

Asian Daily

SunCon (SCOG.KL)

## Strong 4Q21 results; 2022 to see further recovery

Maintain OUTPERFORM

Previous Rating: OUTPERFORM

Target price (RM): 2.20

Previous target price (RM): 1.80

- SunCon's 4Q21 net profit rebounded strongly by +235% QoQ to RM64.7mn on improvement in both its construction and precast segments. FY21 net profit jumped 54.7% YoY to RM112.6mn (161%/142% of CS/street estimates).
- Outstanding orderbook remains healthy at RM4.8bn after securing RM1.5bn in new jobs in 2021. Management is aiming to achieve RM2bn in new orders for 2022.
- We raise our FY22/23E net profit by 16.4%/16.3% to factor in higher construction progress and margins. We also introduce FY24E. Consequently, our TP (based on ex-cash P/E) has also been increased to RM2.20 (from RM1.80).
- Stay OUTPERFORM. 2022 would be a recovery year for SunCon and we believe that it would be a beneficiary of the revival of mega projects. SunCon trades on an attractive ex-cash P/E of 9.9x (>1SD below historical average of 16.5x).

SunCon's 4Q21 net profit rebounded strongly (+235% QoQ) to RM64.7mn from RM19.3mn in 3Q21, driven by an improvement in both the construction (PBT +230%) and precast segments (4Q21 PBT of RM2.3mn vs 3Q21 LBT of RM2.4mn) as operations resumed post lockdown. On the back of the strong performance in 4Q21, FY21 net profit jumped 54.7% YoY to RM112.6mn, mainly due to improved profitability of the construction division, and made up 161%/142% of our/street estimates.

■ **Construction** segment PBT +50.6% YoY to RM148.8 mn in FY21, while revenue grew 10.4% YoY as margin expanded 2.5pp to 9.3%. The overall better performance and profitability of the segment was due to increased operating efficiency as lockdown measures eased coupled with the recalibration of margin to reflect some upside, as some projects are nearing completion and certainty of better margins are more visible.

■ **Precast** segment also experienced a healthy recovery with FY21 PBT increasing 25.9% YoY to RM3.4mn, while revenue grew 26.2% YoY as operations resumed post lockdown. FY21 PBT margin was stable at 2.8% (FY20: 2.8%).

**Targeting to achieve RM2 bn in new orders for 2022.** As at end-Dec-2021, SunCon's outstanding orderbook stood at a healthy RM4.8bn, having secured RM1.5bn in new orders in 2021 (vs RM2bn target). The RM500mn shortfall in new order wins vs its RM2bn target was mainly due to the delay in rollout of some external commercial property developments because of volatile raw material prices. These projects should return in 2022 and management is aiming for RM2bn in new orders for 2022 (25% internal, 25% infrastructure, 25% piling & precast, and 25% external commercial developments). We think that SunCon will be the front-runner for commercial development and healthcare projects from its parent company and its balance sheet

Figure 2: Summary of results

Year-end 31 Dec	FY21	FY20	% YoY chg	% of CS FY21e	% of str FY21e	4Q21	3Q21	% QoQ chg	4Q20	% YoY chg
Revenue	1,729.2	1,552.7	11.4%	113%	103%	626.6	272.1	130.3%	627.2	-0.1%
PBT	152.2	101.5	50.0%	165%	143%	91.0	24.5	271.8%	41.6	118.9%
Net profit	112.6	72.8	54.7%	161%	142%	64.7	19.3	235.4%	30.2	114.3%

Source: Company data, IBES, Credit Suisse estimates

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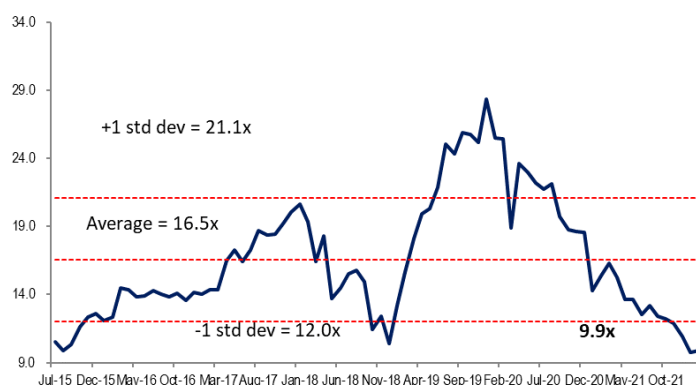
Price (23-Feb-22, RM)	1.48	Est. pot. % chg. to TP	48.6	
Mkt cap (RM/US\$ mn)	1,913 / 457	Blue sky scenario (RM)	3.05	
Number of shares (mn)	1,293	Grey sky scenario (RM)	1.18	
Free float (%)	18.0	Performance		
52-wk range (RM)	1.87 - 1.45	Absolute (%)	1M (1.3) 3M (5.1) 12M (10.8)	
ADTO-6M (US\$ mn)	0.1	Relative (%)	(5.6) (9.6) (12.2)	
Year	12/21A	12/22E	12/23E	12/24E
Revenue (RM mn)	1,729.2	2,386.5	2,660.2	2,793.2
EBITDA (RM mn)	166.8	209.6	235.2	237.8
EBIT (RM mn)	139.4	179.7	207.7	210.9
Net profit (RM mn)	112.6	143.2	165.3	168.5
EPS (CS adj.) (RM)	0.09	0.11	0.13	0.13
Chg. from prev. EPS (%)	n.a.	16.4	16.3	n.a.
Consensus EPS (RM)	n.a.	0.1	0.11	-
EPS growth (%)	54.7	27.2	15.4	2.0
P/E (x)	16.9	13.3	11.5	11.3
Dividend yield (%)	3.5	4.5	5.2	5.3
EV/EBITDA (x)	12.3	9.7	8.5	8.1
P/B (x)	2.73	2.52	2.32	2.14
ROE (%)	16.9	19.7	20.9	19.7
Net debt/equity (%)	20.4	16.8	9.5	2.5

Source: Company data, Refinitiv, Credit Suisse estimates

strength (net cash position) should put it in a strong position to benefit from projects such as the MRT 3 and RTS.

**Stay OUTPERFORM.** Barring any interruption in its construction operations from lockdowns or another Covid-19 outbreak, we believe 2022 would continue to be a recovery year for SunCon. Furthermore, we believe that SunCon could be a beneficiary of the revival of mega projects such as the MRT later in 2022. SunCon trades on an attractive ex-cash P/E of 9.9x, more than 1SD below its historical average of 16.5x.

Figure 1: SunCon's ex-cash P/E trend



Source: Credit Suisse estimates

## Valuation Methodology and Risks

### Target Price and Rating

#### Valuation Methodology and Risks: (12 months) for SunCon (SCOG.KL)

**Method:** Our target price of RM2.20 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 RM2.20 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 23-Feb-2022)

**SunCon** (SCOG.KL, RM1.48, OUTPERFORM, TP RM2.2)

## 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	
18-Nov-21	1.56	1.80	



\* Asterisk signifies initiation or assumption of coverage.

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<b>Restricted</b>	2%	

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