

HLIB Research

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BUY (Maintain)

Target Price: RM2.10
Previously: RM1.84
Current Price: RM1.96

Capital upside	7.1%
Dividend yield	3.7%
Expected total return	10.8%

Sector coverage: Construction

Company description: SunCon is involved in construction and precast products.

Share price


Historical return (%)	1M	3M	12M
Absolute	6.2	-4.1	-0.5
Relative	2.8	1.5	9.9

Stock information

Bloomberg ticker	SCGB MK
Bursa code	5263
Issued shares (m)	1,289
Market capitalisation (RM m)	2,553
3-mth average volume ('000)	580
SC Shariah compliant	Yes

Major shareholders

Sunway Berhad	64.5%
EPF	8.7%

Earnings summary

FYE (Dec)	FY19	FY20f	FY21f
PATMI - core (RM m)	134	93	157
EPS - core (sen)	10.4	7.2	12.1
P/E (x)	18.9	27.3	16.2

Sunway Construction Group

Viral fever

SunCon's 1QFY20 earnings of RM18m (-17% YoY) were below ours and consensus expectations. 1QFY20 core PATAMI decreased due to lower contribution from construction segment as a result of the MCO. Outstanding order book of RM5.5bn translates into a healthy 3.1x cover ratio. Going forward, we expect stronger earnings in 2HFY20 as work progress normalises post-CMCO. Cut FY20 earnings by 31% and keep FY21-22 earnings unchanged as we anticipate full operational recovery by then. Maintain BUY with higher TP of RM2.10 after rolling over earnings to FY21 based on 15x ex-cash PE multiple. Investors should look ahead towards a likely resuscitation of pump priming.

Below expectations. SunCon reported 1QFY20 results with revenue of RM365.8m (-25% QoQ, -17% YoY) and core earnings of RM17.6m (-52% QoQ, -40% YoY). The core earnings accounted for 12% of our full year forecast (consensus: 13%) falling below expectations. No dividends were declared for the quarter (1QFY19: nil).

Deviations. The results shortfall was attributed mainly to weak progress billings at its construction segment due to the 2 week work halt resulting from the MCO.

YoY/QoQ. YoY and QoQ core PATAMI declined by -40% and -52% respectively due to lower construction revenue, compounded by negative operating leverage as stop work order was implemented pursuant to the MCO.

MCO updates. Pursuant to the CMCO, all construction works were allowed to restart from 4 May whereby strict adherence to SOP and virus screening for all foreign workers are required. To accelerate the process, Suncon has screened all of its direct foreign workers at private clinics (costs are reimbursable as all are Socso contributors). In total (inclusive of business partners' workers), c.95% of required labour have been tested with c.50% having received results. Operations are on target to normalise by 3QFY20.

Internal job award. Along with the results release, Suncon announced an internal group job award from Sunway Education Group for the development of Sunway International School in Subang Jaya for a contract value of RM121m. Project is expected to commence on 15th June 2020 with completion slated for 30th June 2022. This brings total projects secured for the year to RM688m.

Maintaining orderbook targets. SunCon's latest outstanding orderbook stands at c.RM5.5bn, translating into a healthy level of 3.1x cover of FY19 revenue. Active outstanding tenderbook stands at RM7.3bn, largely overseas focused. Noticeably, management has maintained its orderbook replenishment target of RM2bn this year. Previously, management anticipated RM800m of internal jobs, RM500m from external building jobs, RM300m from its geotechnical division and remaining RM400m from solar and precast.

Precast. Precast segment saw stronger PBT contribution of RM0.8m (1QFY19 PBT: RM0.1m) as permission was obtained to deliver during the MCO. Margins improved YoY by 1.8ppts to 2.1% driven by higher yielding projects. Construction projects in Singapore will only gradually restart from 2nd June onwards with priority given to critical projects (public housing included) with an estimated 10% of the construction workforce to be back at work by end-June. While it is possible for Suncon to ramp up utilisation rates to 75% (from 60% prior to MCO) to make up for production halts, gradual work resumption in Singapore may delay the recovery. Nonetheless, we expect PBT margin for this segment to normalize to c.10% by year end buoyed by works ramp up and higher contribution from higher margin projects.

Forecast. Cut FY20 earnings by 30.9% after further recalibrating for the MCO period and subsequent gradual recovery post-MCO. We keep FY21-22 earnings unchanged as we anticipate full operational recovery by then.

Maintain BUY, TP: RM2.10. While FY20 will be a lacklustre year for Suncon, we reckon that investors should look ahead into a likely resuscitation of pump priming by the government to aid an ailing economy; this should benefit Suncon given its high competitiveness and competency for such open tender bids. Given such, we roll forward our valuation horizon to FY21 (from FY20) based on 15x ex-cash PE multiple to derive a TP of RM2.10 (from RM1.84). Its healthy balance sheet with net cash position of RM0.28/share and strong support from parent-co Sunway Bhd should provide some degree of resiliency during these trying times. Maintain BUY.

Figure #1 Quarterly results comparison

FYE Dec (RM m)	1QFY19	4QFY19	1QFY20	QoQ (%)	YoY (%)	3MFY18	3MFY19	YoY (%)
Revenue	440.0	485.9	365.8	(24.7)	(16.9)	440.0	365.8	(16.9)
EBIT	36.2	35.5	19.9	(44.0)	(45.1)	36.2	19.9	(45.1)
Finance income	4.2	8.7	5.2	(39.4)	24.1	4.2	5.2	24.1
Finance cost	(2.3)	(3.4)	(2.7)	(20.4)	17.8	(2.3)	(2.7)	17.8
PBT	38.2	45.2	22.4	(50.4)	(41.2)	38.2	22.4	(41.2)
PAT	29.7	37.4	18.1	(51.6)	(39.0)	29.7	18.1	(39.0)
Core PATMI	29.1	36.3	17.6	(51.7)	(39.6)	29.1	17.6	(39.6)
Reported PATMI	31.0	31.6	16.4	(48.3)	(47.3)	31.0	16.4	(47.3)
Core EPS (sen)	2.2	2.8	1.4	(51.7)	(39.6)	2.2	1.4	(39.6)
EBIT margin (%)	8.2	7.3	5.4			8.2	5.4	
PBT margin (%)	8.7	9.3	6.1			8.7	6.1	
PATMI margin (%)	6.6	7.5	4.8			6.6	4.8	

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Financial Forecast

All items in (RM m) unless otherwise stated

Balance Sheet

FYE Dec (RM m)	FY18	FY19	FY20f	FY21f	FY22f
Cash	485	693	678	958	911
Receivables	917	847	681	1,071	989
Inventories	30	25	17	27	25
PPE	163	139	121	101	79
Others	160	202	206	210	215
Assets	1,754	1,905	1,702	2,367	2,219
Debts	114	286	250	488	359
Payables	874	880	651	1,016	934
Others	175	114	114	114	114
Liabilities	1,162	1,280	1,016	1,617	1,408
Shareholder's equity	591	623	684	748	808
Minority interest	1	2	2	2	2
Equity	593	625	686	750	810

Cash Flow Statement

FYE Dec (RM m)	FY18	FY19	FY20f	FY21f	FY22f
Profit before taxation	183	162	118	202	186
Depreciation & amortisation	40	40	38	40	42
Changes in working capital	21	81	(54)	(36)	4
Share of JV profits	(1)	(4)	(4)	(4)	(4)
Taxation	(38)	(27)	(25)	(43)	(40)
Others	(16)	-	-	-	1
Operating cash flow	189	252	73	157	188
Net capex	(50)	(20)	(20)	(20)	(20)
Others	(25)	-	-	-	-
Investing cash flow	(74)	(20)	(20)	(20)	(20)
Changes in borrowings	(21)	172	(36)	237	(129)
Issuance of shares	-	-	-	-	-
Dividends paid	(90)	(90)	(32)	(94)	(86)
Others	(7)	-	-	-	-
Financing cash flow	(118)	82	(68)	143	(215)
Net cash flow	(3)	314	(15)	280	(47)
Forex	1	-	-	-	-
Others	-	-	-	-	-
Beginning cash	487	485	693	678	958
Ending cash	485	693	678	958	911

Income Statement

FYE Dec (RM m)	FY18	FY19	FY20f	FY21f	FY22f
Revenue	2,257	1,769	1,552	2,444	2,256
EBITDA	215	186	143	232	221
EBIT	175	146	105	192	180
Net finance income/ (cost)	8	12	9	5	2
Associates & JV	1	4	4	4	4
Profit before tax	183	162	118	202	186
Tax	(38)	(27)	(25)	(43)	(40)
Net profit	145	135	93	158	146
Minority interest	(0)	(1)	(1)	(1)	(1)
Core earnings	145	134	93	157	145
Exceptional items	-	(5)	-	-	-
Reported earnings	145	129	93	157	145

Valuation & Ratios

FYE Dec (RM m)	FY18	FY19	FY20f	FY21f	FY22f
Core EPS (sen)	11.2	10.4	7.2	12.1	11.2
P/E (x)	17.5	18.9	27.3	16.1	17.5
EV/EBITDA (x)	9.9	11.4	14.9	9.2	9.6
DPS (sen)	7.0	7.0	2.5	7.3	6.7
Dividend yield	3.6%	3.6%	1.3%	3.7%	3.4%
BVPS (RM)	0.46	0.48	0.53	0.58	0.62
P/B (x)	4.3	4.1	3.7	3.4	3.1
EBITDA margin	9.5%	10.5%	9.2%	9.5%	9.8%
EBIT margin	7.7%	8.2%	6.7%	7.9%	8.0%
PBT margin	8.1%	9.2%	7.6%	8.2%	8.3%
Net margin	6.4%	7.6%	6.0%	6.4%	6.4%
ROE	25.3%	22.1%	14.2%	21.9%	18.7%
ROA	7.9%	7.3%	4.3%	5.5%	4.5%
Net gearing	CASH	CASH	CASH	CASH	CASH

Assumptions

FYE Dec (RM m)	FY18	FY19	FY20f	FY21f	FY22f
Construction	1,324	1,612	2,000	2,000	2,000
Precast	229	159	200	200	200
Total new job wins	1,553	1,771	2,200	2,200	2,200

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Stock rating guide

BUY	Expected absolute return of +10% or more over the next 12 months.
HOLD	Expected absolute return of -10% to +10% over the next 12 months.
SELL	Expected absolute return of -10% or less over the next 12 months.
UNDER REVIEW	Rating on the stock is temporarily under review which may or may not result in a change from the previous rating.
NOT RATED	Stock is not or no longer within regular coverage.

Sector rating guide

OVERWEIGHT	Sector expected to outperform the market over the next 12 months.
NEUTRAL	Sector expected to perform in-line with the market over the next 12 months.
UNDERWEIGHT	Sector expected to underperform the market over the next 12 months.

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