

**HLIB Research**

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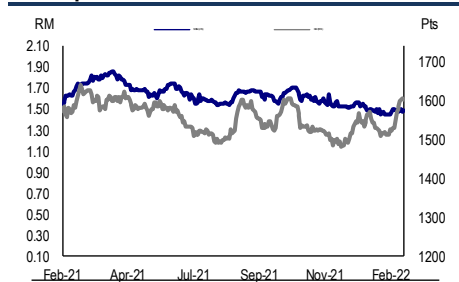
**BUY** (Maintain)

**Target Price:** **RM1.77**
**Previously:** **RM1.77**
**Current Price:** **RM1.48**

Capital upside	19.6%
Dividend yield	3.4%
Expected total return	23.0%

**Sector coverage:** Construction

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

**Share price**


Historical return (%)	1M	3M	12M
Absolute	0.0	-4.5	-5.1
Relative	-3.8	-9.2	-6.7

**Stock information**

Bloomberg ticker	SCGB MK
Bursa code	5263
Issued shares (m)	1,289
Market capitalisation (RM m)	1,913
3-mth average volume ('000)	233
SC Shariah compliant	Yes
F4GBM Index member	No
ESG rating	NA

**Major shareholders**

Sunway Berhad	64.5%
EPF	9.2%

**Earnings summary**

FYE (Dec)	FY21	FY22f	FY23f
PATMI - core (RM m)	145	126	139
EPS - core (sen)	11.2	9.8	10.8
P/E (x)	13.2	15.1	13.8

# Sunway Construction Group

## FY21 earnings beat expectations

SunCon's FY21 earnings of RM145m (58% YoY) was above our and consensus expectations at 171%/182% of forecasts driven by better-than-expected construction margin from upwards recalibration. Going forward, we expect construction earnings to normalise downwards (vs 4QFY21) as we consider earnings booster from margin recalibration to be non-recurring. ICPH, due to commence operations in 2H22 could leverage on strong BTO launches. Maintain forecasts. Maintain BUY with unchanged TP of RM1.77. Existing presence in infrastructure friendly India and healthy internal pipeline is comforting for job flow clarity.

**Beat expectations.** SunCon reported 4QFY21 results with revenue of RM626.6m (130.3% QoQ, -0.1% YoY) and core PATAMI of RM92.4m (282.0% QoQ, 144.1% YoY). This brings FY21 core PATAMI to RM144.8m, increasing by 57.6% YoY. The results beat our and consensus expectations at 171%/182% of full year forecasts respectively.

**Els.** 4QFY21 earnings are adjusted for RM10.4m of receivables impairment and RM17.3m of legal provision costs.

**Deviations.** Results beat due to better-than-expected margins from the construction division mainly from upwards margin recalibration of late stage projects and some accounts finalisation.

**Dividends.** DPS of 4.0 sen was declared for the quarter (FY21: 5.25 sen; FY20: 4.0 sen).

**QoQ.** Core PATAMI surged 3.8x driven by full ramp up of construction works in 4QFY21 after crossing the required vaccination thresholds early in the quarter. Segment margins were also driven higher by upwards margin recalibration for advanced stage projects. Sequential improvement was also seen on the precast side returning to the black in tandem with the reopening.

**YoY.** Core PATAMI increased by 2.4x despite flattish top-line driven solely by the construction segment which saw margins more than double due to above mentioned factors. This more than offset weaker margin performance in its precast division with steel bar prices having risen for much of FY21.

**YTD.** Core PATAMI increased by 57.6% with core contributing factor being higher construction segment margins from upwards recalibration from late stage projects and some accounts finalisation. Precast was also better (PBT: +25%) resulting from higher levels of orderbook and quicker ramp up in FY21.

**Construction.** For FY22, SunCon is maintaining its usual replenishment guidance of RM2bn. Breakdown is equally split between internal, infrastructure, overseas and piling division. A majority of its internal target is gradual rollout of Sunway Ipoh City project while parent-Co's sustained launch targets for FY22 could also aid in achieving its replenishment targets. The company could also secure some PFI related work in India should domestic opportunities remain slow. Going forward, we expect construction earnings to normalise downwards (vs 4QFY21) as we consider earnings booster from margin recalibration to be non-recurring.

**Precast.** Precast segment performance has bounced back QoQ as operations have normalised. SunCon's 49% owned ICPH precast plant in SG will be operational by 2H22 representing an effective 29% increase to existing capacity or an additional 37k m<sup>3</sup>/pa. Despite construction activity in SG still grappling with labour shortages near

term, demand for SunCon's precast could remain robust considering HDB's plan to launch up to 23k BTO units in 2022 and 2023, a 35% increase from 2021 launch of 17k units (past 4 years have ranged between 15-17k units). According to HDB, total unit launches could be up to 100k units for 2021-2025 which is a positive development for SunCon. The new plant is expected to be margin accretive once ramped; we think due to lower logistics and labour costs (fully automated). Both are typically 30% of precast cost structure.

**Forecast.** Maintained.

**Maintain BUY, TP: RM1.77.** Maintain BUY with unchanged TP of RM1.77 as our FY22 EPS is unchanged. TP is derived by pegging FY22 EPS to 15x ex-cash P/E. Suncon is well positioned to partake in pump priming initiatives should it happen. Its healthy balance sheet with net cash position of RM0.30/share (including financial investments), existing presence in India and strong support from parent-co Sunway Bhd should provide job flow clarity. Risks: prolonged elevated materials prices, election risks and pandemic setbacks.

**Figure #1** Quarterly results comparison

FYE Dec (RM m)	4QFY20	3QFY21	4QFY21	QoQ (%)	YoY (%)	FY20	FY21	YoY (%)
Revenue	627.2	272.1	626.6	130.3	(0.1)	1,552.7	1,729.2	11.4
EBIT	46.5	27.0	112.6	317.5	142.2	109.7	171.6	56.4
Finance income	3.0	1.0	1.0	7.0	(65.7)	17.4	4.2	(76.1)
Finance cost	(0.3)	(0.9)	(1.1)	17.4	223.0	(6.9)	(4.6)	(33.8)
PBT	49.2	29.4	118.7	304.1	141.1	120.3	184.5	53.3
PAT	37.7	24.4	92.7	279.6	145.7	92.5	143.0	54.5
Core PATMI	37.9	24.2	92.4	282.0	144.1	91.9	144.8	57.6
Reported PATMI	30.2	19.3	64.7	235.4	114.3	72.7	112.6	55.0
Core EPS (sen)	2.9	1.9	7.1	282.0	144.1	7.1	11.2	57.6
EBIT margin (%)	7.4	9.9	18.0			7.1	9.9	
PBT margin (%)	7.9	10.8	18.9			7.7	10.7	
PATMI margin (%)	6.0	8.9	14.8			5.9	8.4	

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**Figure #2** Financial forecast

FYE Dec (RM m)	FY19	FY20	FY21	FY22f	FY23f
Revenue	1,768.7	1,552.7	1,729.2	2,198.7	2,259.1
EBITDA	186.1	143.2	185.8	192.5	205.1
EBIT	145.8	109.7	171.6	154.3	165.0
PBT	162.2	120.3	184.5	159.8	174.0
PAT	135.1	92.5	143.0	127.2	139.9
PATMI – Core	134.1	91.9	144.8	126.4	139.0
PATMI – Reported	129.3	72.7	112.6	126.4	139.0
Core EPS (sen)	10.4	7.1	11.2	9.8	10.8
P/E (x)	14.3	20.8	13.2	15.1	13.8
EV/EBITDA (x)	10.8	14.1	10.9	10.5	9.8
DPS (sen)	7.0	4.0	5.3	5.0	5.0
Yield (%)	4.7%	2.7%	3.5%	3.4%	3.4%
BVPS (RM/share)	0.5	0.5	0.5	0.6	0.6
P/B (x)	3.1	3.0	2.7	2.7	2.4
ROE (%)	22%	15%	21%	18%	18%
Net Gearing (%)	CASH	16%	19%	6%	CASH

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<b>BUY</b>	Expected absolute return of +10% or more over the next 12 months.
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