

"1Q21 results were below expectations"

### Share price performance



	1M	3M	12M
Absolute (%)	-8.7	5.0	-13.4
Rel KLCI (%)	-6.8	5.6	-21.1

	BUY	HOLD	SELL
Consensus	11	4	-

Source: Bloomberg

### Stock Data

Sector	Construction
Issued shares (m)	1,289.4
Mkt cap (RMm)/(US\$m)	2,166.1/522.7
Avg daily vol - 6mth (m)	0.7
52-wk range (RM)	1.50 – 2.01
Est free float	19.3%
Stock Beta	0.80
Net cash/(debt) (RMm)	379.9
ROE (CY21E)	16.3%
Derivatives	Nil
Shariah Compliant	Yes

### Key Shareholders

Sunway	64.7%
EPF	9.0%
ASN	5.9%

Source: Affin Hwang, Bloomberg

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## Sunway Construction (SCGB MK)

**BUY (maintain)**

Up/Downside: +29.8%

**Price Target: RM2.18**

Previous Target (Rating): RM2.22 (BUY)

### Slow start to the year

- Sunway Construction's (SunCon) core earnings grew 22% yoy to RM20.3m in 1Q21 as Movement Control Order (MCO) 2.0 was not as disruptive as MCO 1.0
- New contract wins of RM462m YTD are on track to meet its RM2bn target for 2021. Precast concrete revenue and profit margin improved in 1Q21 but rising steel prices will likely erode profit margins in subsequent quarters
- We cut our core EPS by 5-14% in 2021-23E to reflect lower revenue and profit margins due to MCO disruptions and higher steel costs. We reiterate our BUY call with a lower 12-month RNAV-based target price (TP) of RM2.18

### Below expectations

The core net profit of RM20.3m (+22% yoy) in 1Q21 comprises 15% of the consensus full-year forecast of RM139.8m and 17% of our previous estimate of RM121.5m. Revenue and PBT margin were below our expectations due to operational disruptions caused by MCO 2.0 and higher steel costs. Core earnings fell 46% qoq in 1Q21 due to the one-off final settlement for its Uttar Pradesh project in India recognised in 4Q20.

### Higher revenue and earnings in 1Q21

Revenue jumped 24% yoy to RM455.2m in 1Q21, mainly driven by higher construction revenue (+28% yoy). Pre-cast concrete revenue contracted 6% yoy due to the schedule of delivery to projects, which is expected to pick up in subsequent quarters. Group PBT surged 26% yoy to RM26m in 1Q21 on the back of the higher revenue. Construction PBT increased 14% yoy in 1Q21, but construction PBT margin was lower at 5.6% in 1Q21 compared to 6.2% in 1Q20 due to relatively lower profit margins for new projects secured in 2020, given the competitive construction landscape. Precast concrete PBT jumped 368% yoy in 1Q21 on higher revenue and a PBT margin of 10.8% compared to 2.1% in 1Q20.

### Good prospects to replenish order book

SunCon's high remaining order book of RM5bn will support earnings growth in 2021-23E, and it has good prospects of replenishing its order book with RM7bn of tenders submitted for new projects (50% overseas). Potential hospital and commercial projects worth RM0.7bn could be secured from its parent Sunway this year.

### Maintain BUY call with a lower TP of RM2.18

We gather that the steel cost has jumped 33% yoy in 4M21, putting pressure on the profit margin. Given this and the MCO disruptions, we cut core EPS by 5-14% in 2021-23E. We maintain our BUY call with our RNAV-based TP trimmed to RM2.18 from RM2.22 to reflect lower valuation for its pre-cast concrete segment (reduced sustainable earnings). Key risks: a slow roll-out of infrastructure projects and higher building material costs.

### Earnings & Valuation Summary

FYE 31 Dec	2019	2020	2021E	2022E	2023E
Revenue (RMm)	1,768.7	1,552.7	2,097.4	2,625.0	3,069.8
EBITDA (RMm)	185.2	143.1	164.4	194.1	232.9
Pretax profit (RMm)	157.4	101.1	140.6	169.6	208.5
Net profit (RMm)	129.3	72.8	104.9	128.4	157.9
EPS (sen)	10.0	5.6	8.1	9.9	12.2
PER (x)	16.8	29.8	20.7	16.9	13.7
Core net profit (RMm)	133.2	92.0	104.9	128.4	157.9
Core EPS (sen)	10.3	7.1	8.1	9.9	12.2
Core EPS growth (%)	(11.3)	(31.0)	14.1	22.4	23.0
Core PER (x)	16.3	23.6	20.7	16.9	13.7
Net DPS (sen)	7.0	4.0	7.0	7.0	7.0
Dividend Yield (%)	4.2	2.4	4.2	4.2	4.2
EV/EBITDA	9.6	12.8	11.1	9.6	7.7

Chg in EPS (%)	-13.7	-11.4	-4.5
Affin/Consensus (x)	0.8	0.8	1.0

Source: Company, Bloomberg, Affin Hwang forecasts

Fig 1: Results comparison

FYE 31 Dec (RMm)	1Q20	4Q20	1Q21	QoQ % chg	YoY % chg	1Q21 Comment
<b>Revenue</b>	<b>365.8</b>	<b>627.2</b>	<b>455.2</b>	<b>(27.4)</b>	<b>24.4</b>	Higher construction (+28% yoy) revenue, partly offset by lower precast concrete (-6% yoy) revenue.
Op costs	(337.8)	(572.8)	(420.9)	(26.5)	24.6	
<b>EBITDA</b>	<b>28.0</b>	<b>54.4</b>	<b>34.3</b>	<b>(36.9)</b>	<b>22.5</b>	
<i>EBITDA margin (%)</i>	<i>7.7</i>	<i>8.7</i>	<i>7.5</i>	<i>(1.1ppt)</i>	<i>(0.1ppt)</i>	Lower profit margin for new construction contracts secured in 2020 due to competitive landscape and higher steel costs.
Depn and amort	(9.0)	(7.8)	(8.1)	3.5	(10.0)	
<b>EBIT</b>	<b>19.0</b>	<b>46.5</b>	<b>26.2</b>	<b>(43.7)</b>	<b>37.8</b>	
Interest income	4.6	0.1	0.8	855.7	(83.5)	Lower net cash and returns following cuts in deposit rates.
Interest expense	(2.7)	(0.3)	(1.6)	373.1	(41.9)	
Associates	1.1	3.0	2.0	(33.5)	82.1	
Forex gain (losses)	0.1	(0.5)	(0.0)	(96.8)	NA	
Exceptional items	(0.5)	(7.2)	(0.1)	(98.8)	(80.7)	
<b>Pretax profit</b>	<b>21.6</b>	<b>41.6</b>	<b>27.2</b>	<b>(34.5)</b>	<b>26.0</b>	Higher construction PBT (+14% yoy) due to higher progress billings but lower profit margin. 398% yoy jump in precast concrete PBT in 1Q21 due to higher profit margin.
<b>Core pretax</b>	<b>22.0</b>	<b>49.3</b>	<b>27.4</b>	<b>(44.5)</b>	<b>24.6</b>	
Tax	(4.3)	(11.5)	(6.9)	(39.8)	60.8	
<i>Tax rate (%)</i>	<i>21.0</i>	<i>29.8</i>	<i>27.4</i>	<i>(2.4ppt)</i>	<i>6.4ppt</i>	
Minority interests	(1.0)	0.1	(0.1)	NA	(92.4)	
<b>Net profit</b>	<b>16.4</b>	<b>30.2</b>	<b>20.2</b>	<b>(33.0)</b>	<b>23.8</b>	Below expectations.
<b>Core net profit</b>	<b>16.7</b>	<b>37.9</b>	<b>20.3</b>	<b>(46.3)</b>	<b>22.0</b>	Below expectations. Exclude one-off items.
EPS (sen)	1.3	2.3	1.6	(32.9)	23.6	

Source: Affin Hwang, Company

Fig 2: Segmental revenue breakdown

Segment	1Q20	4Q20	1Q21	QoQ % chg	YoY % chg
Construction	329.6	585.0	421.3	(28.0)	27.8
Precast concrete	36.3	42.2	33.9	(19.7)	(6.6)
<b>Total</b>	<b>365.8</b>	<b>627.2</b>	<b>455.2</b>	<b>(27.4)</b>	<b>24.4</b>

Source: Affin Hwang, Company

Fig 3: Segmental PBT breakdown

Segment	1Q20	4Q20	1Q21	QoQ % chg	YoY % chg
Construction	20.4	10.4	23.6	126.6	15.5
Precast concrete	0.8	3.4	3.6	7.7	368.0
<b>Total</b>	<b>21.2</b>	<b>13.8</b>	<b>27.2</b>	<b>97.5</b>	<b>28.4</b>

Source: Affin Hwang, Company

Fig 4: Segmental PBT margin

Segment	1Q20	4Q20	1Q21	QoQ ppt	YoY ppt
Construction	6.2	1.8	5.6	3.8	(0.6)
Precast concrete	2.1	8.0	10.8	2.7	8.6
<b>Total</b>	<b>5.8</b>	<b>2.2</b>	<b>6.0</b>	<b>3.8</b>	<b>0.2</b>

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	315	400	(21)
Investment in Singapore IPPH JV @ book value	50	44	45	(1)
Net cash/(debt)		380	339	12
<b>RNAV</b>		<b>2,819</b>	<b>2,864</b>	<b>(2)</b>
No. of shares (m)		1,291	1,291	0
<b>RNAV/share (RM)</b>		<b>2.18</b>	<b>2.22</b>	<b>(2)</b>
<b>Target price at RNAV/share</b>		<b>2.18</b>	<b>2.22</b>	<b>(2)</b>

Source: Affin Hwang, Company



## Important Disclosures and Disclaimer

### Equity Rating Structure and Definitions

<b>BUY</b>	Total return is expected to exceed +10% over a 12-month period
<b>HOLD</b>	Total return is expected to be between -5% and +10% over a 12-month period
<b>SELL</b>	Total return is expected to be below -5% over a 12-month period
<b>NOT RATED</b>	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.*

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