

Sunway Construction Group Berhad

TP: RM1.89 (+13.9%)

Recovery in 4Q20

Last Traded: RM1.66

BUY (ESG: ★★★★★)

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Results Review

- SUNCON's FY20 net profit of RM72.8mn came in within expectations, accounting for 102.5% and 95.5% of ours and consensus full-year estimates.
- A second interim dividend of 2.75sen/share was declared, bringing the full-year dividend to 4.0sen/share (FY19: 7.0sen/share).
- FY20 revenue and net profit plunged by 12.2% and 43.7% YoY to RM1,552.7mn and RM72.8mn respectively, mainly dragged by the Covid-19 pandemic.
- On a sequential basis, 4Q20 revenue rebounded strongly by 49.6% to RM627.2mn while quarterly net profit jumped 25.6% to RM30.2mn. The surge in the quarterly revenue was mainly due to the final settlement of Uttar Pradesh project in India, as well as ramping up of construction progress for both the Sunway Carnival Mall Extension and the Sunway Medical Centre Seberang Jaya up north.
- For its precast segment, the quarterly revenue surged 164.1% QoQ to RM42.2mn as all its projects were allowed to commence operations in Singapore during the quarter under review. Segmental PBT for 4Q jumped 256.9% to RM4.3mn, boosted by higher revenue and recognition of better yielding margin projects.
- Its net cash position improved from RM317.9mn a quarter ago to RM339.2mn.

Impact

- Maintain FY21 and FY22 earnings forecasts. We introduce FY23 numbers with projected earnings of RM144.4mn, representing an earnings growth of 6.6%.

Outlook

- The outstanding order book stood at RM5.1bn as of end-December 2020, equivalent to 3.3x FY20 revenue. This could provide earnings visibility to the group for the next 3 years.
- SUNCON has secured a total of RM2.3bn new jobs in FY20. For the current year, it has set an order book replenishment target of RM2.0bn, versus our assumption of RM1.6bn.

Valuation

- We roll forward our valuation base year to CY22 and raise the target price from RM1.68 to **RM1.89**, based on unchanged target PE multiple of 18x. Maintain **BUY**.

Share Information

Bloomberg Code	SCGB MK
Bursa	SUNCON
Stock Code	5263
Listing	Main Market
Share Cap (mn)	1,289.4
Market Cap (RMmn)	2140.3
52-wk Hi/Lo (RM)	2.01/1.25
12-mth Avg Daily Vol ('000 shrs)	604.4
Estimated Free Float (%)	19.2
Beta	0.78

Major Shareholders (%)

Sunholdings	- 54.56
Sungei Way Corp Sdn Bhd	- 10.08
Employee Provident Fund	- 9.15
Amanah Saham Nasional Bhd	- 5.92

Forecast Revision

	FY21	FY22
Forecast Revision (%)	-	-
Net profit (RMmn)	120.8	135.5
Consensus	144.9	150.1
TA's / Consensus (%)	83.4	90.2
Previous Rating	Buy (Maintained)	

Financial Indicators

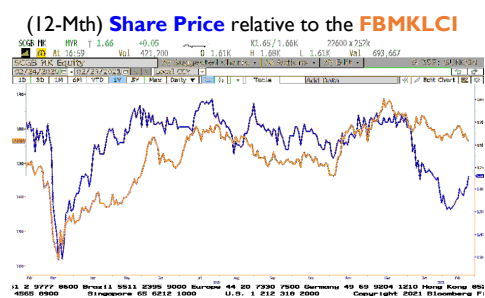
	FY21	FY22
Net Debt / Equity (%)	net cash	net cash
CFPS (sen)	(5.6)	0.4
Price / CFPS (x)	(29.4)	457.2
ROA (%)	6.1	6.1
NTA/Share (RM)	51.5	55.0
Price/NTA (x)	3.2	3.0

Scorecard

	% of FY	
vs. TA	102.5	Within
vs. Consensus	95.5	Within

Share Performance (%)

Price Change	SUNCON	FBM KLCI
1 mth	0.6	(2.0)
3 mth	(14.0)	(2.0)
6 mth	(10.3)	(0.8)
12 mth	(14.9)	2.2



Source: Bloomberg

Table 1: Earnings Summary (RMmn)

FYE Dec (RMmn)	2019	2020	2021F	2022F	2023F
Revenue	1,768.7	1,552.7	1,980.0	2,249.0	2,292.0
Gross profit	378.1	na	396.0	449.8	458.4
EBITDA	181.3	123.9	196.2	232.3	248.3
EBITDA margin (%)	10.2	8.0	9.9	10.3	10.8
EBIT	141.0	90.5	142.3	164.0	174.2
PBT	157.4	101.1	152.9	171.5	182.8
PAT	129.3	73.3	120.8	135.5	144.4
Core net profit	129.3	72.8	120.8	135.5	144.4
Core EPS (sen)	10.0	5.6	9.3	10.5	11.2
PER (x)	16.6	29.4	17.8	15.8	14.9
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	11.5	18.6	19.7	19.6

Table 2: 4QFY20 Results Analysis (RMmn)

FYE Dec	4Q19	3Q20	4Q20	QoQ (%)	YoY (%)	FY19	FY20	YoY(%)
Revenue	485.9	419.4	627.2	49.6	29.1	1768.7	1552.7	(12.2)
- Construction	440.5	403.4	585.0	45.0	32.8	1618.9	1455.2	(10.1)
- Precast	45.4	16.0	42.2	164.1	(7.1)	149.8	97.4	(35.0)
Operating profit	30.8	32.9	38.8	18	25.9	141.0	90.5	(35.8)
Finance income	8.7	4.6	3.0	(33.5)	(64.8)	25.2	17.4	(30.9)
Finance costs	(3.4)	(1.6)	(0.3)	(78.7)	(90.1)	(13.2)	(6.9)	(47.6)
Profit before taxation	40.5	36.0	41.6	16	2.6	157.4	101.1	(35.8)
- Construction	38.1	34.8	37.3	7.3	(2.0)	154.6	98.4	(36.4)
- Precast	2.4	1.2	4.3	256.9	75.8	2.8	2.7	(0.9)
Income tax expense	(7.8)	(11.7)	(11.5)	(2)	47.6	(27.1)	(27.8)	2.6
Non-controlling interests	1.1	0.2	(0.1)	(175.9)	(113.4)	1.0	0.5	(46.4)
Net profit	31.6	24.0	30.2	25.6	(4.5)	129.3	72.8	(43.7)
- Construction	28.0	23.2	26.3	13.5	(6.0)	125.9	71.0	(43.7)
- Precast	3.7	0.9	3.9	354.1	7.0	3.4	1.8	(46.0)
Core net profit	31.6	24.0	30.2	25.6	(4.5)	129.3	72.8	(43.7)
Reported EPS (sen)	2.5	1.9	2.3	25.8	(4.5)	10.0	5.6	(43.7)
Core EPS (sen)	2.5	1.9	2.3	25.8	(4.5)	10.0	5.6	(43.7)
Dividend (sen)	3.5	0.0	2.8	na	(21.4)	7.0	4.0	(42.9)
Margin (%):				% pts	% pts			% pts
- Operating	6.3	7.9	6.2	(1.7)	(0.2)	8.0	5.8	(2.1)
- Construction	6.1	7.8	6.0	(1.9)	(0.2)	8.4	6.0	(2.4)
- Precast	8.5	8.1	9.5	1.4	1.0	3.8	3.4	(0.4)
- PBT	8.3	8.6	6.6	(1.9)	(1.7)	8.9	6.5	(2.4)
- PAT	6.7	5.8	4.8	(1.0)	(1.9)	7.3	4.7	(2.6)
- Effective tax rate	19.3	32.6	27.7	(4.9)	8.4	17.2	27.5	10.3

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

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As of Wednesday, February 24, 2021, the analyst, Ooi Beng Hooi, who prepared this report, has interest in the following securities covered in this report:
(a) nil

Kaladher Govindan – Head of Research

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