

24 February 2021

Sunway Construction (SCGB MK)

Outperforms Expectations; Maintain BUY

- **BUY, new MYR2.18 TP from MYR2.09, 31% upside with c.4% FY21F yield.** Sunway Construction's FY20 earnings comprise 131%/121% of our/Street full-year expectations. 4Q20 billings improved due to the construction and precast divisions, which, in turn, stemmed from higher output levels and productivity. The incremental pick-up in billings brightens its FY21 outlook. The increase was supported by lumpy new orders bagged in FY20, which should sustain earnings into FY23. Valuations remain attractive, and the stock is trading at a 16% discount from its 5-year mean.
- **Upside earnings surprise.** SunCon reported headline earnings of MYR30.2m (+26% QoQ, -5% YoY) in 4Q20. Core earnings came in at MYR37.9m (+19% QoQ and +4% YoY) after stripping out exceptional items, ie FX, additional provisions, and gains on disposal. The group closed FY20 with core earnings of MYR92m (-32% YoY). This is above our expectations, despite it seeing 2.5 months of non-activity due to the MCO.
- **Construction wing reported higher revenue** of MYR585m (+45% QoQ, +33% YoY) in 4Q20. The growth was supported by the final settlement for its Uttar Pradesh project in India, and ramp-up in progress for building projects in the northern part of West Malaysia. Progress billings will likely stay robust, with sites operating at normal levels, ie on par with pre-pandemic levels. In the precast unit, SunCon has started recognising better margins, owing to higher-yield projects in Singapore. Management expects earnings from its precast segment to improve in the coming quarters.
- **Paying out 70% of earnings as dividends in FY20.** SunCon announced a second interim DPS of 2.75 sen for the quarter, which cumulatively amounts to a 4 sen DPS for the full year. For the coming years, we believe dividend prospects are stable, ranging at 6-6.5 sen/share. This is backed by the company's outstanding orders of MYR5.1bn, which should support earnings into FY23. SunCon is staying active in its bids, with c. MYR5.4bn worth of jobs tendered for. It started the year with an ambitious target: To secure MYR2bn worth of new jobs in FY21.
- **Our TP is adjusted to MYR2.18.** This is after pegging our FY21 EPS to 18x P/E, and revising up our FY21F-22F earnings by 4-14%. We expect sentiment to improve, once we roll over our valuation to FY22 – a period when Malaysia is expected to achieve herd immunity through the National COVID-19 Immunisation Plan. Among the contractors, SunCon is leading the way with its in-house ESG initiatives.
- **Downside risks** include a failure to secure new contracts, a prolonged downturn in the retail and property markets, and a longer-than-expected delay in the rollout of mega infrastructure projects. Sudden restrictions on activities – possibly due to tighter lockdown measures, if implemented – may present another downside risk.

Forecasts and Valuation	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
Total turnover (MYRm)	1,769	1,553	2,065	2,404	2,370
Recurring net profit (MYRm)	124	92	156	174	168
Recurring net profit growth (%)	(15.5)	(25.9)	70.1	11.0	(3.1)
Recurring P/E (x)	17.29	23.33	13.71	12.36	12.76
P/B (x)	3.4	3.3	3.0	2.7	2.4
P/CF (x)	8.72	58.03	69.29	11.02	9.06
Dividend Yield (%)	3.7	2.4	3.6	4.0	3.9
EV/EBITDA (x)	9.29	12.66	7.84	6.68	6.34
Return on average equity (%)	21.3	11.5	22.9	22.7	19.8
Net debt to equity (%)	net cash	net cash	net cash	net cash	net cash

Source: Company data, RHB

Construction & Engineering | Construction

Buy (Maintained)

Target Price (Return): MYR2.18 (31.3%)
 Price: MYR1.66
 Market Cap: USD529m
 Avg Daily Turnover (MYR/USD): 1.06m/0.26m

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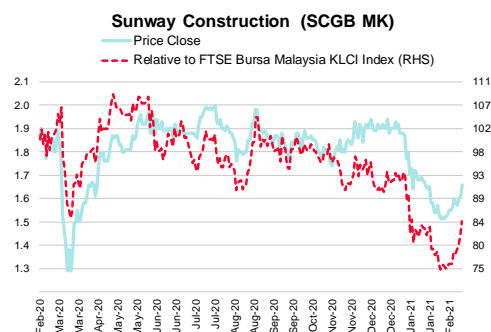


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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(11.7)	0.6	(14.0)	(10.3)	(14.9)
Relative	(7.9)	2.6	(12.0)	(9.5)	(17.1)
52-wk Price low/high (MYR)				1.29	2.00



Source: Bloomberg

Overall ESG Score: 3.6 (out of 4)

E: Good

Efforts are being made reduce its environmental footprint. This includes improving energy efficiency, using resources responsibly, and reducing waste. Through the recycling and reuse of hydraulic oil, SunCon recycled a total of 12,787 litres of hydraulic oil in 2019. A plan is also being made to increase the usage of green energy through the installation of solar panels at its new workshop to generate electricity for its own consumption.

S: Excellent

The company ensures the safety and health of all its employees and at public areas surrounding the construction sites. This is done via various training and safety programmes. Apart from up-to-standard health & safety policies, we see active community engagement and efforts in uplifting employee relations.

G: Excellent

57% of SunCon's board members are independent, with full disclosure on director remuneration, including salaries and bonuses. SunCon has an in-house investor relations team. Accessibility to investor relations is excellent, and the team mostly helps to deal with investors' queries.

Note:

Small cap stocks are defined as companies with a market capitalisation of less than USD1bn.

Financial Exhibits

Asia	Financial summary (MYR)	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
Malaysia	Recurring EPS	0.10	0.07	0.12	0.13	0.13
Construction & Engineering	DPS	0.06	0.04	0.06	0.07	0.07
Sunway Construction	BVPS	0.48	0.50	0.56	0.63	0.69
SCGB MK	Return on average equity (%)	21.3	11.5	22.9	22.7	19.8
Buy						
	Valuation metrics	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
	Recurring P/E (x)	17.29	23.33	13.71	12.36	12.76
	P/B (x)	3.4	3.3	3.0	2.7	2.4
	FCF Yield (%)	11.1	1.7	(2.5)	6.5	8.5
	Dividend Yield (%)	3.7	2.4	3.6	4.0	3.9
	EV/EBITDA (x)	9.29	12.66	7.84	6.68	6.34
	EV/EBIT (x)	12.07	18.56	9.84	8.43	8.26
	Income statement (MYRm)	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
	Total turnover	1,769	1,553	2,065	2,404	2,370
	Gross profit	378	68	413	467	447
	EBITDA	183	133	229	258	254
	Depreciation and amortisation	(42)	(42)	(46)	(53)	(59)
	Operating profit	141	91	182	205	195
	Net interest	12	10	6	6	8
	Pre-tax profit	157	101	197	218	212
	Taxation	(27)	(28)	(40)	(45)	(43)
	Reported net profit	129	73	156	174	168
	Recurring net profit	124	92	156	174	168
	Cash flow (MYRm)	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
	Change in working capital	86	(78)	(172)	(32)	10
	Cash flow from operations	246	37	31	195	237
	Capex	(8)	(1)	(85)	(55)	(55)
	Cash flow from investing activities	(51)	(1)	(85)	(55)	(55)
	Dividends paid	(91)	(52)	(78)	(87)	(84)
	Cash flow from financing activities	72	(14)	(70)	(79)	(76)
	Cash at beginning of period	485	693	715	590	651
	Net change in cash	267	22	(124)	61	106
	Ending balance cash	751	715	590	651	757
	Balance sheet (MYRm)	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
	Total cash and equivalents	693	735	611	671	777
	Tangible fixed assets	139	98	136	138	134
	Total investments	49	49	49	49	49
	Total assets	1,905	1,816	1,983	2,216	2,300
	Short-term debt	233	253	243	233	223
	Total long-term debt	62	62	62	62	62
	Total liabilities	1,280	1,169	1,258	1,404	1,404
	Total equity	625	647	725	812	896
	Total liabilities & equity	1,905	1,816	1,983	2,216	2,300
	Key metrics	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
	Revenue growth (%)	(21.6)	(12.2)	33.0	16.4	(1.4)
	Recurrent EPS growth (%)	(15.5)	(25.9)	70.1	11.0	(3.1)
	Gross margin (%)	21.4	4.4	20.0	19.4	18.9
	Operating EBITDA margin (%)	10.4	8.5	11.1	10.7	10.7
	Net profit margin (%)	7.3	4.7	7.6	7.2	7.1
	Capex/sales (%)	0.5	0.1	4.1	2.3	2.3
	Interest cover (x)	10.7	13.1	13.5	15.6	15.4

Source: Company data, RHB

Results At a Glance

Figure 1: SunCon's results review

FYE Dec (MYRm)	4Q19	3Q20	4Q20	QoQ (%)	YoY (%)	12M19	12M20	YoY (%)	Comments
Revenue	485.9	419.4	627.2	49.6	29.1	1,768.7	1,552.7	(12.2)	The QoQ revenue growth was driven by the ramping up of construction progress for building projects in the northern region.
EBIT	32.6	32.1	37.6	17.1	15.4	141.7	90.2	(36.3)	
<i>EBIT margin (%)</i>	6.7	7.7	6.0			8.0	5.8		
Interest expense	(3.4)	(1.6)	(0.3)	(78.7)	(90.1)	(13.2)	(6.9)	(47.6)	
Interest income	8.7	4.6	3.0	(33.5)	(64.8)	25.2	17.4	(30.9)	
JV/Associates	0.1	0.0	0.0	nm	(53.5)	0.1	0.1	11.1	
El/Others	2.6	0.8	(1.2)	(245.3)	(146.9)	3.6	0.3	(92.3)	
Pretax profit	40.5	36.0	41.6	15.6	2.6	157.4	101.1	(35.8)	Despite the contraction, the margin for its precast segment improved as a result of higher-yield orders.
<i>Pretax margin (%)</i>	8.3	8.6	6.6			8.9	6.5		
Tax	(7.8)	(11.7)	(11.5)	(1.8)	47.6	(27.1)	(27.8)	2.6	
<i>Effective tax rate (%)</i>	(19.3)	(32.6)	(27.7)			(17.2)	(27.5)		
Minority interest	(1.0)	(0.2)	0.1	(175.9)	(114.9)	(1.0)	(0.5)	(46.4)	
Net profit	31.8	24.0	30.2	25.6	(4.9)	129.3	72.8	(43.7)	
Core profit	36.3	31.9	37.9	18.8	4.4	134.5	92.0	(31.6)	Above expectations.
<i>Core net margin (%)</i>	7.5	7.6	6.0			7.6	5.9		

Source: Company data, RHB

Figure 2: SunCon's segmental results

FYE Dec (MYRm)	4Q19	3Q20	4Q20	QoQ (%)	YoY (%)	12M19	12M20	YoY (%)	Comments
Revenue:									
Construction	440.5	403.4	585.0	45.0	32.8	1,618.9	1,455.2	(10.1)	YTD revenue was lower due to 2.5 months of non-activity.
Precast Concrete	45.4	16.0	42.2	164.1	(7.1)	149.8	97.4	(35.0)	
EBIT:									
Construction	27.0	31.7	34.8	10.0	29.1	135.3	87.2	(35.6)	
Precast Concrete	3.9	1.3	4.0	210.2	3.5	5.8	3.3	(42.0)	
EBIT Margin %:									
Construction	6.1%	7.8%	6.0%			8.4%	6.0%		Margin contracted QoQ due to provisions made to a debtor.
Precast Concrete	8.5%	8.1%	9.5%			3.8%	3.4%		

Source: Company data, RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2021-02-24	Buy	2.18	na
2020-08-20	Buy	2.09	1.80
2020-08-13	Buy	2.14	1.81
2020-07-23	Neutral	2.14	1.99
2020-05-22	Neutral	1.86	1.92
2020-04-23	Neutral	1.72	1.76
2020-04-09	Neutral	1.51	1.67
2020-02-18	Neutral	1.95	1.97

Source: RHB, Bloomberg

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Trading Buy:	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
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