

# Sunway Construction Group Berhad

**TP: RM1.54** (+4.1%)

Record High Quarterly Profit Since Listing in 2015

Last Traded: RM1.48

**Hold (ESG: ★★★★★)**

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### Results Review

- SUNCON's FY21 core profit of RM128.2mn came in above expectations, accounting for 167.5% and 159.0% of ours and consensus' full-year estimate, respectively. The positive variance was mainly due to higher-than-expected profit contributions from the construction division.
- A second interim dividend of 4.0sen/share was declared, bringing full-year dividend to 5.25sen/share (FY20: 4.0sen/share).
- YoY, FY21 core profit increased 76.1% to RM128.2mn as revenue was 11.4% higher at RM1,729.2mn. The stronger earnings were largely due to higher profit contributions from the construction segment. The PBT for the construction segment jumped by 50.6% to RM148.8mn from RM98.8mn a year ago, mainly due to the full resumption of construction activities as well as upward revision in margin for certain construction projects.
- QoQ, 4QFY21 core profit surged 210.6% to RM75.1mn while revenue increased by 130.3% to RM626.6mn. The more robust earnings performance was mainly due to the full resumption of business operations following the relaxation of movement restrictions.

### Impact

- Given the stronger-than-expected results, we adjust our revenue recognition assumptions and margin forecasts for certain ongoing projects. Consequently, earnings forecasts for FY22 and FY23 are raised by 9.0% and 9.5%, respectively.
- We introduce FY24 numbers with a projected net profit of RM147.8mn, representing an earnings growth of 4.5%.

### Outlook

- SUNCON's outstanding order book improved slightly from RM4.7bn a quarter ago to RM4.8bn, translating into 2.8x FY21 revenue. This could provide earnings visibility to the group for the next 3 years. Meanwhile, the group has an active tender book of RM4.3bn. The group has set an order book replenishment target of RM2.0bn for FY22.

### Valuation

- Given that the sentiment in the local construction sector remains relatively weak, with a lack of new mega infrastructure projects being rolled out, we reduce the target PE multiple for SUNCON from 18x to 16x. Consequently, we tweaked the target price lower from RM1.59 to **RM1.54**, based on 16x CY22 EPS. Maintain **Hold** call on the stock.

### Share Information

Bloomberg Code	SCGB MK
Bursa	SUNCON
Stock Code	5263
Listing	Main Market
Share Cap (mn)	1,292.9
Market Cap (RMmn)	1913.5
52-wk Hi/Lo (RM)	1.9/1.44
12-mth Avg Daily Vol ('000 shrs)	348.2
Estimated Free Float (%)	18.3
Beta	0.7

### Major Shareholders (%)

Sunholdings	- 54.6
Sungei Way Corp Sdn Bhd	- 10.1
Employee Provident Fund	- 9.2
Amanah Saham Nasional Bhd	- 5.5

### Forecast Revision

	FY22	FY23
Forecast Revision (%)	9.0	9.5
Net profit (RMmn)	124.6	141.4
Consensus	127.3	141.6
TA's / Consensus (%)	97.9	99.8
Previous Rating	Hold (Maintained)	

### Financial Indicators

	FY22	FY23
Net Debt / Equity (%)	14.2	7.0
CFPS (sen)	3.1	4.2
Price / CFPS (x)	47.3	35.0
ROA (%)	6.2	6.5
NTA/Share (RM)	53.8	57.7
Price/NTA (x)	2.8	2.6

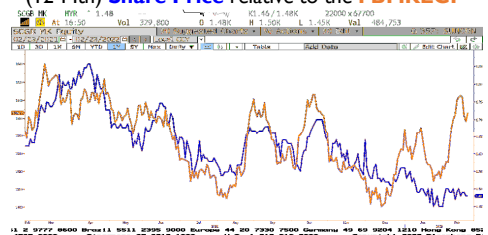
### Scorecard

	% of FY	
vs. TA	167.5	Above
vs. Consensus	159.0	Above

### Share Performance (%)

Price Change	SUNCON	FBM KLCI
1 mth	1.4	3.9
3 mth	(6.3)	4.2
6 mth	(9.8)	4.2
12 mth	(10.8)	1.3

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



Source: Bloomberg

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

FYE Dec (RMmn)	2020	2021	2022F	2023F	2024F
Revenue	1,552.7	1,729.2	2,139.0	2,272.0	2,320.0
EBITDA	124.0	166.8	170.8	187.3	193.1
EBITDA margin (%)	8.0	9.6	8.0	8.2	8.3
EBIT	90.5	139.4	150.3	170.3	177.4
PBT	101.5	152.2	157.8	179.0	187.1
PAT	72.8	112.6	124.6	141.4	147.8
Core net profit	72.8	128.2	124.6	141.4	147.8
Core EPS (sen)	5.6	9.9	9.6	10.9	11.4
PER (x)	26.2	14.9	15.4	13.5	12.9
Gross dividend (sen)	4.0	5.3	7.0	7.0	7.0
Dividend yield (%)	2.7	3.5	4.7	4.7	4.7
ROE (%)	11.6	18.9	18.4	19.6	19.1

**Table 2: 4QFY21 Results Analysis (RMmn)**

FYE Dec	4Q20	3Q21	4Q21	QoQ (%)	YoY (%)	FY20	FY21	YoY(%)
Revenue	627.2	272.1	626.6	130.3	(0.1)	1552.7	1729.2	11.4
- Construction	585.0	255.8	579.9	126.7	(0.9)	1455.2	1606.2	10.4
- Precast	42.2	16.3	46.7	187.1	10.7	97.4	122.9	26.2
Operating profit	38.8	22.1	84.9	284.7	118.6	90.5	139.4	54.0
Finance income	3.0	1.0	1.0	7.0	(65.7)	16.7	4.2	(75.2)
Finance costs	(0.3)	(0.9)	(1.1)	17.4	223.0	(6.9)	(4.6)	(34.0)
Profit before taxation	41.6	24.5	91.0	272	118.9	101.5	152.2	50.0
- Construction	37.3	26.9	88.7	229.7	137.9	98.8	148.8	50.6
- Precast	4.3	(2.4)	2.3	<(100.0)	(46.8)	2.7	3.5	26.8
Income tax expense	(11.5)	(5.0)	(26.0)	424.4	125.8	(27.8)	(41.5)	49.4
Non-controlling interests	(0.1)	0.2	0.3	17.9	<(100.0)	0.9	(1.8)	<(100.0)
Net profit	30.2	19.3	64.7	235.4	114.3	72.8	112.6	54.7
- Construction	26.3	21.4	62.7	193.3	138.5	71.0	109.6	54.4
- Precast	3.9	(2.1)	2.0	<(100.0)	(48.3)	1.8	3.0	65.6
Core net profit	30.2	24.2	75.1	210.6	148.7	72.8	128.2	76.1
Reported EPS (sen)	2.3	1.5	5.0	235.4	114.5	5.6	8.7	54.8
Core EPS (sen)	2.3	1.9	5.8	210.6	148.9	5.6	9.9	76.3
Dividend (sen)	2.8	0.0	4.0	na	45.5	4.0	5.3	31.3
Margin (%):				% pts	% pts			% pts
- Operating	6.2	8.1	13.5	5.4	7.4	5.8	8.1	2.2
Construction	6.0	9.5	14.2	4.7	8.2	6.0	8.4	2.4
Precast	9.5	(13.2)	5.8	19.0	(3.7)	3.4	3.7	0.2
- PBT	6.6	9.0	14.5	5.5	7.9	6.5	8.8	2.3
- PAT	4.8	7.2	10.4	3.1	7.2	4.7	7.4	2.7
- Effective tax rate	27.7	20.3	28.6	8.3	0.9	27.4	27.3	(0.1)

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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
<b>Scoring</b>	★★★★	★★★★	★★★★★	★★★★
<b>Remark</b>	Environmental management system in place with ISO 14001:2015 certification. SUNCON will embark on the environmental supply chain assessment in 2021 and complete it by 2023.	Adopted e-bidding. CSR events include Build A Home which focuses on the welfare of the Orang Asli community.	Established anti-bribery and whistleblower policies. 14.3%-woman representation on the board. Transparent in its 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.

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As of Thursday, February 24, 2022, 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**

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