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Asian Daily

SunCon (SCOG.KL)

2Q22 results in line; well positioned to benefit from infrastructure projects

Maintain OUTPERFORM
Previous Rating: OUTPERFORM

Target price (RM): 2.10
Previous target price (RM): 2.20

- SunCon's 1H22 net profit +134% YoY to RM66.8mn (50%/47% of street/CS) due to stronger performance of its construction division (PBT +163% YoY). QoQ, 2Q22 net profit -6.4% to RM32.3mn but net profit margins improved to 5.8% (1Q22: 5.5%).
- Healthy outstanding orderbook of RM4.2bn after achieving RM563.1mn new job wins YTD. Potential catalysts: MRT3, precast projects and in-house development projects.
- We trim our FY22/23/24 net profit estimates by 6%/5%/4% to factor in lower margin assumptions due to high building material prices. Consequently, our target price (based on ex-cash P/E) is lowered to RM2.10/share (from RM2.20/share).
- Reiterate OUTPERFORM. With an outstanding track record and strong balance sheet, we believe that SunCon should have a competitive edge for public-private partnership infrastructure projects.

Price (23-Aug-22, RM)	**1.55**	Est. pot. % chg. to TP			35.5
Mkt cap (RM/US$ mn)	2,004 / 447	Blue sky scenario (RM)			3.05
Number of shares (mn)	1,293	Grey sky scenario (RM)			1.18
Free float (%)	17.0	**Performance**	**1M**	**3M**	**12M**
52-wk range (RM)	1.72 - 1.45	Absolute (%)	4.7	(1.9)	(5.5)
ADTO-6M (US$ mn)	0.1	Relative (%)	3.6	1.6	(2.9)

Year	**12/21A**	**12/22E**	**12/23E**	**12/24E**
Revenue (RM mn)	1,729.2	2,386.5	2,647.7	2,747.0
EBITDA (RM mn)	166.8	198.4	224.3	228.3
EBIT (RM mn)	139.4	168.5	196.8	201.4
Net profit (RM mn)	112.6	134.8	156.9	161.2
EPS (CS adj.) (RM)	0.09	0.1	0.12	0.13
Chg. from prev. EPS (%)	n.a.	(5.9)	(5.1)	(4.3)
Consensus EPS (RM)	n.a.	0.1	0.11	0.11
EPS growth (%)	54.7	19.7	16.4	2.8
P/E (x)	17.8	14.8	12.7	12.4
Dividend yield (%)	3.4	4.0	4.7	4.8
EV/EBITDA (x)	12.9	10.7	9.3	8.9
P/B (x)	2.86	2.65	2.45	2.27
ROE (%)	16.9	18.6	20.0	19.0
Net debt/equity (%)	20.4	16.6	9.8	3.2

Source: Company data, Refinitiv, Credit Suisse estimates

SunCon registered a strong net profit growth of 134% YoY to RM66.8mn in 1H21, mainly due to the stronger performance of its construction division (PBT +163% YoY) as productivity continues to normalise to pre-pandemic levels. The 1H22 result was in line with expectations and made up 50% and 47% of street's and our estimates, respectively. On a QoQ basis, net profit was lower by 6.4% to RM32.3mn but net profit margins continue to recover to 5.8% (from 5.5% in 1Q22). While building material prices have come off their peak, they remain relatively high compared to the historical average. However, management believes the situation remains manageable.

- **Construction** segment's PBT +163% YoY to RM87.2mn as revenue +44.1% to RM1.11bn, amid the absence of various stages of lockdowns in 1H21. In 2Q22, revenue and PBT for the segment was lower by 11%, respectively, due to the absence of account finalisation for completed projects that occurred in 1Q22. However, PBT margins remained stable at 7.9% (1Q22: 7.9%).
- **Precast** segment's PBT -19.4% YoY in 1H22 to RM2.9mn, despite revenue +19.9% YoY as the segment's profitability was impacted by the higher steel prices. PBT margins for the segment were lower at 4.0% in 1H22 vs 6.0% in 1H21. QoQ, the segment's revenue -5.4% to RM34.9mn, while PBT +90% to RM1.9mn due to margins expanding to 5.4%. (vs 1Q22: 2.7%).

Figure 1: PBT summary by segment

	Revenue (RM' mn)		YoY (%)	PBT (RM' mn)		YoY (%)	PBT margin	
	1HFY22	1HFY21		1H22	1H21		1HFY22	1HFY21
Construction	1,110.7	770.6	44.1%	87.2	33.2	162.7%	7.9%	4.3%
Precast	71.8	59.9	19.9%	2.9	3.6	-19.4%	4.0%	6.0%

Source: Company data

Still confident of achieving RM2bn new orders for 2022. SunCon's outstanding orderbook stood at a healthy RM4.2bn as at end-June 2022, having secured RM563.1mn in new orders YTD, mainly comprising RM128mn in new precast jobs, a piling package for the JB-Singapore RTS worth RM112mn and additional works on the LRT3 (RM190.7mn). Management remains optimistic in achieving its RM2bn new order for 2022. We believe possible sources of new orders include commercial development and healthcare projects from its parent company. As one of the most well-established contractors with an outstanding track record, coupled with a strong balance sheet strength, we are of the opinion that SunCon will be a front runner for the MRT3 project, especially the elevated works portion (CMC301 or CMC302). It has an extensive experience in rail projects having won contracts for both MRT1 and MRT2 as well as LRT3. SunCon's balance sheet is also in a net cash position as at end-June 2022.

Reiterate OUTPERFORM. We trim our FY22/23/24 net profit estimates by 6%/5%/4% to factor in lower margin assumptions due to high building material prices. Our target price (based on ex-cash P/E) is lowered to RM2.10. We reiterate our OUTPERFORM rating on SunCon and are of the opinion that it is amongst a handful of construction groups in Malaysia with a strong balance sheet that should have a competitive edge for public-private partnership infrastructure projects. SunCon trades on 12.9x FY22 P/E, >1 SD below its historical average of 19.2x (ex-cash P/E of 9.8x, >1 SD below historical average of 16.1x). Foreign ownership is at a trough of 1.9% but has seen small foreign institutions' net inflow of RM5.2mn YTD (vs -RM19.3mn in 2021).

Figure 2: Summary of results

Year-end 31 Dec	1HFY22	1HFY21	% YoY chg	% of CS FY22e	% of str FY22e	2Q22	1Q22	% QoQ chg	2Q21	% YoY chg
Revenue	1,182.5	830.5	42.4%	50%	50%	557.9	624.7	-10.7%	375.3	48.7%
EBITDA	97.6	46.4	110.4%	47%	47%	48.5	49.2	-1.4%	12.2	298.0%
PBT	90.1	36.8	145.2%	47%	51%	43.0	47.2	-8.9%	9.5	351.7%
Net profit	66.8	28.6	133.9%	47%	50%	32.3	34.5	-6.4%	8.3	288.1%

Source: I/B/E/S, Company data, Credit Suisse estimates

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Valuation Methodology and Risks

Target Price and Rating

Valuation Methodology and Risks: (12 months) for SunCon (SCOG.KL)

Method: Our target price of RM2.10 is derived by pegging FY22 estimates to SunCon's historical normalized ex-cash P/E average of 16.5x. We rate the stock OUTPERFORM. We believe SunCon is a relatively 'safe' choice given its 1) large outstanding orderbook, 2) healthy balance sheet with a net-cash position, 3) support from parent company, 4) valuations trading below historical average, 5) industry leader in regards to ESG.

Risk: The main risks to our target price of RM2.10 and OUTPERFORM rating for SunCon include: (1) changes in government policy, (2) increase in payment risk from customers on the back of a prolonged slowdown in the construction and property sector, and (3) a spike in raw material prices.

Companies Mentioned *(Price as of 23-Aug-2022)*

SunCon (SCOG.KL, RM1.55, OUTPERFORM, TP RM2.1)

Disclosure Appendix

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I, Jae Ang, certify that (1) the views expressed in this report accurately reflect my personal views about all of the subject companies and securities and (2) no part of my compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

3-Year Price and Rating History for SunCon (SCOG.KL)

SCOG.KL Date	Closing Price (RM)	Target Price (RM)	Rating
02-Oct-20	1.88	2.50	O *
24-Feb-21	1.66	2.25	
21-May-21	1.63	2.15	
20-Aug-21	1.61	1.85	
18-Nov-21	1.56	1.80	
24-Feb-22	1.47	2.20	

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