

HLIB Research

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Research Team
research@hlib.hongleong.com.my

(603) 2083 1723

Jeremy Goh, CFA
pwgoh@hlib.hongleong.com.my

(603) 2083 1716

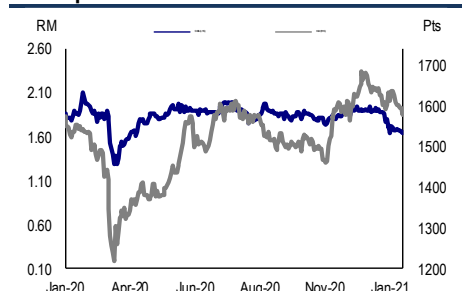
BUY (Maintain)

Target Price: RM2.01
Previously: RM2.11
Current Price: RM1.53

Capital upside	31.4%
Dividend yield	4.5%
Expected total return	35.9%

Sector coverage: Construction

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

Share price


	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)	1,978
3-mth average volume ('000)	430
SC Shariah compliant	Yes
F4GBM Index member	No
ESG rating	NA

Major shareholders

Sunway Berhad	64.5%
EPF	9.2%

Earnings summary

FYE (Dec)	FY19	FY20f	FY21f
PATMI - core (RM m)	134	81	147
EPS - core (sen)	10.4	6.3	11.4
P/E (x)	14.7	24.3	13.4

Sunway Construction Group

Stop and go recovery path

SunCon's FY21 recovery is expected to be bumpy in the near term with a confluence of productivity loss from MCO 2.0 as well as higher materials costs. Nonetheless, we believe recovery trajectory remains intact. Management is aiming for RM2bn worth of jobs this year with internal jobs forming the bulk of this. Precast operations are gradually recovering in tandem with SG's productivity pickup and consistent HDB launches. Tweak FY20-21 earnings by 5-7% as we tone down billings assumptions. Maintain BUY call with lower TP of RM2.01 based on 15x ex-cash PE multiple.

We met with management recently with the following key takeaways:

FY21 job wins target. SunCon is maintaining its 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. We have pencilled in a conservative RM1.7bn worth of jobs which mitigates the risk of slow conversion for external jobs. Possible upside risk to this target is speedy implementation of MRT3 which we reckon may only come in 2022 at the earliest.

MCO 2.0 bites. While all of SunCon's sites meet KKR/MITI's guidelines for continued operations, we gather that on average across all its projects, productivity levels are at c.50% after a week of MCO 2.0. We believe substandard productivity levels are largely from its building jobs given extra housing arrangements needed on the part of their business partners compounded by scaled down operations. Management believes that in the case of an extended MCO, productivity levels would continue to improve as the company and its business partners adjust. In the case of a strict lockdown to be imposed ala MCO 1.0, we believe its net cash of RM318m vs monthly fixed costs of RM15m is able to sustain through the period. We note that its cost structure also kept the company in the black despite a tumultuous quarter in 2Q20.

Costs pressure. Local steel prices have increased by roughly 30% (vs. 2020 average) to RM2.6-2.7k range currently (MITI). In mitigating short term spikes in steel prices over the short term, SunCon practices a policy of locking in forward 6 months' supply of steel. By our estimation, assuming steel prices hover at current levels for the remainder of 2021 this would represent c.0.6% contraction in its construction GP margin translating into FY21f earnings downside of c.7%.

Precast. Orders from construction sites in SG are recovering in tandem with the sector's recovering productivity. This is further sustained by consistent HDB launches in SG despite the pandemic. Launches slated for 2021 should fall in the 17k range similar to levels seen in 2019 and 2020. Despite a higher steel component in this division's cost structure, its shorter term nature of contracts is a positive in the event cost pressure sustains.

ESG initiatives. With all sites operational, SunCon meets requirements in regards to the minimum workers' housing standards and strictly monitors its business partners for compliance. Thus far, no major outbreak clusters have been linked to the company. SunCon participates in various social programmes among them being funding to orphanages, housing programmes and contribution to Sunway Berhad's social programmes.

Forecast. Tweak FY20 & 21 earnings by -6.9% and -5.4% after toning down billings assumptions to factor in MCO2.0 impact

Maintain BUY, TP: RM2.01. Maintain BUY with lower TP of RM2.01 post-earnings 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 job flow clarity during these uncertain 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	664	953	939
Receivables	917	847	641	1,057	1,069
Inventories	30	25	16	26	27
PPE	163	139	121	101	79
Others	160	202	202	204	208
Assets	1,754	1,905	1,643	2,341	2,321
Debts	114	286	236	483	390
Payables	874	880	614	1,005	1,016
Others	175	114	114	114	114
Liabilities	1,162	1,280	964	1,602	1,520
Shareholder's equity	591	623	676	737	798
Minority interest	1	2	2	2	2
Equity	593	625	679	739	800

Cash Flow Statement

FYE Dec (RM m)	FY18	FY19	FY20f	FY21f	FY22f
Profit before taxation	183	162	105	190	190
Depreciation & amortisation	40	40	38	40	42
Changes in working capital	21	81	(50)	(36)	(2)
Share of JV profits	(1)	(4)	-	(2)	(4)
Taxation	(38)	(27)	(23)	(41)	(41)
Others	(16)	-	-	-	1
Operating cash flow	189	252	70	151	186
Net capex	(50)	(20)	(20)	(20)	(20)
Others	(25)	-	-	-	-
Investing cash flow	(74)	(20)	(20)	(20)	(20)
Changes in borrowings	(21)	172	(50)	247	(93)
Issuance of shares	-	-	-	-	-
Dividends paid	(90)	(90)	(28)	(88)	(88)
Others	(7)	-	-	-	-
Financing cash flow	(118)	82	(79)	158	(181)
Net cash flow	(3)	314	(29)	289	(14)
Forex	1	-	-	-	-
Others	-	-	-	-	-
Beginning cash	487	485	693	664	953
Ending cash	485	693	664	953	939

Income Statement

FYE Dec (RM m)	FY18	FY19	FY20f	FY21f	FY22f
Revenue	2,257	1,769	1,461	2,411	2,438
EBITDA	215	186	133	222	226
EBIT	175	146	95	183	184
Net finance income/ (cost)	8	12	10	5	2
Associates & JV	1	4	-	2	4
Profit before tax	183	162	105	190	190
Tax	(38)	(27)	(23)	(41)	(41)
Net profit	145	135	82	149	149
Minority interest	(0)	(1)	(1)	(1)	(1)
Core earnings	145	134	81	147	148
Exceptional items	-	(5)	-	-	-
Reported earnings	145	129	81	147	148

Valuation & Ratios

FYE Dec (RM m)	FY18	FY19	FY20f	FY21f	FY22f
Core EPS (sen)	11.2	10.4	6.3	11.4	11.4
P/E (x)	13.7	14.7	24.3	13.4	13.4
EV/EBITDA (x)	7.3	8.5	11.8	7.1	7.0
DPS (sen)	7.0	7.0	2.2	6.8	6.8
Dividend yield	4.6%	4.6%	1.4%	4.5%	4.5%
BVPS (RM)	0.46	0.48	0.52	0.57	0.62
P/B (x)	3.3	3.2	2.9	2.7	2.5
EBITDA margin	9.5%	10.5%	9.1%	9.2%	9.3%
EBIT margin	7.7%	8.2%	6.5%	7.6%	7.6%
PBT margin	8.1%	9.2%	7.2%	7.9%	7.8%
Net margin	6.4%	7.6%	5.6%	6.1%	6.1%
ROE	25.3%	22.1%	12.5%	20.9%	19.3%
ROA	7.9%	7.3%	3.9%	5.3%	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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Hong Leong Investment Bank Berhad (10209-W)

Level 28, Menara Hong Leong,

No. 6, Jalan Damanlela,

Bukit Damansara,

50490 Kuala Lumpur

Tel: (603) 2083 1800

Fax: (603) 2083 1766

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.