

24 February 2022

Construction & Engineering | Construction

## Sunway Construction (SCGB MK)

**Buy** (Maintained)

**Better Activity Levels Ahead; Still BUY**

Target Price (Return): MYR1.74 (17.6%)  
 Price (Market Cap): MYR1.48 (USD456m)  
 ESG score: 3.00 (out of 4)  
 Avg Daily Turnover (MYR/USD) 0.30m/0.07m

- **Still BUY, new MYR1.74 TP from MYR1.81, 18% upside and c.4% yield.** Sunway Construction posted an FY21 core net profit of MYR110.3m (+52% YoY), which accounted for 138% and 137% of our and Street's full-year estimates – exceeding expectations. 4Q21 billings improved – mainly due to the construction division – stemming from higher output levels and productivity, in line with the general reopening of the economy.
- **Exceeded expectations.** SunCon reported a stronger 4Q21 core net profit of MYR63.9 (+120.3% YoY, +233.6% QoQ) despite posting a flattish topline of MYR626.6m (4Q20: MYR627.2m). In terms of PBT, SunCon recorded its highest quarterly figure since listing in 2015 of MYR91m. This was due to the recalibration of better margins for certain projects that are at advanced stages of completion and reflected in the construction segment's PBT margin, which reached 15.3% in 4Q21 (4Q20: 6.4%). This, however, was partially offset by lower profits from the precast segment due to higher steel bar prices, which led to the PBT margin reaching 4.9% during the quarter (4Q20:10.2%).
- **Paying out 60% of earnings as dividends in FY21.** SunCon announced a second interim DPS of 4 sen for the quarter, which cumulatively amounts to a 5.25 sen DPS for the full year. For the coming years, we believe dividend prospects will remain stable – the 5-6 sen/share range. This is backed by the group's outstanding orders of MYR4.8bn as at end 4Q21 (end 3Q21: MYR4.7bn), which should support earnings into FY24. SunCon is staying active in its bids, with c.MYR4.3bn worth of jobs being tendered for.
- **Earnings estimates** We make no changes to our earnings forecasts for FY22F-23F, as the boost in 4Q21 was also partly attributable to the group's return to normalcy, whereby activity levels rose to fill the gap from previous MCOs. We expect better margins moving forward, attributable to the visible pipeline of projects from SunCon's parent company and India, which should further help in orderbook replenishment. We also introduce our FY24F earnings, which entails a jobs replenishment assumption of MYR1.5bn.
- **Valuation.** We roll forward our valuation base to FY23F and peg a lower target P/E of 14.5x from 16.5x previously to our FY23F EPS to reflect the construction sector's overall subdued sentiment. The target P/E is above the KLCON Index's 11.3x FY23F P/E after considering SunCon's strong orderbook/revenue cover of c.3x, which is backed by a robust balance sheet with minimal net debt position. As a result, our TP is revised to MYR1.74 with a 0% ESG premium/discount ascribed on our intrinsic valuation, based on our proprietary ESG scoring methodology.

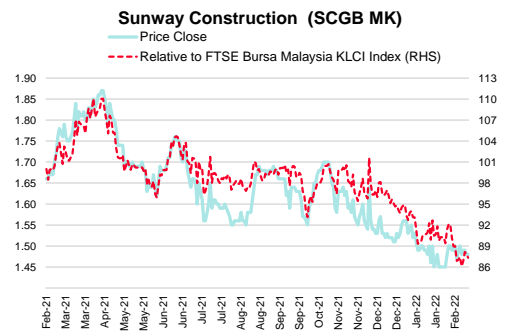
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### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(5.1)	1.4	(6.3)	(9.8)	(10.9)
Relative	(6.3)	(2.5)	(10.5)	(14.0)	(12.2)
52-wk Price low/high (MYR)	1.45 – 1.87				



Source: Bloomberg

### Overall ESG Score: 3.00 (out of 4)

#### E: GOOD

Efforts are underway to 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 12,787 litres of hydraulic oil in 2019. The group also plans 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: GOOD

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

#### G: EXCELLENT

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

#### Note:

Small cap stocks are defined as companies with a market capitalisation of less than USD0.5bn.

Forecasts and Valuation	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Total turnover (MYRm)	1,553	1,729	2,354	2,737	2,687
Recurring net profit (MYRm)	92	110	141	152	155
Recurring net profit growth (%)	(31.6)	19.9	27.6	7.8	2.1
Recurring P/E (x)	20.80	17.35	13.59	12.61	12.35
P/B (x)	3.0	2.7	2.5	2.3	2.1
P/CF (x)	9.08	16.18	36.59	9.34	10.08
Dividend Yield (%)	2.7	3.5	3.7	4.0	4.0
EV/EBITDA (x)	12.32	10.20	6.19	5.37	5.42
Return on average equity (%)	11.6	12.2	19.2	18.8	17.5
Net debt to equity (%)	15.8	21.1	34.0	19.6	9.5

Source: Company data, RHB

## Financial Exhibits

Asia	Financial summary (MYR)	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Malaysia	Recurring EPS	0.07	0.09	0.11	0.12	0.12
Construction & Engineering	DPS	0.04	0.05	0.05	0.06	0.06
<b>Sunway Construction</b>	BVPS	0.49	0.54	0.60	0.65	0.71
SCGB MK	Return on average equity (%)	11.6	12.2	19.2	18.8	17.5
Buy						
	<b>Valuation metrics</b>	<b>Dec-20</b>	<b>Dec-21</b>	<b>Dec-22F</b>	<b>Dec-23F</b>	<b>Dec-24F</b>
	Recurring P/E (x)	20.80	17.35	13.59	12.61	12.35
	P/B (x)	3.0	2.7	2.5	2.3	2.1
	FCF Yield (%)	10.8	4.4	(0.1)	7.8	7.0
	Dividend Yield (%)	2.7	3.5	3.7	4.0	4.0
	EV/EBITDA (x)	12.32	10.20	6.19	5.37	5.42
	EV/EBIT (x)	16.87	12.84	8.09	7.07	6.82
	<b>Income statement (MYRm)</b>	<b>Dec-20</b>	<b>Dec-21</b>	<b>Dec-22F</b>	<b>Dec-23F</b>	<b>Dec-24F</b>
	Total turnover	1,553	1,729	2,354	2,737	2,687
	Gross profit	270	305	416	463	491
	EBITDA	124	133	234	254	238
	Depreciation and amortisation	(33)	(27)	(55)	(61)	(49)
	Operating profit	91	106	179	193	189
	Net interest	1	(0)	(8)	(9)	(7)
	Pre-tax profit	102	121	177	191	193
	Taxation	(28)	(41)	(36)	(39)	(38)
	Reported net profit	73	81	141	152	155
	Recurring net profit	92	110	141	152	155
	<b>Cash flow (MYRm)</b>	<b>Dec-20</b>	<b>Dec-21</b>	<b>Dec-22F</b>	<b>Dec-23F</b>	<b>Dec-24F</b>
	Change in working capital	104	(6)	(143)	(8)	(14)
	Cash flow from operations	211	118	52	205	190
	Capex	(3)	(35)	(55)	(55)	(55)
	Cash flow from investing activities	(173)	(173)	(55)	(55)	(54)
	Dividends paid	(62)	(52)	(70)	(76)	(77)
	Cash flow from financing activities	(147)	(122)	4	(2)	(3)
	Cash at beginning of period	615	200	99	62	210
	Net change in cash	(110)	(177)	1	148	133
	Ending balance cash	505	23	100	210	343
	<b>Balance sheet (MYRm)</b>	<b>Dec-20</b>	<b>Dec-21</b>	<b>Dec-22F</b>	<b>Dec-23F</b>	<b>Dec-24F</b>
	Total cash and equivalents	200	99	62	210	343
	Tangible fixed assets	107	130	130	124	130
	Total investments	489	724	724	724	724
	Total assets	1,906	1,869	1,981	2,250	2,350
	Short-term debt	234	93	143	193	243
	Total long-term debt	67	158	163	173	183
	Total liabilities	1,267	1,153	1,265	1,459	1,482
	Total equity	639	717	715	791	869
	Total liabilities & equity	1,906	1,869	1,981	2,250	2,350
	<b>Key metrics</b>	<b>Dec-20</b>	<b>Dec-21</b>	<b>Dec-22F</b>	<b>Dec-23F</b>	<b>Dec-24F</b>
	Revenue growth (%)	(12.2)	11.4	36.1	16.3	(1.8)
	Recurrent EPS growth (%)	(31.6)	19.9	27.6	7.8	2.1
	Gross margin (%)	17.4	17.6	17.7	16.9	18.3
	Operating EBITDA margin (%)	8.0	7.7	9.9	9.3	8.9
	Net profit margin (%)	4.7	4.7	6.0	5.5	5.8
	Dividend payout ratio (%)	70.9	83.3	50.0	50.0	50.0
	Capex/sales (%)	0.2	2.0	2.3	2.0	2.0
	Interest cover (x)	13.0	23.1	16.7	14.7	12.2

Source: Company data, RHB

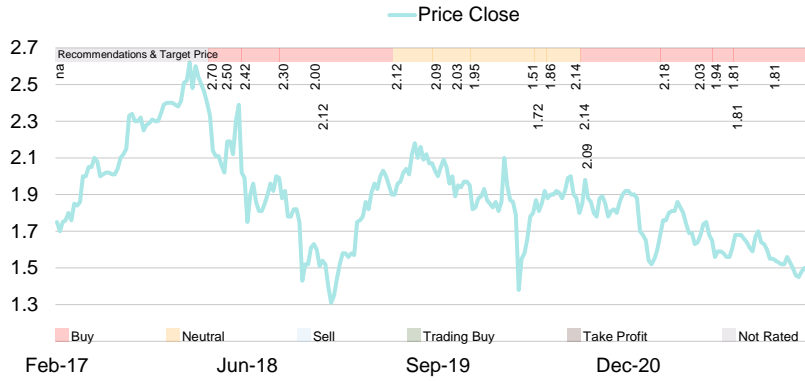
## Results At a Glance

Figure 1: SunCon's results review

FYE Dec (MYRm)	4Q20	3Q21	4Q21	QoQ (%)	YoY (%)	FY20	FY21	YoY (%)	Comments
<b>Revenue</b>	<b>627.2</b>	<b>272.1</b>	<b>626.6</b>	<b>130.3</b>	<b>(0.1)</b>	<b>1,552.7</b>	<b>1,729.2</b>	<b>11.4</b>	Earnings recovery largely driven by improved margins on projects nearing completion in 4Q21.
<b>EBIT</b>	<b>37.6</b>	<b>21.9</b>	<b>84.0</b>	<b>283.4</b>	<b>123.4</b>	<b>90.2</b>	<b>137.0</b>	<b>51.8</b>	
<i>EBIT margin (%)</i>	<i>6.0</i>	<i>8.1</i>	<i>13.4</i>			<i>5.8</i>	<i>7.9</i>		
Interest expense	<b>(0.3)</b>	<b>(0.9)</b>	<b>(1.1)</b>	17.4	223.0	<b>(6.9)</b>	<b>(4.6)</b>	(33.8)	
Interest income	<b>3.0</b>	<b>1.0</b>	<b>1.0</b>	7.0	(65.7)	<b>17.4</b>	<b>4.2</b>	(76.1)	
JV/Associates	<b>0.0</b>	<b>2.4</b>	<b>6.2</b>	161.2	13,313.0	<b>0.1</b>	<b>13.3</b>	11,954.5	
EI/Others	<b>1.2</b>	<b>0.2</b>	<b>0.9</b>	472.2	(28.5)	0.3	<b>2.4</b>	764.0	Net disposal gains from PPE, which are non-recurring in nature.
<b>Pre-tax profit</b>	<b>41.6</b>	<b>24.5</b>	<b>91.0</b>	<b>271.8</b>	<b>118.9</b>	<b>101.1</b>	<b>152.2</b>	<b>50.6</b>	
<i>Pre-tax margin (%)</i>	<i>6.6</i>	<i>9.0</i>	<i>14.5</i>			<i>6.5</i>	<i>8.8</i>		
Tax	<b>(11.5)</b>	<b>(5.0)</b>	<b>(26.0)</b>	<b>424.4</b>	<b>125.8</b>	<b>(27.8)</b>	<b>(41.5)</b>	<b>49.4</b>	
<i>Effective tax rate (%)</i>	<i>(27.7)</i>	<i>(22.4)</i>	<i>(30.7)</i>			<i>(27.5)</i>	<i>(29.9)</i>		
Minority interest	<b>0.1</b>	<b>(0.2)</b>	<b>(0.3)</b>	<b>17.9</b>	<b>(285.2)</b>	<b>(0.5)</b>	<b>1.8</b>	<b>(441.0)</b>	
<b>Net profit</b>	<b>30.2</b>	<b>19.3</b>	<b>64.7</b>	<b>235.4</b>	<b>114.3</b>	<b>72.8</b>	<b>112.6</b>	<b>54.7</b>	
<b>Core profit</b>	<b>29.0</b>	<b>19.1</b>	<b>63.9</b>	<b>233.6</b>	<b>120.3</b>	<b>72.5</b>	<b>110.3</b>	<b>52.0</b>	Exceeded our and Street's expectations.
<i>Core net margin (%)</i>	<i>4.6</i>	<i>7.0</i>	<i>10.2</i>			<i>4.7</i>	<i>6.4</i>		

Source: Company data, RHB

## Recommendation Chart

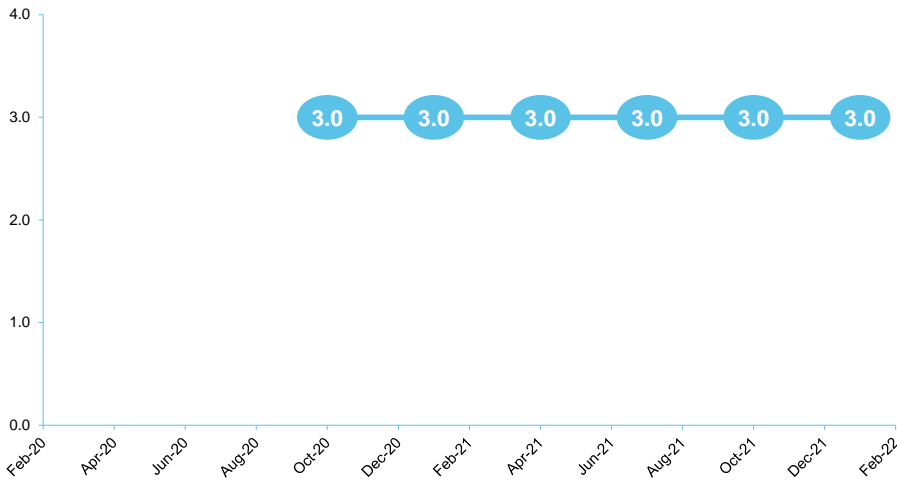


Date	Recommendation	Target Price	Price
2021-08-11	Buy	1.81	1.58
2021-06-29	Buy	1.94	1.64
2021-05-21	Buy	2.03	1.63
2021-02-24	Buy	2.18	1.66
2020-08-20	Buy	2.09	1.80
2020-08-13	Buy	2.14	1.81
2020-07-23	Neutral	2.14	1.99

Source: RHB, Bloomberg

Source: RHB, Bloomberg

## ESG Rating History



Source: RHB

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Analyst	Company
-	-

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