

21 May 2021

Sunway Construction Group

1QFY21 Below Expectations

By Lum Joe Shen | lumjs@kenanga.com.my

1QFY21 CNP of RM20.3m (-46% QoQ; +16% YoY) is deemed below expectation as the recovery earlier anticipated by us for the remainder of FY21 has been pushed back. Hence, we dial down FY21E/FY22E earnings by 23%/9% after factoring: (i) lower FY21E replenishment of RM1.5b, (ii) deferred recognitions at India and Singapore operations, and (iii) lower margins given the persistently high steel prices. Consequently, SoP-TP is lowered to RM1.85 (from RM2.10) but OP rating maintained.

Below expectations. The resurgence of Covid-19 cases (in Malaysia, Singapore and India), has weakened our earlier case anticipating a recovery for the remainder of FY21. Hence, even though 1QFY21 CNP of RM20.3m is what we had earlier expected i.e. slightly subdued at 15/14% of our/consensus estimates due to reduced productivity from MCO 2.0* – we now deem it below expectation as the earlier expected recovery ahead is pushed further back. No dividends as expected.

*MCO 2.0 lasted from 13th January till 4th March 2021. During this period, Suncon had productivity of 50-80% as they strictly complied with the SOPs.

Highlights. 1QFY21 CNP of RM20.3m decreased 46% **QoQ** on lower revenue (-27%) as progress and deliveries in its construction and precast divisions were down. This was mainly due to the impact from MCO 2.0 that resulted in sub-optimal productivity while 4QFY20 had run at full productivity. **YoY**, on the back of a higher revenue (+24%), 1QFY21 CNP increased 16% from a low base as 1QFY20 was affected by a 2-week total work stoppage during MCO 1.0.

YTD, Suncon has replenished RM462m of new jobs with pre-cast contributing RM185m and the balance comprising in-house jobs. Outstanding order-book of RM5.0b (as of Mar 2021) provides c.2.5x revenue cover.

Immediate outlook has changed. With the persistently high Covid-19 cases in Malaysia, surge of cases in India, re-imposed lockdown in Singapore coupled with unabating high steel prices, our earlier assumptions for a strong recovery year in FY21 is less likely to materialise now.

In view of this, we opt to (i) lower our FY21E replenishment target to RM1.5b (from RM2.0b) in anticipation for a slower roll out of public projects, (ii) defer construction recognition for their 2 Indian projects worth RM0.8b, (iii) trim precast delivery progress at Singapore and (iv) tweak overall margins lower. **Consequently, we reduce FY21/22 earnings by 23%/9% respectively.**

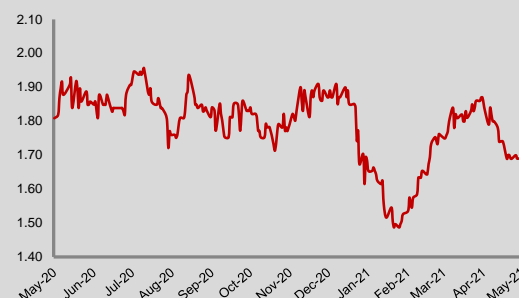
Call and TP. Post 1QFY21 earnings, we roll our valuation base year forward to FY22 deriving a lower SoP-TP of RM1.85 (from RM2.10). Our new TP is substantially lower with the net cash component of RM360m removed from the valuation. This is in tandem with the commencement of the Indian highway projects (under the hybrid annuity model) which will require Suncon to provide financing for the projects – turning it from net cash to a net debt position. OP rating maintained.

Risks include a continuous rise of Covid-19 cases, lower-than-expected margins, and delay in work progress.

OUTPERFORM ↔

Price : **RM1.68**
Target Price : **RM1.85** ↓

Share Price Performance



KLCI 1,575.32
YTD KLCI chg -3.2%
YTD stock price chg -10.6%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	SCGB MK EQUITY
Market Cap (RM m)	2,166.1
Shares Outstanding	1,289.4
52-week range (H)	2.01
52-week range (L)	1.50
3-mth avg daily vol:	805,434
Free Float	19%
Beta	0.8

Major Shareholders

Sunway Holdings Sdn Bhd	54.6%
Sungei Way Corp Sdn Bhd	10.1%
Empeyes Provident Fund Board	9.0%

Summary Earnings Table

FYE Dec (RM m)	2020A	2021E	2022E
Turnover	1552.7	1889.1	2146.3
EBIT	100.6	121.2	175.1
PBT	101.1	130.3	173.0
Net Profit	72.8	101.5	135.6
Core PATAMI	82.8	101.5	135.6
Consensus (NP)	n.a.	139.8	153.7
Earnings Revision	n.a.	-23%	-9%
Core EPS (sen)	6.4	7.9	10.5
Core EPS growth (%)	-37%	23%	34%
NDPS (sen)	4.0	4.0	5.0
NTA per Share (RM)	0.49	0.53	0.59
Price to NTA (x)	3.4	3.2	2.9
PER (x)	0.5	21.4	16.0
Debt-to-Equity ratio (x)	Net C	Net C	0.44
Return on Equity (%)	10	13	16
Net Div. Yield (%)	2.4	2.4	3.0

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Results Highlight								
FYE Dec (RM m)	1Q21	4Q20	QoQ	1Q20	YoY	1Q21	1Q20	YoY
Turnover	455.2	627.2	-27%	365.8	24%	455.2	365.8	24%
EBIT (adjusted for EI)	26.2	46.5	-44%	19.9	32%	26.2	19.9	32%
Interest income	0.8	3.0	-75%	5.2	-86%	0.8	5.2	-86%
Interest expense	-1.6	-0.3	373%	-2.7	-41%	-1.6	-2.7	-41%
Associates	2.0	0.0	n.a.	0.0	n.a.	2.0	0.0	n.a.
Exceptional items	-0.1	-7.7	-99%	-1.2	-92%	-0.1	-1.2	-92%
PBT	27.2	41.6	-34%	21.2	28%	27.2	21.2	28%
Tax	-6.9	-11.5	-40%	-4.3	61%	-6.9	-4.3	61%
Minority interest	0.1	-0.1	-151%	0.6	-87%	0.1	0.6	-87%
PATAMI	20.2	30.2	-33%	16.4	24%	20.2	16.4	24%
CNP	20.3	37.9	-46%	17.6	16%	20.3	17.6	16%
Net DPS (sen)	0.0	2.8		0.0		0.0	0.0	
Margins								
EBIT	5.8%	7.4%		5.4%		5.8%	5.4%	
PBT	6.0%	6.6%		5.8%		6.0%	5.8%	
PATAMI	4.4%	4.8%		4.5%		4.4%	4.5%	
CNP	4.5%	6.0%		4.8%		4.5%	4.8%	

Source: Company, Kenanga Research

Segmental Breakdown								
	1Q21	4Q20	QoQ	1Q20	YoY	1Q21	1Q20	YoY
Revenue								
Construction	421.3	585.0	-28%	329.6	28%	421.3	329.6	28%
Precast concrete	33.9	42.2	-20%	36.3	-7%	33.9	36.3	-7%
Total	455.2	627.2	-27%	365.8	24%	455.2	365.8	24%
EBIT								
Construction	22.3	34.8	-36%	17.3	29%	22.3	17.3	29%
Precast concrete	3.8	4.0	-6%	1.4	167%	3.8	1.4	167%
Total	26.1	38.8	-33%	18.7	40%	26.1	18.7	40%
Pretax profit								
Construction	23.6	37.3	-37%	20.4	15%	23.6	20.4	15%
Precast concrete	3.6	4.3	-15%	0.8	368%	3.6	0.8	368%
Total	27.2	41.6	-34%	21.2	28%	27.2	21.2	28%
Net profit								
Construction	17.3	26.3	-34%	16.0	9%	17.3	16.0	9%
Precast concrete	2.9	3.9	-27%	0.4	680%	2.9	0.4	680%
Total	20.2	30.2	-33%	16.4	24%	20.2	16.4	24%
PAT Margins								
Construction	4.1%	4.5%		4.8%		4.1%	4.8%	
Precast	8.5%	9.3%		1.0%		8.5%	1.0%	
Total	4.4%	4.8%		4.5%		4.4%	4.5%	

Source: Company, Kenanga Research

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Sum of Parts Target Price (New)		
Items	Value (RM m)	Remarks
Construction	2,231	Apply 18x FY22F PE
Precast concrete	106	Apply 10x FY22F PE
Business equity value	2,337	
Net cash/(debt)	n.a.	
Equity value	2,337	
No. of shares (m)	1,293	
Equity value per share (RM)	1.85	

Source: Kenanga Research

Sum of Parts Target Price (Old)		
Items	Value (RM m)	Remarks
Construction	2,280	Apply 18x FY21F PE
Precast concrete	53	Apply 10x FY21F PE
Business equity value	2,333	
Net cash/(debt)	360	
Equity value	2,692	
No. of shares (m)	1,293	
Equity value per share (RM)	2.10	

Source: Kenanga Research

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Peer Comparison

Name	Last Price (RM)	Market Cap (RM'm)	Shariah Compliant	Current FYE	PER (x) - Core Earnings			PBV (x)		ROE (%)		Net Div Yld (%)	Target Price	Rating
					Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.			
STOCKS UNDER COVERAGE														
GAMUDA BHD	3.21	8,068.4	Y	07/2021	15.2	14.8	13.4	0.9	0.9	6.2%	1.9%	4.17	OP	
GEORGE KENT (MALAYSIA) BHD	0.755	394.6	Y	03/2021	11.2	7.9	9.1	0.8	0.8	10.1%	4.5%	0.560	UP	
HOCK SENG LEE BERHAD	0.970	533.0	Y	12/2021	16.7	12.6	9.6	0.7	0.6	5.1%	1.9%	1.20	OP	
IJM CORP BHD	1.72	6,219.2	Y	03/2021	18.5	23.9	19.5	0.6	0.6	3.4%	1.7%	2.20	OP	
KERJAYA PROSPEK GROUP BHD	1.16	1,435.4	Y	12/2021	15.8	10.9	9.1	1.5	1.3	12.7%	3.2%	1.75	OP	
KIMLUN CORP BHD	0.840	296.8	Y	12/2021	18.8	5.8	5.2	0.4	0.4	7.3%	3.6%	1.45	OP	
MITRAJAYA HOLDINGS BHD	0.260	213.9	Y	12/2021	22.2	13.1	23.6	0.3	0.3	2.3%	0.0%	0.215	UP	
MUHIBBAH ENGINEERING (M) BHD	0.905	437.5	Y	12/2021	N.A.	16.8	11.0	0.4	0.4	2.2%	1.1%	1.25	OP	
SUNWAY CONSTRUCTION GROUP BHD	1.68	2,166.1	Y	12/2021	26.3	21.3	16.0	3.4	3.2	15.4%	2.4%	1.85	OP	
WCT HOLDINGS BHD	0.490	687.6	Y	12/2021	N.A.	5.4	7.5	0.2	0.2	5.6%	0.0%	0.675	OP	
Simple Average					18.1	13.3	12.4	0.9	0.9	7.0%	2.0%			

Source: Bloomberg, Kenanga Research

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Stock Ratings are defined as follows:**Stock Recommendations**

OUTPERFORM	: A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM	: A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM	: A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT	: A particular sector's Expected Total Return is MORE than 10%
NEUTRAL	: A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT	: A particular sector's Expected Total Return is LESS than -5%

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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KENANGA INVESTMENT BANK BERHAD (15678-H)

Level 17, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia
Telephone: (603) 2172 0880 Website: www.kenanga.com.my E-mail: research@kenanga.com.my

