

**HLIB Research**

PP 9484/12/2012 (031413)

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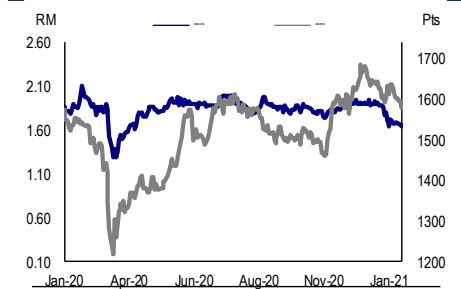
**BUY** (Maintain)

**Target Price: RM2.01**
**Previously: RM2.01**
**Current Price: RM1.66**

Capital upside	21.1%
Dividend yield	4.1%
Expected total return	25.2%

**Sector coverage:** Construction

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

**Share price**


Historical return (%)	1M	3M	12M
Absolute	-12.6	-6.7	-10.8
Relative	-9.5	-12.0	-11.4

**Stock information**

Bloomberg ticker	SCGB MK
Bursa code	5263
Issued shares (m)	1,289
Market capitalisation (RM m)	2,146
3-mth average volume ('000)	580
SC Shariah compliant	Yes

**Major shareholders**

Sunway Berhad	64.5%
EPF	9.2%

**Earnings summary**

FYE (Dec)	FY20	FY21f	FY22f
PATMI - core (RM m)	91	147	148
EPS - core (sen)	7.1	11.4	11.4
P/E (x)	23.4	14.6	14.5

# Sunway Construction Group

## Strong finish

SunCon's FY20 earnings of RM92m (-32% YoY) were above our and consensus expectations. Both segments continued to improve with construction billings picking up driven by new projects while precast was buoyed by normalising activity in SG. Looking ahead into 1Q21, productivity is expected to slow down due to MCO2.0. Outstanding order book of RM5.1bn translates into a healthy 3.3x cover ratio. Maintain forecasts and BUY call with unchanged TP of RM2.01 based on 15x ex-cash PE multiple.

**Above expectations.** SunCon reported 4QFY20 results with revenue of RM627.2m (49.6% QoQ, 29.1% YoY) and core PATAMI of RM37.9m (18.7% QoQ, 4.2% YoY). This brings FY20 core PATAMI to RM91.9m, decreasing by -31.5% YoY. Core PATAMI accounted for 113% and 121% of our and consensus full year forecast which beats both our and consensus expectations. Note that core earnings have been adjusted for disposal loss (RM1.1m), impairment (RM5.5m) liability accretion (RM0.6m) and net translation/forex loss of RM0.5m.

**Deviations.** The strong results were mainly due to higher than expected construction and precast activity.

**Dividends.** DPS of 2.75 sen going ex on 12 March 2021 was declared for the quarter (FY20: 4.0 sen; FY19: 7.0 sen).

**QoQ.** Core PATAMI increased by 18.7% on the back of topline recovery in both construction (+45.0%) and precast (+2.6x) segments. Construction revenue was boosted by final settlement of the Utta Pradesh project (c.RM40m) as well as commencement of work at Sunway Carnival Mall Extension and Sunway Medical Centre Seberang Jaya projects. Meanwhile, precast activity recovered on the back of resumption of construction activity in Singapore.

**YoY.** Core PATAMI increased by 4.2% buoyed by revenue growth of 29.1%. Construction revenue grew by 32.8% but was partially offset by -7.1% decline for its precast segment as construction activity in Singapore continues to gradually normalise. Lower finance income (-64.8%) also helped reduced earnings growth on a YoY basis.

**YTD.** Core PATAMI contracted by -31.5% in tandem with topline decline of -12.2% due to various forms of MCO imposed subsequent to the pandemic outbreak in Malaysia and Singapore. This brought about 2.5 months of inactivity as well as periods of suboptimal productivity for both segments.

**Solid orderbook.** SunCon's latest outstanding orderbook stands at RM5.1bn translating into a healthy 3.3x cover (excluding 2021 job wins). So far in 2021, SunCon has secured RM366m worth of jobs made up of RM110m precast and a RM256m in-house job (pending LoA). Management has a RM2bn replenishment target in 2021 to be dominated by in-house jobs (similar to FY20). Some of the earmarked jobs include Sunway Valley City (RM750m), Giza Medical Centre (RM200m), LSS4 EPCC (RM100m), precast (RM200m), KLCC as well as conversion of remaining tenders of highways in India. Outstanding tenderbook stands at RM5.4bn whereby >50% are jobs in India (Metro/highways), Singapore (precast) and Philippines (piling) as these countries embark on infrastructure drives.

**Precast.** Precast segment profitability improved with PBT margin expanding by 4.8ppts YoY driven by recognition of higher margin projects. Nonetheless, 2H21 may see softer margins if steel prices sustain at current levels. Recall that SunCon has locked in steel prices for a period of 6 months. Precast contract flows is expected to

be healthy given that planned BTO launches for 2021 remains strong at 17k units (2020: 16.8k; 2019: 14.6k).

**Forecast.** Despite the earnings beat, we maintain forecasts due to uncertainties surrounding impact of MCO2.0 and sustainability of elevated steel prices.

**Maintain BUY, TP: RM2.01.** Maintain BUY with unchanged TP of RM2.01. 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 RM0.26/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)	4QFY19	3QFY20	4QFY20	QoQ (%)	YoY (%)	FY19	FY20	YoY (%)
Revenue	485.9	419.4	627.2	49.6	29.1	1,768.7	1,552.7	(12.2)
EBIT	35.5	40.8	46.5	13.9	30.8	145.8	109.7	(24.7)
Finance income	8.7	4.6	3.0	(33.5)	(64.8)	25.2	17.4	(30.9)
Finance cost	(3.4)	(1.6)	(0.3)	(78.7)	(90.1)	(13.2)	(6.9)	(47.6)
PBT	45.2	43.8	49.2	12.4	8.9	162.2	120.3	(25.8)
PAT	37.4	32.1	37.7	17.6	0.9	135.1	92.5	(31.5)
Core PATMI	36.3	31.9	37.9	18.7	4.2	134.1	91.9	(31.5)
Reported PATMI	31.6	24.0	30.2	25.6	(4.5)	129.3	72.7	(43.8)
Core EPS (sen)	2.8	2.5	2.9	18.7	4.2	10.4	7.1	(31.5)
EBIT margin (%)	7.3	9.7	7.4			8.2	7.1	
PBT margin (%)	9.3	10.4	7.9			9.2	7.7	
PATMI margin (%)	7.5	7.6	6.0			7.6	5.9	

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**Figure #2** Financial forecast summary

FYE Dec (RM m)	FY18	FY19	FY20	FY21f	FY22f
Revenue	2,256.8	1,768.7	1,552.7	2,411.2	2,437.9
EBITDA	214.6	186.1	143.2	222.5	226.1
EBIT	174.6	145.8	109.7	182.7	184.3
PBT	183.1	162.2	120.3	189.9	190.1
PAT	145.0	135.1	92.5	148.5	149.1
PATMI – Core	144.7	134.1	91.9	147.4	148.0
PATMI – Reported	144.7	129.3	72.7	147.4	148.0
HLIB/ Consensus (%) – Core PATMI	NA	NA	7%	2%	-1%
Core EPS (sen)	11.2	10.4	7.1	11.4	11.4
P/E (x)	15.4	16.0	23.4	14.6	14.5
EV/EBITDA (x)	8.7	9.4	12.0	7.8	7.7
DPS (sen)	7.0	7.0	4.0	6.8	6.8
Yield (%)	4%	4%	2%	4.1%	4%
BVPS (RM/share)	0.5	0.5	0.5	0.6	0.6
P/B (x)	3.8	3.4	3.2	2.9	2.7
ROE (%)	24%	22%	14%	21%	19%
Net Gearing (%)	CASH	CASH	CASH	CASH	CASH

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<b>BUY</b>	Expected absolute return of +10% or more over the next 12 months.
<b>HOLD</b>	Expected absolute return of -10% to +10% over the next 12 months.
<b>SELL</b>	Expected absolute return of -10% or less over the next 12 months.
<b>UNDER REVIEW</b>	Rating on the stock is temporarily under review which may or may not result in a change from the previous rating.
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<b>OVERWEIGHT</b>	Sector expected to outperform the market over the next 12 months.
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