

### COMPANY RESULTS

#### Sunway Construction (SCGB MK)

1Q21: Falls Short Of Expectations, MCO2.0 Impact Worse Than Expected

SunCon's earnings came in below expectations at RM20.3m, accounting for only 14% of our and consensus forecasts due to slower-than-expected progress billings during the MCO 2.0 period. The recent positive development of the MRT3's progress bodes well for the group. However, the imminent risk of Malaysia going into another total lockdown will limit any potential near-term share price upside. Maintain HOLD with a lower target price of RM1.50.

#### 1Q21 RESULTS

Year to 31 Dec	1Q21 (RMm)	qoq % chg	yoy % chg	Remarks
Revenue	455.2	(27.4)	24.4	
Construction	421.3	(28.0)	27.8	Qoq: Progress billings affected by MCO2.0
Precast Concrete	33.9	(19.7)	(6.6)	
Operating profit	26.1	(32.8)	39.7	
Construction	22.3	(35.8)	29.3	
Precast Concrete	3.8	(5.9)	167.3	
Pre-tax Profit	27.2	(34.5)	28.4	
PATAMI	20.2	(33.0)	23.8	
Core PATAMI	20.3	(46.3)	15.9	Below our and consensus forecasts
<b>Margins</b>	<b>%</b>	<b>+/-ppt</b>	<b>+/-ppt</b>	
Construction	5.3	(0.6)	0.1	Lower due to thinner margin projects in hand
Precast Concrete	11.1	1.6	7.2	Recognition of higher yielding projects
PBT	6.0	(0.6)	0.2	
PATAMI	4.4	(0.4)	(0.0)	

Source: Sunway Construction, UOB Kay Hian

#### RESULTS

• **1Q21 earnings below expectations.** Sunway Construction Group (SunCon) reported 1Q21 core net profit of RM20.3m (-46% qoq, +16% yoy) on revenue of RM455.2m (-27% qoq, +24% yoy). The core net profit came in below our and consensus' expectations, accounting for 14% of our and consensus' full-year forecasts. The sequentially weaker earnings were mainly due to the impact of the movement control order (MCO) 2.0, which was implemented on 13 January. SunCon's productivity level dropped to 50% of the pre-pandemic level in Jan 21 (from 100% in 4Q20) before gradually recovering to 80% in February as the government eased restrictions.

#### KEY FINANCIALS

Year to 31 Dec (RMm)	2019	2020	2021F	2022F	2023F
Net turnover	1,769	1,553	2,278	2,477	2,505
EBITDA	181	124	177	204	226
Operating profit	141	91	137	163	181
Net profit (rep./act.)	129	73	118	138	154
Net profit (adj.)	133	92	118	138	154
EPS (sen)	10.3	7.1	9.1	10.7	11.9
PE (x)	16.5	23.9	18.6	15.9	14.2
P/B (x)	3.5	3.4	3.2	3.0	2.7
EV/EBITDA (x)	10.3	15.0	10.5	9.2	8.3
Dividend yield (%)	4.1	2.4	3.2	3.8	4.2
Net margin (%)	7.3	4.7	5.2	5.6	6.1
Net debt/(cash) to equity (%)	(65.3)	(53.3)	(48.2)	(52.8)	(57.1)
ROE (%)	21.3	11.6	17.8	19.4	20.0
Consensus net profit	-	-	140	154	158
UOBKH/Consensus (x)	-	-	0.84	0.90	0.97

Source: Sunway Construction, Bloomberg, UOB Kay Hian

### HOLD

(Maintained)

Share Price	RM1.70
Target Price	RM1.50
Upside	-11.8%
(Previous TP)	RM1.60

#### COMPANY DESCRIPTION

A leading construction company in Malaysia

#### STOCK DATA

GICS sector	Industrials
Bloomberg ticker:	SCGB MK
Shares issued (m):	1,289.4
Market cap (RMm):	2,191.9
Market cap (US\$m):	531.4
3-mth avg daily t'over (US\$m):	0.3

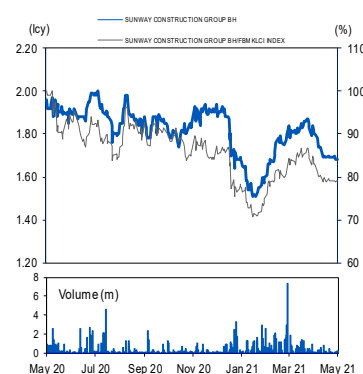
#### Price Performance (%)

52-week high/low	RM2.00/RM1.51			
<b>1mth</b>	<b>3mth</b>	<b>6mth</b>	<b>1yr</b>	<b>YTD</b>
(7.1)	8.3	(7.6)	(8.6)	(9.6)

#### Major Shareholders

	<b>%</b>
Sunway Berhad	54.4
FY21 NAV/Share (RM)	0.53
FY21 Net Cash/Share (RM)	0.26

#### PRICE CHART



Source: Bloomberg

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- **Construction's operating margin was notably lower** at 5.6% (vs 6.4% in 4Q20), likely due to the lower productivity rate. The company also attributed this to thinner margin projects in its orderbook due to the competitive construction landscape.
- **Dividend.** No dividend was declared this quarter. Historically, SunCon has declared its dividend payments during 2Q and 4Q. The company should be able to maintain its 60% payout track record given its sturdy balance sheet.

### STOCK IMPACT

- **Construction activities continue to operate during the MCO3.0** (12 May-7 June). Hence, we expect the MCO3.0 to have a minimal impact on productivity level during this period as compared with end-1Q21's, ie 70-80% of the pre-pandemic level. However, the risk of a total lockdown lingers and may limit construction companies' share price performance in the near term as COVID-19 daily cases spike again, hitting a new high. The second wave of COVID-19 infections hitting India also may affect the progress billings of SunCon's projects there.
- **Rising construction material cost (eg steel) that could lead to thinning margin is another cause for concern.** SunCon sources for its construction materials through Sunway Group by purchasing the materials in bulk to minimise the impact.
- **MRT3: SunCon could emerge as an early winner.** The recent positive development of MRT3's contracts expected to be awarded in 4Q21-1Q22 bodes well for SunCon. Due to it being a part of the MRT1 and MRT2 projects and its strong execution track record, the group is one of the frontrunners to secure the railway jobs. Its strong balance sheet would be an added advantage should the project come with a private finance initiative (PFI) requirement.
- **Maintains FY21 orderbook replenishment target.** The group is maintaining its FY21 RM2b orderbook replenishment target on the back of a tender book size of about RM7b with a growing focus on overseas projects (India, Singapore, and the Philippines) (which should account for 50% of the tender book size). SunCon has secured RM462m worth of new contracts ytd, which accounts for 23% of its RM2b target. 52% of the newly secured contracts are inhouse jobs. Moving forward, the group is eyeing: a) local infrastructure and building contracts, b) overseas projects, eg India's high-speed rail projects, and c) internal contracts from Sunway, such as hospitals and high-rise residential projects, among others. The group's outstanding orderbook now stands at RM5b (2.5x of revenue cover).

### EARNINGS REVISION/RISK

- **We cut 2021-23 earnings** by 16%/12%/7% respectively, mainly to reflect: a) the worse-than-expected impact of MCO 2.0 which slowed down construction progress, and b) lower margin assumption for the construction segment.
- **Key risks.** Rampant spread of COVID-19 cases which could lead to slower-than-expected pick-up in progress billings or worse, a country-wide total lockdown.

### VALUATION/RECOMMENDATION

- **Maintain HOLD** with lower target price of RM1.50 (from RM1.60) (see SOTP table on the RHS). SunCon is ascribed with a higher-than-peers' PE multiple in view of its solid fundamentals and earnings visibility, underpinned by its ability to clinch a balanced mix of external and internal construction projects.

### SHARE PRICE CATALYST

- Better visibility on the timeline of mega infrastructure projects revival.
- Pick up in national immunisation programme and curb in COVID-19 spread.

### OUTSTANDING ORDERBOOK AS OF 31 MAR 21

Projects	(RMm)
LRT 3	465
Tenaga HQ Campus (Phase 2)	449
PETRONAS Leadership Centre	168
India Highway	823
Others	212
<b>Total External (A)</b>	<b>2,117</b>
Sunway Medical Centre - Ph 4 + VO	430
Sunway Belfield	387
Sunway Serene	162
Sunway Velocity 2 (Plot A)	173
Sunway Velocity 2 (Plot B)	246
Sunway Carnival Mall	112
Sunway Damansara Medical	180
Others	777
<b>Total Internal (B)</b>	<b>2,467</b>
Precast Concrete (C)	422
<b>Grand Total (A+B+C)</b>	<b>5,006</b>

Source: SunCon

### ORDERBOOK REPLENISHMENT ASSUMPTIONS

(RMm)	2021F	2022F	2023F
Construction	1,800	2,000	2,000
Precast Concrete	200	250	250

Source: UOB Kay Hian

### SEGMENTAL FORECASTS

(RMm)	2021F	2022F	2023F
<b>Revenue</b>	<b>2,278</b>	<b>2,477</b>	<b>2,505</b>
Construction	2,115	2,280	2,283
Precast Concrete	163	198	223
<b>Operating profit</b>	<b>137</b>	<b>163</b>	<b>181</b>
Construction	135	160	178
Precast Concrete	2	3	3

Source: UOB Kay Hian

### SOTP VALUATION

	(RMm)	Value (RMm)	Remarks
2021F net profit	118		
Net interest	1		
income after tax			
2021F net profit	117	1,563	13x PE
ex net interest			
income			
Net cash	330	330	
<b>Total SOTP value</b>		<b>1,892</b>	
Share base		1,289	
			Implied PE (x)
TP (RM)	1.50		16.4
TP (RM) (ex-cash)	1.21		13.3

Source: SunCon, UOB Kay Hian

### PROFIT & LOSS

Year to 31 Dec (RMm)	2020	2021F	2022F	2023F
<b>Net turnover</b>	1,553	2,278	2,477	2,505
EBITDA	124	177	204	226
Deprec. & amort.	33	40	41	44
EBIT	91	137	163	181
Total other non-operating income	0	0	0	0
Associate contributions	0	9	9	9
Net interest income/(expense)	10	1	1	2
<b>Pre-tax profit</b>	101	147	172	192
Tax	(28)	(28)	(33)	(37)
Minorities	(1)	(1)	(1)	(2)
<b>Net profit</b>	73	118	138	154
Net profit (adj.)	92	118	138	154

### CASH FLOW

Year to 31 Dec (RMm)	2020	2021F	2022F	2023F
<b>Operating</b>	93	90	155	187
Pre-tax profit	101	147	172	192
Tax	(28)	(28)	(33)	(37)
Deprec. & amort.	33	40	41	44
Working capital changes	(29)	(59)	(16)	(2)
Non-cash items	26	(9)	(9)	(9)
Other operating cashflows	(10)	(1)	(1)	(2)
<b>Investing</b>	181	(30)	(12)	(30)
Capex (growth)	(3)	(30)	(12)	(30)
Investments	0	(9)	(9)	(9)
Proceeds from sale of assets	2	0	0	0
Others	183	9	9	9
<b>Financing</b>	(147)	(95)	(92)	(100)
Dividend payments	(52)	(71)	(83)	(92)
Issue of shares	0	0	0	0
Proceeds from borrowings	12	(5)	0	0
Others/interest paid	(108)	(19)	(9)	(8)
<b>Net cash inflow (outflow)</b>	127	(35)	51	57
Beginning cash & cash equivalent	429	558	523	574
Changes due to forex impact	85	82	82	82
<b>Ending cash &amp; cash equivalent</b>	640	605	656	713

### BALANCE SHEET

Year to 31 Dec (RMm)	2020	2021F	2022F	2023F
<b>Fixed assets</b>	107	97	68	54
Other LT assets	56	65	73	82
Cash/ST investment	640	605	656	713
Other current assets	1,102	1,608	1,747	1,766
<b>Total assets</b>	1,906	2,375	2,545	2,615
ST debt	234	214	204	194
Other current liabilities	961	1,407	1,530	1,547
LT debt	67	62	62	62
Other LT liabilities	6	6	6	6
Shareholders' equity	637	684	739	801
Minority interest	2	3	4	6
<b>Total liabilities &amp; equity</b>	1,906	2,375	2,545	2,615

### KEY METRICS

Year to 31 Dec (%)	2020	2021F	2022F	2023F
<b>Profitability</b>				
EBITDA margin	8.0	7.8	8.2	9.0
Pre-tax margin	6.5	6.4	7.0	7.7
Net margin	4.7	5.2	5.6	6.1
ROA	3.8	5.5	5.6	6.0
ROE	11.6	17.8	19.4	20.0
<b>Growth</b>				
EBITDA	(31.6)	42.9	15.0	10.7
Pre-tax profit	(35.8)	44.9	17.6	11.6
Net profit	(43.7)	61.8	17.4	11.4
Net profit (adj.)	(31.1)	28.3	17.4	11.4
EPS	(31.0)	28.3	17.4	11.4
<b>Leverage</b>				
Debt to total capital	32.0	28.7	26.3	24.1
Debt to equity	47.2	40.3	36.0	32.0
Net debt/(cash) to equity	(53.3)	(48.2)	(52.8)	(57.1)

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