

4Q21: better than expected

Quick Note

Results snapshot: SunCon reported 4Q21 net income of MYR65mn, up 235% q-q and 114% y-y. The stellar results were due to resumption of construction activities at full capacity after lifting of MCO 3.0 (movement control order), and better margin visibility as some projects approach their end. SunCon announced a second-interim dividend of 4sen/sh, bringing the 2021 full-year dividend to 5.25sen/sh. The company reported operating cash flows (OCF) of MYR122mn in 4Q21, vs MYR154mn in 3Q21. FY21 net income was 40% above our forecast as well the Bloomberg consensus estimates. Note that SunCon booked legal provisions of MYR17mn in 4Q21, for a few pending cases and also some bad debt provisions, which we have not adjusted in the above numbers. Management has taken a conservative approach in booking these provisions, and therefore there is a chance that part of these can be written back in the future, in our view.

Construction segment review: Construction revenue for 4Q21 were MYR580mn/ MYR89mn, up 127%/230% q-q. This was primarily due to lifting of MCO3.0 and higher margins from some projects nearing completion. During the quarter, SunCon won its maiden large-scale solar projects worth MYR386mn (revenues to start from FY23F). Total 4Q21 orderbook win stands at MYR678mn. Cumulatively, FY21 order-book replenishment was at ~MYR1.5bn, which was lower than management's target of MYR2bn but higher than our target of MYR1.1bn. The current outstanding orderbook stands at MYR4.8bn. The company's tender-book stands at MYR4.3bn, of which 50% is civil infrastructure projects. SunCon received commencement permission for the other highway job also in India (Thorapalli project) on 7 Dec 2021. Recall that Suncon had received commencement permission for the Meensurutti Chidambaram project in Tamil Nadu, India in Aug 2021. Works on both the above highways have started and therefore they should contribute meaningfully to its earnings in FY22F and beyond, in our view.

Pre-cast segment review: Precast revenue for 3Q21 came in at MYR47mn (+187% q-q); the division reported PBT of MYR2mn vs LBT of MYR2mn in 3Q. Both its precast plants in Johor started operations at full capacity in 4Q and the Singapore pre-cast plant is expected to commence production in Aug 2022.

Outlook: Management is targeting an orderbook replenishment of MYR2bn for 2022 – of which 25% from civil infrastructure jobs (e.g., MRT3), 25% from external building projects, 25% from internal projects from parentco and 25% from precast. The impact of the prosperity tax is marginal for Suncon, according to management.

Reiterate Buy: We reiterate our Buy rating on SunCon, as: 1) a visible pipeline of projects from the parentco and India should help in orderbook replenishment and earnings visibility; additionally, while the sentiment on Malaysia jobs is very pessimistic, we think government approvals of projects such as MRT3 could improve visibility; 2) we believe SunCon is the best pure-play exposure within our construction sector coverage universe in Malaysia, with strong earnings to cash flow conversion, a liquid balance sheet, and high ROE (FY22F/23F: 18%/ 18%); and 3) we expect its precast business to grow again with the opening of a new precast plant in Singapore. We value SunCon at FY22F P/E of 20x (premium valuation for an asset light cash generative business) to arrive at our TP of MYR1.90, implying ~28% upside. The stock is currently trading at 15.8x FY22F EPS of 9.4sen.

Rating Remains	Buy
Target price Remains	MYR 1.90
Closing price 23 February 2022	MYR 1.48

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Fig. 1: SunCon – FY21 results snapshot

MYR mn	FY21	NMR FY21F	as % of NMR	Cons FY21F	as % of cons
Revenue	1,729	1,693	102%	1,692	102%
Adj PBT	152	99	154%	107	142%
Adj NPATAMI	113	80	140%	81	140%
Reported NPATAMI	113	80	140%	80	141%

Source: Company data, Bloomberg consensus, Nomura estimates

Fig. 2: SunCon – 4Q21 results review

MYR mn	4Q21	4Q20	% chg y-y	3Q21	% chg q-q	FY21	FY20	% chg y-y	FY21F	as % of FY21F
Revenues	627	627	(0%)	272	130%	1,729	1,553	11%	1,693	102%
Construction	580	585	(1%)	256	127%	1,606	1,455	10%	1,595	101%
Precast concrete	47	42	11%	16	187%	123	97	26%	98	125%
Operating profit	85	39	119%	22	285%	139	91	54%	94	149%
Construction	82	35	136%	24	239%	135	87	55%		
Precast concrete	3	4	(33%)	(2)	NM	5	3	35%		
Adjusted Pretax profit	91	42	119%	24	272%	152	101	51%	99	154%
Construction	89	37	138%	27	230%	149	98	51%	96	155%
Precast concrete	2	4	(47%)	(2)	NM	3	3	27%	3	118%
Core PAT	65	30	116%	20	233%	111	73	51%	81	137%
Core PAT - equityholders	65	30	114%	19	235%	113	73	55%	80	140%
Other one-off charges	0	0	NM	0	NM	0	0	NM	0	NM
Headline NPAT - equityholders	65	30	114%	19	235%	113	73	55%	80	140%
Adj Pretax margins	14.5%	6.6%	8 ppt	9.0%	6 ppt	8.8%	6.5%	2 ppt	5.8%	
Construction	15.3%	6.4%	9 ppt	10.5%	5 ppt	9.3%	6.8%	3 ppt	6.0%	
Precast concrete	4.9%	10.2%	-5 ppt	(14.9%)	NM	2.8%	2.8%	0 ppt	3.0%	

Source: Company data, Nomura estimates

Fig. 3: SunCon's outstanding orderbook

As of end-2021

MYR mn	Contract Sum		Outstanding order book	
Infrastructure/Piling				
LRT3: Package GS07-08	2,178	1,295	1,589	196
Sentual West Station		57		9
Chan Sow Lin KVMRT UG St (MEP)		54		9
Jalan Tambun		14		14
Bangsar Rising - Piling		5		5
Building				
Putrajaya Parcel F		1,610		11
TNB HQ Campus		781		294
Petronas Leadership Center		305		49
Oxley Tower		68		52
IOI Mall		68		13
Renewable energy		414		398
India				
Thorapalli Agraharam - Jittandahalli		508		508
Meensurutti - Chidambarm 32km		315		310
Internal				
Sunway Medical Centre Phase 4 + VO		612		329
Sunway Serene - Serviced Residences		413		86
Velo 2		352		115
3C4		100		37
SMC IPOH		150		149
Carnival Mall Ext		286		42
SMC Seberang Jaya		180		61
SMC Seberang Jaya - VO		16		16
South Quay CP2 - Piling		198		61
SIS		121		69
SIS - VO		19		19
CP2 + CP2 (VO)		558		558
Belfield residential condo		403		361
Sunway Velocity TWO		253		225
Sunway resort hotel & Spa renovation		81		29
BKE (Seberang Jaya)		4		2
Big Box Office		51		37
SMC Damansara		240		231
Drainage works		1		1
Singapore				
Precast		331		160
External - New order 2021		298		296
Total		10,164		4,751
Orderbook burn rate (FY21, including internal)				2,249
Implied earnings visibility (years)				2.1

Source: Company data, Nomura research

Fig. 4: 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	19
Big Box Office	14 months	51
Sunway Damansara Medical Centre	24 months	180
Bangsar Rising - Piling	6 months	5
SMC - IPOH	27 months	150
Tengah Park C2	23 months	114
Tengah C7	27 months	35
DD Plastic	3 months	0.4
Ang Mo Kio	27 months	36
Bidadari C15	27 months	36
Woodlands N9C4	27 months	63
Clementi N8C1	12 months	15
Sunway Damansara Medical Centre	24 months	60
Solar	various	1
Drainage works	3 months	1
South Quay CP2	Jul 2024	293
LSS4 - Gopeng	24 months	200
LSS4 - Klang	24 months	185
Total		1,474

Source: Company data, Nomura research

Appendix A-1

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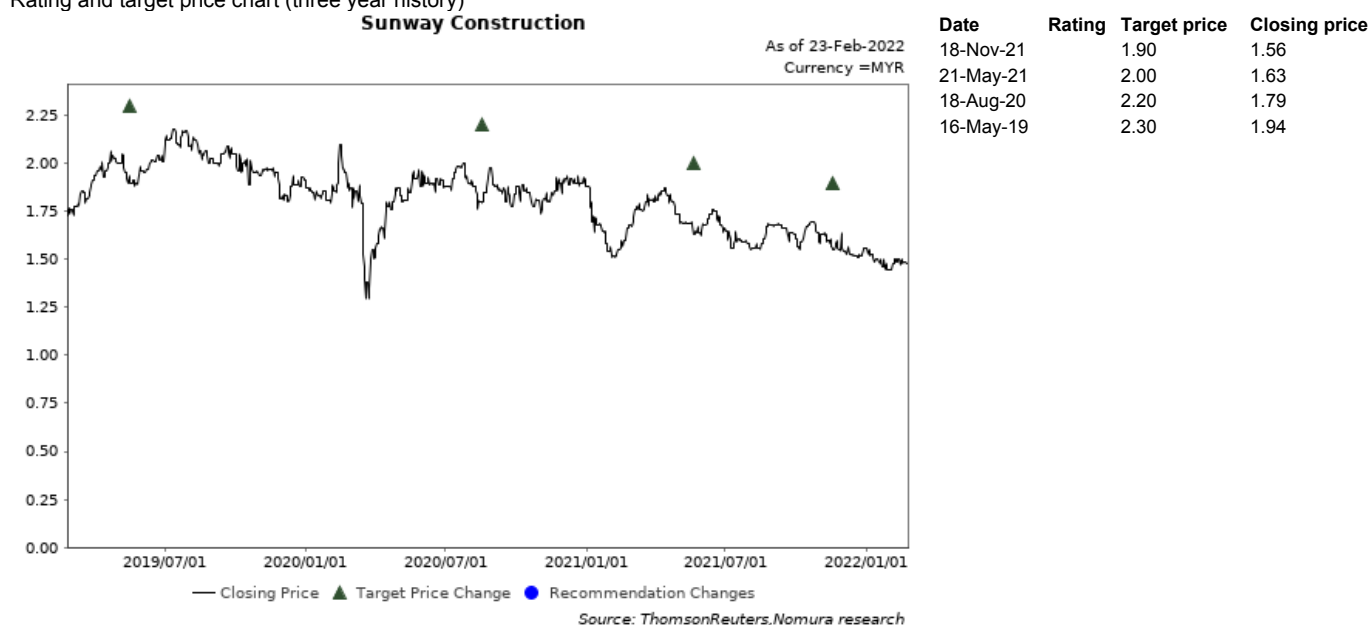
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Issuer	Ticker	Price	Price date	Stock rating	Sector rating	Disclosures
Sunway Construction	SCGB MK	MYR 1.48	23-Feb-2022	Buy	N/A	

Sunway Construction (SCGB MK)

MYR 1.48 (23-Feb-2022) 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 MYR121mn for FY22F and a target P/E of 20x, we arrive at our TP of MYR1.90. 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.

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