

"1Q22 results were within expectations"

Share price performance



	1M	3M	12M
Absolute (%)	-5.4	5.3	-3.7
Rel KLCI (%)	-2.0	9.2	-1.0

	BUY	HOLD	SELL
Consensus	8	5	-

Stock Data

Sector	Construction
Issued shares (m)	1,289.4
Mkt cap (RMm)/(US\$m)	2,037.2/463.6
Avg daily vol - 6mth (m)	0.3
52-wk range (RM)	1.44-1.76
Est free float	18.3%
Stock Beta	0.60
Net cash/(debt) (RMm)	334.3
ROE (2022E)	18.2%
Derivatives	No
Shariah Compliant	Yes
FTSE4Good Constituent	No
FBM EMAS (Top 200)	
ESG Rank	NA
ESG Risk Rating	26.3 (-4.3 yoy)

Key Shareholders

Sunway Holdings	54.6%
Sungei Way Corp	10.1%
EPF	9.2%
ASN	5.5%

Source: Bloomberg, Affin Hwang, Bursa Malaysia, ESG Risk Rating Powered by Sustainalytics

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Sunway Construction (SCGB MK)

BUY (maintain)

Up/Downside: +36.0%

Price Target: RM2.15

Previous Target (Rating): RM2.25 (BUY)

Normalised earnings

- After posting exceptionally strong earnings in 4Q21, Sunway Construction (SunCon) reported normalised core net profit of RM35.5m (-61% qoq and +74% yoy) in 1Q22
- SunCon secured RM266m new contracts in 1Q22 with active tender book of RM2.4bn. Good prospects to tender for the Klang Valley MRT Line 3 (MRT3) contracts expected in June 2022 and to be awarded by end-2022
- We maintain our earnings forecasts. SunCon remains a top sector BUY with lower RNAV-based TP of RM2.15 to reflect its reduced net cash balance

Robust earnings despite rising cost pressures

SunCon's core net profit of RM35.5m in 1Q22 comprised 26-27% of full-year consensus forecast of RM134.0m and our estimate of RM131.1m. Revenue jumped 37% yoy (flat qoq) to RM624.7m in 1Q22 as progress billings accelerated for ongoing projects as operations were adversely impacted by the Movement Control Order 2.0 in 1Q21. PBT surged 73% yoy to RM47.2m in 1Q22 due to better profitability on finalisation of accounts for completed projects. Construction PBT jumped 96% yoy to RM46.2m but pre-cast concrete PBT fell 72% yoy to RM1.0m due to higher steel bar cost. Construction PBT margin improved to 7.9% in 1Q22 compared to 5.6% in 1Q21.

High order book provides good earnings visibility

SunCon's high remaining order book of RM4.44bn at end-1Q22, equivalent to 2.6x its 2021 revenue, will sustain its construction activities and drive earnings growth going forward. It secured RM266m new contracts, which includes a piling job for the Rapid Transit System Link project and pre-cast concrete supply contracts. SunCon has active tenders worth RM2.4bn and prospects to win new contracts are good. It is pursuing some building projects for Sunway's ongoing integrated property development projects such as CP2 and Sunway Velocity 2, and upgrading/new hospitals. It will also tender for elevated works for the RM31bn MRT3 project, which is not included in its current tender book.

Remains a top sector BUY with a lower TP of RM2.15

We maintain our earnings forecasts. We expect core EPS to contract 9% yoy in 2022E due to the prosperity tax and high base in 2021, but rebound to a 21% yoy growth in 2023E. We reiterate our BUY call but reduce our RNAV-based TP of RM2.15 (from RM2.25) to reflect the lower net cash at end-1Q22. Net cash fell 27% to RM334.3m or RM0.26/share, mainly due to investment in its Indian highway hybrid-annuity model project that has not reached construction progress milestones for billings. Key downside risks: a slow roll-out of infrastructure projects and higher costs.

Earnings & Valuation Summary

FYE 31 Dec	2020	2021	2022E	2023E	2024E
Revenue (RMm)	1,552.7	1,729.2	2,662.5	2,976.4	3,121.5
EBITDA (RMm)	143.1	198.9	191.7	224.2	226.5
Pretax profit (RMm)	101.1	152.2	174.7	205.7	206.9
Net profit (RMm)	72.8	112.6	131.1	158.2	159.0
EPS (sen)	5.6	8.7	10.2	12.3	12.3
PER (x)	28.0	18.1	15.5	12.9	12.8
Core net profit (RMm)	92.0	144.6	131.1	158.2	159.0
Core EPS (sen)	7.1	11.2	10.2	12.3	12.3
Core EPS growth (%)	(31.0)	57.3	(9.3)	20.6	0.6
Core PER (x)	22.2	14.1	15.5	12.9	12.8
Net DPS (sen)	4.0	5.3	5.3	6.0	6.0
Dividend Yield (%)	2.5	3.3	3.3	3.8	3.8
EV/EBITDA	11.9	7.9	8.7	7.0	7.2

Chg in EPS (%)

Affin/Consensus (x)

-
-
1.0 1.1 1.1

Source: Company, Affin Hwang forecasts

Fig 1: Results comparison

FYE 31 Dec (RMm)	1Q21	4Q21	1Q22	QoQ % chg	YoY % chg	1Q22 Comment
Revenue	455.2	626.61	624.662	(0.3)	37.2	Higher construction (+40% yoy) and pre-cast concrete (+9% yoy) revenue.
Op costs	(420.9)	(508.1)	(574.6)	13.1	36.5	Higher building material and labour costs.
EBITDA	34.3	118.5	50.1	(57.7)	45.9	
<i>EBITDA margin (%)</i>	<i>7.5</i>	<i>18.9</i>	<i>8.0</i>	<i>(10.9ppt)</i>	<i>0.5ppt</i>	Normalisation of profit margin in 1Q22 after re-calibration for some projects that are near completion resulting in exceptional profit margin in 4Q21.
Depn and amort	(8.1)	(6.6)	(6.2)	(5.9)	(23.3)	
EBIT	26.2	111.9	43.9	(60.8)	67.4	
Interest income	0.8	1.0	2.2	112.4	194.3	Higher returns on cash despite lower cash balance.
Interest expense	(1.6)	(1.1)	(1.2)	6.5	(27.3)	
Associates	2.0	6.2	3.2	(48.7)	60.1	
Forex gain (losses)	(0.0)	0.1	(0.1)	NA	252.9	
Exceptional items	(0.1)	(27.2)	(0.9)	(96.8)	905.7	
Pretax profit	27.2	91.0	47.2	(48.2)	73.1	Higher construction (+96% yoy) earnings but lower pre-cast concrete (-72% yoy) earnings.
Tax	(6.9)	(26.0)	(11.5)	(55.7)	66.3	
<i>Tax rate (%)</i>	<i>27.4</i>	<i>30.7</i>	<i>26.2</i>	<i>(4.5ppt)</i>	<i>(1.2ppt)</i>	
Minority interests	(0.1)	(0.3)	(1.1)	326.2	1,435.6	
Net profit	20.2	64.7	34.5	(46.7)	70.5	Within expectations.
Core net profit	20.3	91.8	35.5	(61.4)	74.3	Within expectations. Exclude one-off items.
EPS (sen)	1.6	5.0	2.7	(46.5)	70.7	

Source: Affin Hwang, Company

Fig 2: Segmental revenue breakdown

Segment	1Q21	4Q21	1Q22	QoQ % chg	YoY % chg
Construction	421.3	579.9	587.8	1.4	39.5
Precast concrete	33.9	46.7	36.9	(21.0)	8.9
Total	455.2	626.6	624.7	(0.3)	37.2

Source: Affin Hwang, Company

Fig 3: Segmental PBT breakdown

Segment	1Q21	4Q21	1Q22	QoQ % chg	YoY % chg
Construction	23.6	88.7	46.2	(48.0)	95.5
Precast concrete	3.6	5.9	1.0	(82.9)	(72.3)
Total	27.2	94.6	47.2	(50.1)	73.1

Source: Affin Hwang, Company

Fig 4: Segmental PBT margin

FYE 31 Dec (%)	1Q21	4Q21	1Q22	QoQ ppt chg	YoY ppt chg
Construction	5.6	15.3	7.9	(7.4ppt)	2.3ppt
Precast concrete	10.8	12.6	2.7	(9.9ppt)	(8.0ppt)
Total	6.0	15.1	7.6	(7.5ppt)	1.6ppt

Source: Affin Hwang, Company

Fig 5: RNAV and target price

Segments	Stake (%)	New RNAV (RMm)	Old RNAV (RMm)	Change (%)
Construction @ PER 16x sustainable earnings of RM130m	100	2,080	2,080	0
Pre-cast concrete @ PER 16x sustainable earnings of RM20m	100	320	320	0
Investment in Singapore IPPH JV @ book value	50	44	44	0
Net cash/(debt)		334	458	(27)
RNAV		2,779	2,902	(4)
No. of shares (m)		1,291	1,291	0
RNAV/share (RM)		2.15	2.25	(4)
Target price at RNAV/share		2.15	2.25	(4)

Source: Affin Hwang, Company

Important Disclosures and Disclaimer

Equity Rating Structure and Definitions

BUY	Total return is expected to exceed +10% over a 12-month period
HOLD	Total return is expected to be between -5% and +10% over a 12-month period
SELL	Total return is expected to be below -5% over a 12-month period
NOT RATED	Affin Hwang Investment Bank Berhad does not provide research coverage or rating for this company. Report is intended as information only and not as a recommendation

The total expected return is defined as the percentage upside/downside to our target price plus the net dividend yield over the next 12 months.

OVERWEIGHT	Industry, as defined by the analyst's coverage universe, is expected to outperform the KLCI benchmark over the next 12 months
NEUTRAL	Industry, as defined by the analyst's coverage universe, is expected to perform inline with the KLCI benchmark over the next 12 months
UNDERWEIGHT	Industry, as defined by the analyst's coverage universe is expected to under-perform the KLCI benchmark over the next 12 months

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