HongLeong Investment Bank

HLIB Research
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BUY (Maintain)

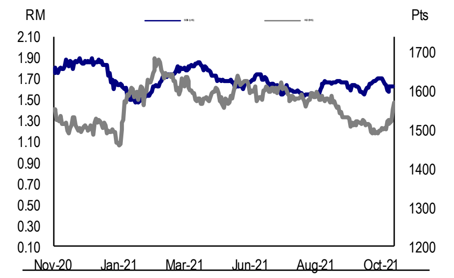
Target Price:	**RM1.80**
Previously:	**RM1.87**
Current Price:	**RM1.56**

Capital upside	15.4%
Dividend yield	2.2%
Expected total return	17.6%

Sector coverage: Construction

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

Share price



Historical return (%)	1M	3M	12M
Absolute	2.5	4.5	-10.4
Relative	4.5	1.5	-11.3

Stock information

Bloomberg ticker	SCGB MK
Bursa code	5263
Issued shares (m)	1,289
Market capitalisation (RM m)	2,017
3-mth average volume ('000)	232
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)	92	72	129
EPS - core (sen)	7.1	5.6	10.0
P/E (x)	22.0	27.9	15.7

Sunway Construction Group

9MFY21 earnings beat expectations

SunCon's 9MFY21 earnings of RM52m (-3% YoY) was above our but within consensus expectations at 72%/67% of forecasts driven by better-than-expected construction margin from upwards recalibration. Earnings are expected to back-loaded with operations fully ramped up in 4Q. We have reduced replenishment assumptions further to RM1.5bn. Tax implications in 2022 should be mitigated. Cut FY22-23 earnings by 4-5%. Maintain BUY with lower TP of RM1.80. Existing presence in infrastructure friendly India and strong internal pipeline is comforting post-uninspiring Budget-22.

Above expectations. SunCon reported 3QFY21 results with revenue of RM272.1m (-27.5% QoQ, -35.1% YoY) and core PATAMI of RM24.2m (205.4% QoQ, -24.1% YoY). This brings 9MFY21 core PATAMI to RM52.4m, declining marginally by -3.0%. The results beat our expectations but were within consensus at 72%/67% of full year forecasts respectively. This due to our expectations that operations will come in stronger in 4Q. Note that 3QFY21 earnings are adjusted for RM4.9m of receivables impairment.

Deviations. Results beat due to better-than-expected margins from the construction division.

Dividends. No DPS was declared for the quarter as they are normally declared in 2Q and 4Q (9MFY21: 1.25 sen; 9MFY20: 1.25 sen).

QoQ. Core PATAMI tripled despite revenue falling by -27.5%. Margins were better (EBIT: +8.3ppts), lifted solely by the construction segment as margins were recalibrated upwards for several projects approaching tail end to which costs could be estimated with higher certainty. 2QFY21 also saw around RM5.7m of one-off bank charges on financial closure of both Indian Highway projects which depressed margins slightly.

YoY. Core PATAMI fell by -24.1% dragged by imposition of lockdowns during the quarter evidenced by revenue contraction of -35.1%. Relaxation of strict operational restrictions was only announced in mid-Aug with recovery gradual towards end of the quarter. Partially offsetting the impact of decreased revenue is the margin recalibration for projects approaching tail end phases of completion.

YTD. Core PATAMI decreased marginally by -3.0% due to weaker margins (PBT: -1.2ppts) for its construction segment which negated the topline growth of 19.1%. Margins were weaker overall as FY20 saw extensive costs rationalisation measures in place and removal of bonus provisions.

Maintaining guidance despite time running out. Latest orderbook stands at RM4.7bn translating into a healthy 3.0x cover. Replenishment has been below expectations achieving RM796m~40% of target (RM2.0bn) due to delays in conversion from customers. We believe this may have led to lagging share price performance vs. KLCON since peak political impasse in Aug-21. We think lumpy awards could still materialise given a portion of tenders are internal and are individually quite sizable. However, with time running out we reduce our FY21 assumption from RM1.7bn (including precast) to RM1.5bn. Tenderbook is mostly unchanged at RM8.0bn (20% overseas). Given a lacklustre Budget-22/12MP, SunCon may have to leverage on its presence in India. The country's plans to double highway networks by 2025 as outlined under its ambitious USD1.5tn national infrastructure masterplan (spans 25 years).

Precast. Precast segment performance has deteriorated slightly QoQ falling into losses despite higher revenue as the impact of higher steel costs came in. The division currently has a record high orderbook of RM504m~60% secured this year. We reckon should steel prices reverse its course, orders secured this year could have margin upside. Assistance pass-through from main-con due to aid rendered by the SG government may lessen the impact as well. However, we think near term challenges will persist with construction activity in SG weak as foreign workers have declined by 20% since the pandemic. Construction players in SG are also bracing for further delays when the vaccinated travel lane (VTL) launches end Nov-21.

Manageable tax headwinds. SunCon anticipates negligible impact from the one-off Cukai Makmur as its subsidiaries individually are not expected to generate more than RM100m in FY22. SunCon's unutilised capital allowances could help to this extent. Another tax measure introduced is the removal of tax exemption for foreign sourced income upon remittance. We note SunCon's foreign operations in India & SG are subject to double taxation avoidance agreements with Malaysia; impact could be largely mitigated through tax credits claims, in our view.

Forecast. Cut FY22-23 earnings by -4.4% and -3.6% after reducing job win assumptions. No changes to FY21 despite the positive results surprise as we prefer to err on the side of conservatism.

Maintain BUY, TP: RM1.80. Maintain BUY with lower TP of RM1.80 post earnings adjustments. 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 (RM0.30/share), existing presence in India and strong support from parent-co Sunway Bhd should provide job flow clarity post-uninspiring Budget-22.

Figure #1 Quarterly results comparison

FYE Dec (RM m)	3QFY20	2QFY21	3QFY21	*QoQ (%)*	*YoY (%)*	9MFY20	9MFY21	*YoY (%)*
Revenue	419.4	375.3	272.1	*(27.5)*	*(35.1)*	925.4	1,102.5	*19.1*
EBIT	40.8	6.0	27.0	*350.6*	*(33.9)*	63.3	59.0	*(6.7)*
Finance income	4.6	1.4	1.0	*(28.8)*	*(78.7)*	14.3	3.1	*(78.3)*
Finance cost	(1.6)	(1.0)	(0.9)	*(7.2)*	*(41.4)*	(6.6)	(3.5)	*(46.8)*
PBT	43.8	9.1	29.4	*222.3*	*(32.9)*	71.1	65.7	*(7.5)*
PAT	32.1	5.5	24.4	*341.8*	*(23.9)*	54.8	50.3	*(8.3)*
Core PATMI	31.9	7.9	24.2	*205.4*	*(24.1)*	54.0	52.4	*(3.0)*
Reported PATMI	24.0	8.3	19.3	*131.8*	*(19.7)*	42.5	47.9	*12.7*
Core EPS (sen)	2.5	0.6	1.9	*205.4*	*(24.1)*	4.2	4.0	*(3.0)*
EBIT margin (%)	9.7	1.6	9.9			6.8	5.4	
PBT margin (%)	10.4	2.4	10.8			7.7	6.0	
PATMI margin (%)	7.6	2.1	8.9			5.8	4.7	

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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	200	271	269	325
Receivables	847	905	782	969	977
Inventories	25	34	20	24	25
PPE	139	107	98	80	60
Others	202	660	671	689	707
Assets	**1,905**	**1,906**	**1,844**	**2,032**	**2,093**
Debts	286	301	373	357	359
Payables	880	940	776	928	935
Others	114	27	27	27	27
Liabilities	**1,280**	**1,267**	**1,176**	**1,311**	**1,321**
Shareholder's equity	623	637	666	719	771
Minority interest	2	2	2	2	2
Equity	**625**	**639**	**668**	**721**	**773**

Cash Flow Statement

FYE Dec (RM m)	FY19	FY20	FY21f	FY22f	FY23f
Profit before taxation	162	120	90	161	158
Depreciation & amortisation	40	33	29	38	40
Changes in working capital	81	(7)	(27)	(39)	(1)
Share of JV profits	(4)	(0)	(12)	(18)	(18)
Taxation	(27)	(28)	(17)	(32)	(31)
Others	-	(32)	-	-	-
Operating cash flow	**252**	**88**	**63**	**111**	**149**
Net capex	35	4	(20)	(20)	(20)
Others	-	(177)	-	-	-
Investing cash flow	**35**	**(173)**	**(20)**	**(20)**	**(20)**
Changes in borrowings	172	15	72	(16)	3
Issuance of shares	-	-	-	-	-
Dividends paid	(90)	(52)	(43)	(77)	(75)
Others	-	(110)	-	-	-
Financing cash flow	**82**	**(147)**	**29**	**(93)**	**(73)**
Net cash flow	**369**	**(233)**	**71**	**(2)**	**56**
Forex	-	-	-	-	-
Others	-	-	-	-	-
Beginning cash	485	693	200	271	269
Ending cash	693	200	271	269	325

Income Statement

FYE Dec (RM m)	FY19	FY20	FY21f	FY22f	FY23f
Revenue	**1,769**	**1,553**	**1,784**	**2,211**	**2,228**
EBITDA	186	143	115	192	195
EBIT	146	110	87	154	155
Net finance income/ (cost)	12	10	(8)	(11)	(14)
Associates & JV	4	0	12	18	18
Profit before tax	**162**	**120**	**90**	**161**	**158**
Tax	(27)	(28)	(17)	(32)	(31)
Net profit	**135**	**93**	**73**	**130**	**127**
Minority interest	(1)	(1)	(0)	(1)	(1)
Core earnings	**134**	**91.9**	**72.3**	**128.8**	**126.5**
Exceptional items	(5)	(19)	-	-	-
Reported earnings	129	73	72	129	126

Valuation & Ratios

FYE Dec (RM m)	FY19	FY20	FY21f	FY22f	FY23f
Core EPS (sen)	10.4	7.1	5.6	10.0	9.8
P/E (x)	15.0	22.0	27.9	15.7	15.9
EV/EBITDA (x)	8.7	11.3	14.0	8.4	8.3
DPS (sen)	7.0	4.0	3.4	5.9	5.8
Dividend yield	4.5%	2.6%	2.2%	3.8%	3.7%
BVPS (RM)	0.48	0.49	0.52	0.56	0.60
P/B (x)	3.2	3.2	3.0	2.8	2.6
EBITDA margin	10.5%	9.2%	6.5%	8.7%	8.7%
EBIT margin	8.2%	7.1%	4.8%	7.0%	6.9%
PBT margin	9.2%	7.7%	5.0%	7.3%	7.1%
Net margin	7.6%	5.9%	4.1%	5.8%	5.7%
ROE	22.1%	14.6%	11.1%	18.6%	17.0%
ROA	7.3%	4.6%	3.4%	5.8%	5.4%
Net gearing	CASH	15.8%	15.2%	12.1%	4.4%

Assumptions

FYE Dec (RM m)	FY19	FY20	FY21f	FY22f	FY23f
Construction	1,612	2,281	1,200	1,800	2,000
Precast	160	38	300	150	200
Total new job wins	**1,772**	**2,319**	**1,500**	**1,950**	**2,200**

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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.

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