

HLIB Research

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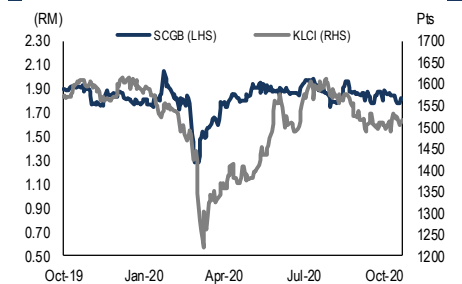
BUY (Maintain)

Target Price: **RM2.11**
Previously: **RM2.08**
Current Price: **RM1.81**

Capital upside	16.6%
Dividend yield	1.3%
Expected total return	17.9%

Sector coverage: Construction

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

Share price

Stock information

Bloomberg ticker	SCGB MK
Bursa code	5263
Issued shares (m)	1,289
Market capitalisation (RM m)	2,334
3-mth average volume ('000)	397
SC Shariah compliant	Yes

Major shareholders

Sunway Berhad	64.6%
EPF	9.1%
Amanah Saham Nasional	5.9%

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)	17.4	26.8	15.0

Sunway Construction Group

Exceeding guidance

SunCon announced the award of rooftop solar and Indian highway jobs worth a cumulative RM333m. This brings its job win for FY20 to RM2.3bn, beating guidance and market expectations. Its estimated outstanding order book now stands at RM6.0bn implying a healthy 3.4x cover ratio. We are expecting FY21 replenishment to fall between RM1.5-2.0bn given stable tender book. Increase FY21-22 earnings by 2-3%. Maintain BUY with slightly higher TP of RM2.11 based on 15x ex-cash PE multiple. Given its impressive execution track record, SunCon is well positioned to partake in pump priming initiatives. Support from parent-co, healthy balance sheet and orderbook level should provide some degree of resiliency during these trying times.

NEWSBREAK

Highway and rooftop solar jobs. SunCon announced that it has received LOAs for 4 projects from Borneo Spring Sdn. Bhd. (Borneo), F&N and National Highways Authority of India (NHAI) worth a cumulative RM333.1m. Projects awarded by Borneo (RM1.3m) and F&N (RM16.8m) are of design, construct & commissioning scope of work for solar rooftop projects with a completion period of 12 months. As for NHAI, LOA is in relation to the highway construction from Meensurutti (Km. 98.433) to Chidambarm (Km.129.965.) in Tamil Nadu, India worth c.RM315m commencing in May 2021 lasting 24 months. Along with the award of highway construction, SunCon was also awarded the O&M contract spanning 15 years, worth RM0.9m p.a.

HLIB's VIEW

Beating guidance. These jobs bring SunCon's FY20 job wins to RM2.3bn which exceeds management's FY20 target of RM2.0bn. We deem this to be an impressive feat given the challenging business conditions in 2020 so far. We believe its geographical diversification as well as stable internal pipeline has been paying dividends in FY20 despite uncertain business conditions. Incorporating the new jobs, SunCon's outstanding orderbook would increase to RM6.0bn, translating to a healthy 3.4x cover based on FY19 revenue.

Highway project details. Similar to the Thorapalli-Jittandhali project (RM508m) awarded earlier, this project will be undertaken by SunCon's 60% owned JV with RNS. A hybrid annuity model (HAM) will be adopted whereby SunCon does not undertake traffic volume risks. NHAI will pay 40% of the project cost within first two years with the remaining 60% paid over remaining 15 years at a fixed annuity amount plus interest (RBI+ 3%). Based on previous guidance, PBT margin could come in above 10%. With a price escalation clause, we expect margin profile to be stable.

Forecast. Increase FY21-22 earnings by 1.7% and 2.8% after accounting for the job wins.

Maintain BUY, TP: RM2.11. Maintain BUY with slightly higher TP of RM2.11 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, strong support from parent-co Sunway Bhd and healthy orderbook levels should provide some degree of resiliency during these trying times.

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)	16.2	17.4	26.8	15.0	15.8
EV/EBITDA (x)	9.0	10.4	14.3	8.4	8.6
DPS (sen)	7.0	7.0	2.4	7.2	6.8
Dividend yield	3.9%	3.9%	1.3%	4.0%	3.8%
BVPS (RM)	0.46	0.48	0.53	0.58	0.62
P/B (x)	4.0	3.8	3.4	3.1	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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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.