

19 November 2021

Construction & Engineering | Construction

Sunway Construction (SCGB MK)

Buy (Maintained)

Stronger Margins In 3Q21; Reaffirm BUY

Target Price (Return): MYR1.81 (16.0%)
 Price (Market Cap): MYR1.56 (USD481m)
 ESG score: 3.00 (out of 4)
 Avg Daily Turnover (MYR/USD) 0.36m/0.09m

- **Maintain BUY and MYR1.81 TP, 16% upside and c.2% yield.** Sunway Construction posted 9M21 core net profit of MYR46m (+6.5% YoY), which accounted for 58% and 60% of our and Street's full-year estimates. We deem the results to be in line, as we expect the group's performance to rebound in 4Q21F, in tandem with a QoQ recovery in productivity. The stock continues to trade attractively, below its 5-year mean P/E of 16.5x. This report marks the transfer of coverage to Lester Siew.

- **Within expectations.** SCGB reported a sequentially stronger 3Q21 core net profit of MYR19.1m (+135% QoQ) despite posting lower topline of MYR272m (-27.5% QoQ). This was mainly attributable to improved construction segment margins, whose ongoing projects have progressed closer towards completion. This, however, was partially offset by losses at its precast segment, due to operations at Johor only recommencing at full capacity from end September – on slower vaccination rates in the state – alongside a MYR4.9m allowance for receivables impairment during the quarter. On a YTD basis, we deem 9M21's core profit of MYR46.3m to be largely within expectations, as both its construction and precast operations should return to full swing by the final quarter of the year.

- **Outstanding order book remains healthy.** Barring unforeseen circumstances, SCGB's overall productivity should return to normalcy from 4Q21, supported by near-100% vaccination rates of its own staff, and that of its business partners. This should allow the group to play catch up on a full-year basis in 2022, while supported by a healthy, diversified MYR4.7bn outstanding order book as at end 3Q21 (end 2Q21: MYR4.8bn). This is backed by another MYR175.7m in aggregate job wins secured during the quarter.

- **Earnings estimates and valuation.** We make no changes to our earnings forecasts, with better visibility seen for the group's performance in subsequent quarters as we enter the latter stages of the pandemic, while we foresee minimal *Cukai Makmur* earnings impact on its consolidated earnings base arising from various subsidiaries. Our TP of MYR1.81 is also maintained – pegged to the stock's 5-year mean P/E of 16.5x on FY22F EPS, with a 0% ESG premium/discount ascribed on our intrinsic valuation, based on our proprietary ESG scoring methodology. SCGB remains one of our preferred picks in the sector for its strong order book/revenue cover of c.3x, backed by a robust balance sheet with minimal net debt position.

- **Downside risks:** Failure to secure new contracts, a prolonged downturn in the retail and property markets, higher-than-expected operating costs, and longer-than-expected delays in the rollout of mega infrastructure projects.

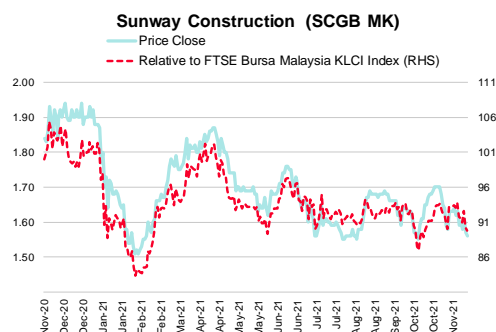
Analyst

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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(17.0)	(7.2)	(1.3)	(8.2)	(15.2)
Relative	(10.6)	(2.1)	(1.2)	(3.9)	(10.1)
52-wk Price low/high (MYR)	1.51 – 1.94				



Source: Bloomberg

Overall ESG Score: 3.00 (out of 4)

E: GOOD

Efforts are underway to reduce its environmental footprint. This includes improving energy efficiency, using resources responsibly, and reducing waste. Through the recycling and reuse of hydraulic oil, SCGB recycled 12,787 litres of hydraulic oil in 2019. The group also plans to increase the usage of green energy, through the installation of solar panels at its new workshop to generate electricity for its own consumption.

S: GOOD

The group ensures the safety and health of all its employees, and public areas surrounding the construction sites, via various training and safety programmes. Apart from up-to-standard health & safety policies, we see active community engagement and efforts to uplift employee relations.

G: EXCELLENT

57% of its board members are independent, with full disclosure on director remuneration, including salaries and bonuses. The group has an in-house investor relations team. Accessibility to investor relations is excellent, and the team mostly helps to deal with investor queries.

Note:

Small cap stocks are defined as companies with a market capitalisation of less than USD1bn.

Forecasts and Valuation	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
Total turnover (MYRm)	1,769	1,553	1,751	2,250	2,348
Recurring net profit (MYRm)	124	92	80	141	152
Recurring net profit growth (%)	(15.5)	(25.9)	(12.7)	75.4	8.1
Recurring P/E (x)	16.25	21.92	25.12	14.32	13.24
P/B (x)	3.2	3.2	3.0	2.7	2.5
P/CF (x)	10.39	9.57	54.35	15.70	9.51
Dividend Yield (%)	4.0	2.6	2.0	3.5	3.8
EV/EBITDA (x)	8.69	13.15	11.89	7.18	6.30
Return on average equity (%)	21.3	11.6	12.2	19.8	19.4
Net debt to equity (%)	net cash	15.8	22.7	20.1	8.5

Source: Company data, RHB

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Financial Exhibits

Asia	Financial summary (MYR)	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
Malaysia	Recurring EPS	0.10	0.07	0.06	0.11	0.12
Construction & Engineering	DPS	0.06	0.04	0.03	0.05	0.06
Sunway Construction	BVPS	0.48	0.49	0.52	0.58	0.64
SCGB MK	Return on average equity (%)	21.3	11.6	12.2	19.8	19.4
Buy						
	Valuation metrics	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
	Recurring P/E (x)	16.25	21.92	25.12	14.32	13.24
	P/B (x)	3.2	3.2	3.0	2.7	2.5
	FCF Yield (%)	9.2	10.3	(0.6)	3.6	7.8
	Dividend Yield (%)	4.0	2.6	2.0	3.5	3.8
	EV/EBITDA (x)	8.69	13.15	11.89	7.18	6.30
	EV/EBIT (x)	11.17	18.01	15.90	9.38	8.30
	Income statement (MYRm)	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
	Total turnover	1,769	1,553	1,751	2,250	2,348
	Gross profit	378	270	305	406	425
	EBITDA	181	124	142	234	254
	Depreciation and amortisation	(40)	(33)	(36)	(55)	(61)
	Operating profit	141	91	106	179	193
	Net interest	11	1	(9)	(8)	(7)
	Pre-tax profit	158	102	101	177	192
	Taxation	(27)	(28)	(21)	(36)	(39)
	Reported net profit	129	73	80	141	152
	Recurring net profit	124	92	80	141	152
	Cash flow (MYRm)	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
	Change in working capital	33	104	(79)	(67)	(1)
	Cash flow from operations	194	211	37	128	212
	Capex	(8)	(3)	(50)	(55)	(55)
	Cash flow from investing activities	(356)	(173)	(50)	(55)	(55)
	Dividends paid	(91)	(62)	(40)	(70)	(76)
	Cash flow from financing activities	19	(147)	102	(10)	(16)
	Cash at beginning of period	485	615	200	207	270
	Net change in cash	(142)	(110)	89	63	141
	Ending balance cash	351	505	289	270	411
	Balance sheet (MYRm)	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
	Total cash and equivalents	787	200	207	270	411
	Tangible fixed assets	139	107	122	122	116
	Total investments	49	489	489	489	489
	Total assets	2,002	1,906	1,814	2,100	2,249
	Short-term debt	233	234	284	334	384
	Total long-term debt	62	67	77	87	97
	Total liabilities	1,280	1,267	1,136	1,351	1,424
	Total equity	722	639	679	749	825
	Total liabilities & equity	2,002	1,906	1,814	2,100	2,249
	Key metrics	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
	Revenue growth (%)	(21.6)	(12.2)	12.8	28.5	4.4
	Recurrent EPS growth (%)	(15.5)	(25.9)	(12.7)	75.4	8.1
	Gross margin (%)	21.4	17.4	17.4	18.0	18.1
	Operating EBITDA margin (%)	10.2	8.0	8.1	10.4	10.8
	Net profit margin (%)	7.3	4.7	4.6	6.3	6.5
	Dividend payout ratio (%)	61.6	70.9	50.1	50.0	50.0
	Capex/sales (%)	0.5	0.2	2.9	2.4	2.3
	Interest cover (x)	10.7	13.0	7.1	11.5	10.7

Source: Company data, RHB

Results At a Glance

Figure 1: SCGB's results review

FYE Dec (MYRm)	3Q20	2Q21	3Q21	QoQ (%)	YoY (%)	9M20	9M21	YoY (%)	Comments
Revenue	419.4	375.3	272.1	(27.5)	(35.1)	925.4	1,102.5	19.1	QoQ earnings recovery largely driven by improved margins on projects nearing completion in 3Q21, albeit partially offset by lower turnover due to the protracted impact of MCO 3.0 until mid-August
EBIT	32.1	6.2	21.9	253.2	(31.8)	52.6	53.0	0.7	
<i>EBIT margin (%)</i>	7.7	1.7	8.1			5.7	4.8		
Interest expense	(1.6)	(1.0)	(0.9)	(7.2)	(41.4)	(6.6)	(3.5)	(46.8)	
Interest income	4.6	1.4	1.0	(28.8)	(78.7)	14.3	3.1	(78.3)	
JV/Associates	0.0	2.8	2.4	(14.2)	nm	0.1	7.1	10,978.1	
El/Others	0.8	0.2	0.2	(16.1)	(81.7)	(0.9)	1.5	(265.4)	Net disposal gains from PPE which are non-recurring in nature
Pretax profit	36.0	9.5	24.5	157.3	(31.9)	59.5	61.2	2.9	
<i>Pretax margin (%)</i>	8.6	2.5	9.0			6.4	5.6		
Tax	(11.7)	(3.6)	(5.0)	38.2	(57.7)	(16.3)	(15.5)	(4.8)	
<i>Effective tax rate (%)</i>	(32.6)	(53.1)	(22.4)			(27.3)	(28.6)		
Minority interest	(0.2)	2.4	(0.2)	(109.3)	19.3	(0.7)	2.1	(408.5)	
Net profit	24.0	8.3	19.3	131.8	(19.7)	42.6	47.9	12.4	
Core profit	23.2	8.1	19.1	135.1	(17.5)	43.5	46.3	6.5	Within our and Street's expectations
<i>Core net margin (%)</i>	5.5	2.2	7.0			4.7	4.2		

Source: Company data, RHB

Recommendation Chart

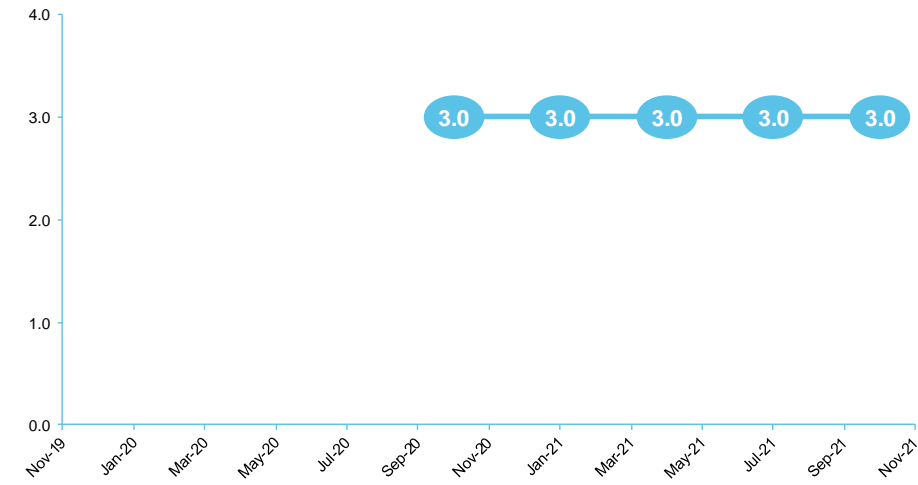


Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2021-08-11	Buy	1.81	1.58
2021-06-29	Buy	1.94	1.64
2021-05-21	Buy	2.03	1.63
2021-02-24	Buy	2.18	1.66
2020-08-20	Buy	2.09	1.80
2020-08-13	Buy	2.14	1.81
2020-07-23	Neutral	2.14	1.99
2020-05-22	Neutral	1.86	1.92

Source: RHB, Bloomberg

ESG Rating History



Source: RHB

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Trading Buy:	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
Neutral:	Share price may fall within the range of +/- 10% over the next 12 months
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