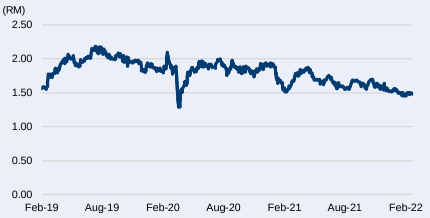
Sunway Construction (SCGB MK)

BUY (maintain)
Up/Downside: +52.0%

Price Target: RM2.25
Previous Target (Rating): RM2.20 (BUY)

"FY21 results were above expectations"

Share price performance



	1M	3M	12M
Absolute (%)	1.4	-6.3	-10.8
Rel KLCI (%)	-2.4	-10.1	-12.0

	BUY	HOLD	SELL
Consensus	8	5	-

Stock Data

Sector	Construction
Issued shares (m)	1,289.4
Mkt cap (RMm)/(US$m)	1,908.3/456.0
Avg daily vol - 6mth (m)	0.2
52-wk range (RM)	1.44-1.90
Est free float	18.3%
Stock Beta	0.80
Net cash/(debt) (RMm)	457.8
ROE (2022E)	18.2%
Derivatives	No
Shariah Compliant	Yes
FTSE4Good Constituent	No
FBM EMAS (Top 200)	
ESG Rank	N/A
ESG Risk Rating	26.3 (-3.2 yoy)

Key Shareholders

Sunway Holdings	54.6%
Sungei Way Corp	10.1%
EPF	9.2%
ASN	5.5%

Source: Bloomberg, Affin Hwang, Bursa Malaysia, ESG Risk Rating Powered by Sustainalytics

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Highest quarterly earnings

- **Sunway Construction (SunCon) reported a surprisingly high core net profit of RM144.6m (+57% yoy) in 2021 as it ramped up progress billings and recognised higher profit margin for some projects that were near completion**
- **SunCon secured RM1.47bn new contracts in 2021, below its target of RM2bn due to the delay in the award of some external projects. It has set a new contract wins target at RM2bn for 2022**
- **We lift core EPS by 7-13% in 2022-23E to reflect higher construction profit margins, partly offset by higher tax rate assumptions. SunCon remains a top sector BUY with higher RNAV-based TP of RM2.25**

Surprisingly high 4Q21 earnings

SunCon's core net profit of RM144.6m (+57% yoy) in 2021 was 79% above consensus forecast of RM80.7m and 57% above our estimate of RM92m. Net exceptional loss of RM32.1m reduced headline net profit to RM112.6m (+55% yoy) in 2021. Major one-off losses were legal case provision (RM17.3m) and impairment of receivables (RM15.6m). Revenue grew 11% yoy, driven by higher progress billings for ongoing projects such as the Klang Valley LRT Line 3 (LRT3) project and higher profit margins upon re-calibration for some projects that were near completion. EBIT margin improved to 9.9% in 2021 compared to 7.1% in 2020. Core net profit came in at RM91.8m (+272% qoq and +142% yoy) in 4Q21, which was the highest quarterly earnings since SunCon's listing in 2015.

High order book provides good earnings visibility

SunCon's high remaining order book of RM4.75bn at end-2021, equivalent to 2.7x its 2021 revenue, will sustain its construction activities and drive earnings growth going forward. It has active tenders worth RM4.3bn (50% infrastructure projects) and prospects to win new contracts are good. SunCon is pursuing some building projects for Sunway's ongoing integrated property development projects such as CP2 and Sunway Velocity 2, and upgrading/new hospitals.

Remains a top sector BUY with a higher TP of RM2.25

We raise core EPS by 7-13% in 2022-23E to reflect higher construction EBIT margins of 6.1-6.3% (5.6% previously), partly offset by higher effective tax rate assumption of 26% in 2022E and 24% in 2023E (22% previously for both years). We assume new contract wins of RM2.5bn/RM2bn/RM2bn in 2022/23/24E. We expect core EPS to contract 9% yoy in 2022E due to the prosperity tax and high base in 2021, but rebound to a 21% yoy growth in 2023E. We reiterate our BUY call and raise our RNAV-based TP of RM2.25 (from RM2.20) to reflect the higher net cash at end-2021. Key risks: a slow roll-out of infrastructure projects and higher costs.

Earnings & Valuation Summary

FYE 31 Dec	2020	2021	2022E	2023E	2024E
Revenue (RMm)	1,552.7	1,729.2	2,662.5	2,976.4	3,121.5
EBITDA (RMm)	143.1	198.9	191.7	224.2	226.5
Pretax profit (RMm)	101.1	152.2	174.7	205.7	206.9
Net profit (RMm)	72.8	112.6	131.1	158.2	159.0
EPS (sen)	5.6	8.7	10.2	12.3	12.3
PER (x)	26.2	17.0	14.6	12.1	12.0
Core net profit (RMm)	92.0	144.6	131.1	158.2	159.0
Core EPS (sen)	7.1	11.2	10.2	12.3	12.3
Core EPS growth (%)	(31.0)	57.3	(9.3)	20.6	0.6
Core PER (x)	20.8	13.2	14.6	12.1	12.0
Net DPS (sen)	4.0	5.3	5.3	6.0	6.0
Dividend Yield (%)	2.7	3.5	3.5	4.1	4.1
EV/EBITDA	11.0	7.3	8.0	6.4	6.7
Chg in EPS (%)			+7.3	+12.6	New
Affin/Consensus (x)			1.0	1.1	NA

Source: Company, Affin Hwang forecasts

Fig 1: Results comparison

FYE 31 Dec (RMm)	4Q20	3Q21	4Q21	QoQ % chg	YoY % chg	2020	2021	YoY % chg	FY21 Comment
Revenue	**627.2**	**272.1**	**626.61**	***130.3***	***(0.1)***	**1,552.7**	**1,729.2**	***11.4***	FY21: Higher construction (+10% yoy) pre-cast concrete (+26% yoy) revenue.
Op costs	(572.8)	(237.8)	(508.1)	*113.7*	*(11.3)*	(1,409.5)	(1,530.3)	*8.6*	Higher building material and labour costs.
EBITDA	**54.4**	**34.3**	**118.5**	***245.5***	***118.0***	**143.1**	**198.9**	***38.9***	
EBITDA margin (%)	*8.7*	*12.6*	*18.9*	*6.3ppt*	*10.2ppt*	*9.2*	*11.5*	*2.3ppt*	Higher profit margins on re-calibration for some projects that were near completion.
Depn and amort	(7.8)	(6.9)	(6.6)	*(3.8)*	*(15.6)*	(33.4)	(27.4)	*(18.0)*	
EBIT	**46.5**	**27.4**	**111.9**	***308.1***	***140.5***	**109.7**	**171.5**	***56.3***	
Interest income	0.1	1.0	1.0	*7.0*	*1,224.1*	17.4	4.2	*(76.1)*	Some returns on cash is recognised as associate earnings due to accounting classification for its investment funds.
Interest expense	(0.3)	(0.9)	(1.1)	*17.4*	*223.0*	(6.9)	(4.6)	*(33.8)*	
Associates	3.0	2.4	6.2	*161.2*	*107.7*	0.1	13.3	*11,954.5*	
Forex gain (losses)	(0.5)	(0.2)	0.1	*NA*	*NA*	(2.9)	(0.2)	*(94.8)*	
Exceptional items	(7.2)	(5.2)	(27.2)	*426.7*	*279.8*	(16.3)	(31.9)	*96.3*	
Pretax profit	**41.6**	**24.5**	**91.0**	***271.8***	***118.9***	**101.1**	**152.2**	***50.6***	Higher construction (+108% yoy) and pre-cast concrete (+90% yoy) earnings.
Tax	(11.5)	(5.0)	(26.0)	*424.4*	*125.8*	(27.8)	(41.5)	*49.4*	
Tax rate (%)	*29.8*	*22.4*	*30.7*	*8.2ppt*	*0.8ppt*	*27.5*	*29.9*	*2.4ppt*	
Minority interests	0.1	(0.2)	(0.3)	*17.9*	*NA*	(0.5)	1.8	*NA*	
Net profit	**30.2**	**19.3**	**64.7**	***235.4***	***114.3***	**72.8**	**112.6**	***54.7***	Above expectations.
Core net profit	**37.9**	**24.7**	**91.8**	***272.1***	***142.3***	**92.0**	**144.6**	***57.3***	Above expectations. Exclude one-off items.
EPS (sen)	2.3	1.5	5.0	*234.0*	*114.1*	5.6	8.7	*54.8*	

Source: Affin Hwang, Company

Fig 2: Segmental revenue breakdown

Segment	4Q20	3Q21	4Q21	QoQ % chg	YoY % chg	2020	2021	YoY % chg
Construction	585.0	255.8	579.9	*126.7*	*(0.9)*	1,455.2	1,606.2	*10.4*
Precast concrete	42.2	16.3	46.7	*187.1*	*10.7*	97.4	122.9	*26.2*
Total	**627.2**	**272.1**	**626.6**	***130.3***	***(0.1)***	**1,552.7**	**1,729.2**	***11.4***

Source: Affin Hwang, Company

Fig 3: Segmental PBT breakdown

Segment	4Q20	3Q21	4Q21	QoQ % chg	YoY % chg	2020	2021	YoY % chg
Construction	10.4	26.9	88.7	*229.7*	*751.5*	71.5	148.8	*108.1*
Precast concrete	3.4	(2.4)	5.9	*(342.3)*	*74.3*	1.8	3.5	*89.5*
Total	**13.8**	**24.5**	**94.6**	***286.5***	***585.6***	**73.3**	**152.2**	***107.6***

Source: Affin Hwang, Company

Fig 4: Segmental PBT margin

FYE 31 Dec (%)	4Q20	3Q21	4Q21	QoQ ppt chg	YoY ppt chg	2020	2021	YoY ppt chg
Construction	1.8	10.5	15.3	*4.8ppt*	*13.5ppt*	4.9	9.3	*4.3ppt*
Precast concrete	8.0	(14.9)	12.6	*27.6ppt*	*4.6ppt*	1.9	2.8	*0.9ppt*
Total	**2.2**	**9.0**	**15.1**	***6.1ppt***	***12.9ppt***	**4.7**	**8.8**	***4.1ppt***

Source: Affin Hwang, Company

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	2,080	0
Pre-cast concrete @ PER 16x sustainable earnings of RM20m	100	320	320	0
Investment in Singapore IPPH JV @ book value	50	44	44	0
Net cash/(debt)		458	389	18
RNAV		**2,902**	**2,834**	**2**
No. of shares (m)		1,291	1,291	0
RNAV/share (RM)		**2.25**	**2.20**	**2**
Target price at RNAV/share		**2.25**	**2.20**	**2**

Source: Affin Hwang, Company

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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