"2020 core earnings were above expectations"

Share price performance

	1M	3M	12M
Absolute (%)	0.6	-14.0	-14.9
Rel KLCI (%)	2.6	-12.2	-16.7

	BUY	HOLD	SELL
Consensus	12	2	1

Source: Bloomberg

Stock Data

Sector	Construction
Issued shares (m)	1,289.4
Mkt cap (RMm)/(US$m)	2,140.3/529.2
Avg daily vol - 6mth (m)	0.5
52-wk range (RM)	1.25 – 2.01
Est free float	19.2%
Stock Beta	0.78
Net cash/(debt) (RMm)	339.2
ROE (CY21E)	18.6%
Derivatives	Nil
Shariah Compliant	Yes

Key Shareholders

Sunway	64.7%
EPF	9.2%
ASN	5.9%

Source: Affin Hwang, Bloomberg

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Sunway Construction (SCGB MK)

BUY (maintain)
Up/Downside: +33.7%

Price Target: RM2.22
Previous Target (Rating): RM2.20 (BUY)

Gaining momentum

- **Sunway Construction's (SunCon) construction and precast concrete activities gained momentum in 4Q20, driving core EPS growth of 19% qoq. However, core EPS was down 31% yoy in 2020 due to lockdowns in 1H20**
- **New contract wins of RM2.3bn exceeded its RM2bn target in 2020. SunCon has set a RM2bn target for new contract wins in 2021 with current active tenders of RM5.4bn. Precast concrete profit margin should improve in 2021E**
- **Likely strong core EPS growth of 32% yoy in 2021E, supported by high remaining order book of RM5.1bn. SunCon remains our top mid-cap sector BUY with a higher 12-month RNAV-based target price (TP) of RM2.22**

Higher-than-expected core earnings

Core net profit of RM92m (-31% yoy) in 2020 was 12% above our forecast of RM82m and 21% above the consensus estimate of RM76m. But net forex and exceptional losses of RM19m reduced the headline net profit to RM73m in 2020. Revenue fell 12% yoy to RM1.55bn in 2020. Construction and precast concrete revenue declined 10% yoy and 35% yoy respectively due to disruptions caused by the pandemic lockdowns in Malaysia and Singapore. The squeeze in profit margin led to construction PBT falling 54% yoy, while precast concrete PBT declined 34% yoy due to slower demand for its products.

Gaining momentum

Revenue jumped 50% qoq to RM627m in 4Q20, driven mainly by the ramp-up in progress billings for its Sunway building projects and final settlement for its Uttar Pradesh project in India through a conciliatory process. Its precast concrete division also saw a surge in revenue by 1.6-fold qoq and PBT jumping 2.6-fold qoq to RM4.3m in 4Q20 as all projects resumed operations in Singapore and given contributions from new high-margin projects.

Good prospects to replenish order book in 2021

Its order book remained high at RM5.1bn as at 31 December 2020, equivalent to 3.3x the 2020 revenue. SunCon secured RM2.3bn worth of new contracts in 2020, among the highest in the industry. It has good prospects for new contract wins with RM5.3bn in active tenders with more than 50% for overseas projects in India, Singapore and the Philippines. The revival of mega infrastructure projects such as Klang Valley MRT Line 3 (MRT3) in 2021 augurs well for SunCon, which is an incumbent subcontractor for MRT2.

Top sector mid-cap BUY

SunCon has secured RM366m of new contracts YTD and set a RM2bn target in 2021. We maintain our BUY call with a higher RNAV-based TP of RM2.22 to reflect the increase in net cash in 4Q20 (see Fig 5). Key risk: a slow roll-out of infrastructure projects.

Earnings & Valuation Summary

FYE 31 Dec	2019	2020	2021E	2022E	2023E
Revenue (RMm)	1,768.7	1,552.7	2,234.0	2,713.5	2,892.7
EBITDA (RMm)	185.2	143.1	184.3	215.3	241.5
Pretax profit (RMm)	157.4	101.1	160.6	191.4	218.4
Net profit (RMm)	129.3	72.8	121.5	144.9	165.4
EPS (sen)	10.0	5.6	9.4	11.2	12.8
PER (x)	16.6	29.4	17.6	14.8	13.0
Core net profit (RMm)	133.2	92.0	121.5	144.9	165.4
Core EPS (sen)	10.3	7.1	9.4	11.2	12.8
Core EPS growth (%)	(11.3)	(31.0)	32.1	19.2	14.2
Core PER (x)	16.1	23.3	17.6	14.8	13.0
Net DPS (sen)	7.0	4.0	7.0	7.0	7.0
Dividend Yield (%)	4.2	2.4	4.2	4.2	4.2
EV/EBITDA	9.4	12.6	9.7	8.4	7.1
Chg in EPS (%)			+0.8	+0.2	new
Affin/Consensus (x)			0.8	1.0	-

Source: Company, Bloomberg, Affin Hwang forecasts

Fig 1: Results comparison

FYE Dec (RMm)	4Q19	3Q20	4Q20	QoQ % chg	YoY % chg	2019	2020	YoY % chg	Comments
Revenue	**485.9**	**419.4**	**627.2**	***49.6***	***29.1***	**1,768.7**	**1,552.7**	***(12.2)***	2020: Lower construction (-10% yoy) and precast (-35% yoy) revenue due to Covid-19 pandemic stop work orders in Malaysia and Singapore in 1H20. Strong 50% qoq rebound in revenue in 4Q20 as progress billings accelerated.
Op costs	(446.2)	(370.6)	(572.8)	*54.6*	*28.4*	(1,583.5)	(1,409.5)	*(11.0)*	
EBITDA	**39.7**	**48.9**	**54.4**	***11.3***	***36.9***	**185.2**	**143.1**	***(22.7)***	
EBITDA margin (%)	*8.2*	*11.6*	*8.7*	*(3.0ppt)*	*0.5ppt*	*10.5*	*9.2*	*(1.3ppt)*	Profit margin squeeze due to fall in revenue.
Depn and amort	(3.9)	(8.1)	(7.8)	*(2.8)*	*101.2*	(40.3)	(33.4)	*(16.9)*	
EBIT	**35.8**	**40.8**	**46.5**	***14.1***	***29.9***	**144.9**	**109.7**	***(24.3)***	
Interest income	8.7	4.6	3.0	*(33.5)*	*(64.8)*	25.2	17.4	*(30.9)*	Lower net cash and returns following cuts in deposit rates.
Interest expense	(3.4)	(1.6)	(0.3)	*(78.7)*	*(90.1)*	(13.2)	(6.9)	*(47.6)*	
Associates	4.4	0.0	0.0	*0.0*	*(100)*	4.4	0.1	*(97.5)*	
Forex gain (losses)	(0.5)	(0.2)	(0.5)	*177.0*	*8.8*	(0.2)	(2.9)	*>100*	
Exceptional items	(4.5)	(7.7)	(7.2)	*(6.5)*	*58.0*	(3.7)	(16.3)	*343.6*	
Pretax profit	**40.5**	**36.0**	**41.6**	***15.6***	***2.6***	**157.4**	**101.1**	***(35.8)***	Lower construction earnings (-54% yoy) due to slower progress billings and profit margin squeeze. 182% yoy jump in precast concrete PBT in 4Q20 reversed losses incurred in 2Q20.
Core pretax	**45.5**	**43.8**	**49.3**	***12.5***	***8.2***	**161.3**	**120.3**	***(25.4)***	
Tax	(7.8)	(11.7)	(11.5)	*(1.8)*	*47.6*	(27.1)	(27.8)	*2.6*	
Tax rate (%)	*21.6*	*32.6*	*27.7*	*(4.9ppt)*	*6.1ppt*	*17.7*	*27.5*	*9.8ppt*	
Minority interests	(1.1)	(0.2)	0.1	*NA*	*NA*	(1.0)	(0.5)	*(46.4)*	
Net profit	**31.6**	**24.0**	**30.2**	***25.6***	***(4.5)***	**129.3**	**72.8**	***(43.7)***	Within our expectation.
Core net profit	**36.7**	**31.9**	**37.9**	***18.8***	***3.4***	**133.2**	**92.0**	***(31.0)***	Above our expectation. Exclude one-off items.
EPS (sen)	2.5	1.9	2.3	*25.8*	*(4.5)*	10.0	5.6	*(43.7)*	

Source: Affin Hwang, Company

Fig 2: Segmental revenue breakdown

Segment	4Q19	3Q20	4Q20	% qoq	% yoy	2019	2020	% yoy
Construction	440.5	403.4	585.0	*45.0*	*32.8*	1,618.9	1,455.2	*(10.1)*
Precast concrete	45.4	16.0	42.2	*164.1*	*(7.1)*	149.8	97.4	*(35.0)*
Total	**485.9**	**419.4**	**627.2**	***49.6***	***29.1***	**1,768.7**	**1,552.7**	***(12.2)***

Source: Affin Hwang, Company

Fig 3: Segmental PBT breakdown

Segment	4Q19	3Q20	4Q20	% qoq	% yoy	2019	2020	% yoy
Construction	38.1	34.8	10.4	*(70.0)*	*(72.6)*	154.6	71.5	*(53.8)*
Precast concrete	2.4	1.2	3.4	*181.7*	*38.8*	2.8	1.8	*(33.7)*
Total	**40.5**	**36.0**	**13.8**	***(61.6)***	***(65.9)***	**157.4**	**73.3**	***(53.4)***

Source: Affin Hwang, Company

Fig 4: Segmental PBT margin

Segment	4Q19	3Q20	4Q20	ppt qoq	ppt yoy	2019	2020	ppt yoy
Construction	8.6	8.6	1.8	*(6.8ppt)*	*(6.9ppt)*	9.6	4.9	*(4.6ppt)*
Precast concrete	5.4	7.5	8.0	*0.5ppt*	*2.6ppt*	1.8	1.9	*0.0ppt*
Total	**8.3**	**8.6**	**2.2**	***(6.4ppt)***	***(6.1ppt)***	**8.9**	**4.7**	***(4.2ppt)***

Source: Affin Hwang, Company

Fig 5: RNAV and target price

Segments	Stake (%)	New RNAV (RMm)	Old RNAV (RMm)	Change (%)
Construction @ PER 16x sustainable earnings of RM130m	100	2,080	2,080	0
Pre-cast concrete @ PER 16x sustainable earnings of RM25m	100	400	400	0
Investment in Singapore IPPH JV @ book value	50	45	44	1
Net cash/(debt)		339	318	7
RNAV		**2,864**	**2,842**	**1**
No. of shares (m)		1,291	1,291	0
RNAV/share (RM)		**2.22**	**2.20**	**1**
Target price at RNAV/share		**2.22**	**2.20**	**1**

Source: Affin Hwang, Company

Important Disclosures and Disclaimer

Equity Rating Structure and Definitions

BUY	Total return is expected to exceed +10% over a 12-month period
HOLD	Total return is expected to be between -5% and +10% over a 12-month period
SELL	Total return is expected to be below -5% over a 12-month period
NOT RATED	Affin Hwang Investment Bank Berhad does not provide research coverage or rating for this company. Report is intended as information only and not as a recommendation

The total expected return is defined as the percentage upside/downside to our target price plus the net dividend yield over the next 12 months.

OVERWEIGHT	Industry, as defined by the analyst's coverage universe, is expected to outperform the KLCI benchmark over the next 12 months
NEUTRAL	Industry, as defined by the analyst's coverage universe, is expected to perform inline with the KLCI benchmark over the next 12 months
UNDERWEIGHT	Industry, as defined by the analyst's coverage universe is expected to under-perform the KLCI benchmark over the next 12 months

This report is printed and published by:
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