

EQUITY: ENGINEERING & CONSTRUCTION

Reducing earnings and TP due to disruptions

Accounting restatement results in net debt position in form, but company remains de facto net-cash

1Q21 in numbers: SunCon reported 1Q21 adjusted net income of MYR20mn, down 33% q-q but up 24% y-y. The quarter was affected by MCO 2.0, which caused a slowdown in works in the latter part of January, as Malaysian projects suffered a drop in works progress to ~50% of the usual pace initially, but then, after the revision in construction SOPs, progress was higher at ~80% levels since end-Feb'21.

Cashflow and orderbook: SunCon reported operating cash flows (OCF) of MYR38mn in 1Q21 vs MYR25mn in 4Q20. 1Q21 order-book replenishment stands at ~MYR462mn, which implies outstanding orderbook of MYR5bn. Management maintains an order book target of MYR2bn for FY21F. We believe this is based on its internal jobs target of MYR700-800mn+, Malaysia civil works of MYR 500mn+, precast jobs of MYR 200-300mn+, amongst others. The company's tender-book stands at MYR7bn, of which 50% is overseas, including Singapore, Philippines and India. SunCon achieved financial closure for one of its highway projects in India on 10 May and therefore the project should contribute meaningfully to earnings in FY22F.

Net cash to net debt? Note that auditors reclassified a large chunk of SunCon's wholesale fund holdings to non-current assets (investment in associates) due to lower effective stake after the funds took in new contributors. As a result, cash balance starting FY20 optically falls and the company appears to be in a net debt position on paper— however, note that in substance, the wholesale funds are liquid marketable securities and so the company's balance sheet remains net-cash.

Earnings cuts: We cut FY21F/22F earnings by 23%/ 8% due to likely impact of ongoing / possible future lockdowns and rising steel bar prices which will affect precast margins. Our orderbook replenishment targets for FY21F/ 22F are unchanged at MYR2bn each.

Maintain Buy with revised TP of MYR2.00: We reiterate our Buy rating on SunCon as: 1) it is likely to be a beneficiary of the positive news flows from select project awards in Malaysia (such as MRT3) and projects from the parentco, and also overseas job wins from India; 2) we believe SunCon is the best pure-play exposure within our coverage to the construction sector in Malaysia with strong earnings to cash flow conversion, liquid balance sheet, and high ROE (FY21F/22F: 15%/ 18.5%); and 3) we expect its precast business to grow again with the opening of a new precast plant in Singapore. We value SunCon at an unchanged FY22F P/E of 20x (premium valuation for asset light cash generative business) (current: 17x; FY22F EPS of 10sen), to arrive at our TP of MYR2.00.

Year-end 31 Dec	FY20	FY21F		FY22F		FY23F	
Currency (MYR)	Actual	Old	New	Old	New	Old	New
Revenue (mn)	1,553	1,883	1,883	1,633	1,633	1,838	1,838
Reported net profit (mn)	73	126	97	139	128	136	126
Normalised net profit (mn)	73	126	97	139	128	136	126
FD normalised EPS	5.65c	9.74c	7.50c	10.75c	9.88c	10.48c	9.78c
FD norm. EPS growth (%)	-43.7	72.6	32.8	10.3	31.8	-2.4	-1.1
FD normalised P/E (x)	29.8	-	22.4	-	17.0	-	17.2
EV/EBITDA (x)	17.0	-	15.4	-	11.7	-	11.4
Price/book (x)	3.4	-	3.3	-	3.0	-	2.9
Dividend yield (%)	2.4	-	3.1	-	4.1	-	4.1
ROE (%)	11.6	19.1	14.9	19.7	18.5	18.1	17.3
Net debt/equity (%)	15.8	net cash	39.2	net cash	32.2	net cash	27.5

Source: Company data, Nomura estimates

Rating Remains	Buy
Target price Reduced from MYR 2.20	MYR 2.00
Closing price 20 May 2021	MYR 1.68
Implied upside	+19.0%
Market Cap (USD mn)	524.1
ADT (USD mn)	0.3

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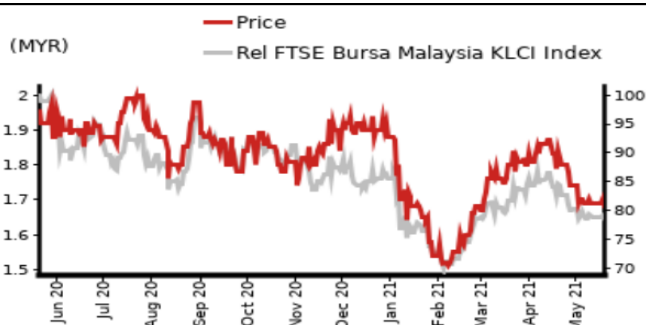
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Key Data on Sunway Construction

Relative Performance Chart



Source: Thomson Reuters, Nomura

Performance

(%)	1M	3M	12M		
Absolute (MYR)	-8.7	5.0	-13.4	M cap (USDm)	524.1
Absolute (USD)	-9.4	2.3	-9.1	Free float (%)	35.4
Rel to FTSE	-7.0	5.3	-23.5	3-mth ADT (USDm)	0.3
Bursa Malaysia KLCI Index					

Income statement (MYRmn)

Year-end 31 Dec	FY19	FY20	FY21F	FY22F	FY23F
Revenue	1,769	1,553	1,883	1,633	1,838
Cost of goods sold	-1,628	-1,462	-1,767	-1,475	-1,680
Gross profit	141	91	116	158	158
SG&A					
Employee share expense					
Operating profit	141	91	116	158	158
EBITDA	181	124	148	195	199
Depreciation	-40	-33	-32	-38	-41
Amortisation					
EBIT	141	91	116	158	158
Net interest expense	11	1	-5	-7	-7
Associates & JCEs	6	10	10	10	10
Other income					
Earnings before tax	158	102	121	161	162
Income tax	-27	-28	-22	-30	-30
Net profit after tax	131	74	99	131	131
Minority interests	-2	-1	-2	-3	-5
Other items					
Preferred dividends					
Normalised NPAT	129	73	97	128	126
Extraordinary items	0	0	0	0	0
Reported NPAT	129	73	97	128	126
Dividends	-90	-52	-68	-89	-88
Transfer to reserves	39	21	29	38	38

Valuations and ratios

Reported P/E (x)	16.8	29.8	22.4	17.0	17.2
Normalised P/E (x)	16.8	29.8	22.4	17.0	17.2
FD normalised P/E (x)	16.8	29.8	22.4	17.0	17.2
Dividend yield (%)	4.2	2.4	3.1	4.1	4.1
Price/cashflow (x)	11.2	24.7	-	14.8	14.2
Price/book (x)	3.5	3.4	3.3	3.0	2.9
EV/EBITDA (x)	9.5	17.0	15.4	11.7	11.4
EV/EBIT (x)	12.1	22.6	19.3	14.3	14.2
Gross margin (%)	8.0	5.8	6.2	9.7	8.6
EBITDA margin (%)	10.2	8.0	7.8	12.0	10.8
EBIT margin (%)	8.0	5.8	6.2	9.7	8.6
Net margin (%)	7.3	4.7	5.1	7.8	6.9
Effective tax rate (%)	17.1	27.4	18.3	18.7	18.7
Dividend payout (%)	69.8	70.9	70.0	70.0	70.0
ROE (%)	21.3	11.6	14.9	18.5	17.3
ROA (pretax %)	11.8	6.9	6.9	9.0	9.0
Growth (%)					
Revenue	-21.6	-12.2	21.2	-13.2	12.5
EBITDA	-17.6	-31.6	19.2	32.3	1.9
Normalised EPS	-13.8	-43.7	32.8	31.8	-1.1
Normalised FDEPS	-13.8	-43.7	32.8	31.8	-1.1

Source: Company data, Nomura estimates

Cashflow statement (MYRmn)

Year-end 31 Dec	FY19	FY20	FY21F	FY22F	FY23F
EBITDA	181	124	148	195	199
Change in working capital	-24	-12	-146	-12	-9
Other operating cashflow	36	-25	-27	-37	-37
Cashflow from operations	194	88	-25	147	153
Capital expenditure	-8	-3	-65	-38	-41
Free cashflow	185	84	-90	109	112
Reduction in investments	-4	-441	-10	-10	-10
Net acquisitions					
Dec in other LT assets	1	-3	0	0	0
Inc in other LT liabilities	4	-101	0	0	0
Adjustments	2	115	10	10	10
CF after investing acts	188	-345	-90	109	112
Cash dividends	-91	-62	-69	-79	-89
Equity issue					
Debt issue	172	15	0	0	0
Convertible debt issue					
Others	-62	-100	0	0	0
CF from financial acts	19	-147	-69	-78	-89
Net cashflow	208	-493	-159	31	24
Beginning cash	485	693	200	41	72
Ending cash	693	200	41	72	95
Ending net debt	-407	101	260	230	207

Balance sheet (MYRmn)

As at 31 Dec	FY19	FY20	FY21F	FY22F	FY23F
Cash & equivalents	693	200	41	72	95
Marketable securities					
Accounts receivable	847	905	1,097	952	1,071
Inventories	25	34	36	30	34
Other current assets	145	163	163	163	163
Total current assets	1,710	1,302	1,337	1,217	1,364
LT investments	49	489	499	509	520
Fixed assets	139	107	140	140	140
Goodwill	4	0	0	0	0
Other intangible assets	0	0	0	0	0
Other LT assets	4	7	7	7	7
Total assets	1,905	1,906	1,984	1,874	2,031
Short-term debt	233	234	234	234	235
Accounts payable	868	940	988	825	939
Other current liabilities	18	20	20	20	20
Total current liabilities	1,120	1,194	1,242	1,080	1,194
Long-term debt	53	67	67	67	67
Convertible debt					
Other LT liabilities	107	6	6	6	6
Total liabilities	1,280	1,267	1,316	1,153	1,268
Minority interest	2	2	4	7	12
Preferred stock					
Common stock	259	259	259	259	259
Retained earnings	399	410	437	486	524
Proposed dividends					
Other equity and reserves	-34	-31	-31	-31	-31
Total shareholders' equity	623	637	664	714	751
Total equity & liabilities	1,905	1,906	1,984	1,874	2,031

Liquidity (x)

Current ratio	1.53	1.09	1.08	1.13	1.14
Interest cover	-	-	23.0	23.0	24.3

Leverage

Net debt/EBITDA (x)	net cash	0.81	1.76	1.18	1.04
Net debt/equity (%)	net cash	15.8	39.2	32.2	27.5

Per share

Reported EPS (MYR)	10.02c	5.65c	7.50c	9.88c	9.78c
Norm EPS (MYR)	10.02c	5.65c	7.50c	9.88c	9.78c
FD norm EPS (MYR)	10.02c	5.65c	7.50c	9.88c	9.78c
BVPS (MYR)	0.48	0.49	0.51	0.55	0.58
DPS (MYR)	0.07	0.04	0.05	0.07	0.07

Activity (days)

Days receivable	182.0	206.5	194.1	228.9	200.9
Days inventory	6.2	7.4	7.3	8.2	7.0
Days payable	195.3	226.3	199.2	224.3	191.7
Cash cycle	-7.1	-12.4	2.2	12.8	16.1

Source: Company data, Nomura estimates

1Q21 results review

- 1Q21 was affected by MCO 2.0 from 13-Jan to 4-Mar and therefore net income was down 33% q-q. Post the implementation of MCO 2.0 in mid-January in Malaysia, the Malaysian projects suffered a drop in works progress to ~50% of normalized pace initially but then later after the revision in construction SOPs, progress was higher at ~80% levels in end-Feb'21.
- SunCon achieved financial closure for one of the highway jobs in India on 10 May and therefore the project should contribute meaningfully to earnings in FY22.
- Management maintains its orderbook target of MYR 2bn for FY21F. We believe this is based on its internal jobs target of MYR 700-800mn+, Malaysia civil works of MYR 500mn+, precast jobs of MYR 200-300mn+, among others. We believe that given the fiscal constraints the Malaysian government faces, relying only on Malaysian mega-projects for orderbook replenishment is a risky strategy. As a result, we find contractors like SunCon have to commit to international diversification going forward. In 1Q21, SunCon has secured new orders worth MYR462mn which implies outstanding orderbook of MYR5bn. Tenderbook outstanding stands at MYR7bn, of which 50% is overseas including Singapore, Philippines and India.
- Singapore pre-cast plant is expected to commence production by mid-2022, and SunCon aims to build up orderbook this year itself for this new plant's capacity utilization.
- SunCon reported operating cash flows (OCF) of MYR38mn in 1Q21 vs MYR 25mn in 4Q20.
- Note that auditors reclassified a large chunk of SunCon's wholesale fund holdings to non-current assets (investment in associates) due to lower effective stake after the funds took in new contributors. As a result, cash balance starting FY20 optically falls and the company appears to be in net debt position; however, note that in substance, the wholesale funds are liquid marketable securities and so the company's balance sheet remains net cash in practice.
- **Construction:** Construction revenue/PBT for 1Q21 were MYR421mn/ MYR24mn, down 28%/ 37% q-q.
- **Precast:** Precast revenue for 1Q21 was MYR34mn (-20% q-q) and the division reported PBT of MYR4mn.

Fig. 1: SunCon – 1Q21 results snapshot

MYR mn	1Q21	NMR FY21F new	as % of NMR new	Cons FY21F	as % of cons
Revenue	455	1,883	24%	2,267	20%
Adj PBT	27	121	23%	179	15%
Adj NPATAMI	20	97	21%	140	14%
Reported NPATAMI	20	97	21%	139	15%

Source: Company data, Bloomberg consensus, Nomura estimates

Fig. 2: SunCon – 1Q21 results review

MYR mn	1Q21	1Q20	% chg y-y	4Q20	% chg q-q	FY21F new	as % of FY21F new
Revenues	455	366	24%	627	(27%)	1,883	24%
Construction	421	330	28%	585	(28%)	1,642	26%
Precast concrete	34	36	(7%)	42	(20%)	241	14%
Operating profit	26	19	40%	39	(33%)	116	23%
Construction	22	17	29%	35	(36%)		
Precast concrete	4	1	167%	4	(6%)		
Adjusted Pretax profit	27	21	28%	42	(34%)	121	23%
Construction	24	20	15%	37	(37%)	111	21%
Precast concrete	4	1	368%	4	(15%)	10	38%
Core PAT	20	17	20%	30	(32%)	99	21%
Core PAT - equityholders	20	16	24%	30	(33%)	97	21%
Other one-off charges	0	0	NM	0	NM	0	NM
Headline NPAT - equityholders	20	16	24%	30	(33%)	97	21%
Adj Pretax margins	6%	6%	0 ppt	7%	-1 ppt	6%	
Construction	6%	6%	-1 ppt	6%	-1 ppt	7%	
Precast concrete	11%	2%	9 ppt	10%	1 ppt	4%	

Source: Company data, Nomura estimates

Fig. 3: SunCon's outstanding orderbook

end-Mar'21

MYR mn	Contract Sum		Outstanding order book
Infrastructure/Piling			
LRT3: Package GS07-08	2,178	1,295	1,589
Sentual West Station		57	35
Chan Sow Lin KVMRT UG St (MEP)		54	39
Jalan Tambun		14	14
Building			
Putrajaya Parcel F	1,610		17
TNB HQ Campus	781		449
Petronas Leadership Center	305		168
Oxley Tower	68		54
IOI Mall	68		28
Renewable energy	26		26
India			
Thorapalli Agraharam - Jittandahalli	508		508
Meensurutti - Chidambarm 32km	315		315
Internal			
Sunway Medical Centre Phase 4 + VO	612		430
Sunway Serene - Serviced Residences	413		162
Velo 2	352		173
3C4	100		50
Sunway GEOLake	223		13
Carnival Mall Ext	286		112
SMC Seberang Jaya	180		104
SMC Seberang Jaya - VO	16		16
Big Box Hotel	100		3
Parcel CP2	119		25
SIS	121		103
SIS - VO	15		15
CP2	344		344
Belfield residential condo	403		387
Sunway Velocity TWO	253		246
Sunway resort hotel & Spa renovation	81		46
BKE (Seberang Jaya)	4		4
Big Box Office	51		48
Sunway Damansara Medical Centre	180		180
Renewable energy	12		7
Singapore			
Precast	331		237
Precast - New order 2021	185		185
Total	9,481		5,006
Orderbook burn rate (FY20, including internal)			2,057
Implied earnings visibility (years)			2.4

Source: Company data, Nomura research

Fig. 4: YTD 2021 orderbook replenishment

Project	Duration	Contract Sum (MYR mn)
Jalan Tambun	18 months	14
SMC Seberang Jaya - VO	6 months	16
SIS - VO	30 months	15
Big Box Office	14 months	51
Sunway Damansara Medical Centre	24 months	180
Precast - New order 2021	various	185
Total		462

Source: Company data, Nomura research

Fig. 5: SunCon – changes to estimates

MYR mn	Old			New			% change		
	FY21F	FY22F	FY23F	FY21F	FY22F	FY23F	FY21F	FY22F	FY23F
Orderbook replenishment	2,000	2,000	2,000	2,000	2,000	2,000	0%	0%	0%
External	800	1,000	1,000	800	1,000	1,000	0%	0%	0%
Internal	1,000	700	700	1,000	700	700	0%	0%	0%
Precast	200	300	300	200	300	300	0%	0%	0%
Revenue	1,883	1,633	1,838	1,883	1,633	1,838	0%	0%	0%
Adj PBT	161	178	176	121	161	162	(25%)	(9%)	(8%)
PBT margins	8.5%	10.9%	9.6%	6.4%	9.9%	8.8%	(2.1 ppt)	(1.0 ppt)	(0.8 ppt)
Adj NPAT	126	139	136	97	128	126	(23%)	(8%)	(7%)

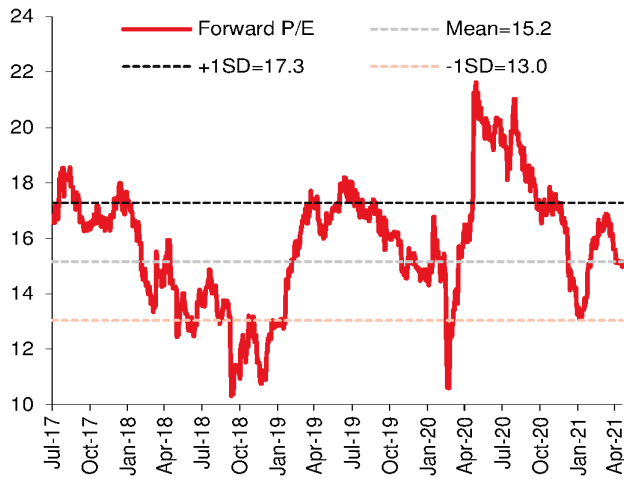
Source: Nomura estimates

Fig. 6: SunCon – Target price valuation methodology

	Dec-22
	FY22F
Normalised net profit (MYR mn)	128
FD number of shares outstanding (mn)	1,289
FD EPS (MYR/ sh)	0.10
Target FY22F P/E	20.0 x
Price target (MYR/ sh)	2.00

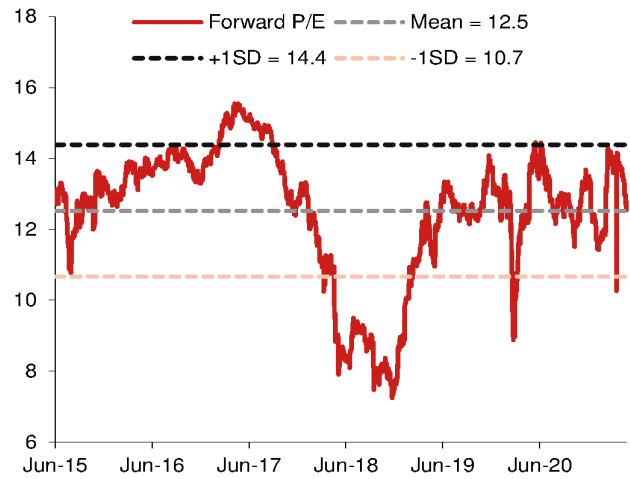
Source: Nomura estimates

Fig. 7: SunCon forward P/E (consensus)



Source: Bloomberg consensus, Nomura research

Fig. 8: KLCON 12M forward P/E - consensus



Source: Bloomberg consensus, Nomura research

Appendix A-1

Analyst Certification

I, Tushar Mohata, hereby certify (1) that the views expressed in this Research report accurately reflect my personal views about any or all of the subject securities or issuers referred to in this Research report, (2) no part of my compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this Research report and (3) no part of my compensation is tied to any specific investment banking transactions performed by Nomura Securities International, Inc., Nomura International plc or any other Nomura Group company.

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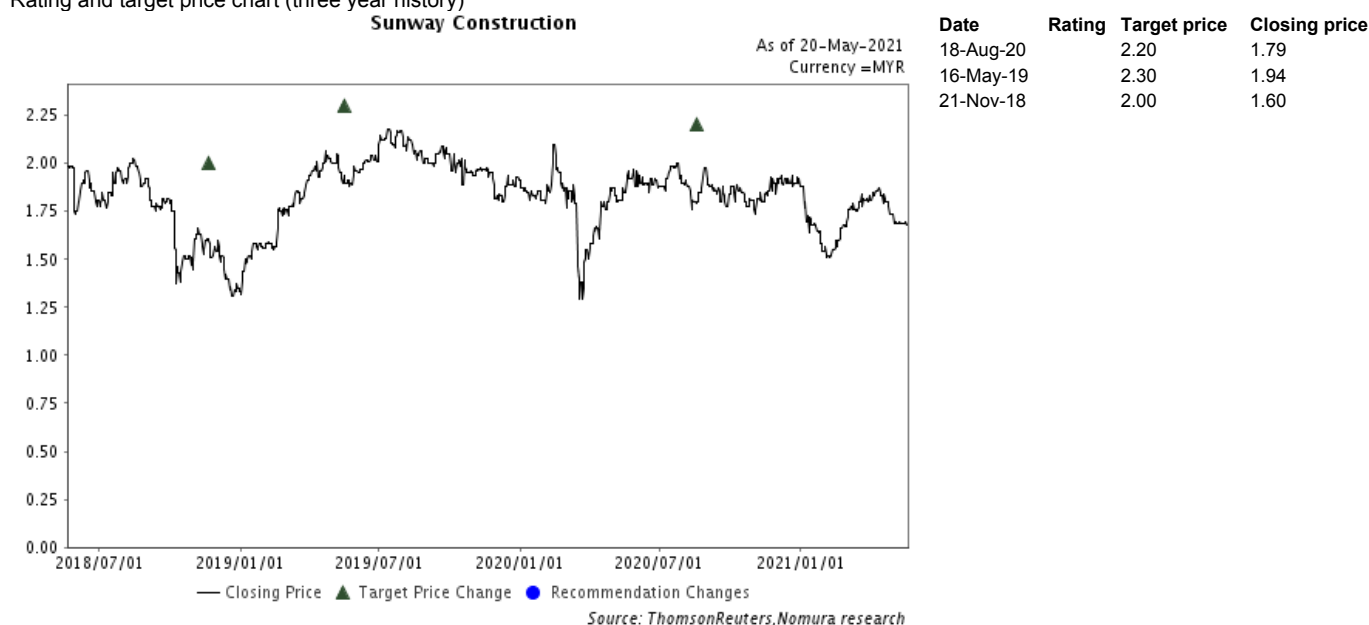
Materially mentioned issuers

Issuer	Ticker	Price	Price date	Stock rating	Sector rating	Disclosures
Sunway Construction	SCGB MK	MYR 1.68	20-May-2021	Buy	N/A	

Sunway Construction (SCGB MK)

MYR 1.68 (20-May-2021) Buy (Sector rating: N/A)

Rating and target price chart (three year history)



For explanation of ratings refer to the stock rating keys located after chart(s)

Valuation Methodology We value SunCon at a target P/E of 20x on FY22F earnings. Using net income of MYR128mn for FY22F and a target P/E of 20x, we arrive at our TP of MYR2.00. The benchmark index for the stock is FTSE Bursa Malaysia KLCI Index.

Risks that may impede the achievement of the target price Downside risks include: 1) delays in construction project awards; 2) lower-than-expected margins; 3) lower pre-cast earnings persisting; 4) a lack of new projects; 5) risk of project cancellation or arbitration.

Important Disclosures

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with this rating were supplied material services** by the Nomura Group.
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 As at 31 March 2021.

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** As defined by the EU Market Abuse Regulation

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The rating system is a relative system, indicating expected performance against a specific benchmark identified for each individual stock, subject to limited management discretion. An analyst's target price is an assessment of the current intrinsic fair value of the stock based on an appropriate valuation methodology determined by the analyst. Valuation methodologies include, but are not limited to, discounted cash flow analysis, expected return on equity and multiple analysis. Analysts may also indicate expected absolute upside/downside relative to the stated target price, defined as (target price - current price)/current price.

STOCKS

A rating of **'Buy'**, indicates that the analyst expects the stock to outperform the Benchmark over the next 12 months. A rating of **'Neutral'**, indicates that the analyst expects the stock to perform in line with the Benchmark over the next 12 months. A rating of **'Reduce'**, indicates that the analyst expects the stock to underperform the Benchmark over the next 12 months. A rating of **'Suspended'**, indicates that the rating, target price and estimates have been suspended temporarily to comply with applicable regulations and/or firm policies. Securities and/or companies that are labelled as **'Not rated'** or shown as **'No rating'** are not in regular research coverage. Investors should not expect continuing or additional information from Nomura relating to such securities and/or companies. Benchmarks are as follows: **United States/Europe/Asia ex-Japan**: please see valuation methodologies for explanations of relevant benchmarks for stocks, which can be accessed at: <http://go.nomuranow.com/research/globalresearchportal/pages/disclosures/disclosures.aspx>; **Global Emerging Markets (ex-Asia)**: MSCI Emerging Markets ex-Asia, unless otherwise stated in the valuation methodology; **Japan**: Russell/Nomura Large Cap.

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A **'Bullish'** stance, indicates that the analyst expects the sector to outperform the Benchmark during the next 12 months. A **'Neutral'** stance, indicates that the analyst expects the sector to perform in line with the Benchmark during the next 12 months. A **'Bearish'** stance, indicates that the analyst expects the sector to underperform the Benchmark during the next 12 months. Sectors that are labelled as **'Not rated'** or shown as **'N/A'** are not assigned ratings. Benchmarks are as follows: **United States**: S&P 500; **Europe**: Dow Jones STOXX 600; **Global Emerging Markets (ex-Asia)**: MSCI Emerging Markets ex-Asia. **Japan/Asia ex-Japan**: Sector ratings are not assigned.

Target Price

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