

26 May 2022

Sunway Construction Group

1QFY22 Within Expectations

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1QFY22 CNP of RM35.5m came within our/market expectations at 27% each. No dividends declared as expected. YTD replenishment of RM265m trails our/management's target of RM1.5b/RM2.0b. Meanwhile, due to replenishment drought, its outstanding order-book has continued to dwindle, to RM4.4b – lowest since 2QFY17. Post results, keep earnings estimates, MP call and SoP-TP of RM1.52 unchanged.

Within expectations. 1QFY22 CNP of RM35.5m came within our/consensus expectations at 27% each. No dividends declared as expected. SUNCON typically declares dividends in 2Q and 4Q.

Highlights. 1QFY22 CNP of RM35.5m decreased 52% **QoQ** mainly due to lower OP margins (-7ppt) as the previous quarter recorded supernormal OP margin when the group recalibrated margin upwards for projects reaching completion.

YoY, 1QFY22 CNP increased 75% on higher revenue (+37%) and stronger OP margin (+1ppt). The higher revenue stemmed from higher progress billings as 1QFY21 was impacted by MCO 2.0 while the stronger OP margin is attributable to final account closing for completed projects.

YTD, Suncon has replenished RM265m worth of new jobs - trailing behind our RM1.5b target and management's RM2.0b target. With the lack of jobs during the pandemic, tenders have been extremely competitive. Consequently, Suncon have been tendering for new jobs at 3-4% OP margins (vs their typical 5-8% margins) hoping to secure new jobs first and create value engineering to bring margins up later in the project. Current order-book stands at RM4.4b – its lowest since 2QFY17. We expect contract rollouts to pick up in 2H of this year on easing input costs and labour issues. Thus, we keep our RM1.5b target unchanged for now.

For the rest of the year, despite the labour shortages and higher input costs faced by the industry, we expect SUNCON to meet sell-side estimates as they will be completing a number of jobs this year that would see upwards revision in margins upon project completion (due to their prudent recognition of project margins in the initial phase). Hence, we expect OP margins to remain at 7-8%.

Keep FY22-23E earnings unchanged post results.

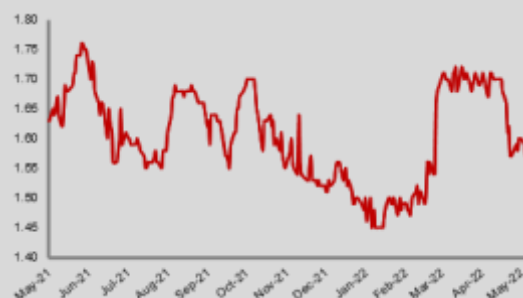
Maintain MP with unchanged SoP-derived TP of RM1.52 anchored to unchanged FY22E PER of 16x on construction earnings, and 10x on precast segment's earnings.

Risks include lower-than-expected margins, and delay in work progress.

MARKET PERFORM ↔

Price : **RM1.58**
Target Price : **RM1.52** ↔

Share Price Performance



KLCI 1,535.56
YTD KLCI chg -2.0%
YTD stock price chg 1.3%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	SCGB MK EQUITY
Market Cap (RM m)	2,037.2
Shares Outstanding	1,289.4
52-week range (H)	1.76
52-week range (L)	1.44
3-mth avg daily vol:	414,856
Free Float	18%
Beta	0.6

Major Shareholders

Sunway Holdings Sdn Bhd	54.6%
Sungei Way Corp Sdn Bhd	10.1%
Employees Provident Fund Board	9.2%

Summary Earnings Table

FYE Dec (RM m)	2021A	2022E	2023E
Turnover	1729.2	2146.0	2257.0
EBIT	152.7	168.8	170.6
PBT	152.2	167.8	165.1
Net Profit	112.6	127.7	126.7
Core PATAMI	127.2	127.7	126.7
Consensus (NP)	n.a.	134.0	145.8
Earnings Revision	n.a.	n.a.	n.a.
Core EPS (sen)	9.9	9.9	9.8
Core EPS growth (%)	54%	0%	-1%
NDPS (sen)	5.3	5.0	5.0
NTA per Share (RM)	0.54	0.59	0.64
Price to NTA (x)	2.9	2.7	2.5
PER (x)	16.0	16.0	16.1
Net Gearing (x)	-0.7	-0.5	0.1
Return on Equity (%)	18%	17%	15%
Net Div. Yield (%)	0.0	0.0	0.0

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Results Highlight								
FYE Dec (RM'm)	1Q22	4Q21	QoQ	1Q21	YoY	1Q22	1Q21	YoY
Revenue	624.7	626.6	0%	455.2	37%	624.7	455.2	37%
Operating Expenses	-583.1	-556.0	5%	-432.3	35%	-583.1	-432.3	35%
Other Operating Income	1.4	14.3	-90%	3.2	-56%	1.4	3.2	-56%
Operating Profit	42.9	84.9	-49%	26.1	64%	42.9	26.1	64%
Finance Income	2.2	1.0	112%	0.8	194%	2.2	0.8	194%
Finance costs	-1.2	-1.1	6%	-1.6	-27%	-1.2	-1.6	-27%
Associates	3.2	1.5	107%	2.0	60%	3.2	2.0	60%
JV	0.0	4.6	-100%	0.0	n.a.	0.0	0.0	n.a.
PBT	47.2	91.0	-48%	27.2	73%	47.2	27.2	73%
Tax	-11.5	-26.0	-56%	-6.9	66%	-11.5	-6.9	66%
PAT	35.6	65.0	-45%	20.3	75%	35.6	20.3	75%
MI	1.1	0.3	326%	0.1	1436%	1.1	0.1	1436%
PATAMI	34.5	64.7	-47%	20.2	71%	34.5	20.2	71%
Exceptionals	-1.0	-9.7	-90%	-0.1	900%	-1.0	-0.1	900%
CNP	35.5	74.4	-52%	20.3	75%	35.5	20.3	75%
DPS	0.0	4.0	-100%	0.0	n.a.	0.0	0.0	n.a.
EBIT margin	7%	14%		6%		7%	6%	
Pretax margin	8%	15%		6%		8%	6%	
NP margin	6%	10%		4%		6%	4%	
CNP margin	6%	12%		4%		6%	4%	
Net gearing (x)	-0.5	-0.6		-0.6		-0.5	-0.6	
Effective tax	24%	29%		25%		24%	25%	

Source: Company, Kenanga Research

Segmental Breakdown								
External Revenue	1Q22	4Q21	QoQ	1Q21	YoY	1Q22	1Q21	YoY
Construction	587.8	579.9	1%	421.3	40%	587.8	421.3	40%
Precast Concrete	36.9	46.7	-21%	33.9	9%	36.9	33.9	9%
Total Revenue	624.7	626.6	0%	455.2	37%	624.7	455.2	37%
Pre-tax Segmentation								
Construction	46.2	88.7	-48%	23.6	96%	46.2	23.6	96%
Precast Concrete	1.0	2.3	-56%	3.6	-72%	1.0	3.6	-72%
Total PBT	47.2	91.0	-48%	27.2	73%	47.2	27.2	73%
PAT Segmentation								
Construction	34.9	60.9	-43%	17.4	100%	34.9	17.4	100%
Precast Concrete	0.8	2.0	-63%	2.9	-74%	0.8	2.9	-74%
Total PAT	35.6	62.9	-43%	20.3	75%	35.6	20.3	75%
PATAMI Segmentation								
Construction	33.8	62.7	-46%	17.3	95%	33.8	17.3	95%
Precast Concrete	0.8	2.0	-63%	2.9	-74%	0.8	2.9	-74%
Total PATAMI	34.5	64.7	-47%	20.2	71%	34.5	20.2	71%
PBT margins								
Construction	8%	15%		6%		8%	6%	
Precast Concrete	3%	5%		11%		3%	11%	
Total	8%	15%		6%		8%	6%	

Source: Company, Kenanga Research

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Sum of Parts Target Price		
Items	Value (RM m)	Remarks
Construction	1,909	Apply 16x FY22F PE
Precast concrete	73	Apply 10x FY22F PE
Equity value	1,983	
No. of shares (m)	1,290	
Equity value per share (RM)	1.52	

Source: Kenanga Research

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Peer Comparison

Name	Last Price (RM)	Market Cap (RM'm)	Shariah Compliant	Current FYE	PER (x) - Core Earnings			PBV (x)		ROE (%)		Net Div Yld (%)	Target Price	Rating
					Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.			
STOCKS UNDER COVERAGE														
GAMUDA BHD	3.48	8,887.7	Y	07/2022	14.6	12.6	16.7	1.0	1.0	7.9%	3.4%	4.00	OP	
IJM CORP BHD	1.75	6,178.3	Y	03/2022	17.3	32.4	20.6	0.6	0.6	10.0%	12.0%	1.90	OP	
KERJAYA PROSPEK GROUP BHD	1.14	1,409.9	Y	12/2022	15.0	8.9	8.8	1.4	1.3	15.3%	3.9%	1.50	OP	
KIMLUN CORP BHD	0.760	268.6	Y	12/2022	N.A.	6.8	5.6	0.4	0.4	5.7%	2.6%	1.00	OP	
MUHIBBAH ENGINEERING (M) BHD	0.560	407.1	Y	12/2022	N.A.	10.6	5.4	0.2	0.2	2.2%	0.0%	0.600	MP	
SUNWAY CONSTRUCTION GROUP BHD	1.58	2,037.2	Y	12/2022	16.1	16.0	16.1	3.2	3.0	19.4%	3.2%	1.52	MP	
WCT HOLDINGS BHD	0.510	722.8	Y	12/2022	N.A.	8.1	10.3	0.2	0.2	4.4%	0.0%	0.620	OP	
Simple Average					15.7	13.6	11.9	1.0	1.0	9.3%	3.6%			

Source: Bloomberg, Kenanga Research

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Stock Ratings are defined as follows:**Stock Recommendations**

OUTPERFORM	: A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM	: A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM	: A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT	: A particular sector's Expected Total Return is MORE than 10%
NEUTRAL	: A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT	: A particular sector's Expected Total Return is LESS than -5%

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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