from RM2.21) as we roll forward our valuation base year to FY21. The new target price was arrived after pegging the FY21 EPS to PE of 18x. On that account, we maintain **BUY** call with adjusted **TP** of **RM2.26**. 

INVESTMENT STATISTICS

FYE December	FY17	FY18	FY19	FY20F	FY21F	FY22F
Revenue (RM'm)	2076.2	2256.8	1768.7	1897.4	2362.9	2293.0
EBIT (RM'm)	164.6	174.6	141.0	148.7	187.3	181.8
Pre-tax Profit (RM'm)	174.1	183.1	157.4	155.6	204.8	198.7
Normalised PATAMI (RM'm)	137.8	144.7	129.3	113.0	162.1	157.3
EPS (sen)	10.6	11.2	10.0	8.8	12.6	12.2
EPS growth (%)	10.4	5.6	-10.5	-12.6	43.5	-3.0
PER (x)	18.7	17.7	19.6	22.4	15.6	16.1
Net Dividend (sen)	1.8	7.0	7.0	6.2	7.0	7.0
Net Dividend Yield (%)	0.9	3.5	3.6	3.2	3.6	3.6

Source: Company, MIDFR

1QFY20 RESULTS REVIEW

FYE Dec (RM'm)	1QFY20	1QFY19	4QFY19	YoY Chg	QoQ Chg	3MFY20	3MFY19	YoY Chg
Revenue	365.83	440.04	485.94	-16.9%	-24.7%	365.83	440.04	-16.9%
Operating Expenses	-349.35	-404.73	-463.71	-13.7%	-24.7%	-349.35	-404.73	-13.7%
Other Income	2.2	2.9	8.6	-23.4%	-74.3%	2.2	2.9	-23.4%
EBIT	18.69	38.20	30.83	-51.1%	-39.4%	18.69	38.20	-51.1%
Interest Income	5.25	4.23	8.66	24.1%	-39.4%	5.25	4.23	24.1%
Finance cost	-2.71	-2.30	-3.40	17.8%	-20.4%	-2.71	-2.30	17.8%
Share of Results of JV	0.00	0.00	0.10	NA	-100.0%	0.00	0.00	#DIV/0!
Pre-tax Profit	21.23	40.13	40.51	-47.1%	-47.6%	21.23	40.13	-47.1%
Taxation	-4.3	-8.5	-7.8	-49.2%	-44.7%	-4.3	-8.5	-49.2%
PAT	16.91	31.63	32.70	-46.5%	-48.3%	16.91	31.63	-46.5%
NCI	0.56	0.62	1.06	-8.6%	-47.1%	0.56	0.62	-8.6%
PATANCI	16.35	31.02	31.64	-47.3%	-48.3%	16.35	31.02	-47.3%
Diluted EPS	1.3	2.4	2.5	-47.1%	-48.2%	1.3	2.4	-47.1%
	1QFY20	1QFY19	4QFY19	+/- ppts	+/- ppts	3MFY20	3MFY19	+/- ppts
Operating margin	5.1%	8.7%	6.3%	-3.6	-1.2	5.1%	8.7%	-3.6
Pre-tax margin	5.8%	9.1%	8.3%	-3.3	-2.5	5.8%	9.1%	-3.3
PATANCI margin	4.5%	7.0%	6.5%	-2.6	-2.0	4.5%	7.0%	-2.6
Effective tax rate	-20.3%	-21.2%	-19.3%	0.8	-1.0	-20.3%	-21.2%	0.8

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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	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.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <10% over the next 12 months.
TRADING SELL	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

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