HLIB Research
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Sunway Construction Group

Constrained productivity

SunCon's 1QFY21 earnings of RM20m (-47% QoQ, +15% YoY) were below our and consensus expectations at 14% of full year forecasts mainly due to productivity loss from MCO2.0. At the lowest, productivity was only 50% of pre-Covid levels. SunCon's latest outstanding orderbook stands at RM5.0bn translating into a healthy 3.2x cover. Tweak FY21-22 earnings by -5/-8%. Maintain BUY with lower TP of RM1.88. We believe given its impressive execution track record, Suncon is well positioned to partake in pump priming initiatives.

BUY (Maintain)

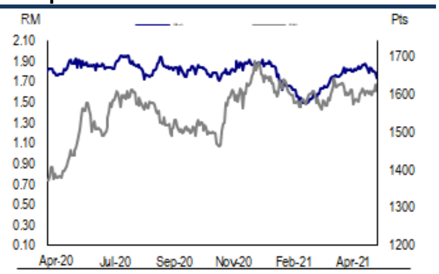
Target Price:	**RM1.88**
Previously:	**RM2.01**
Current Price:	**RM1.68**

Capital upside	11.9%
Dividend yield	3.8%
Expected total return	15.7%

Sector coverage: Construction

Company description: SunCon is involved in construction and precast products.

Share price



Historical return (%)	1M	3M	12M
Absolute	-12.6	-6.7	-10.8
Relative	-9.5	-12.0	-11.4

Stock information

Bloomberg ticker	SCGB MK
Bursa code	5263
Issued shares (m)	1,289
Market capitalisation (RM m)	2,172
3-mth average volume ('000)	580
SC Shariah compliant	Yes
F4GBM Index member	No
ESG rating	NA

Major shareholders

Sunway Berhad	64.5%
EPF	9.2%

Earnings summary

FYE (Dec)	FY20	FY21f	FY22f
PATMI - core (RM m)	91	136	141
EPS - core (sen)	7.1	10.5	10.9
P/E (x)	23.6	15.9	15.4

Below expectations. SunCon reported 1QFY21 results with revenue of RM455.2m (-27.4% QoQ, +24.4% YoY) and core PATAMI of RM20.2m (-46.5% QoQ, +15.3% YoY). Core PATAMI accounted for 14% of our and consensus full year forecast which fell below expectations. Results shortfall was mainly caused by slower than expected billing and weak construction margins.

Dividends. No DPS was declared for the quarter (1QFY20: nil).

QoQ. Core PATAMI decreased by -46.5% falling in tandem with revenue (-27.4%) which were dragged by both construction (-28.0%) and precast (-19.7%) segments. Construction billings fell this quarter with the imposition of MCO2.0 resulting in stringent SOP procedures coupled with stern housing compliance. At the lowest, productivity was only 50% of pre-Covid levels. All of which resulting in lower construction PBT margin (-0.8%).

YoY. Core PATAMI increased by 15.3% buoyed by rebound in revenue (+24.4%). This is no surprise given the strict lockdown imposed in 1QFY20 causing two weeks of lost revenue while still incurring costs.

Steady orderbook. SunCon's latest outstanding orderbook stands at RM5.0bn translating into a healthy 3.2x cover. So far in 2021, SunCon has secured RM462m worth of jobs made up of RM185m precast and RM263m in-house jobs. Management has a RM2bn replenishment target in 2021 while we have assumed RM1.7bn this year. Some of the earmarked jobs include Sunway Valley City, Giza Medical Centre, LSS4 EPCC, precast (RM200m) and conversion of remaining tenders of highways in India. Outstanding tenderbook stands at RM7bn whereby >50% are jobs in India (Metro/highways), Singapore (precast) and Philippines (piling) as these countries embark on infrastructure drives.

Precast. Precast segment profitability improved with PBT margin expanding by 8.6ppts YoY driven by recognition of higher margin projects as well as low base from last year. Nonetheless, margins may contract if steel prices sustain at current levels. SunCon has locked in steel prices for a period of 6 months. Management expects a pickup in precast revenue in coming quarters after a soft 1QFY21. However, we believe a pickup may not be strong as construction industry in Singapore faces a manpower crunch which should affect offtake of its precast products

Forecast. We tweak our FY21-22 earnings by -7.5 and -5.0% after adjusting for margins and billings assumptions. Introduce FY23 earnings of RM136m.

Maintain BUY, TP: RM1.88. Maintain BUY with lower TP of RM1.88 (from RM2.01) following the earnings adjustment. TP is derived by pegging FY21 EPS to 15x ex-cash P/E. We believe given its impressive execution track record, Suncon is well positioned to partake in pump priming initiatives. Its healthy balance sheet with net cash position of RM0.30/share and strong support from parent-co Sunway Bhd should provide job flow clarity during these uncertain times.

Figure #1 Quarterly results comparison

FYE Dec (RM m)	1QFY20	4QFY20	1QFY21	*QoQ (%)*	*YoY (%)*	3MFY20	3MFY21	*YoY (%)*
Revenue	365.8	627.2	455.2	*(27.4)*	*24.4*	365.8	455.2	*24.4*
EBIT	19.9	46.5	26.1	*(43.8)*	*31.3*	19.9	26.1	*31.3*
Finance income	5.2	3.0	0.8	*(75.2)*	*(85.6)*	5.2	0.8	*(85.6)*
Finance cost	(2.7)	(0.3)	(1.6)	*373.1*	*(41.4)*	(2.7)	(1.6)	*(41.4)*
PBT	22.4	49.2	27.2	*(44.7)*	*21.5*	22.4	27.2	*21.5*
PAT	18.1	37.7	20.3	*(46.2)*	*12.2*	18.1	20.3	*12.2*
Core PATMI	17.6	37.9	20.2	*(46.5)*	*15.3*	17.6	20.2	*15.3*
Reported PATMI	16.4	30.2	20.2	*(33.0)*	*23.8*	16.4	20.2	*23.8*
Core EPS (sen)	1.4	2.9	1.6	*(46.5)*	*15.3*	1.4	1.6	*15.3*
EBIT margin (%)	5.4	7.4	5.7			5.4	5.7	
PBT margin (%)	6.1	7.9	6.0			6.1	6.0	
PATMI margin (%)	4.8	6.0	4.4			4.8	4.4	

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Financial Forecast

All items in (RM m) unless otherwise stated

Balance Sheet

FYE Dec (RM m)	FY19	FY20	FY21f	FY22f	FY23f
Cash	693	428	898	871	955
Receivables	847	-	1,012	1,004	1,006
Inventories	25	-	25	25	25
PPE	139	121	101	79	55
Others	202	202	204	208	212
Assets	**1,905**	**751**	**2,240**	**2,187**	**2,253**
Debts	286	-	465	366	368
Payables	880	-	968	952	958
Others	114	114	114	114	114
Liabilities	**1,280**	**114**	**1,546**	**1,432**	**1,440**
Shareholder's equity	623	664	721	781	839
Minority interest	2	2	2	2	2
Equity	**625**	**666**	**723**	**783**	**841**

Cash Flow Statement

FYE Dec (RM m)	FY19	FY20	FY21f	FY22f	FY23f
Profit before taxation	162	120	178	183	177
Depreciation & amortisation	40	33	40	42	44
Changes in working capital	81	(7)	(70)	(7)	3
Share of JV profits	(4)	(0)	(2)	(4)	(4)
Taxation	(27)	(28)	(39)	(39)	(38)
Others	-	(25)	-	1	1
Operating cash flow	**252**	**93**	**107**	**175**	**183**
Net capex	(20)	(20)	(20)	(20)	(20)
Others	-	-	-	-	-
Investing cash flow	**(20)**	**(20)**	**(20)**	**(20)**	**(20)**
Changes in borrowings	172	(286)	465	(99)	2
Issuance of shares	-	-	-	-	-
Dividends paid	(90)	(52)	(82)	(84)	(81)
Others	-	-	-	-	-
Financing cash flow	**82**	**(338)**	**383**	**(183)**	**(79)**
Net cash flow	**314**	**(264)**	**470**	**(27)**	**84**
Forex	-	-	-	-	-
Others	-	-	-	-	-
Beginning cash	485	693	428	898	871
Ending cash	693	428	898	871	955

Income Statement

FYE Dec (RM m)	FY19	FY20	FY21f	FY22f	FY23f
Revenue	**1,769**	**1,553**	**2,309**	**2,291**	**2,296**
EBITDA	186	143	205	218	212
EBIT	146	110	165	176	168
Net finance income/ (cost)	12	10	11	3	5
Associates & JV	4	0	2	4	4
Profit before tax	**162**	**120**	**178**	**183**	**177**
Tax	(27)	(28)	(39)	(39)	(38)
Net profit	**135**	**93**	**139**	**143**	**139**
Minority interest	(1)	(1)	(3)	(3)	(3)
Core earnings	**134**	**92**	**136**	**141**	**136**
Exceptional items	(5)	(19)	-	-	-
Reported earnings	129	73	136	141	136

Valuation & Ratios

FYE Dec (RM m)	FY19	FY20	FY21f	FY22f	FY23f
Core EPS (sen)	10.4	7.1	10.5	10.9	10.5
P/E (x)	16.2	23.6	15.9	15.4	15.9
EV/EBITDA (x)	9.5	12.3	8.6	8.1	8.3
DPS (sen)	7.0	4.0	6.3	6.5	6.3
Dividend yield	4.2%	2.4%	3.8%	3.9%	3.7%
BVPS (RM)	0.48	0.51	0.56	0.60	0.65
P/B (x)	3.5	3.3	3.0	2.8	2.6
EBITDA margin	10.5%	9.2%	8.9%	9.5%	9.2%
EBIT margin	8.2%	7.1%	7.1%	7.7%	7.3%
PBT margin	9.2%	7.7%	7.7%	8.0%	7.7%
Net margin	7.6%	5.9%	5.9%	6.1%	5.9%
ROE	22.1%	14.3%	19.7%	18.7%	16.8%
ROA	7.3%	6.0%	6.3%	4.5%	4.3%
Net gearing	CASH	CASH	CASH	CASH	CASH

Assumptions

FYE Dec (RM m)	FY19	FY20	FY21f	FY22f	FY23f
Construction	1,612	2,281	1,500	2,000	2,000
Precast	160	38	200	150	200
Total new job wins	**1,772**	**2,319**	**1,700**	**2,150**	**2,200**

Disclaimer

1. As of 20 May 2021, Hong Leong Investment Bank Berhad has proprietary interest in the following securities covered in this report:
(a) -.

2. As of 20 May 2021, the analyst(s) whose name(s) appears on the front page, who prepared this report, has interest in the following securities covered in this report:
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Stock rating guide

BUY	Expected absolute return of +10% or more over the next 12 months.
HOLD	Expected absolute return of -10% to +10% over the next 12 months.
SELL	Expected absolute return of -10% or less over the next 12 months.
UNDER REVIEW	Rating on the stock is temporarily under review which may or may not result in a change from the previous rating.
NOT RATED	Stock is not or no longer within regular coverage.

Sector rating guide

OVERWEIGHT	Sector expected to outperform the market over the next 12 months.
NEUTRAL	Sector expected to perform in-line with the market over the next 12 months.
UNDERWEIGHT	Sector expected to underperform the market over the next 12 months.

The stock rating guide as stipulated above serves as a guiding principle to stock ratings. However, apart from the abovementioned quantitative definitions, other qualitative measures and situational aspects will also be considered when arriving at the final stock rating. Stock rating may also be affected by the market capitalisation of the individual stock under review.