

Sunway Construction Group Berhad

TP: RM1.64 (+5.1%)

Expecting a Stronger 4QFY21

Last Traded: RM1.56

Hold (ESG: ★★★★★)

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Results Review

- SUNCON's 9MFY21 core profit of RM53.1mn came in at 68.0% and 68.3% of our and consensus full-year estimate, respectively. We deem the results to be within expectations as we expect the earnings will be largely back-end loaded following the gradual re-opening of economic activities.
- YoY, 9MFY21 core profit jumped 24.7% to RM53.1mn as revenue was 19.1% higher at RM1,102.5mn. The stronger earnings were mainly due to higher revenue from both construction and precast segments. On top of that, the precast segment managed to swing back to profitability by posting a net profit of RM1.0mn compared to a net loss of RM2.1mn a year ago.
- QoQ, 3QFY21 core profit surged 191.3% to RM24.2mn despite revenue falling by 27.5% to RM272.1mn. The lower revenue was primarily due to the interruption arising from the implementation of Full Movement Control Order. Meanwhile, the stronger core profit was mainly driven by higher margin in the construction segment.

Impact

- Maintain FY21 to FY23 earnings forecasts.

Outlook

- SUNCON's outstanding order book eased from RM4.8bn a quarter ago to RM4.7bn, translating into 3.0x FY20 revenue. This could provide earnings visibility to the group for the next 3 years. The group has secured a total of RM796.0mn new jobs up to September 2021. Meanwhile, the group has an active tender book of RM8.0bn, with 20% coming from overseas markets.
- We expect the group to achieve stronger earnings for 4QFY21, given that the group has finally been able to run at full capacity.
- In terms of the Cukai Makmur, we believe none of its Malaysian operating entities have more than RM100.0mn of chargeable income for FY22. Hence, we expect potential tax impact from Budget 2022 should be minimal, if any, to the group.

Valuation

- No change to our target price of **RM1.64**, based on unchanged 18xCY22 earnings. Maintain **Hold** 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)	2016.9
52-wk Hi/Lo (RM)	2.0/1.5
12-mth Avg Daily Vol ('000 shrs)	460.6
Estimated Free Float (%)	18.3
Beta	0.70

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

	FY21	FY22
Forecast Revision (%)	0.0	0.0
Net profit (RMmn)	78.1	117.9
Consensus	77.7	135.8
TA's / Consensus (%)	100.5	86.8
Previous Rating	Hold (Maintained)	

Financial Indicators

	FY21	FY22
Net Debt / Equity (%)	15.8	15.0
CFPS (sen)	(4.2)	0.5
Price / CFPS (x)	(37.4)	319.5
ROA (%)	4.1	5.8
NTA/Share (RM)	51.3	53.4
Price/NTA (x)	3.0	2.9

Scorecard

	% of FY	
vs. TA	68.0	Within
vs. Consensus	68.3	Within

Share Performance (%)

Price Change	SUNCON	FBM KLCI
1 mth	(7.1)	(5.2)
3 mth	(1.3)	(0.1)
6 mth	(8.2)	(4.3)
12 mth	(15.2)	(5.1)

(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	1,730.0	2,149.0	2,222.0
Gross profit	378.1	270.2	346.0	429.8	444.4
EBITDA	181.3	124.0	115.1	189.8	213.7
EBITDA margin (%)	10.2	8.0	6.7	8.8	9.6
EBIT	141.0	90.5	88.3	141.8	154.8
PBT	157.9	101.5	98.9	149.3	163.5
PAT	129.3	72.8	78.1	117.9	129.1
Core net profit	129.3	72.8	78.1	117.9	129.1
Core EPS (sen)	10.0	5.6	6.0	9.1	10.0
PER (x)	15.6	27.6	25.8	17.1	15.6
Gross dividend (sen)	7.0	4.0	4.0	7.0	7.0
Dividend yield (%)	4.5	2.6	2.6	4.5	4.5
ROE (%)	21.3	11.6	12.0	17.4	18.2

Table 2: 3QFY21 Results Analysis (RMmn)

FYE Dec	3Q20	2Q21	3Q21	QoQ (%)	YoY (%)	9MFY20	9MFY21	YoY(%)
Revenue	419.4	375.3	272.1	(27.5)	(35.1)	925.4	1102.5	19.1
- Construction	403.4	349.2	255.8	(26.7)	(36.6)	870.2	1026.3	17.9
- Precast	16.0	26.1	16.3	(37.6)	1.8	55.2	76.2	38.0
Operating profit	32.9	6.4	22.1	245.6	(33.0)	51.7	54.5	5.5
Finance income	4.6	1.4	1.0	(28.8)	(78.7)	7.7	3.1	(59.8)
Finance costs	(1.6)	(1.0)	(0.9)	(7.2)	(41.4)	(6.6)	(3.5)	(47.0)
Profit before taxation	36.0	9.5	24.5	157	(31.9)	59.9	61.2	2.2
- Construction	34.8	9.5	26.9	182.0	(22.6)	61.5	60.1	(2.3)
- Precast	1.2	(0.0)	(2.4)	>100.0	<(100.0)	(1.6)	1.2	<(100.0)
Income tax expense	(11.7)	(3.6)	(5.0)	38.2	(57.7)	(16.3)	(15.5)	(4.8)
Non-controlling interests	0.2	(2.4)	0.2	(109.3)	19.3	1.1	(2.1)	<(100.0)
Net profit	24.0	8.3	19.3	131.8	(19.7)	42.6	47.9	12.4
- Construction	23.2	8.1	21.4	162.3	(7.7)	44.7	46.9	4.9
- Precast	0.9	0.2	(2.1)	<(100.0)	<(100.0)	(2.1)	1.0	<(100.0)
Core net profit	24.0	8.3	24.2	191.3	0.6	42.6	53.1	24.7
Reported EPS (sen)	1.9	0.6	1.5	131.8	(19.5)	3.3	3.7	12.5
Core EPS (sen)	1.9	0.6	1.9	191.3	0.8	3.3	4.1	24.8
Dividend (sen)	0.0	1.3	0.0	(100.0)	na	1.3	1.3	0.0
Margin (%):				% pts	% pts			% pts
- Operating	7.9	1.7	8.1	6.4	0.3	5.6	4.9	(0.6)
- Construction	7.8	1.8	9.5	7.7	1.6	6.0	5.1	(0.9)
- Precast	8.1	0.8	(13.2)	(14.0)	(21.3)	(1.2)	2.4	3.6
- PBT	8.6	2.5	9.0	6.5	0.4	6.5	5.6	(0.9)
- PAT	5.8	1.6	7.2	6.7	3.2	4.6	4.8	0.2
- Effective tax rate	32.6	37.7	20.3	(17.4)	(12.4)	27.1	25.3	(1.8)

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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. 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 Friday, November 19, 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

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