

HLIB Research

PP 9484/12/2012 (031413)

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BUY (Maintain)

Target Price: RM2.17

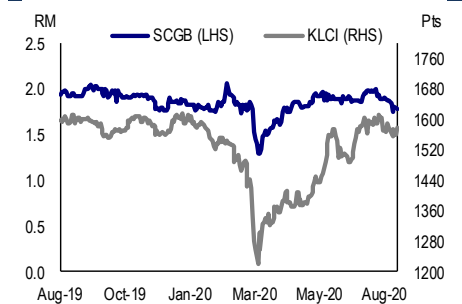
Previously: RM2.10

Current Price: RM1.79

Capital upside	21.2%
Dividend yield	1.3%
Expected total return	22.5%

Sector coverage: Construction
Company description: SunCon is involved in construction and precast products.

Share price



	1M	3M	12M
Absolute	-10.1	-6.3	-11.4
Relative	-9.0	-15.4	-10.3

Stock information

Bloomberg ticker	SCGB MK
Bursa code	5263
Issued shares (m)	1,289
Market capitalisation (RM m)	2,308
3-mth average volume ('000)	629
SC Shariah compliant	Yes

Major shareholders

Sunway Holdings Sdn Bhd	54.6%
Sungei Way Corp Sdn Bhd	10.1%
EPF	9.1%

Earnings summary

FYE (Dec)	FY19	FY20f	FY21f
PATMI - core (RM m)	134	89	161
EPS - core (sen)	10.4	6.9	12.5
P/E (x)	17.3	26.0	14.3

Sunway Construction Group

Commendable performance

SunCon's 1HFY20 earnings of RM22m (-65% YoY) were slightly below our and consensus expectations. 2QFY20 core PATAMI decreased due to lower contribution from construction and precast segments as a result of the MCO. Outstanding order book of RM6.3bn translates into a healthy 3.6x cover ratio. We expect stronger earnings in 2HFY20 as work progress normalises post-MCO. Cut FY20 earnings by 4% and increase FY21-22 earnings by 3-5% as we recalibrate new jobs contribution. Maintain BUY with higher TP of RM2.17 after earnings adjustment based on 15x ex-cash PE multiple.

Slightly below. SunCon reported 2QFY20 results with revenue of RM140.2m (-62% QoQ, -68% YoY) and core earnings of RM4.6m (-74% QoQ, -86% YoY). This brings 1HFY20 core earnings to RM22m, decreasing by -65% YoY. Core earnings accounted for 24% of our and consensus full year forecast which is slightly below expectations even after accounting for a post-MCO rebound in 2H.

Dividends. First interim DPS of 1.25 sen going ex. on 9 Sept-20 was declared for the quarter (1HFY19: 3.5 sen).

Deviations. The results shortfall was attributed mainly to weak progress billings at its construction and precast segment due to the 2 months of little to no activity resulting from the MCO.

YoY/QoQ. YoY and QoQ core PATAMI declined by -74% and -86% respectively due to lower construction and precast revenue pursuant to the MCO. Compounding the topline decline was negative operating leverage. Stringent worker testing also impeded resumption of works post-lifting stop work order in June. Precast dipped into losses (LBT: -RM3.5m) in 2QFY20 as closure of SG-MY border prevented order deliveries.

YTD. Core earnings declined (-65%) dragged by MCO, hampering its construction and precast activities. Subsequent to the MCO, its construction fully normalised only towards end 2QFY20 while precast was plagued by the closure of SG-MY border resulting in inability to execute orders.

Recovering operations. According to management, construction operations have largely normalised since end-June with current productivity levels little changed from pre-MCO levels. This is much quicker than earlier guidance of end 3QFY20. On the precast side, utilisation rates are hovering at c.30% (pre-MCO: 60%) as construction activities in Singapore remains subdued. We believe once construction normalises, Suncon's precast operations should recover in tandem.

New job wins. Along with the results release, Suncon announced 2 internal job awards. They are for: i) construction of commercial mixed development in Bandar Sunway for a contract sum of RM463.2m which commenced in mid-July-2020 spanning 40 months and ii) development of 3 blocks of service apartments at Jalan Belfield, KL for a contract sum of RM402.8m lasting 44 months. Collectively, this uplifts outstanding orderbook by c.16%.

Delayed but intact guidance. SunCon's latest outstanding orderbook stands at c.RM6.3bn, translating into a healthy level of 3.6x cover of FY19 revenue. Active outstanding tenderbook stands at RM8.5bn, largely overseas focused. Despite a difficult year, Suncon has so far clinched c.RM1.6bn worth of jobs, inching closer to its replenishment guidance of RM2bn. We believe this is achievable given its growing tenderbook (against RM7.3bn as at 1QFY20) inflated by new tenders in India and Philippines.

Forecast. Cut FY20 earnings by 4.1% after delaying earnings recognition from new job wins. Increase FY21-22 earnings by 2.7% and 4.7% respectively after factoring in delayed recognition.

Maintain BUY, TP: RM2.17. Maintain BUY with higher TP of RM2.17 after earnings forecast adjustment. TP is derived by pegging FY21 EPS to 15x ex-cash P/E. We believe given its impressive execution track record, Suncon is well positioned to partake in pump priming initiatives. Its healthy balance sheet with net cash position of RM0.30/share and strong support from parent-co Sunway Bhd should provide some degree of resiliency during these trying times.

Figure #1 Quarterly results comparison

FYE Dec (RM m)	2QFY19	1QFY20	2QFY20	QoQ (%)	YoY (%)	1HFY19	1HFY20	YoY (%)
Revenue	440.0	485.9	365.8	(24.7)	(16.9)	880.2	506.0	(42.5)
EBIT	36.2	35.5	19.9	(44.0)	(45.1)	73.9	22.5	(69.6)
Finance income	4.2	8.7	5.2	(39.4)	24.1	11.4	9.8	(14.3)
Finance cost	(2.3)	(3.4)	(2.7)	(20.4)	17.8	(5.9)	(5.0)	(14.7)
PBT	38.2	45.2	22.4	(50.4)	(41.2)	79.4	27.3	(65.6)
PAT	29.7	37.4	18.1	(51.6)	(39.0)	62.6	22.7	(63.7)
Core PATMI	29.1	36.3	17.6	(51.7)	(39.6)	62.2	22.1	(64.5)
Reported PATMI	31.0	31.6	16.4	(48.3)	(47.3)	64.2	18.4	(71.3)
Core EPS (sen)	2.2	2.8	1.4	(51.7)	(39.6)	4.8	1.7	(64.5)
EBIT margin (%)	8.2	7.3	5.4			8.4	4.4	
PBT margin (%)	8.7	9.3	6.1			9.0	5.4	
PATMI margin (%)	6.6	7.5	4.8			7.1	4.4	

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Financial Forecast

All items in (RM m) unless otherwise stated

Balance Sheet

FYE Dec (RM m)	FY18	FY19	FY20f	FY21f	FY22f
Cash	485	693	667	967	925
Receivables	917	847	654	1,098	1,033
Inventories	30	25	16	27	26
PPE	163	139	121	101	79
Others	160	202	206	210	215
Assets	1,754	1,905	1,665	2,403	2,278
Debits	114	286	241	500	375
Payables	874	880	627	1,040	976
Others	175	114	114	114	114
Liabilities	1,162	1,280	981	1,654	1,464
Shareholder's equity	591	623	681	747	810
Minority interest	1	2	2	2	2
Equity	593	625	684	749	812

Cash Flow Statement

FYE Dec (RM m)	FY18	FY19	FY20f	FY21f	FY22f
Profit before taxation	183	162	114	207	195
Depreciation & amortisation	40	40	38	40	42
Changes in working capital	21	81	(52)	(41)	2
Share of JV profits	(1)	(4)	(4)	(4)	(4)
Taxation	(38)	(27)	(24)	(45)	(42)
Others	(16)	-	-	-	1
Operating cash flow	189	252	71	157	194
Net capex	(50)	(20)	(20)	(20)	(20)
Others	(25)	-	-	-	-
Investing cash flow	(74)	(20)	(20)	(20)	(20)
Changes in borrowings	(21)	172	(45)	259	(125)
Issuance of shares	-	-	-	-	-
Dividends paid	(90)	(90)	(31)	(97)	(90)
Others	(7)	-	-	-	-
Financing cash flow	(118)	82	(76)	162	(215)
Net cash flow	(3)	314	(25)	299	(42)
Forex	1	-	-	-	-
Others	-	-	-	-	-
Beginning cash	487	485	693	667	967
Ending cash	485	693	667	967	925

Income Statement

FYE Dec (RM m)	FY18	FY19	FY20f	FY21f	FY22f
Revenue	2,257	1,769	1,492	2,504	2,356
EBITDA	215	186	137	238	231
EBIT	175	146	100	198	189
Net finance income/ (cost)	8	12	10	5	2
Associates & JV	1	4	4	4	4
Profit before tax	183	162	114	207	195
Tax	(38)	(27)	(24)	(45)	(42)
Net profit	145	135	90	163	153
Minority interest	(0)	(1)	(1)	(1)	(1)
Core earnings	145	134	89	161	152
Exceptional items	-	(5)	-	-	-
Reported earnings	145	129	89	161	152

Valuation & Ratios

FYE Dec (RM m)	FY18	FY19	FY20f	FY21f	FY22f
Core EPS (sen)	11.2	10.4	6.9	12.5	11.8
P/E (x)	16.0	17.3	26.0	14.3	15.2
EV/EBITDA (x)	8.9	10.3	13.9	8.0	8.3
DPS (sen)	7.0	7.0	2.4	7.5	7.0
Dividend yield	3.9%	3.9%	1.3%	4.2%	3.9%
BVPS (RM)	0.46	0.48	0.53	0.58	0.63
P/B (x)	3.9	3.7	3.4	3.1	2.9
EBITDA margin	9.5%	10.5%	9.2%	9.5%	9.8%
EBIT margin	7.7%	8.2%	6.7%	7.9%	8.0%
PBT margin	8.1%	9.2%	7.6%	8.3%	8.3%
Net margin	6.4%	7.6%	6.0%	6.4%	6.5%
ROE	25.3%	22.1%	13.6%	22.6%	19.5%
ROA	7.9%	7.3%	4.2%	5.7%	4.6%
Net gearing	CASH	CASH	CASH	CASH	CASH

Assumptions

FYE Dec (RM m)	FY18	FY19	FY20f	FY21f	FY22f
Construction	1,324	1,612	1,800	2,000	2,000
Precast	229	159	200	200	200
Total new job wins	1,553	1,771	2,000	2,200	2,200

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Published & printed by:

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Stock rating guide

BUY	Expected absolute return of +10% or more over the next 12 months.
HOLD	Expected absolute return of -10% to +10% over the next 12 months.
SELL	Expected absolute return of -10% or less over the next 12 months.
UNDER REVIEW	Rating on the stock is temporarily under review which may or may not result in a change from the previous rating.
NOT RATED	Stock is not or no longer within regular coverage.

Sector rating guide

OVERWEIGHT	Sector expected to outperform the market over the next 12 months.
NEUTRAL	Sector expected to perform in-line with the market over the next 12 months.
UNDERWEIGHT	Sector expected to underperform the market over the next 12 months.

The stock rating guide as stipulated above serves as a guiding principle to stock ratings. However, apart from the abovementioned quantitative definitions, other qualitative measures and situational aspects will also be considered when arriving at the final stock rating. Stock rating may also be affected by the market capitalisation of the individual stock under review.