

Sunway Construction Group Berhad

(5263 | SCGB MK) Main | Construction

Maintain BUY

Rise and Shine, but Next Year!

Unchanged Target Price: RM1.80

KEY INVESTMENT HIGHLIGHTS

- **9MFY21 normalised earnings increased by +17%yoy to RM46.4m despite the lockdown measures**
- **This came in below our and consensus expectations, accounting for only 53.4% and 59.7%**
- **Construction division is set to achieve stronger earnings recovery**
- **Sanguine on the group's defensive and quality earnings outlook**
- **Maintain BUY with an unchanged target price of RM1.80**

Below Expectation. Sunway Construction Group Berhad (SCGB)'s 9MFY21 normalised earnings increased by +17%yoy to RM46.4m despite the lockdown measures on construction activities. This came in below our and consensus expectations, accounting for only 53.4% and 59.7% of the full year estimates respectively. The quarter performance was affected by MCO 3.0 as constructions site were allowed to operate with capacity linked to vaccination rate.

Construction division's reeling from lockdown measures. The group managed to record lower construction revenue of RM255.8m, -26.7%yoy in 3QFY21 because of the lockdown measures. Lower vaccination rates in states such as Penang and Johor affected Suncon's operational capacity. Despite the setbacks, we are of the view that the group's construction division is set to achieve stronger earnings recovery premised on possible acceleration of the progress billings as the construction activities resume to near optimal capacity.

Order book replenishment in FY21 to support earnings growth momentum. We believe that the group's current outstanding order book which stands at about RM4.7b will translate into a strong earnings visibility over the next three years. Meanwhile, we posit that on the group's ability to replenish its target order book in FY21 of RM2.0b, will not be feasible this year, despite major portion of it could be primarily coming from its in-house projects. Note that the group has secured RM796.0m new order book year-to-date or 39.8% of its full year target, which is made up of domestic in-house projects (52%), India (18%) and building projects (12%). The 3QFY21 saw the group secured RM175.7m worth of additional projects in the pipeline for the group future construction activities.

Earnings estimates. We are making some housekeeping changes to our topline estimates as we update our forecast to reflect our latest view on SCGB in-line with below than expectation financial performance of the company. We are revising of top line and earnings estimates for FY21 to RM1.49b and RM64.20m. We maintain our FY22F estimate.

RETURN STATISTICS

Price @ 18th November 2021	1.56
Expected share price return (%)	+15.38
Expected dividend yield (%)	+2.30
Expected total return (%)	+17.68

SHARE PRICE CHART




Share price performance (%)	Absolute	Relative
1 month	-7.1	-2.1
3 months	-4.3	-1.8
12 months	-15.2	-11.9

KEY STATISTICS

FBM KLCI	1,523.79
Syariah compliant	Yes
F4BGM Index	No
ESH Grading Band (Star rating)	N/A
Issue shares (m)	1289.36
Estimated free float (%)	18.23
Market Capitalisation (RM'm)	2,037.19
52-wk price range	RM1.5 - RM2
Beta vs FBM KLCI (x)	0.80
Monthly velocity (%)	0.00
Monthly volatility (%)	28.85
3-mth average daily volume (m)	0.17
3-mth average daily value (RM'm)	0.28
Top Shareholders (%)	
Sunway Holdings Sdn Bhd	54.56
Sungei Way Corp Sdn Bhd	10.08
Employees Provident Fund Board	9.27

Target price. We are maintaining our target price to **RM1.80**. This is derived by attaching a PER of 18.0x to the group's FY22 EPS of 10.0sen. Note that the target PER is +1.5SD premium above the group's two-year historical average. We opine that the premium is justified given the group's solid order book replenishment rate, sound balance sheet and continued job flows from its parent company.

Maintain BUY. We remain sanguine on the group's defensive and quality earnings outlook, predicating on its strong current outstanding order book and prompt resumption of work operations as reflected by its healthy rebound in earnings in 1QFY21 despite the movement restrictions. The defensive nature of the group is underpinned by its well-balanced order book portfolio which made up of its sizeable in-house projects and overseas job wins, especially from India whereby the group had clinched two major highways in FY20 which will kickstart in May 2021. This will bode well with the group's earnings momentum moving onwards. On the intermediate term, the group's prospect is also well-supported by its strong outstanding order book of about RM4.7b which will provide earnings visibility over the next three years. All factors considered, we reiterate **BUY** recommendation on SCGB. 

INVESTMENT STATISTICS

FYE 31st December	2019A	2020A	2021E	2022F	2023F
Revenue	1,768.7	1,552.7	1,493.0	2,105.3	2,310.0
Net Operating Expenses	(1,627.7)	(1,462.1)	(1,383.9)	(1,953.3)	(2,146.4)
Operating Profit	141.0	90.5	109.0	151.9	163.6
Finance Income	25.2	13.8	13.7	20.7	24.3
Finance Costs	(13.1)	(6.9)	(7.1)	(10.9)	(12.6)
JV and Associates	4.4	4.2	2.4	3.8	5.0
Profit Before Tax	157.4	101.5	118.1	165.4	180.2
Tax Expense	(27.1)	(27.8)	(25.2)	(35.2)	(38.6)
Reported Net Profit	129.3	72.8	64.2	128.4	140.9
Core Net Profit	126.4	69.6	64.2	128.4	140.9
Reported EPS	0.10	0.06	0.05	0.10	0.11
Core EPS	0.10	0.05	0.05	0.10	0.11

Source: Company, MIDFR

SUNWAY CONSTRUCTIONS: 3QFY21 RESULTS SUMMARY

Income Statement	Quarterly Results					Cumulative		
	Q321	Q221	Q320	QoQ	YoY	9M21	9M20	YoY
Revenue	272.1	375.3	419.4	-27%	-35%	1,102.5	925.4	19%
Net Operating Expenses	(250.0)	(368.9)	(386.5)	32%	35%	(1,048.0)	(873.7)	-20%
Operating Profit	22.1	6.4	32.9	>+100%	-33%	54.5	51.7	6%
Finance Income	1.0	1.4	4.6	-29%	-79%	3.1	13.7	-77%
Finance Costs	(0.9)	(1.0)	(1.6)	7%	41%	(3.5)	(6.6)	47%
JV and Associates	2.4	2.8	0.0	-14%	-	7.1	1.1	>+100%
Profit Before Tax	24.5	9.5	36.0	>+100%	-32%	61.2	59.9	2%
Tax Expense	(5.0)	(3.6)	(11.7)	-38%	58%	(15.5)	(16.3)	5%
Minority Interest	0.2	(2.4)	0.2	>+100%	19%	(2.1)	1.1	<-100%
Reported Net Profit	19.3	8.3	24.0	>+100%	-20%	47.9	42.6	12%
Core Net Profit	19.3	8.1	19.5	>+100%	-1%	46.4	39.8	17%

Source: Company, MIDFR

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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.

ESG RECOMMENDATIONS* - source Bursa Malaysia and FTSE Russell

☆☆☆☆	Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆☆	Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆	Top 51%- 75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆	Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell

* ESG Ratings of PLCs in FBM EMAS that have been assessed by FTSE Russell in accordance with FTSE Russell ESG Ratings Methodology