Credit Suisse

Asian Daily

SunCon (SCOG.KL)

FY20 results in line; trading on attractive valuations

Maintain OUTPERFORM
Previous Rating: OUTPERFORM
Target price (RM): 2.25
Previous target price (RM): 2.50

- SunCon's 4Q20 net profit +8.5% QoQ (excluding RM3.6 mn write-off of goodwill in 3Q20) to RM30.2 mn as all business segments resumed operations to pre-pandemic levels. FY20 core net profit -40.9% YoY to RM76.4 mn and makes up 105%/100% of our/ street's estimates.
- Healthy outstanding orderbook of RM5.1 bn after achieving RM2.3 bn new job wins in 2020 (vs target of RM2 bn). Mgmt is targeting RM2 bn new contracts for 2021 and has so far secured RM366 mn YTD.
- We lower our FY21/FY22 net profit estimates by 7%/5% to factor in slower margin recovery. We also introduce FY23 estimates. Our TP is reduced to RM2.25 (from RM2.50).
- Reiterate OUTPERFORM. We view SunCon as a 'safer' choice than its peers and it looks better positioned to weather through uncertainties, given its strong track record and superior balance sheet. SunCon is also attractively priced and trades on 12x FY21E ex-cash P/E, close to 1 std dev below its historical average of 16.6x.

Price (23-Feb-21, RM)	**1.66**	Est. pot. % chg. to TP			35.5
Mkt cap (RM/US$ mn)	2,146 / 531	Blue sky scenario (RM)			4.15
Number of shares (mn)	1,293	Grey sky scenario (RM)			1.48
Free float (%)	19.6	**Performance**	**1M**	**3M**	**12M**
52-wk range (RM)	2.00 - 1.29	Absolute (%)	0.6	(10.8)	(12.6)
ADTO-6M (US$ mn)	0.2	Relative (%)	2.6	(8.7)	(17.7)

Year	**12/20A**	**12/21E**	**12/22E**	**12/23E**
Revenue (RM mn)	1,552.7	2,374.1	2,406.0	2,649.1
EBITDA (RM mn)	124.0	216.5	229.4	257.3
EBIT (RM mn)	90.5	190.7	207.4	238.2
Net profit (RM mn)	72.8	147.5	159.8	181.5
EPS (CS adj.) (RM)	0.06	0.11	0.12	0.14
Chg. from prev. EPS (%)	n.a.	(6.7)	(5.2)	n.a.
Consensus EPS (RM)	n.a.	0.11	0.12	-
EPS growth (%)	(43.7)	102.6	8.4	13.6
P/E (x)	29.4	14.5	13.4	11.8
Dividend yield (%)	2.4	4.1	4.5	5.1
EV/EBITDA (x)	14.6	7.9	8.0	6.9
P/B (x)	3.36	3.08	2.82	2.57
ROE (%)	11.6	22.1	22.0	22.8
Net debt/equity (%)	(52.2)	(61.0)	(40.7)	(43.1)

Source: Company data, Refinitiv, Credit Suisse estimates

SunCon's 4Q20 net profit continues to recover, registering an increase of 8.5% QoQ (excluding RM3.6 mn write-off of goodwill in 3Q20) to RM30.2 mn as its business segments resumed operations to pre-pandemic levels. FY20 core net profit was lower by 40.9% YoY at RM76.4 mn and makes up 105%/100% of our/street estimates. The weaker full-year results can be mainly attributable to lockdown measures in Malaysia and Singapore which saw SunCon's operations hampered particularly in 2Q20. The re-implementation of the movement control order (MCO 2.0) in most states since 13 January 2021 (scheduled to end on 4 March) has also negatively impacted SunCon's operations. Having said that, we note that the current lockdown is not as severe compared to Mar-2020 and that most economic activities are allowed to proceed albeit at a reduced rate. In the first two weeks of MCO 2.0, SunCon was only operating at 50% but has since recovered to 80% currently.

- **Construction PBT -36.4% YoY in FY20 to RM98.4 mn** as revenue weakened by 10.1% YoY to RM1.5 bn due to strict lockdown in 2Q20. On a bright note, construction activities are tracking in line with pre-Covid-19 levels in 4Q20. 4Q20 construction revenue was 32.8% higher YoY at RM585.0 mn supported by a final settlement from an India project coupled with a ramp up in progress for its Sunway Carnival Mall Extension and Sunway Medical Centre Seberang Jaya projects.
- **Precast segment PBT -3.6% YoY in FY20 to RM2.7 mn** as revenue was lower by 35.0% YoY at RM97.4 mn. 4Q20 revenue was lower by 7% YoY at RM42.2 mn but PBT was higher by 72% YoY to RM4.3 mn due to recognition of higher margin projects.

Figure 1: PBT summary by segment

	PBT (RM' mn)		YoY (%)	PBT (RM' mn)		YoY (%)	PBT margin			
	4Q20	4Q19		FY20	FY19		4Q20	4Q19	FY20	FY19
Construction	37.3	38.0	-1.8%	98.4	154.6	-36.4%	6.4%	8.6%	6.8%	9.5%
Precast	4.3	2.5	72.0%	2.7	2.8	-3.6%	10.2%	5.5%	2.8%	1.9%

Source: Company data

SunCon's outstanding orderbook stood at a healthy RM5.1 bn as at end-Dec 2020 having secured RM2.3 bn new jobs in 2020 (vs RM2 bn target). Going into 2021, management aims to achieve RM2 bn new contract wins and has so far secured RM366 mn YTD. The possible sources of new jobs include local commercial development projects, large-scale solar 4, precast contracts (RM200 mn-RM250 mn) and in-house development projects (RM700 mn-RM800 mn). With the revival of mega projects, we believe that SunCon is also well positioned to benefit from these projects given its solid reputation and track record.

Reiterate OUTPERFORM on SunCon. We view SunCon as a 'safer' choice compared to peers. The company is better positioned to weather through uncertainties, given its strong track record and superior balance sheet. SunCon is also attractively priced and trades on 12x FY21E ex-cash P/E, close to 1 std dev below its historical average of 16.6x. Furthermore, management declared a 2.75sen dividend in 4Q20, bringing full-year dividend to 4sen which translates to 70% payout ratio. Management guided that the payout ratio could potentially stay at current levels. Our estimates of a 60% payout ratio translates to a dividend yield of 4.1% (vs market average = 3.3%).

Figure 2: Summary of results

Year-end 31 Dec	FY20	FY19	% YoY chg	% of CS FY20 e	% of str FY20e	4Q20	3Q20	% QoQ chg	4Q19	% YoY chg
Revenue	1,552.7	1,768.7	-12.2%	110%	102%	627.2	419.4	49.6%	485.9	29.1%
EBITDA	124.0	181.3	-31.6%	97%	97%	46.7	41.0	13.8%	34.7	34.4%
PBT	101.1	157.4	-35.8%	104%	103%	41.6	36.0	15.6%	40.5	2.6%
Net profit	72.8	129.3	-43.7%	100%	96%	30.2	24.2	24.6%	31.6	-4.5%
Core net profit	76.4	129.3	-40.9%	105%	100%	30.2	27.8	8.5%	31.6	-4.5%

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

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Valuation, Methodology and Risks

Target Price and Rating

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

Method: Our target price of RM2.25 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 compared to its peers and it looks better positioned to weather through uncertainties given its strong track record and superior balance sheet.

Risk: The main risks to our target price of RM2.25 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.

Companies Mentioned *(Price as of 23-Feb-2021)*
SunCon (SCOG.KL, RM1.66, OUTPERFORM, TP RM2.25)

Disclosure Appendix

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I, Jae Ang, certify that (1) the views expressed in this report accurately reflect my personal views about all of the subject companies and securities and (2) no part of my compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

3-Year Price and Rating History for SunCon (SCOG.KL)

SCOG.KL Date	Closing Price (RM)	Target Price (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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Restricted	2%	

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