

## 1Q22 earnings improve as lockdown eases

### Quick Note

**Results snapshot:** SunCon reported 1Q22 net income of MYR35mn, down 58% q-q but up 71% y-y, which formed 29%/ 26% of our/ Bloomberg consensus FY22F estimates. The company reported negative operating cash flows (OCF) of MYR55mn in 1Q22, vs positive OCF of MYR122mn in 4Q21.

**Construction segment review:** Construction revenue/ PBT for 1Q22 was MYR588mn/ MYR46mn, up 1%/ down 56% q-q. Orderbook win as of end-1Q22 stood at MYR266mn (15%/ 13% of our/ management's full-year target). The company's outstanding orderbook currently stands at MYR4.4bn while tender-book stands at MYR2.4bn. As per management, the impact of higher raw material (steel and cement) prices has so far been manageable for the construction segment, as several projects on which the company is working to hand over in 2022F are post the construction stage. However, some margin pressure on more recent projects is likely due to the recent steel price increase; so far management does not expect a significant margin dent in FY22F.

**Pre-cast segment review:** Precast revenue/ PBT for 1Q22 came in at MYR37mn/ MYR1mn (-21%/ -56% q-q). Both its precast plants in Johor started operations at full capacity in 4Q21, and the Singapore pre-cast plant is likely to commence production in 3Q22. The division might be impacted due to higher steel prices as steel accounts for ~40% of its raw material cost, as per management.

**Outlook:** Management is targeting an orderbook replenishment of MYR2bn for 2022 – with 25% coming from civil infrastructure jobs (e.g., MRT3), 25% from external building projects (SunCon has tendered for projects in Klang Valley, but the competition for these is high – as stated by management), 25% from internal projects of the parentco, and 25% from precast. The impact of the prosperity tax should be marginal for Suncon, as its PBT is unlikely to be significantly above the MYR100mn threshold for FY22F.

**ESG:** SunCon ceased to be a constituent of the FTSE4Good Index in 2021, after being a constituent for five consecutive years since its listing. The company's exclusion from the Index was not due to a drop in the ESG Rating, but because of its removal from the underlying FTSE EMAS Index for not passing liquidity screening, according to management. Our blended ESG score for SCGB is 3.8, with an E score of 3.0, S score of 4.0 and G score of 4.5 (out of 5.0 points each).

**Wholesale fund holdings:** In 2021, auditors reclassified a large part of SunCon's cash and cash equivalents held in wholesale fund holdings to non-current assets (investments in associates). Auditors also restated the company's prior year financial statements. This was because of the auditor's view that these funds were, in substance, structured entities under the control and significant influence of the company. As a result, its cash balance starting FY20 has fallen and the company appears to be in a net debt position.

**Reiterate Buy:** We reiterate our Buy rating on SunCon, as: 1) we think a visible pipeline of projects from the parentco and India should help with orderbook replenishment and provide better earnings visibility; additionally, the sentiment on Malaysia jobs has recently turned positive after the government *approvals* of projects such as MRT3; 2) we believe SunCon is the best pure-play exposure within our construction sector coverage universe in Malaysia, with strong earnings to cash flow conversion, a liquid balance sheet, and high ROEs (FY22F/23F: 17%/ 19%); and 3) we expect its precast orderbook to grow again with the opening of a new precast plant in Singapore. We value SunCon at an unchanged FY23F P/E of 18x (premium valuation for an asset-light cash generative business) to arrive at our TP of MYR2.00, implying ~27% upside. The stock is currently trading at 14.2x

Rating Remains	<b>Buy</b>
Target price Remains	<b>MYR 2.00</b>
Closing price 25 May 2022	<b>MYR 1.58</b>

#### Research Analysts

##### Malaysia Engineering & Construction

**Tushar Mohata, CFA - NSM**  
tushar.mohata@nomura.com  
+60(3)20276895

**Alpa Aggarwal, CFA - NSFSP**  
alpa.aggarwal@nomura.com  
+91 22 305 32250

FY23F EPS of 11sen.

Fig. 1: SunCon – 1Q22 results snapshot

MYR mn	1Q22	NMR FY22F	as % of NMR	Cons FY22F	as % of cons
Revenue	625	2,392	26%	2,386	26%
Adj PBT	47	161	29%	176	27%
Adj NPATAMI	35	118	29%	134	26%
Reported NPATAMI	35	118	29%	134	26%

Source: Company data, Bloomberg Finance L.P. consensus, Nomura estimates

Fig. 2: SunCon – 1Q22 results review

MYR mn	1Q22	1Q21	% chg y-y	4Q21	% chg q-q	FY22F	as % of FY22F
<b>Revenues</b>	<b>625</b>	<b>455</b>	<b>37%</b>	<b>627</b>	<b>(0%)</b>	<b>2,392</b>	<b>26%</b>
Construction	588	421	40%	580	1%	2,063	28%
Precast concrete	37	34	9%	47	(21%)	329	11%
<b>Operating profit</b>	<b>43</b>	<b>26</b>	<b>64%</b>	<b>85</b>	<b>(49%)</b>	<b>150</b>	<b>29%</b>
Construction	42	22	86%	82	(49%)		
Precast concrete	1	4	(62%)	3	(47%)		
<b>Adjusted Pretax profit</b>	<b>47</b>	<b>27</b>	<b>73%</b>	<b>108</b>	<b>(56%)</b>	<b>161</b>	<b>29%</b>
Construction	46	24	96%	106	(56%)	155	30%
Precast concrete	1	4	(72%)	2	(56%)	7	15%
Core PAT	36	20	75%	82	(57%)	123	29%
<b>Core PAT - equityholders</b>	<b>35</b>	<b>20</b>	<b>71%</b>	<b>82</b>	<b>(58%)</b>	<b>118</b>	<b>29%</b>
<b>Other one-off charges</b>	<b>0</b>	<b>0</b>	<b>NM</b>	<b>(17)</b>	<b>NM</b>	<b>0</b>	<b>NM</b>
<b>Headline NPAT - equityholders</b>	<b>35</b>	<b>20</b>	<b>71%</b>	<b>65</b>	<b>(47%)</b>	<b>118</b>	<b>29%</b>
<b>Adj Pretax margins</b>	<b>7.6%</b>	<b>6.0%</b>	<b>2 ppt</b>	<b>17.3%</b>	<b>-10 ppt</b>	<b>6.7%</b>	
Construction	7.9%	5.6%	2 ppt	18.3%	-10 ppt	7.5%	
Precast concrete	2.7%	10.8%	-8 ppt	4.9%	-2 ppt	2.0%	

Source: Company data, Nomura estimates

**Fig. 3: SunCon's outstanding orderbook**

As of end-2021

MYR mn	Contract Sum		Outstanding order book	
<b>Infrastructure/Piling</b>				
LRT3: Package GS07-08	2,178	1,295	1,589	137
Sentual West Station		57		4
Chan Sow Lin KVMRT UG St (MEP)		54		6
Jalan Tambun		14		11
Bangsar Rising - Piling		5		5
Tasco		9		8
RTS Link Package P2A		112		112
LRT: GS06		1		1
<b>Building</b>				
Putrajaya Parcel F		1,610		11
TNB HQ Campus		781		197
Petronas Leadership Center		305		28
Oxley Tower		68		8
IOI Mall		68		52
PNB118 PKG A&B (MEP)		8		7
Renewable energy		414		397
<b>India</b>				
Thorapalli Agraharam - Jittandahalli		508		488
Meensurutti - Chidambarm 32km		315		266
<b>Internal</b>				
Sunway Medical Centre Phase 4 + VO		612		265
Sunway Serene - Serviced Residences		413		61
Velo 2		352		80
3C4		100		30
SMC IPOH		150		142
Carnival Mall Ext		286		28
SMC Seberang Jaya + VO		196		44
South Quay CP2 - Piling		198		45
SIS + VO		140		51
CP2 + CP2 (VO)		557		555
Belfield residential condo		403		346
Sunway Velocity TWO		253		213
Sunway resort hotel & Spa renovation		81		24
BKE (Seberang Jaya)		4		2
Big Box Office		51		28
SMC Damansara		240		222
Drainage works		1		1
Wellness Road & Drain		1		1
Renewable energy		12		9
<b>Singapore</b>				
Precast		584		427
External - New order 2022		128		128
<b>Total</b>		<b>10,164</b>		<b>4,441</b>
<b>Orderbook burn rate (FY21, including internal)</b>				<b>2,249</b>
<b>Implied earnings visibility (years)</b>				<b>2.0</b>

Source: Company data, Nomura research

**Fig. 4: YTD 2022 orderbook replenishment**

<b>Project</b>	<b>Duration</b>	<b>Contract Sum (MYR mn)</b>
Hougang N1C14 - PPSC project (390DU)	Feb 23-April 24	81
Fit-out works for Menara Merdeka 118 (Electrical) - Pkg A	Dec21-Aug22	4
Fit-out works for Menara Merdeka 118 (Electrical) - Pkg B	Dec21-Aug22	4
TASCO (Piling)	Jan22-May22	9
Roof top Solar	Oct-22	8
RTS Link Package P2A (ICQ Complex) - Piling	Jan 22-June 25	112
LRT3 GS06 (piling)	Mar-22	1
Yishun N3C27 - PPVC	Dec 22 - Dec 24	47
Wellness Road & Drain	Mar 22 - Jun22	1
<b>Total</b>		<b>266</b>

Source: Company data, Nomura research

# Appendix A-1

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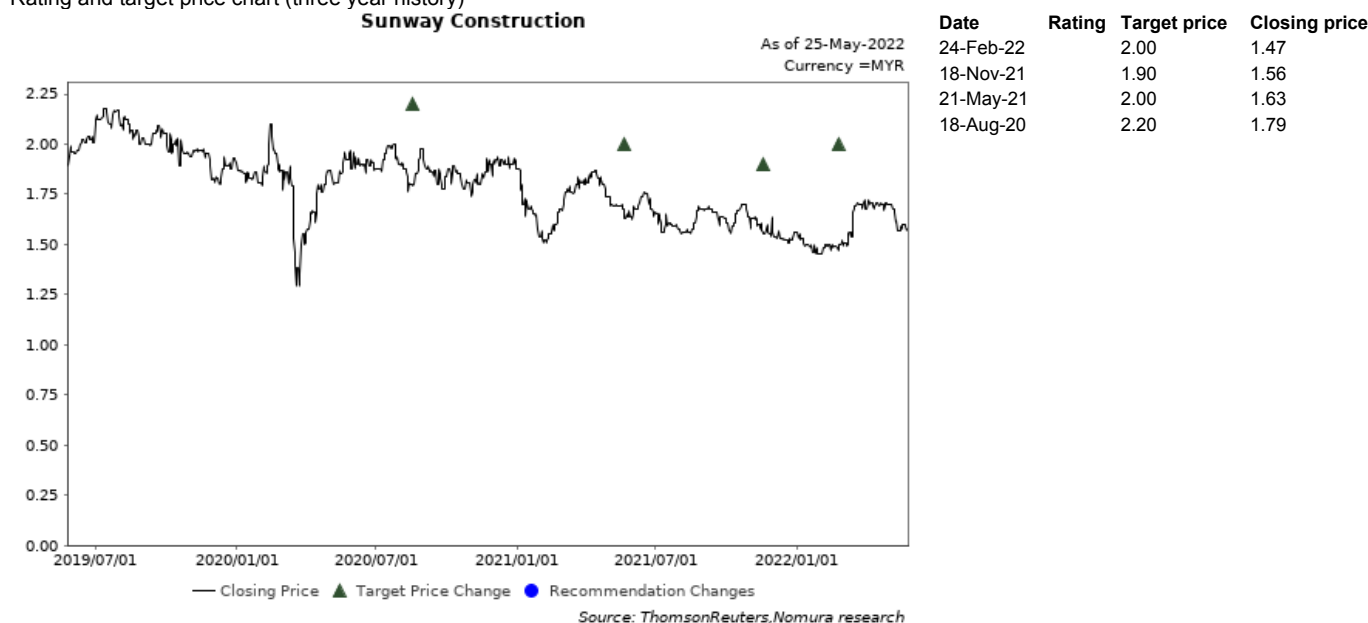
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Issuer	Ticker	Price	Price date	Stock rating	Sector rating	Disclosures
Sunway Construction	SCGB MK	MYR 1.58	25-May-2022	Buy	N/A	

### Sunway Construction (SCGB MK)

MYR 1.58 (25-May-2022) Buy (Sector rating: N/A)

Rating and target price chart (three year history)



For explanation of ratings refer to the stock rating keys located after chart(s)

**Valuation Methodology** We value SunCon at a target P/E of 18x on FY23F earnings estimate of MYR144mn for FY23F. We arrive at our TP of MYR2.00. The benchmark index for the stock is FTSE Bursa Malaysia KLCI Index.

**Risks that may impede the achievement of the target price** Downside risks include: 1) delays in construction project awards; 2) lower-than-expected margins; 3) lower pre-cast earnings persisting; 4) a lack of new projects; 5) risk of project cancellation or arbitration.

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