

# Sunway Construction Group Berhad

**TP: RM1.84** (+9.5%)

1Q21 Dragged by MCO 2.0

Last Traded: RM1.68

**BUY (ESG: ★★★★★)**

Chan Mun Chun

Tel: +603-2167 9731

mcchan@ta.com.my

www.taonline.com.my

## Results Review

- SUNCON's 1QFY21 net profit of RM20.2mn came in below expectations, accounting for 16.8% and 14.5% of ours and consensus' full-year estimates. The variance was mainly due to slower-than-expected progress of work as a result of Movement Control Order (MCO) 2.0.
- YoY, 1QFY21 net profit surged 23.8% to RM20.2mn as revenue was 24.4% higher at RM455.2mn. The stronger earnings were mainly attributed to higher revenue contribution as a result of higher progress billings from building division both in central and northern region.
- QoQ, 1QFY21 net profit plunged 33.0% to RM20.2mn while revenue dropped by 27.4% to RM455.2mn. The weaker earnings were mainly attributed to the construction segment as some of the projects had been interrupted by MCO 2.0. Meanwhile, the lower revenue was partly due to the high base effect as there was final settlement for the Uttar Pradesh project in India in the immediate preceding quarter. For its precast segment, the net profit fell 26.5% to RM2.9mn while quarterly revenue dropped 19.7% to RM33.9mn.

## Impact

- In view of the weaker-than-expected results, we adjust our revenue recognition assumptions and margin forecasts. Consequently, earnings forecasts for FY21/FY22/FY23 are reduced by 10.9%/2.6%/0.7% respectively.

## Outlook

- The outstanding order book stood at RM5.0bn as of end-March 2021, equivalent to 3.2x FY20 revenue. This could provide earnings visibility to the group for the next 3 years.
- The group has secured a total of RM462.0mn new jobs up to March 2021. For FY21, it has set an order book replenishment target of RM2.0bn, versus our assumption of RM1.6bn.

## Valuation

- After revising the earnings forecasts, we tweak the target price from RM1.89 to **RM1.84**, based on unchanged 18x CY22 earnings. Maintain Buy on SUNCON.

## Share Information

Bloomberg Code	SCGB MK
Bursa	SUNCON
Stock Code	5263
Listing	Main Market
Share Cap (mn)	1,292.9
Market Cap (RMmn)	2172.1
52-wk Hi/Lo (RM)	2.01/1.5
12-mth Avg Daily Vol ('000 shrs)	588.5
Estimated Free Float (%)	19.3
Beta	0.80

## Major Shareholders (%)

Sunholdings	- 54.6
Sungei Way Corp Sdn Bhd	- 10.1
Employee Provident Fund	- 9.0
Amanah Saham Nasional Bhd	- 5.9

## Forecast Revision

	FY21	FY22
Forecast Revision (%)	(10.9)	(2.6)
Net profit (RMmn)	107.6	132.0
Consensus	139.8	153.7
TA's / Consensus (%)	76.9	85.9
Previous Rating	Buy (Maintained)	

## Financial Indicators

	FY21	FY22
Net Debt / Equity (%)	15.8	27.0
CFPS (sen)	(10.2)	(2.3)
Price / CFPS (x)	(16.5)	(74.3)
ROA (%)	5.6	6.4
NTA/Share (RM)	50.5	53.7
Price/NTA (x)	3.3	3.1

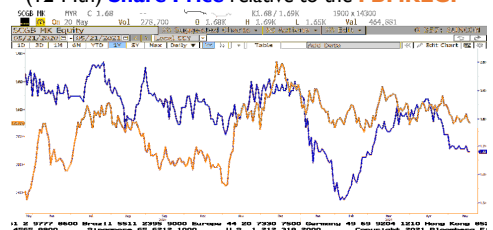
## Scorecard

	% of FY	
vs. TA	16.8	Below
vs. Consensus	14.5	Below

## Share Performance (%)

Price Change	SUNCON	FBM KLCI
1 mth	(8.7)	(2.0)
3 mth	5.0	(0.6)
6 mth	(9.7)	(1.2)
12 mth	(13.4)	9.8

## (12-Mth) Share Price relative to the FBMKLCI



Source: Bloomberg

**Table 1: Earnings Summary (RMmn)**

FYE Dec (RMmn)	2019	2020	2021F	2022F	2023F
Revenue	1,768.7	1,552.7	1,830.0	2,249.0	2,372.0
Gross profit	378.1	270.2	366.0	449.8	474.4
EBITDA	181.3	124.0	152.4	207.6	231.7
EBITDA margin (%)	10.2	8.0	8.3	9.2	9.8
EBIT	141.0	90.5	125.6	159.5	172.8
PBT	157.9	101.5	136.2	167.0	181.5
PAT	129.3	72.8	107.6	132.0	143.4
Core net profit	129.3	72.8	107.6	132.0	143.4
Core EPS (sen)	10.0	5.6	8.3	10.2	11.1
PER (x)	16.8	29.8	20.2	16.5	15.2
Gross dividend (sen)	7.0	4.0	7.0	7.0	7.0
Dividend yield (%)	4.2	2.4	4.2	4.2	4.2
ROE (%)	21.3	11.6	16.7	19.6	19.9

**Table 2: IQFY21 Results Analysis (RMmn)**

FYE Dec	1Q20	4Q20	1Q21	QoQ (%)	YoY (%)	3MFY20	3MFY21	YoY(%)
Revenue	365.8	627.2	455.2	(27.4)	24.4	365.8	455.2	24.4
- Construction	329.6	585.0	421.3	(28.0)	27.8	329.6	421.3	27.8
- Precast	36.3	42.2	33.9	(19.7)	(6.6)	36.3	33.9	(6.6)
Operating profit	18.7	38.8	26.1	(33)	39.7	18.7	26.1	39.7
Finance income	4.6	3.0	0.8	(75.2)	(83.5)	4.6	0.8	(83.5)
Finance costs	(2.7)	(0.3)	(1.6)	373.1	(41.9)	(2.7)	(1.6)	(41.9)
Profit before taxation	21.6	41.6	27.2	(34)	26.0	21.6	27.2	26.0
- Construction	20.8	37.3	23.6	(36.7)	13.2	20.8	23.6	13.2
- Precast	0.8	4.3	3.6	(15.0)	368.0	0.8	3.6	368.0
Income tax expense	(4.3)	(11.5)	(6.9)	(40)	60.8	(4.3)	(6.9)	60.8
Non-controlling interests	1.0	(0.1)	0.1	(151.4)	(92.4)	1.0	0.1	(92.4)
Net profit	16.4	30.2	20.2	(33.0)	23.8	16.4	20.2	23.8
- Construction	16.0	26.3	17.3	(34.0)	8.6	16.0	17.3	8.6
- Precast	0.4	3.9	2.9	(26.5)	679.5	0.4	2.9	679.5
Core net profit	16.4	30.2	20.2	(33.0)	23.8	16.4	20.2	23.8
Reported EPS (sen)	1.3	2.3	1.6	(32.9)	23.6	1.3	1.6	23.6
Core EPS (sen)	1.3	2.3	1.6	(32.9)	23.6	1.3	1.6	23.6
Dividend (sen)	0.0	2.8	0.0	(100.0)	na	0.0	0.0	na
Margin (%):				% pts	% pts			% pts
- Operating	5.1	6.2	5.7	(0.5)	0.6	5.1	5.7	0.6
- Construction	5.2	6.0	5.3	(0.6)	0.1	5.2	5.3	0.1
- Precast	3.9	9.5	11.1	1.6	7.2	3.9	11.1	7.2
- PBT	5.9	6.6	6.0	(0.6)	0.1	5.9	6.0	0.1
- PAT	4.7	4.8	4.5	(0.4)	(0.0)	4.5	4.4	(0.0)
- Effective tax rate	19.9	27.7	25.5	(2.3)	5.5	19.9	25.5	5.5

(THIS PAGE IS INTENTIONALLY LEFT BLANK)

### Stock Recommendation Guideline

- BUY** : Total return within the next 12 months exceeds required rate of return by 5%-point.  
**HOLD** : Total return within the next 12 months exceeds required rate of return by between 0-5%-point.  
**SELL** : Total return is lower than the required rate of return.  
**Not Rated:** The company is not under coverage. The report is for information only.

**Total Return** is defined as expected share price appreciation plus gross dividend over the next 12 months. Gross dividend is excluded from total return if dividend discount model valuation is used to avoid double counting.

**Required Rate of Return** of 7% is defined as the yield for one-year Malaysian government treasury plus assumed equity risk premium.

### ESG Scoring & Guideline

	Environmental	Social	Governance	Average
<b>Scoring</b>	★★★★	★★★★	★★★★★	★★★★
<b>Remark</b>	Environmental management system in place with ISO 14001:2015 certification. Will embark on the environmental supply chain assessment in 2021 and complete by 2023.	Adopted e-bidding. CSR events include Build A Home which focuses on welfare of orang asli community.	Established anti-bribery and whistleblower policies. 14.3%-woman representation on the board. Transparent in sustainability report and has won several ESG and IR awards.	

★★★★★ (≥80%) : Displayed market leading capabilities in integrating ESG factors in all aspects of operations, management and future directions.

★★★★ (60-79%) : Above adequate integration of ESG factors into most aspects of operations, management, and future directions.

★★★ (40-59%) : Adequate integration of ESG factors into operations, management, and future directions.

★★ (20-39%) : Have some integration of ESG factors in operations and management but are insufficient.

★ (<20%) : Minimal or no integration of ESG factors in operations and management.

#### Disclaimer

The information in this report has been obtained from sources believed to be reliable. Its accuracy and/ or completeness is not guaranteed and opinions are subject to change without notice. This report is for information only and not to be construed as a solicitation for contracts. We accept no liability for any direct or indirect loss arising from the use of this document. We, our associates, directors, employees may have an interest in the securities and/or companies mentioned herein.

As of Friday, May 21, 2021, the analyst, Chan Mun Chun, who prepared this report, has interest in the following securities covered in this report:  
(a) nil

**Kaladher Govindan – Head of Research**

TA SECURITIES HOLDINGS BERHAD (14948-M)

A Participating Organisation of Bursa Malaysia Securities Berhad

Menara TA One | 22 Jalan P. Ramlee | 50250 Kuala Lumpur | Malaysia | Tel: 603 – 2072 1277 | Fax: 603 – 2032 5048  
www.ta.com.my