

Asian Daily

SunCon (SCOG.KL)

## 3Q20 results in line with expectations; operations back at pre-pandemic levels

Maintain OUTPERFORM

Previous Rating: OUTPERFORM

Target price (RM): 2.50

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- SunCon's 3Q20 net profit rebounded strongly QoQ to RM24.2 mn vs RM2.2 mn in 2Q20 as its operations resumed after the lockdown measures were lifted. Operations have also recovered to pre-COVID 19 levels with revenue growing by 4.2% YoY and PBT by 1.1% YoY.
- 9M20 net profit -56% YoY to RM42.6 mn (58%/57% of CS/street) due to lockdown impact in 2Q20, and we deem the results to be in line as we expect 4Q20 to recover further.
- Healthy outstanding orderbook of RM5.3 bn. SunCon is likely to be a front runner for works on domestic mega projects. Other catalyst: (1) India metro rail project, (2) LSS4, (3) local commercial developments, and (4) in-house development projects.
- Maintain OUTPERFORM. SunCon's strong track record and superior balance sheet give it a competitive edge over its peers.

SunCon's 3Q20 net profit rebounded strongly QoQ to RM24.2 mn vs RM2.2 mn in 2Q20 as its business segments resumed operations after the lockdown measures were lifted. On a YoY basis, SunCon's operations have also recovered to pre-COVID 19 levels with revenue and PBT growing YoY by 4.2% and 1.1%, respectively. 3Q20 net profit was 27.6% lower YoY due to lower tax rate incurred in 3Q19.

9M20 net profit was lower by 56% YoY at RM42.6 mn and makes up 59%/57% of our/street estimates. We deem the results to be in line and expect 4Q20 to recover further. The re-implementation of the conditional movement control order (CMCO) from 14 Oct to 6 Dec has limited impact on SunCon's existing projects as economic activities are allowed under this soft lockdown.

- **Construction PBT -47.6% YoY in 9M20** to RM61.1 mn as revenue weakened by 26.2% to RM870.2 mn due to the strict lockdown in 2Q20. However, construction activities have so far been resumed and are tracking in line with pre-pandemic levels. 3Q20 construction revenue was 10.5% higher YoY at RM403.4 mn, while PBT is slightly lower at RM34.8 mn (-1.7% YoY).
- **Precast segment recorded a loss of RM1.6 mn in 9M20** (vs 9M19 PBT of RM0.3 mn) as revenue was down by 47.1%. The precast segment also recovered in 3Q20 and all of SunCon's jobs were given the green light to commence work (vs 19% of jobs as at Jun-2020). The division recorded a PBT of RM1.2 mn in 3Q20 vs 3Q19: RM0.2 mn despite lower revenue of RM16 mn (-57% YoY) due to recognition of higher margin projects. Management guided that the precast segment is expected to resume operations to pre-pandemic levels in 4Q20.

Figure 2: Summary of results

Year-end 31 Dec	9M20	9M19	% YoY chg	% of CS FY20 e	% of str FY20e	3Q20	2Q20	% QoQ chg	3Q19	% YoY chg
Revenue	925.4	1,282.8	-27.9%	66%	61%	419.4	140.2	199.2%	402.6	4.2%
EBITDA	77.3	146.6	-47.3%	61%	62%	41.0	8.6	377.8%	44.4	-7.6%
PBT	59.5	116.9	-49.1%	61%	62%	36.0	2.3	1436.8%	35.6	1.1%
Net profit	42.6	97.7	-56.4%	58%	57%	24.2	2.2	1004.9%	33.5	-27.6%

Source: Company data, I/B/E/S, Credit Suisse estimates

### Research Analysts

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Price (19-Nov-20, RM)	1.83	Est. pot. % chg. to TP	36.6	
Mkt cap (RM/US\$ mn)	2,366 / 578	Blue sky scenario (RM)	4.15	
Number of shares (mn)	1,293	Grey sky scenario (RM)	1.48	
Free float (%)	19.7	<b>Performance</b>	<b>1M</b> <b>3M</b> <b>12M</b>	
52-wk range (RM)	2.10 - 1.29	Absolute (%)	(0.5) (1.1) (7.1)	
ADTO-6M (US\$ mn)	0.2	Relative (%)	(5.4) (1.5) (6.0)	
<b>Year</b>	<b>12/19A</b>	<b>12/20E</b>	<b>12/21E</b>	<b>12/22E</b>
Revenue (RM mn)	1,768.7	1,408.5	2,372.2	2,553.6
EBITDA (RM mn)	181.3	127.6	243.7	253.7
EBIT (RM mn)	141.0	90.2	201.6	208.1
Net profit (RM mn)	129.3	73.0	158.1	168.6
EPS (CS adj.) (RM)	0.1	0.06	0.12	0.13
Chg. from prev. EPS (%)	n.a.	0.0	0.0	0.0
Consensus EPS (RM)	n.a.	0.06	0.12	0.12
EPS growth (%)	(10.3)	(43.5)	116.5	6.7
P/E (x)	18.3	32.3	14.9	14.0
Dividend yield (%)	3.8	1.7	4.0	4.3
EV/EBITDA (x)	10.9	15.0	7.1	6.7
P/B (x)	3.79	3.6	3.28	3.0
ROE (%)	21.3	11.4	23.0	22.4
Net debt/equity (%)	(63.6)	(69.0)	(88.6)	(83.2)

Source: Company data, Refinitiv, Credit Suisse estimates

Figure 1: PBT summary by segment

	PBT (RM' mn)		YoY (%)	PBT (RM' mn)		YoY (%)	PBT margin			
	3Q20	3Q19		9M20	9M19		3Q20	3Q19	9M20	9M19
Construction	34.8	35.4	-1.7%	61.1	116.6	-47.6%	8.6%	9.7%	7.0%	9.9%
Precast	1.2	0.2	500.0%	(1.6)	0.3	-633.3%	7.5%	0.5%	-2.8%	0.3%

Source: Company data, Credit Suisse estimates

SunCon's outstanding orderbook stood at a healthy RM5.3 bn as at end-Sep 2020 and the company has secured RM2.3 bn in new orders YTD. With the revival of mega projects in Budget 2021, we opine that the company will likely be a front runner to secure works on these projects. Other near-to-medium catalyst for SunCon:

- **India metro rail project**—SunCon has submitted bid for work on the project and potential contract size could be ~RM300 mn. Tender results are expected to be announced by end-2020 or early-2021.
- **Local commercial development projects**—Total projects size may potentially be valued at >RM1 bn.
- **Large scale solar**—The group has submitted bids to participate as an EPCC contractor in LSS4. According to management, a 50MW plant would fetch a contract value of ~RM150 mn.
- **In-house property development projects**—In-house expansion strategy for its healthcare division as well as property development launches would provide SunCon stable flow orderbook replenishments.

## Valuation, Methodology and Risks

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### Target Price and Rating

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

**Method:** Our target price of RM2.50 is derived by pegging FY21e estimates to SunCon's historical ex-cash P/E average of 16.5x. We rate the stock OUTPERFORM. We believe that SunCon is a safer choice and is better positioned to weather through the turbulent economic and political conditions.

**Risk:** The main risks to our target price of RM2.50 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.

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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 *



\* Asterisk signifies initiation or assumption of coverage.

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Rating	Versus universe (%)	Of which banking clients (%)
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