

HLIB Research

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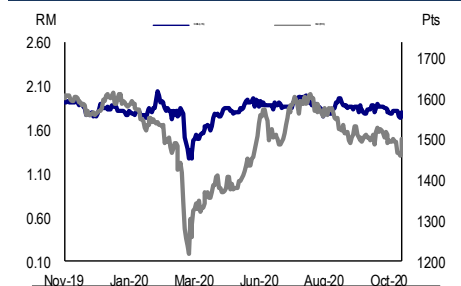
BUY (Maintain)

Target Price: **RM2.11**
Previously: **RM2.11**
Current Price: **RM1.83**

Capital upside	15.3%
Dividend yield	1.3%
Expected total return	16.6%

Sector coverage: Construction

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

Share price


Historical return (%)	1M	3M	12M
Absolute	-1.1	2.3	-5.3
Relative	-5.4	1.8	-3.9

Stock information

Bloomberg ticker	SCGB MK
Bursa code	5263
Issued shares (m)	1,289
Market capitalisation (RM m)	2,408
3-mth average volume ('000)	580
SC Shariah compliant	Yes

Major shareholders

Sunway Berhad	64.5%
EPF	9.1%

Earnings summary

FYE (Dec)	FY19	FY20f	FY21f
PATMI - core (RM m)	134	87	156
EPS - core (sen)	10.4	6.8	12.1
P/E (x)	17.6	27.1	15.2

Sunway Construction Group

Strong rebound

SunCon's 9MFY20 earnings of RM54m (-45% YoY) were within our but above consensus expectations. 3QFY20 core PATAMI rebounded post-MCO with construction segment normalising while precast is anticipated to normalise by 4QFY20. Outstanding order book of RM5.6bn translates into a healthy 3.2x cover ratio. We expect stronger earnings going into FY21 partly driven by projects approaching optimal phase. Maintain forecasts and BUY call with unchanged TP of RM2.11 based on 15x ex-cash PE multiple.

Within expectations. SunCon reported 3QFY20 results with revenue of RM419.4m (+199% QoQ, +4% YoY) and core PATAMI of RM31.9m (+600% QoQ, -10% YoY). This brings 9MFY20 core PATAMI to RM54m, decreasing by -45% YoY. Core PATAMI accounted for 62% and 71% of our and consensus full year forecast which is within ours but above consensus expectations after accounting for backend heavy FY20 due to MCO.

Dividends. No dividends were declared for the quarter (9MFY20: 1.25 sen; 9MFY19: 3.50 sen).

QoQ. Core PATAMI surged 7-fold as revenue rebounded (+199%) with both construction and precast segments revenue surging by 194% and 434% respectively. This was largely due to low base effect in 2QFY20 as various forms of MCO were imposed in Malaysia resulting in construction inactivity up to 2.5 months whilst imposition of circuit breaker hampered precast deliveries to Singapore.

YoY. Core PATAMI declined by -10% despite revenue growth of 4% (Construction revenue: +11%; Precast revenue: -57%) mainly due to higher effective tax rate as a result of under provision previously. At the operating profit level, performance was up by 12% as higher margin precast projects kicked in coupled with higher construction contribution driven by the TNB project.

YTD. Core PATAMI fell by -45% in tandem with sharp revenue contraction of -28%. This was on the back of construction inactivity from 18-Mar to 31-May with a majority of June spent normalising productivity levels. On the precast side, operations were hampered for most of 2QFY20 while 3QFY20 productivity levels were less than 50% due to slow construction restart in Singapore.

Healthy orderbook. SunCon's latest outstanding orderbook (including Oct job wins) stands at 5.6bn translating into a healthy 3.2x cover. Despite a difficult year, SunCon trumped its replenishment guidance (6 years running). Management is expecting FY21 order wins of RM2.0bn, flattish relative to FY20 but c.13%/29% higher than FY18/19. We estimate 61% of outstanding orderbook comes from jobs won in FY19 and FY20 suggesting strong earnings recognition going into FY21 as these projects enter optimal construction phase. To achieve their FY21 target, SunCon maintains a tenderbook of RM5.3bn whereby >50% are jobs in India (Metro), Singapore (precast) and Philippines (piling) as these countries embark on infrastructure drives. To be conservative, we are pencilling in RM1.7bn for FY21.

Precast. Precast segment profitability rebounded as PBT margins improved by 7ppts YoY as higher margin projects kicked in. We expect sustained rebound in coming quarters as all jobs have been given green light to commence work by end Sept-2020 compared to only 19% approved by end June-2020. Aiding the recovery is sustained launches of BTO units amounting to 16.7k YTD (2019: 14.6k; 2018: 15.8k).

Forecast. Maintained as earnings are inline.

Maintain BUY, TP: RM2.11. Maintain BUY with unchanged TP of RM2.11. 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 RM0.25/share and strong support from parent-co Sunway Bhd should provide job flow clarity during these uncertain times.

Figure #1 Quarterly results comparison

FYE Dec (RM m)	3QFY19	2QFY20	3QFY20	QoQ (%)	YoY (%)	9MFY19	9MFY20	YoY (%)
Revenue	402.6	140.2	419.4	199.2	4.2	1,282.8	925.4	(27.9)
EBIT	36.4	2.6	40.8	1,487.6	12.0	110.3	63.3	(42.6)
Finance income	5.1	4.5	4.6	1.7	(10.3)	16.5	14.3	(13.0)
Finance cost	(3.9)	(2.3)	(1.6)	(31.8)	(59.9)	(9.8)	(6.6)	(32.8)
PBT	37.6	4.8	43.8	805.3	16.5	117.0	71.1	(39.2)
PAT	35.1	4.6	32.1	593.8	(8.5)	97.7	54.8	(43.9)
Core PATMI	35.5	4.6	31.9	600.0	(10.2)	97.8	54.0	(44.8)
Reported PATMI	33.5	2.1	24.0	1,068.8	(28.2)	97.7	42.5	(56.5)
Core EPS (sen)	2.7	0.4	2.5	600.0	(10.2)	7.6	4.2	(44.8)
EBIT margin (%)	9.0	1.8	9.7			8.6	6.8	
PBT margin (%)	9.3	3.5	10.4			9.1	7.7	
PATMI margin (%)	8.8	3.3	7.6			7.6	5.8	

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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	968	930
Receivables	917	847	652	1,096	1,046
Inventories	30	25	16	27	26
PPE	163	139	121	101	79
Others	160	202	206	210	215
Assets	1,754	1,905	1,662	2,403	2,296
Debts	114	286	240	500	381
Payables	874	880	625	1,042	992
Others	175	114	114	114	114
Liabilities	1,162	1,280	979	1,656	1,488
Shareholder's equity	591	623	680	744	805
Minority interest	1	2	2	2	2
Equity	593	625	683	746	807

Cash Flow Statement

FYE Dec (RM m)	FY18	FY19	FY20f	FY21f	FY22f
Profit before taxation	183	162	112	200	190
Depreciation & amortisation	40	40	38	40	42
Changes in working capital	21	81	(51)	(38)	1
Share of JV profits	(1)	(4)	(4)	(4)	(4)
Taxation	(38)	(27)	(24)	(43)	(41)
Others	(16)	-	-	-	1
Operating cash flow	189	252	71	154	189
Net capex	(50)	(20)	(20)	(20)	(20)
Others	(25)	-	-	-	-
Investing cash flow	(74)	(20)	(20)	(20)	(20)
Changes in borrowings	(21)	172	(46)	260	(119)
Issuance of shares	-	-	-	-	-
Dividends paid	(90)	(90)	(31)	(93)	(88)
Others	(7)	-	-	-	-
Financing cash flow	(118)	82	(76)	167	(207)
Net cash flow	(3)	314	(26)	301	(38)
Forex	1	-	-	-	-
Others	-	-	-	-	-
Beginning cash	487	485	693	667	968
Ending cash	485	693	667	968	930

Income Statement

FYE Dec (RM m)	FY18	FY19	FY20f	FY21f	FY22f
Revenue	2,257	1,769	1,487	2,500	2,387
EBITDA	215	186	135	231	226
EBIT	175	146	98	191	184
Net finance income/ (cost)	8	12	10	5	2
Associates & JV	1	4	4	4	4
Profit before tax	183	162	112	200	190
Tax	(38)	(27)	(24)	(43)	(41)
Net profit	145	135	88	157	149
Minority interest	(0)	(1)	(1)	(1)	(1)
Core earnings	145	134	87	156	148
Exceptional items	-	(5)	-	-	-
Reported earnings	145	129	87	156	148

Valuation & Ratios

FYE Dec (RM m)	FY18	FY19	FY20f	FY21f	FY22f
Core EPS (sen)	11.2	10.4	6.8	12.1	11.4
P/E (x)	16.4	17.6	27.1	15.2	16.0
EV/EBITDA (x)	9.1	10.5	14.5	8.5	8.7
DPS (sen)	7.0	7.0	2.4	7.2	6.8
Dividend yield	3.8%	3.8%	1.3%	4.0%	3.7%
BVPS (RM)	0.46	0.48	0.53	0.58	0.62
P/B (x)	4.0	3.8	3.5	3.2	2.9
EBITDA margin	9.5%	10.5%	9.1%	9.2%	9.5%
EBIT margin	7.7%	8.2%	6.6%	7.6%	7.7%
PBT margin	8.1%	9.2%	7.5%	8.0%	8.0%
Net margin	6.4%	7.6%	5.9%	6.2%	6.2%
ROE	25.3%	22.1%	13.4%	21.9%	19.1%
ROA	7.9%	7.3%	4.1%	5.5%	4.5%
Net gearing	CASH	CASH	CASH	CASH	CASH

Assumptions

FYE Dec (RM m)	FY18	FY19	FY20f	FY21f	FY22f
Construction	1,324	1,612	2,281	1,500	2,000
Precast	229	160	38	200	200
Total new job wins	1,553	1,772	2,319	1,700	2,200

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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.

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