Sunway Construction Group Berhad

Maintain BUY

(5263 | SCGB MK) Main | Construction

Robust order book to underpin earnings recovery

***Revised* Target Price: RM2.09**
(previously RM2.14)

KEY INVESTMENT HIGHLIGHTS

- **1QFY21 normalised earnings remained resilient, which grew by +15.3%yoy to RM20.3m despite prolonged MCO2.0**
- **The group secured RM462m new order book thus far or about 23% of its FY21 new order book target of RM2.0b**
- **Solid order book of about RM5.0b currently which translates into earnings visibility for the next three years**
- **A potential major beneficiary of the impending resumption of mega public transport infrastructure projects in FY21**
- **Maintain BUY with a revised target price at RM2.09**

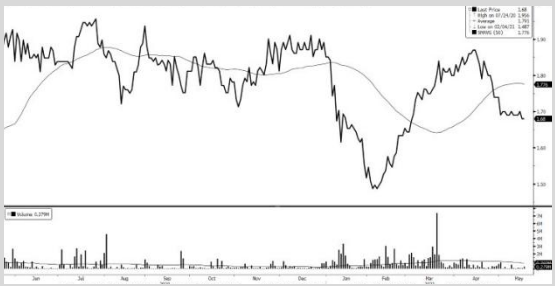
Resilient 1QFY21 earnings. Sunway Construction Group Berhad (SCGB)'s 1QFY21 normalised earnings increased by +15.3%yoy to RM20.3m despite MCO2.0 as construction activities are deemed as essential services and allow to operate albeit at 50% capacity as well as higher earnings contribution from pre-cast segment. Nonetheless, this came in below our and consensus expectations, accounting for only 13.2% and 14.5% of the full year estimates respectively. The variance was primarily attributable to the lower-than-expected PBT margin for its construction division as caused by thinner margin of existing projects due to competitive construction landscape. Moving forward, we expect SCGB's construction and business activities to remain resilient nonetheless.

Construction division's earnings remains on recovery momentum. The group managed to record higher construction revenue of RM421.3m (+27.8%yoy) in 1QFY21. This was mainly attributable to the ramping up of the construction progress for the central region (TNB Campus in Bangsar and Petronas National Leadership Centre in Bangi) and northern region (Sunway Carnival Mall extension and the Sunway Medical Centre Seberang Jaya projects) in spite of the existing Covid-19 restrictions in place. This enabled the division to post a profit before tax (PBT) of RM23.6m (+13.5%yoy) in the quarter-under-review with a lower PBT margin of 5.6% (-0.7ppt yoy) due to thinner margin for existing projects*.* Moving forward, we opine that the group's construction division is set to achieve stronger earnings recovery premised on possible acceleration of the progress billings as the group continues to ramp up work progress and the kickstart of its India highways projects in May 2021.

Solid order book replenishment in FY21 to support earnings growth momentum. We believe that the group's current outstanding order book which stands at about RM5.0b will translate into a strong earnings visibility over the next three years. Meanwhile, we remain positive on the group's ability to replenish its target order book in FY21 of RM2.0b, where half of it could be primarily coming from its in-house projects. Note that the group has secured RM462.0m new order book year-to-date or 23% of its full year target, which is made up of domestic in-house projects (57%), Singapore (40%) and domestic external (3%). Note that the group previously exceeded its FY20 new order book target of RM2b by an additional RM300m. In the domestic front, the continuation of mega public infrastructure projects as announced in Budget 2021 shall bode well for the group.

RETURN STATISTICS	
Price @ 20th May 2021 (RM)	RM1.68
Expected share price return (%)	+24.4
Expected dividend yield (%)	+3.0
Expected total return (%)	+27.4

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	-8.7	-6.8
3 months	-6.7	5.6
12 months	-13.4	-21.1

KEY STATISTICS	
FBM KLCI	1,575.32
Syariah compliant	Yes
F4BGM Index	No
ESH Grading Band (Star rating)	N/A
Issue shares (m)	1289.36
Estimated free float (%)	19.29
Market Capitalisation (RM'm)	2,166.12
52-wk price range	RM1.5 - RM2.01
Beta vs FBM KLCI (x)	0.80
Monthly velocity (%)	22.52
Monthly volatility (%)	16.09
3-mth average daily volume (m)	0.81
3-mth average daily value (RM'm)	1.41
Top Shareholders (%)	
SUNHOLDINGS	54.56
Sungei Way Corp Sdn Bhd	10.08
Employees Provident Fund Board	9.04

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Precast segment. This division posted a decline in revenue of -6.4%yoy to RM33.9m in the quarter-under-review due to the schedule of delivery to projects. Nonetheless, the PBT rose by +450%yoy to RM3.6m as a result of recognition of higher yielding projects, lifting the profit margin to 10.6% (+8.4ppts yoy). We also posit that the additional demand for Build-To-Order (BTO) flats to 17k in FY21 in Singapore would also continue to support the earnings from this segment. Note that Singapore's HDB flats account for >90% of the group's precast segment sales.

Table 1: PBT breakdown (RM'm)

Segment	1QFY21	1QFY20	Variance (%)	Remarks
Construction	23.6	20.8	-13.5	Higher progress billings as construction works were allowed during MCO2.0
Precast Concrete	3.6	0.8	+450.0	Recognition of higher yielding projects to normalise margin range

Source: Company, MIDFR.

Earnings estimates. We are revising our earnings estimates downward for FY21 and FY22 by -28% and -12% to RM110.4m and RM149.0m respectively as we lower our revenue assumption on lower progress billing due to lower productivity affected by Covid-19 imposed restrictions and higher cost assumption on higher raw materials costs which slightly negatively affecting profit margin at the construction division. Note that we are introducing our FY23F earnings forecast as well.

Target price. In view of the revision to our earnings estimates and rolling over our valuation base year to FY22, we are revising our target price to **RM2.09** *(previously RM2.14)*. This is derived by attaching a PER of 18.0x to the group's FY22 EPS of 11.6sen. Note that the target PER is +1.5SD premium above the group's two-year historical average. We opine that the premium is justified given the group's solid order book replenishment rate, sound balance sheet and continued job flows from its parent company.

Maintain BUY. We remain sanguine on the group's defensive and quality earnings outlook, predicating on its strong current outstanding order book and prompt resumption of work operations as reflected in its healthy rebound in earnings in 1QFY21 despite movement restriction. The defensive nature of the group is underpinned by its well-balanced order book portfolio which made up of its sizeable in-house projects and overseas job wins, especially from India whereby the group has clinched two major highways in FY20 which will kickstart in May 2021. This will bode well with the group's earnings momentum moving onwards. On the intermediate term, the group's prospect is also well-supported by its strong outstanding order book of about RM5.0b which will provide earnings visibility over the next three years. Notably, we posit that SCGB to be a major beneficiary from the impending continuation of the mega public transport infra projects (i.e. MRT3, Pan Borneo Highway, JB-SG RTS, ECRL) as announced in Budget 2021 and the potential domestic KL-JB HSR. This is premised on the group's strong track record and vast experience in railway projects as well as the proximity of its two pre-cast concrete manufacturing plants in Johor. All factors considered, we reiterate **BUY** recommendation on SCGB.

INVESTMENT STATISTICS

FYE 31st December	FY19	FY20	FY21F	FY22F	FY23F
Revenue (RM'm)	1768.7	1552.7	1909.8	2100.8	2310.9
EBIT (RM'm)	141.0	90.6	126.8	164.9	189.6
Pre-tax Profit (RM'm)	157.4	101.1	124.4	167.9	193.1
Normalised PATANCI (RM'm)	**129.3**	**92.0**	**110.4**	**149.0**	**163.9**
EPS (sen)	10.0	7.1	8.6	11.6	12.7
PER (x)	16.8	23.5	19.6	14.5	13.2
Net Dividend (sen)	7.0	4.0	5.0	5.0	5.0
Net Dividend Yield (%)	4.2	2.4	3.0	3.0	3.0

Source: Company, MIDFR

SUNWAY CONSTRUCTION GROUP BHD: 1QFY21 RESULTS SUMMARY

(All in RM'm, unless otherwise stated)	Quarterly Results		
FYE 31st Dec	**1Q21**	**% YoY**	**% QoQ**
Revenue	**455.2**	**24.4**	**-27.4**
EBITDA	36.2	28.7	-22.5
Depreciation and amortisation	-8.1	-10.0	3.5
EBIT	**28.1**	**47.0**	**-27.7**
Finance costs	0.8	-85.6	-75.2
Finance income	-1.6	-41.9	373.1
PBT	**27.2**	**26.0**	**-34.5**
Taxation	-6.9	60.8	-39.8
PAT	20.3	17.3	-32.4
NCI	0.1	-92.4	-151.4
PATANCI	20.2	23.8	-33.0
Normalised PATANCI	**20.3**	**15.3**	**-46.4**
Normalised EPS (sen)	1.6	15.3	-46.4
	1Q21	+/- ppts	+/- ppts
EBITDA margin (%)	8.0%	0.3	0.5
EBIT margin (%)	6.2%	0.9	0.0
PBT margin (%)	6.0%	0.1	-0.6
Normalised PATAMI margin (%)	4.5%	0.0	-1.6
Effective tax rate (%)	25.5%	5.5	-2.3

Source: Company, MIDFR

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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS	
STOCK RECOMMENDATIONS	
BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to *rise* by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
HOLD	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <-10% over the next 12 months.
TRADING SELL	Stock price is expected to *fall* by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.
SECTOR RECOMMENDATIONS	
POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.
ESG RECOMMENDATIONS* - source Bursa Malaysia and FTSE Russell	
☆☆☆☆	Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆☆	Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆	Top 51%- 75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆	Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell

* ESG Ratings of PLCs in FBM EMAS that have been assessed by FTSE Russell in accordance with FTSE Russell ESG Ratings Methodology