

Asian Daily

SunCon (SCOG.KL)

Bumpy start to the year

Maintain **OUTPERFORM**

Previous Rating: **OUTPERFORM**

Target price (RM): **2.15**

Previous target price (RM): 2.25

- SunCon's 1QFY21 net profit +23.8% YoY to RM20.2 mn (15%/14% of St's/CS' est) on better performance across all business segments and the absence of a full-scale lockdown which impacted 1QFY20. QoQ, net profit -33% due to lower operating efficiency on the back of MCO 2.0.
- Healthy outstanding orderbook of RM5.0bn after achieving RM462mn new job wins YTD (vs target RM2bn). Other catalysts: LSS4, in-house development projects, precast projects, India infrastructure projects.
- We lower our FY21-23 net profit estimates by -2.3% to -5.1% to factor in slower construction progress and lower margins. Our TP is reduced to RM2.15 (from RM2.25).
- Stay **OUTPERFORM**. SunCon's orderbook replenishment prospects remains healthy and it is better positioned to weather through uncertainties among peers. Trades on 12x ex-cash FY21 P/E, 1 std dev below its historical average.

SunCon's 1QFY21 net profit grew 23.8% YoY to RM20.2 mn amid the absence of a complete lockdown (MCO 1.0) in 1QFY20. The 1QFY21 results made up 15%/14% of street's and our net profit estimates, respectively. On a QoQ basis, net profit was weaker by 33% on the back of the implementation of MCO 2.0 (from 13 January 2021 until 4 March 2021) where SunCon was only operating at 50% capacity in the first two weeks before recovering to its normal run-rate. The implementation of MCO 3.0 (from 3 May until 7 June) has minimal impact on SunCon's operations as all economic activities are allowed to continue. Having said that, with the surge in new Covid-19 cases in recent weeks, there is heightened risk that a complete lockdown (similar to MCO 1.0) could be reinstated to curb the spread of the virus. On its India project, SunCon has obtained financial close for the Meensurutti-Chidambaram project. Management guided that there is no delay for commencement of construction and the Covid-19 outbreak is manageable given the less dense population around project site.

- **Construction PBT +13.5% YoY in 1QFY21 to RM23.6mn** as revenue rebounded by 27.8% YoY to RM421.3mn amid the absence of a full-scale lockdown in 1QFY20. QoQ, construction revenue and PBT were lower by 28.0% and 36.7%, respectively, due to the absence of the final settlement from an India project coupled with the lower operating capacity during MCO 2.0. 1QFY21 PBT margin was lower at 5.6% (vs 6.3% in 1Q20) due to lower margin projects on hand.
- **Precast segment PBT +350% YoY in 1QFY21 to RM3.6mn** despite revenue being lower by 6.4% YoY. The better results of the precast segment can be attributable to the recognition of higher

Figure 2: Summary of results

Year-end 31 Dec	1QFY21	1QFY20	% YoY chg	% of CS FY21e	% of str FY21e	4Q20	% QoQ chg
Revenue	455.2	365.8	24.4%	19%	21%	627.2	-27.4%
EBITDA	34.2	27.7	23.5%	16%	17%	46.7	-26.7%
PBT	27.2	21.6	26.0%	14%	15%	41.6	-34.5%
Net profit	20.2	16.4	23.8%	14%	15%	30.2	-33.0%

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

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Price (20-May-21, RM)	1.68	Est. pot. % chg. to TP	28.0	
Mkt cap (RM/US\$ mn)	2,172 / 525	Blue sky scenario (RM)	4.15	
Number of shares (mn)	1,293	Grey sky scenario (RM)	1.48	
Free float (%)	19.7	Performance		
52-wk range (RM)	2.00 - 1.51	Absolute (%)	1M 3M 12M	
ADTO-6M (US\$ mn)	0.3	Relative (%)	(8.7) 5.0 (13.4)	
			(6.7) 5.6 (23.2)	
Year	12/20A	12/21E	12/22E	12/23E
Revenue (RM mn)	1,552.7	2,240.5	2,490.0	2,672.3
EBITDA (RM mn)	124.0	206.6	224.1	252.1
EBIT (RM mn)	90.5	180.8	202.1	233.0
Net profit (RM mn)	72.8	140.0	155.8	177.4
EPS (CS adj.) (RM)	0.06	0.11	0.12	0.14
Chg. from prev. EPS (%)	n.a.	(5.1)	(2.5)	(2.3)
Consensus EPS (RM)	n.a.	0.11	0.12	0.12
EPS growth (%)	(43.7)	92.3	11.3	13.9
P/E (x)	29.8	15.5	13.9	12.2
Dividend yield (%)	2.4	3.9	4.3	4.9
EV/EBITDA (x)	14.8	8.4	8.3	7.2
P/B (x)	3.4	3.13	2.87	2.62
ROE (%)	11.6	21.0	21.5	22.4
Net debt/equity (%)	(52.2)	(61.5)	(39.7)	(42.8)

Source: Company data, Refinitiv, Credit Suisse estimates

yielding projects which helped PBT margin grew from 2.2% in 1QFY20 to 10.6% in 1QFY21.

Figure 1: PBT summary by segment

	PBT (RM' mn)		YoY (%)	PBT margin	
	1Q21	1Q20		1Q21	1Q20
Construction	23.6	20.8	13.5%	5.6%	6.3%
Precast	3.6	0.8	350.0%	10.6%	2.2%

Source: Company data

SunCon's outstanding orderbook stood at a healthy RM5.0bn as at end-Mar 2021 having secured RM462mn new jobs YTD and is on track to meet management's RM2.0bn new orderbook target. Among the possible sources of new job, we believe that SunCon is very well positioned to win EPCC jobs on large-scale solar projects (potentially RM140mn per package) which could be announced by Aug 2021. If successful, this would be its maiden foray into the large scale renewal energy sector. Other potential new contract wins are from in-house development projects, precast contracts and infrastructure projects in India. We also believe that SunCon is well positioned to benefit from mega infrastructure projects locally once they are rolled-out.

Stay OUTPERFORM on SunCon. SunCon's orderbook replenishment prospects remain healthy and it is better positioned to weather through uncertainties among peers. SunCon trades on 12x ex-cash FY21 P/E, 1 std dev below its historical average of 16.5x.

Valuation Methodology and Risks

Target Price and Rating

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

Method: Our target price of RM2.15 is derived by pegging FY21e estimates to SunCon's historical ex-cash P/E average of 16.5x. We rate the stock OUTPERFORM. SunCon's orderbook replenishment prospects remains healthy and it is better positioned to weather through uncertainties among peers.

Risk: The main risks to our target price of RM2.15 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.

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

SCOG.KL	Closing Price	Target Price	Rating
Date	(RM)	(RM)	
02-Oct-20	1.88	2.50	O *
24-Feb-21	1.66	2.25	



* Asterisk signifies initiation or assumption of coverage.

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Outperform (O) : The stock's total return is expected to outperform the relevant benchmark* over the next 12 months.

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Rating	Versus universe (%)	Of which banking clients (%)
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Restricted	1%	

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