

24 February 2022

Sunway Construction Group

FY21 Above Expectations

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FY21 CNP of RM127.2m exceeded expectations as the group recalibrated construction margins higher for jobs nearing completion that have higher profit visibility. In tandem with the earnings outperformance, the 5.25 sen dividend is also higher than our 4.0 sen estimate. Moving forward, we anticipate the jobs replenishment landscape to be tough with less government and private job rollouts. Hence, we only target FY22E replenishment of RM1.5b – lower than management’s RM2.0b guidance. Maintain MP with unchanged TP of RM1.52 anchored to 16x FY22E construction PER.

Exceeded expectations by a mile. 4QFY21 CNP of RM74.4m brought FY21 CNP to RM127.2m – way above our/consensus expectations at 145%/158% of estimates. The outperformance stems from stronger-than-expected construction EBIT margin (of 14.2% in 4QFY21 vs. typically 5-8%) as the group recalibrated project margins higher for projects nearing completion that have higher profit visibility. By imputing recalibrating margins higher, unrecognised earnings from prior quarters (due to lower ascribed margins) are all recognised in 4QFY21 – which explains the bumper margins. Management guided that most of the margin recalibrations has been done this quarter and margins will normalise moving into the subsequent quarters.

In tandem with the bottom-line outperformance, a 4.0 sen dividend was declared which lifted YTD dividends to 5.25 sen – above our 4.0 sen full-year estimate.

Highlights. 4QFY21 CNP of RM74.4m increased 203% QoQ mainly due to: (i) higher revenue (+130%) in the absence of lockdowns, and (ii) recalibration of profit margins as explained above. Similarly, FY21 CNP of RM127.2m increased 54% on the back of: (i) higher revenue (+11%) due to higher productivity from less stringent lockdowns, and (ii) stronger EBIT margins (+2.4ppt) as management was prudent with earnings recognition in FY20 due to the pandemic uncertainties then.

For FY21, Suncon replenished RM1.474b worth of new jobs, within our RM1.5b target but below their internal RM2.0b target. For FY22, we are targeting RM1.5b worth of new replenishments while management targets RM2.0b. Outstanding order-book of RM4.8b (as of Dec 2021) provides c.2.5x revenue cover.

We foresee replenishment prospects being more challenging for the group given slower job rollouts from the Malaysian government amidst a more competitive landscape (as contractors have to compete for a reduced pool of jobs). Suncon will have to be more reliant on their parent company for contracts. Meanwhile, Suncon will see the commissioning of their 49%-owned Singapore precast plant in Aug 2022 which would increase Suncon’s precast capacity to 200k m³/annum (currently 126k m³/annum from their two Johor plants). That said, we only anticipate earnings contributions to kick in gradually in FY23 as we anticipate teething and start-up expenses in the first six months.

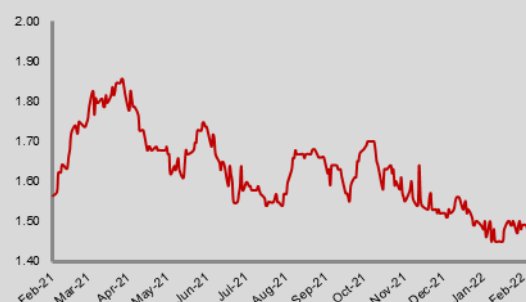
Keep FY22E earnings unchanged despite the outperformance as our FY22E EBIT margin assumption is already at a normalised level of 8%. We introduce FY23E earnings of RM127m - flat YoY as we foresee construction margins deteriorating slightly in lieu of competitive landscape while precast margins strengthen from the ramp-up of their new Singapore plant.

Maintain MP with unchanged SoP-derived TP of RM1.52 anchored to unchanged 16x FY22E construction earnings and 10x precast segment earnings.

MARKET PERFORM ↔

Price : **RM1.48**
Target Price : **RM1.52** ↔

Share Price Performance



KLCI	1,586.14
YTD KLCI chg	1.2%
YTD stock price chg	-5.1%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	SCGB MK EQUITY
Market Cap (RM m)	1,908.3
Shares Outstanding	1,289.4
52-week range (H)	1.90
52-week range (L)	1.44
3-mth avg daily vol:	210,543
Free Float	18%
Beta	0.8

Major Shareholders

Sunway Holdings Sdn Bhd	54.6%
Sungei Way Corp Sdn Bhd	10.1%
Employees Provident Fund Board	9.2%

Summary Earnings Table

FYE Dec (RM m)	2021A	2022E	2023E
Turnover	1729.2	2146.3	2257.3
EBIT	154.0	165.0	168.5
PBT	152.2	162.8	161.5
Net Profit	112.6	127.7	126.7
Core PATAMI	127.2	127.7	126.7
Consensus (NP)	80.7	127.3	141.6
Earnings Revision	n.a.	0%	NEW
Core EPS (sen)	9.8	9.9	9.8
Core EPS growth (%)	54	0	-1
NDPS (sen)	5.3	5.0	6.0
NTA per Share (RM)	0.54	0.59	0.63
Price to NTA (x)	2.7	2.5	2.4
PER (x)	15.0	15.0	15.1
Net Gearing (x)	n.cash	n.cash	n.cash
Return on Equity (%)	18	17	16
Net Div. Yield (%)	3.5	3.4	4.1

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Risks include lower-than-expected margins, and delay in work progress.

Results Highlight								
FYE Dec (RM m)	4Q21	3Q21	QoQ	4Q20	YoY	FY21	FY20	YoY
Turnover	626.6	272.1	130%	627.2	0%	1729.2	1552.7	11%
EBIT (adjusted for EI)	94.6	27.4	246%	46.5	103%	154.0	100.5	53%
Interest income	1.0	1.0	7%	3.0	-66%	4.2	13.3	-69%
Interest expense	-1.1	-0.9	17%	-0.3	223%	-4.6	-6.9	-34%
Associates	6.2	2.4	n.a.	0.0	n.a.	13.3	4.6	n.a.
Exceptional items	-9.7	-5.3	83%	-7.7	26%	-14.6	-10.0	46%
PBT	91.0	24.5	272%	41.6	119%	152.2	101.5	50%
Tax	-26.0	-5.0	424%	-11.5	126%	-41.5	-27.8	49%
Minority interest	0.3	0.2	18%	-0.1	-285%	-1.8	0.9	-295%
PATAMI	64.7	19.3	235%	30.2	114%	112.6	72.8	55%
CNP	74.4	24.6	203%	37.9	97%	127.2	82.8	54%
Net DPS (sen)	4.0	0.0		2.8		5.3	4.0	
Margins								
EBIT	15.1%	10.1%		7.4%		8.9%	6.5%	
PBT	14.5%	9.0%		6.6%		8.8%	6.5%	
PATAMI	10.3%	7.1%		4.8%		6.5%	4.7%	
CNP	11.9%	9.0%		6.0%		7.4%	5.3%	

Source: Company, Kenanga Research

Segmental Breakdown								
	4Q21	3Q21	QoQ	4Q20	YoY	FY21	FY20	YoY
Revenue								
Construction	579.9	255.8	127%	585.0	-1%	1606.2	1455.2	10%
Precast concrete	46.7	16.2	187%	42.2	11%	122.9	97.4	26%
Total	626.6	272.1	130%	627.2	0%	1729.2	1552.7	11%
EBIT								
Construction	82.2	24.2	239%	34.8	136%	134.9	87.2	55%
Precast concrete	2.7	-2.2	-225%	4.0	-33%	4.5	3.3	35%
Total	84.9	22.1	285%	38.8	119%	139.4	90.5	54%
Pretax profit								
Construction	88.8	26.9	230%	37.3	138%	148.8	98.4	51%
Precast concrete	2.2	-2.4	n.a.	4.3	-48%	3.5	2.7	27%
Total	91.0	24.5	271%	41.6	119%	152.2	101.1	51%
Net profit								
Construction	62.7	21.4	193%	26.3	139%	109.6	71.0	54%
Precast concrete	2.0	-2.1	-198%	3.9	-48%	3.0	1.8	66%
Total	64.7	19.3	235%	30.2	114%	112.6	72.8	55%
PAT Margins								
Construction	10.8%	8.4%		4.5%		6.8%	4.9%	
Precast	4.4%	-12.8%		9.3%		2.5%	1.9%	
Total	10.3%	7.1%		4.8%		6.5%	4.7%	

Source: Company, Kenanga Research

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Sum of Parts Target Price		
Items	Value (RM m)	Remarks
Construction	1,858	Apply 16x FY22F PE
Precast concrete	106	Apply 10x FY22F PE
Equity value	1,964	
No. of shares (m)	1,293	
Equity value per share (RM)	1.52	
<i>Source: Kenanga Research</i>		

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Peer Comparison

Name	Last Price (RM)	Market Cap (RM'm)	Shariah Compliant	Current FYE	PER (x) - Core Earnings			PBV (x)		ROE (%)		Net Div Yld (%)	Target Price	Rating
					Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.			
STOCKS UNDER COVERAGE														
GAMUDA BHD	2.92	7,339.5	Y	07/2022	12.2	12.2	13.2	0.9	0.8	6.8%	2.1%	2.80	MP	
HOCK SENG LEE BERHAD	1.35	741.8	Y	12/2021	23.3	18.5	14.1	0.9	0.9	4.8%	0.0%	1.35	ACCEPT OFFER	
IJM CORP BHD	1.53	5,424.1	Y	03/2022	15.2	30.1	18.5	0.6	0.6	9.9%	13.7%	1.90	OP	
KERJAYA PROSPEK GROUP BHD	1.20	1,484.1	Y	12/2021	16.4	15.8	9.4	1.5	1.4	9.1%	2.3%	1.50	OP	
KIMLUN CORP BHD	0.795	280.9	Y	12/2021	17.7	18.6	5.7	0.4	0.4	2.2%	2.1%	1.25	OP	
MUHIBBAH ENGINEERING (M) BHD	0.640	309.4	Y	12/2021	N.A.	N.A.	18.3	0.3	0.3	-1.7%	0.0%	0.600	MP	
SUNWAY CONSTRUCTION GROUP BHD	1.48	1,908.3	Y	12/2022	15.0	15.0	15.1	3.0	2.8	19.4%	3.4%	1.52	MP	
WCT HOLDINGS BHD	0.515	729.9	Y	12/2021	N.A.	31.0	8.2	0.2	0.2	2.3%	0.0%	0.620	MP	
Simple Average					16.6	20.2	12.8	1.0	0.9	6.6%	2.9%			

Source: Bloomberg, Kenanga Research

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Stock Ratings are defined as follows:**Stock Recommendations**

OUTPERFORM	: A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM	: A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM	: A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT	: A particular sector's Expected Total Return is MORE than 10%
NEUTRAL	: A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT	: A particular sector's Expected Total Return is LESS than -5%

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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