

# Sunway Construction Group Berhad

(5263 | SCGB MK) Main | Construction

**Maintain BUY**

## A Place in the Sun

**Unchanged Target Price: RM1.80**

### KEY INVESTMENT HIGHLIGHTS

- **FY21 normalised earnings rose +84.5%yoy to RM128.4m, exceeding our expectations by 100% and 59.2% for the consensus**
- **4QFY21 core earnings spikes to RM81.6m, highest ever recorded since listing in 2015**
- **Solid order book of RM4.8b, with a target of RM2b of new order book**
- **Maintain BUY with an unchanged target price of RM1.80**

**Above expectation.** Sunway Construction Group Berhad (SCGB)'s FY21 normalised earnings increased by +84.5%yoy to RM128.4m, far surpassing our expectations and the consensus by 100% and 59.2% respectively, as operations began returning to normalcy as compared to CY20 on the back of Malaysia's rapid inoculation exercise, driving the resumption of economic activities. The Group's core earnings came in at RM81.6m, the highest it has ever recorded since it went public in 2015. The management attributed this to the recalibration of better margins for some projects that are at advanced stages of completion.

**Stronger construction margins.** While SCGB's construction revenue inched lower in 4QFY21 by -0.9%yoy to RM579.9m, its PBT margin came in at 15.3%, as compared to 6.4% in the corresponding quarter last year. This reflects some upside for projects nearing completion, which includes four mechanical, electrical and plumbing (MEP) services, all scheduled for completion in 1QCY22. It also has eight in-house projects and the LRT3 Package GS07 & 08, all scheduled for completion in 2QCY22, carrying an outstanding orderbook of RM886m. We are of the view that SCGB's construction division will continue to record stellar earnings in FY22, premised on possible acceleration of progress billings as construction activities resume to near optimal capacity.

**Solid order book.** We are optimistic that the group's orderbook, which currently stands at RM4.8b, the bulk of which are from internal projects (51%), coupled with the management's target to secure RM2b of new order book in FY22, provides a strong earnings visibility until FY24. The group is also making strong inroads in the renewable energy space after being awarded two 50MW fourth cycle large scale solar programme (LSS4) on Dec 27, where it is tasked to undertake the engineering, procurement, construction and commissioning (EPCC) works, with a total value of RM386m. This marks SCGB's maiden large-scale solar project since its entry into the space two years ago. We view this positively as it serves to enhance the group's expertise in this growing space, which is one of the main pillars of the Malaysia Renewable Energy Roadmap (MyRER) to achieve 40% renewable energy capacity by 2035. Meanwhile, the group also revealed that it has commenced work on the 37km Thorapalli Agraharam - Jittandahalli Highway on Dec 7, one of its two hybrid annuity model (HAM) projects in India.

#### RETURN STATISTICS

Price @ 23rd February 2021	<b>1.48</b>
Expected share price return (%)	<b>+21.6</b>
Expected dividend yield (%)	<b>+2.3</b>
<b>Expected total return (%)</b>	<b>+23.9</b>

#### SHARE PRICE CHART




Share price performance (%)	Absolute	Relative
1 month	1.4	-2.4
3 months	-5.1	-10.1
12 months	-10.8	-12.0

#### KEY STATISTICS

FBM KLCI	1,586.14
Syariah compliant	Yes
F4BGM Index	No
ESH Grading Band (Star rating)	N/A
Issue shares (m)	1289.36
Estimated free float (%)	18.26
Market Capitalisation (RM'm)	1,908.25
52-wk price range	RM1.44 - RM1.9
Beta vs FBM KLCI (x)	0.80
Monthly velocity (%)	0.00
Monthly volatility (%)	28.85
3-mth average daily volume (m)	0.21
3-mth average daily value (RM'm)	0.32
Top Shareholders (%)	
Sunway Holdings Sdn Bhd	54.56
Sungei Way Corp Sdn Bhd	10.08
Employees Provident Fund Board	9.24

**Earnings estimates.** We are maintaining our FY22 estimates of RM2.11b in revenue and a bottom line of RM128.4m.

**Target price.** We are also reiterating our target price of **RM1.80**, which we derive by attaching a PER of 18.0x to the group's FY22 EPS of 10.0sen. Note that the target PER is +1.5SD premium above the group's two-year historical average. We opine that the premium is justified given the group's solid order book replenishment rate, sound balance sheet and continued job flows from its parent company.

**Maintain BUY.** From its solid order book to its massive solar project and the group's focus to diversify overseas, we remain optimistic on the quality of SCGB's earnings outlook. The defensive nature of the group is underpinned by its well-balanced order book portfolio which made up of its sizeable in-house projects and overseas job wins, especially from India which now constitutes 17% of the group's orderbook. Domestically, the group noted that it is actively pursuing opportunities in the private and public sectors, including any Private Funding Initiatives (PFI), pipeline projects from parent Sunway Berhad and in the sustainable energy segment. This will bode well with the group's earnings momentum moving onwards. In the intermediate term, the group's prospect is also well-supported by its strong outstanding order book of about RM4.8b which will provide earnings visibility over the next three years. All factors considered, we reiterate our **BUY** recommendation on SCGB. 

## INVESTMENT STATISTICS

FYE 31st December	2020A	2021A	2022E	2023F	2024F
Revenue	1,552.7	1,729.2	2,105.3	2,310.0	2,534.6
Net Operating Expenses	(1,462.1)	(1,589.7)	(1,953.3)	(2,146.4)	(2,353.3)
Operating Profit	90.5	139.4	151.9	163.6	181.3
Finance Income	13.8	4.2	20.7	24.3	17.6
Finance Costs	F(6.9)	(4.6)	(10.9)	(12.6)	(10.5)
JV and Associates	4.2	13.3	3.8	5.0	11.2
Profit Before Tax	101.5	152.2	165.4	180.2	199.6
Tax Expense	(27.8)	(41.5)	(35.2)	(38.6)	(50.3)
Reported Net Profit	72.8	112.6	128.4	140.9	148.3
Core Net Profit	69.6	128.4	128.4	140.9	148.3
Reported EPS	0.056	0.087	0.100	0.109	0.115
Core EPS	0.054	0.100	0.100	0.109	0.115
DPS	0.04	0.04	0.04	0.04	0.04
Dividend Yield	1.9%	2.2%	2.2%	2.2%	2.2%

Source: Company, MIDFR

**SUNCON : 4Q21 RESULTS SUMMARY**

All in RM'm unless stated otherwise	Quarterly Results					Cumulative		
Income Statement	Q421	Q321	Q420	QoQ	YoY	12M21	12M20	YoY
Revenue	626.6	272.1	627.2	>+100%	0%	1,729.2	1,552.7	11%
Net Operating Expenses	(541.7)	(250.0)	(588.4)	<-100%	8%	(1,589.7)	(1,462.1)	-9%
Operating Profit	84.9	22.1	38.8	>+100%	>+100%	139.4	90.5	54%
Finance Income	1.0	1.0	0.1	7%	>+100%	4.2	13.8	-70%
Finance Costs	(1.1)	(0.9)	(0.3)	-17%	<-100%	(4.6)	(6.9)	34%
JV and Associates	6.2	2.4	3.0	>+100%	>+100%	13.3	4.2	218%
Profit Before Tax	91.0	24.5	41.6	>+100%	>+100%	152.2	101.5	50%
Tax Expense	(26.0)	(5.0)	(11.5)	<-100%	<-100%	(41.5)	(27.8)	-49%
Minority Interest	0.3	0.2	(0.1)	18%	>+100%	(1.8)	0.9	<-100%
Reported Net Profit	64.7	19.3	30.2	>+100%	>+100%	112.6	72.8	55%
Core Net Profit	81.6	19.3	29.8	>+100%	>+100%	128.0	69.6	84%

Source: Company, MIDFR

MIDF RESEARCH is part of MIDF Amanah Investment Bank Berhad (197501002077(23878 – X)).  
(Bank Pelaburan)  
(A Participating Organisation of Bursa Malaysia Securities Berhad)

## DISCLOSURES AND DISCLAIMER

This report has been prepared by MIDF AMANAH INVESTMENT BANK BERHAD (“MIDF Investment”) for distribution to and use by its clients to the extent permitted by applicable law or regulation.

Readers should be fully aware that this report is for information purposes only. The opinions contained in this report are based on information obtained or derived from sources that MIDF Investment believes are reliable at the time of publication. All information, opinions and estimates contained in this report are subject to change at any time without notice. Any update to this report will be solely at the discretion of MIDF Investment.

MIDF Investment makes no representation or warranty, expressed or implied, as to the accuracy, completeness or reliability of the information contained therein and it should not be relied upon as such. MIDF Investment and its affiliates and related companies and each of their respective directors, officers, employees, connected parties, associates and agents (collectively, “Representatives”) shall not be liable for any direct, indirect or consequential loss, loss of profits and/or damages arising from the use or reliance by anyone upon this report and/or further communications given in relation to this report.

This report is not, and should not at any time be construed as, an offer, invitation or solicitation to buy or sell any securities, investments or financial instruments. The price or value of such securities, investments or financial instruments may rise or fall. Further, the analyses contained herein are based on numerous assumptions. This report does not take into account the specific investment objectives, the financial situation, risk profile and the particular needs of any person who may receive or read this report. You should therefore independently evaluate the information contained in this report and seek financial, legal and other advice regarding the appropriateness of any transaction in securities, investments or financial instruments mentioned or the strategies discussed or recommended in this report.

The Representatives may have interest in any of the securities, investments or financial instruments and may provide services or products to any company and affiliates of such companies mentioned herein and may benefit from the information herein.

This document may not be reproduced, copied, distributed or republished in whole or in part in any form or for any purpose without MIDF Investment’s prior written consent. This report is not directed or intended for distribution to or use by any person or entity where such distribution or use would be contrary to any applicable law or regulation in any jurisdiction concerning the person or entity.

### MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

#### STOCK RECOMMENDATIONS

BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <-10% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

#### SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.

#### ESG RECOMMENDATIONS\* - source Bursa Malaysia and FTSE Russell

☆☆☆☆	Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆☆	Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆	Top 51%- 75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆	Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell

\* ESG Ratings of PLCs in FBM EMAS that have been assessed by FTSE Russell in accordance with FTSE Russell ESG Ratings Methodology