18 November 2021
Asia Pacific | Malaysia
Equity Research

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Asian Daily

SunCon (SCOG.KL)

3Q21 margins recovered; expect better 4Q21

Maintain OUTPERFORM
Previous Rating: OUTPERFORM

Target price (RM): 1.80
Previous target price (RM): 1.85

- SunCon's 3Q21 net profit rebounded strongly to RM19.3 mn (+132%) driven by improvement in construction segment margins. 9M21 net profit +12% YoY to RM47.9 mn (69%/61% of our/street estimate), and we expect 4Q21 to recover further as SunCon is currently operating at 100% capacity.
- Outstanding orderbook remains healthy at RM4.7 bn after securing RM796 mn new jobs YTD. Management remains confident in achieving its RM2 bn new order win target. Potential catalyst: LSS4, local commercial development projects, in-house development jobs.
- We lower our FY22 net profit estimates by 2.6% to factor in impact of the one-off prosperity tax announced in Budget 2022. Consequently, our TP has also been reduced to RM1.80 (from RM1.85).
- Maintain OUTPERFORM. SunCon's strong track record, healthy balance sheet, and orderbook support from its parent company puts it in a better position to weather the challenging operating environment.

Price (18-Nov-21, RM)	**1.56**	Est. pot. % chg. to TP	15.4
Mkt cap (RM/US$ mn)	2,017 / 483	Blue sky scenario (RM)	3.05
Number of shares (mn)	1,293	Grey sky scenario (RM)	1.18
Free float (%)	19.5		
52-wk range (RM)	1.94 - 1.51		
ADTO-6M (US$ mn)	0.1		

Performance	**1M**	**3M**	**12M**
Absolute (%)	(7.1)	(3.1)	(15.2)
Relative (%)	(2.0)	(3.5)	(10.2)

Year	**12/20A**	**12/21E**	**12/22E**	**12/23E**
Revenue (RM mn)	1,552.7	1,527.5	2,229.4	2,344.8
EBITDA (RM mn)	124.0	113.6	184.9	205.8
EBIT (RM mn)	90.5	87.8	162.9	186.7
Net profit (RM mn)	72.8	69.8	123.0	142.1
EPS (CS adj.) (RM)	0.06	0.05	0.1	0.11
Chg. from prev. EPS (%)	n.a.	0.0	(2.6)	(0.0)
Consensus EPS (RM)	n.a.	0.06	0.11	0.11
EPS growth (%)	(43.7)	(4.1)	76.3	15.5
P/E (x)	27.6	28.8	16.3	14.2
Dividend yield (%)	2.6	2.4	4.3	4.9
EV/EBITDA (x)	13.6	13.9	9.4	8.3
P/B (x)	3.16	3.06	2.9	2.73
ROE (%)	11.6	10.8	18.2	19.8
Net debt/equity (%)	(52.2)	(66.1)	(40.0)	(42.2)

Source: Company data, Refinitiv, Credit Suisse estimates

SunCon's 3Q21 net profit rebounded strongly to RM19.3 mn vs RM8.3 mn in 2Q21 driven by improvement in construction segment margins. 9M21 net profit grew 12.4% YoY to RM47.9 mn, mainly due to better profitability of its precast division, and made up 69%/61% of our/street estimates. We deem the results to be in line and expect 4Q21 to recover further as almost all states have transitioned to Phase 4 of the National Recovery Plan and SunCon is currently operating at 100% capacity.

- **Construction** segment PBT -2.4% YoY to RM60.0 mn in 9M21 despite higher revenue (+17.9 YoY) amid extensive cost rationalisation in 9M20. On a QoQ basis, the division's PBT rebounded by 183% to RM26.9 mn due to the re-calibration of margin to reflect some upside, as some projects are nearing completion and certainty of better margins are more visible.

- **Precast** segment PBT +175% YoY in 9M21 to RM1.2 mn vs loss of RM1.6 mn in 9M20. The division recorded a loss of RM2.4 mn in 3Q21 (vs 2Q21 precast division's breakeven) as the factories in Johor only commenced full operations towards the end of September due to the slower vaccination rate. Furthermore, the division also adjusted its margin downwards on the back of higher steel bar prices.

Figure 1: PBT summary by segment

	PBT (RM' mn)		YoY (%)	PBT (RM' mn)		YoY (%)	PBT margin			
	9M21	9M20		3Q21	3Q20		9M21	9M20	3Q21	3Q20
Construction	60.0	61.5	-2.4%	26.9	34.8	-22.7%	5.9%	7.1%	10.5%	8.6%
Precast	1.2	(1.6)	175.0%	(2.4)	1.2	>-100%	1.6%	-2.9%	-14.7%	7.5%

Source: Company data, Credit Suisse estimates

Budget 2022 tax implications - According to management, the proposed one-off prosperity tax in the recent Budget 2022 will have a mild impact on its FY22 net profit. Given the prosperity tax will be applied on the entity level, only the civil/building works division will be impacted as it generates PBT of more than RM100 mn. Separately, on the removal of tax exemption on foreign sourced income, management guided that SunCon is committed to its overseas operations and is likely to remain invested for the foreseeable future.

Still confident in meeting RM2 bn new order win target - As at end-Sep 2021, SunCon's outstanding orderbook stood at a healthy RM4.7 bn having secured RM796 mn new jobs YTD and management still remains confident in achieving its RM2 bn target for FY21. Possible sources of new jobs in the near-to-medium term include:

- **Large scale solar** - According to management, a 50MW plant would fetch a contract value of ~RM140 mn.

- **Local commercial development projects** - Total projects size may potentially be valued at RM500 mn.

- **In-house development projects** - We believe SunCon would also be a front runner for commercial developments by its parent company. Furthermore, its parent company intends to expand its network of healthcare facilities and is planning to developed numerous mid-sized tertiary medical.

We maintain our OUTPERFORM rating on SunCon. The company looks better positioned to weather the challenging operating conditions supported by its: (1) large outstanding orderbook, (2) healthy balance sheet with net cash position, (3) orderbook support from parent company, (4) valuation trading below historical average, and (5) industry leader in regards to ESG.

Figure 2: Summary results table

Year-end 31 Dec	9MFY21	9MFY20	% YoY chg	% of CS FY21e	% of str FY21e	3Q21	2Q21	% QoQ chg	3Q20	% YoY chg
Revenue	1,102.5	925.4	19.1%	72%	64%	272.1	375.3	-27.5%	419.4	-35.1%
PBT	61.2	59.9	2.2%	66%	59%	24.5	9.5	157.3%	36.0	-31.9%
Net profit	47.9	42.6	12.4%	69%	61%	19.3	8.3	131.8%	24.0	-19.7%

Source: Company data, I/B/E/S, Credit Suisse estimates

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Valuation Methodology and Risks

Target Price and Rating
Valuation Methodology and Risks: (12 months) for SunCon (SCOG.KL)

Method: Our target price of RM1.80 is derived by pegging FY22 estimates to SunCon's historical normalized ex-cash P/E average of 16.5x. We rate the stock OUTPERFORM. We believe SunCon is a relatively 'safe' choice given its 1) large outstanding orderbook, 2) healthy balance sheet with a net-cash position, 3) support from parent company, 4) valuations trading below historical average, 5) industry leader in regards to ESG.

Risk: The main risks to our target price of RM1.80 and OUTPERFORM rating for SunCon include: (1) changes in government policy, (2) increase in payment risk from customers on the back of a prolonged slowdown in the construction and property sector, and (3) a spike in raw material prices.

Companies Mentioned *(Price as of 18-Nov-2021)*

SunCon (SCOG.KL, RM1.56, OUTPERFORM, TP RM1.8)

Disclosure Appendix

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3-Year Price and Rating History for SunCon (SCOG.KL)

SCOG.KL	Closing Price	Target Price	
Date	(RM)	(RM)	Rating
02-Oct-20	1.88	2.50	O *
24-Feb-21	1.66	2.25	
21-May-21	1.63	2.15	
20-Aug-21	1.61	1.85	

** Asterisk signifies initiation or assumption of coverage.*

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Restricted	2%	

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