"Among the most successful in replenishing order book"

Share price performance

	1M	3M	12M
Absolute (%)	-1.1	1.7	-7.6
Rel KLCI (%)	-5.2	1.1	-6.3

	BUY	HOLD	SELL
Consensus	10	3	2

Source: Bloomberg

Stock Data

Sector	Construction
Issued shares (m)	1,289.4
Mkt cap (RMm)/(US$m)	2,359.5/575.6
Avg daily vol - 6mth (m)	0.5
52-wk range (RM)	1.25 – 2.10
Est free float	19.3%
Stock Beta	0.82
Net cash/(debt) (RMm)	317.9
ROE (CY21E)	19.1%
Derivatives	Nil
Shariah Compliant	Yes

Key Shareholders

Sunway	64.7%
EPF	9.1%
ASN	5.9%

Source: Affin Hwang, Bloomberg

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Sunway Construction (SCGB MK)

BUY (maintain)
Up/Downside: +20.2%

Price Target: RM2.20
Previous Target (Rating): RM2.16 (BUY)

Above expectations

- **Sunway Construction's (SunCon) construction operation resumed to pre-pandemic levels in 3Q20. The faster-than-expected earnings recovery led to results being above market and our expectations.**
- **We upgrade 2020E core EPS by 13% yoy to reflect the strong recovery but cut core EPS by 5-6% in 2021-22E after trimming our profit margin assumptions.**
- **SunCon's RM2.3bn new contract wins YTD is among the highest in the sector with good prospects to repeat this feat in 2021. SunCon remains our top mid-cap sector BUY with an adjusted target price of RM2.20, based on RNAV.**

Faster-than-expected recovery

SunCon's revenue increased 2-fold qoq to RM419m and net profit jumped nearly 10-fold qoq to RM24m from a low base in 2Q20. Core net profit was higher at RM32m (+606% qoq and -13% yoy) in 3Q20 due to provision for doubtful debts and goodwill write-off for its precast concrete operations. Assuming core net profit of RM32m in 3Q20 is repeated in 4Q20, full-year core earnings could hit RM86m, exceeding the consensus forecast of RM76m and our previous estimate of RM73m.

Still down against last year's earnings

Construction activities were at a standstill for 2.5 months in 1H20 due to the government's Movement Control Order (MCO) before resuming fully in 3Q20 with strict Standard Operating Procedures (SOPs) in place. Revenue was still down 28% yoy to RM925m, while net profit plunged 56% yoy to RM43m in 9M20 due to the MCO disruptions. Construction PBT was 48% yoy lower at RM61m in 9M20, while precast concrete incurred a pre-tax loss of RM0.7m.

Successful replenishment of order book

Its order book remains high at RM5.3bn as at 30 September 2020, equivalent to 3.3x 2019 revenue. SunCon secured RM2.3bn worth of new contracts YTD, among the highest in the industry. Good prospects for new contract wins with RM5.3bn active tenders and more than 50% for overseas projects in India, Singapore and the Philippines. The revival of mega infrastructure projects such as Klang Valley MRT Line 3 (MRT3) in 2021 augurs well for SunCon, which is an incumbent subcontractor for MRT2.

Top sector mid-cap BUY

We expect a strong rebound in core earnings from RM82m (-38% yoy) in 2020E to RM121m (+46% yoy) in 2021E as progress billings accelerate and new contract wins remain high at RM2.4bn in 2020E and RM2bn in 2021E. Maintain our BUY call. Key risks are political uncertainties and slow roll-out of infrastructure projects.

Earnings & Valuation Summary

FYE 31 Dec	2018	2019	2020E	2021E	2022E
Revenue (RMm)	2,256.7	1,768.7	1,449.4	2,214.2	2,706.6
EBITDA (RMm)	221.1	185.2	138.4	189.4	220.4
Pretax profit (RMm)	182.7	157.4	98.2	159.9	191.5
Net profit (RMm)	144.4	129.3	70.9	120.5	144.6
EPS (sen)	11.2	10.0	5.5	9.3	11.2
PER (x)	16.4	18.3	33.3	19.6	16.3
Core net profit (RMm)	150.4	133.2	82.3	120.5	144.6
Core EPS (sen)	11.6	10.3	6.4	9.3	11.2
Core EPS growth (%)	15.8	(11.3)	(38.2)	46.4	19.9
Core PER (x)	15.7	17.7	28.7	19.6	16.3
Net DPS (sen)	7.0	7.0	6.0	7.0	7.0
Dividend Yield (%)	3.8	3.8	3.3	3.8	3.8
EV/EBITDA	9.1	10.6	14.0	10.8	8.8
Chg in EPS (%)			12.8	(5.0)	(5.8)
Affin/Consensus (x)			0.9	0.8	0.9

Source: Company, Bloomberg, Affin Hwang forecasts

Fig 1: Results comparison

FYE Dec (RMm)	3Q19	2Q20	3Q20	QoQ % chg	YoY % chg	9M19	9M20	YoY % chg	Comments
Revenue	**402.6**	**140.2**	**419.4**	***199.2***	***4.2***	**1,282.8**	**925.4**	***(27.9)***	9M20: Lower construction (-26% yoy) and precast (-47% yoy) revenue due to Covid-19 pandemic stop work orders in Malaysia and Singapore.
Op costs	(355.2)	(129.3)	(370.6)	*186.6*	*4.3*	(1,137.3)	(836.6)	*(26.4)*	
EBITDA	**47.3**	**10.9**	**48.9**	***347.9***	***3.2***	**145.5**	**88.8**	***(39.0)***	
EBITDA margin (%)	*11.8*	*7.8*	*11.6*	*3.9ppt*	*(0.1ppt)*	*11.3*	*9.6*	*(1.7ppt)*	Profit margin squeeze due to fall in revenue.
Depn and amort	(10.0)	(8.5)	(8.1)	*(5.3)*	*(19.3)*	(36.4)	(25.6)	*(29.6)*	
EBIT	**37.4**	**2.4**	**40.8**	***>100***	***9.2***	**109.2**	**63.2**	***(42.1)***	
Interest income	5.1	4.5	4.6	*1.7*	*(10.3)*	16.5	14.3	*(13.0)*	Lower net cash and returns following cuts in deposit rates.
Interest expense	(3.9)	(2.3)	(1.6)	*(31.8)*	*(59.9)*	(9.8)	(6.6)	*(32.8)*	
Associates	0.0	0.1	0.0	*(100.0)*	*0.0*	0.0	0.1	*100.0*	
Forex gain (losses)	(0.1)	0.1	(0.2)	*NA*	*282.0*	0.2	(0.1)	*NA*	
Exceptional items	(2.9)	(2.4)	(7.7)	*215.4*	*161.5*	0.9	(11.4)	*NA*	
Pretax profit	**35.6**	**2.3**	**36.0**	***>100***	***1.1***	**116.9**	**59.5**	***(49.1)***	Lower construction earnings (-48% yoy) due to slower progress billings and profit margin squeeze. Losses for precast concrete division.
Core pretax	**38.5**	**4.7**	**43.8**	***839.2***	***13.7***	**115.8**	**71.0**	***(38.7)***	
Tax	(2.5)	(0.2)	(11.7)	*>100*	*362.2*	(19.3)	(16.3)	*(15.6)*	
Tax rate (%)	*7.1*	*9.4*	*32.6*	*23.2ppt*	*25.5ppt*	*16.5*	*27.3*	*10.9ppt*	
Minority interests	0.5	0.1	(0.2)	*NA*	*NA*	0.1	(0.7)	*NA*	
Net profit	**33.5**	**2.2**	**24.0**	***996.4***	***(28.2)***	**97.7**	**42.6**	***(56.4)***	Above expectations with strong earnings rebound in 3Q20.
Core net profit	**36.5**	**4.5**	**31.9**	***605.9***	***(12.5)***	**96.6**	**54.1**	***(44.0)***	Above expectations. Exclude one-off items.
EPS (sen)	2.6	0.2	1.9	*994.1*	*(28.5)*	7.6	3.3	*(56.3)*	

Source: Affin Hwang, Company

Fig 2: Segmental revenue breakdown

Segment	3Q19	2Q20	3Q20	% qoq	% yoy	9M19	9M19	% yoy
Construction	365.1	137.2	403.4	*194.1*	*10.5*	1,178.4	870.2	*(26.2)*
Precast concrete	37.5	3.0	16.0	*434.4*	*(57.4)*	104.4	55.2	*(47.1)*
Total	**402.6**	**140.2**	**419.4**	***199.2***	***4.2***	**1,282.8**	**925.4**	***(27.9)***

Source: Affin Hwang, Company

Fig 3: Segmental PBT breakdown

Segment	3Q19	2Q20	3Q20	% qoq	% yoy	9M19	9M19	% yoy
Construction	35.4	5.9	34.8	*492.0*	*(1.7)*	116.6	61.1	*(47.6)*
Precast concrete	0.2	(3.5)	1.2	*NA*	*488.2*	0.3	(1.6)	*(590.2)*
Total	**35.6**	**2.3**	**36.0**	***>100***	***1.1***	**116.9**	**59.5**	***(49.1)***

Source: Affin Hwang, Company

Fig 4: Segmental PBT margin

Segment	3Q19	2Q20	3Q20	ppt qoq	ppt yoy	9M19	9M19	ppt yoy
Construction	9.7	4.3	8.6	*4.3ppt*	*(1.1ppt)*	9.9	7.0	*(2.9ppt)*
Precast concrete	0.5	NA	7.5	*NA*	*7.0ppt*	0.3	NA	*NA*
Total	**8.8**	**1.7**	**8.6**	*6.9ppt*	*(0.3ppt)*	**9.1**	**6.4**	*(2.7ppt)*

Source: Affin Hwang, Company

Revision in RNAV/share and target price

We reduce our RNAV/share estimate to RM2.20 from RM2.40 to reflect lower sustainable earnings for its construction arm of RM130m (compared to RM140m previously) and lower net cash as at 30 September 2020. Assuming no discount to RNAV (10% discount previously), we adjust our target price (TP) slightly higher to RM2.20 from RM2.16 previously. We believe the improved prospects to grow its order book as the government accelerates infrastructure spending in 2021 will drive an upward re-rating of efficient contractors like SunCon. At our TP of RM2.20, the implied target 2021E PER of 23.6x is above the mean level of 20.8x but below 1sd above the mean level of 26.1x. Maintain our BUY call.

Fig 5: RNAV and target price

Segments	Stake (%)	New RNAV (RMm)	Old RNAV (RMm)	Change (%)
Construction @ PER 16x sustainable earnings of RM130m	100	2,080	2,240	(7)
Pre-cast concrete @ PER 16x sustainable earnings of RM25m	100	400	400	0
Investment in Singapore IPPH JV @ book value	50	44	44	0
Net cash/(debt)		318	407	(22)
RNAV		**2,842**	**3,091**	**(8)**
No. of shares (m)		1,291	1,291	0
RNAV/share (RM)		**2.20**	**2.40**	**(8)**
Target price at 10% discount to RNAV/share		**2.20**	**2.16**	**2**

Source: Affin Hwang, Company

Fig 6: 12-month forward PER

Source: Affin Hwang, Bloomberg

Important Disclosures and Disclaimer

Equity Rating Structure and Definitions

BUY	Total return is expected to exceed +10% over a 12-month period
HOLD	Total return is expected to be between -5% and +10% over a 12-month period
SELL	Total return is expected to be below -5% over a 12-month period
NOT RATED	Affin Hwang Investment Bank Berhad does not provide research coverage or rating for this company. Report is intended as information only and not as a recommendation

The total expected return is defined as the percentage upside/downside to our target price plus the net dividend yield over the next 12 months.

OVERWEIGHT	Industry, as defined by the analyst's coverage universe, is expected to outperform the KLCI benchmark over the next 12 months
NEUTRAL	Industry, as defined by the analyst's coverage universe, is expected to perform inline with the KLCI benchmark over the next 12 months
UNDERWEIGHT	Industry, as defined by the analyst's coverage universe is expected to under-perform the KLCI benchmark over the next 12 months

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