

COMPANY RESULTS

Sunway Construction (SCGB MK)

4Q20: Construction Billings Accelerated

SunCon's 4Q20 results came in within our expectations but above consensus'. The improved earnings in 2H20 were mainly driven by accelerated construction billings recognition and precast products' deliveries. Despite the initial impact of the MCO 2.0, SunCon's productivity level has gradually and steadily improved from 50% in January to the current 80%, as the government has eased restrictions. Maintain HOLD. Target price: RM1.60 (from RM1.70). Entry price: RM1.45.

4Q20 RESULTS

Year to 31 Dec	4Q20 (RMm)	qoq % chg	yoy % chg	2020 (RMm)	yoy % chg	Remarks
Revenue	627.2	49.6	29.1	1,552.7	(12.2)	
Construction	585.0	45.0	32.8	1,455.2	(10.1)	Progress billings accelerated
Precast Concrete	42.2	164.1	(7.1)	97.4	(35.0)	
Operating profit	38.8	17.8	25.9	90.5	(35.8)	
Construction	34.8	10.0	29.1	87.2	(35.6)	
Precast Concrete	4.0	210.2	3.5	3.3	(42.0)	
Pre-tax Profit	41.6	15.6	2.6	101.1	(35.8)	
PATAMI	30.2	25.6	(4.5)	72.8	(43.7)	
Core PATAMI	30.2	(4.9)	(16.9)	84.1	(36.9)	In line with our forecast
Margins	%	+/-ppt	+/-ppt	%	+/-ppt	
Construction	6.0	(1.9)	(0.2)	6.0	(8.5)	
Precast Concrete	9.5	1.4	1.0	3.4	(2.9)	Recognition of higher yielding projects
PBT	6.6	(1.9)	(1.7)	6.5	(10.6)	Affected due to provision on doubtful debt
PATAMI	4.8	(0.9)	(1.7)	4.7	(9.0)	

Source: SunCon, UOB Kay Hian

RESULTS

• **2020 earnings in line.** Sunway Construction Group (SunCon) reported 4Q20 core net profit of RM30m (-17% yoy, -4.9% qoq) on revenue of RM627m (+29% yoy, +50% qoq). This brings the full-year 2020 core net profit to RM84m (-37% yoy), in line with our forecast but slightly above consensus'. The improved earnings in 2H20 was mainly driven by accelerated construction billings recognition and precast products' deliveries. We gathered that productivity levels at its sites had reached the pre-pandemic level in 4Q20. Meanwhile, precast products' deliveries to Singapore yield better margins and will contribute to better earnings in upcoming quarters.

• **Dividend.** SunCon has declared a dividend of RM0.025/share for 4Q20, bringing its full-year dividend to RM0.04/share. Its strong balance sheet (net cash position of RM339m) allows the group to maintain its payout track record of >60% despite the pandemic-plagued year.

KEY FINANCIALS

Year to 31 Dec (RMm)	2019	2020	2021F	2022F	2023F
Net turnover	1,769	1,553	2,443	2,636	2,651
EBITDA	181	124	206	227	237
Operating profit	141	91	166	186	193
Net profit (rep./act.)	129	73	140	157	165
Net profit (adj.)	133	84	140	157	165
EPS (sen)	10.3	6.5	10.9	12.2	12.8
PE (x)	16.1	25.5	15.3	13.6	13.0
P/B (x)	3.4	3.4	3.2	2.9	2.8
EV/EBITDA (x)	10.1	14.7	8.9	8.0	7.7
Dividend yield (%)	4.2	2.4	4.6	5.1	5.4
Net margin (%)	7.3	4.7	5.7	6.0	6.2
Net debt/(cash) to equity (%)	(65.3)	(53.3)	(47.0)	(52.4)	(57.3)
ROE (%)	21.3	11.6	21.3	22.3	21.9
Consensus net profit	-	-	145	150	-
UOBKH/Consensus (x)	-	-	0.97	1.05	-

Source: SunCon, Bloomberg, UOB Kay Hian

HOLD

(Maintained)

Share Price	RM1.66
Target Price	RM1.60
Upside	-3.6%
(Previous TP)	RM1.70)

COMPANY DESCRIPTION

A leading construction company in Malaysia

STOCK DATA

GICS sector	Industrials
Bloomberg ticker:	SCGB MK
Shares issued (m):	1,289.4
Market cap (RMm):	2,140.3
Market cap (US\$m):	529.4
3-mth avg daily t'over (US\$m):	0.3

Price Performance (%)

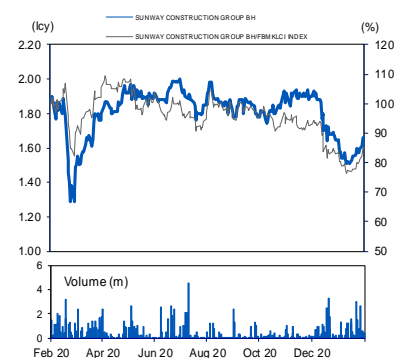
52-week high/low	RM2.00/RM1.29			
1mth	3mth	6mth	1yr	YTD
0.6	(14.0)	(10.3)	(14.9)	(11.7)

Major Shareholders

Sunway Holdings	54.4
Sungei Way Corp	10.1
Employees Provident Fund	9.15

FY21 NAV/Share (RM)	0.53
FY21 Net Cash/Share (RM)	0.25

PRICE CHART



Source: Bloomberg

ANALYST(S)

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- Gradual recovery from the MCO 2.0 impact.** Despite the initial impact of the MCO 2.0, SunCon's productivity level has gradually and steadily improved from 50% in January to the current 80%, as the government has eased restrictions. However, this is still lower than 4Q20's when it was already operating at the pre-pandemic level. Hence, we could expect lower order book recognition due to slower progress billings in 1Q21 vs 4Q20.
- SunCon has exceeded its order book replenishment target** after securing RM2.3b (vs SunCon's target of RM2b) of new contracts in 2020. The group remains upbeat on its order book replenishment prospect in 2021 by setting a target of RM2b (precast concrete: RM200-250m). The group is eyeing: a) local infrastructure and building contracts eg Large-Scale Solar 4; b) overseas projects like India's high-speed rail (HSR) projects; and c) internal contracts from Sunway, such as hospitals and high-rise residential projects, among others. The group's tender book size currently stands at RM5.4b with more than 50% being overseas projects ie India, Singapore, and the Philippines.

STOCK IMPACT

- Strong and diversified outstanding orderbook.** SunCon's outstanding order book backlog of RM5.1b would provide earnings visibility for its construction arm for the next two years. The split between overseas, internal, and external local jobs is healthy at 21%, 48%, and 31%, respectively. Notably, the group is actively pursuing works in the renewable energy space and had secured RM38m worth of jobs in 2020, building its track record within the segment.
- Not limiting to "bread and butter" contracts.** Realising the shrinking pool of new contracts locally, the company has embarked on a geographical diversification into the ASEAN region and India to win new contracts. Recently, SunCon and its partner won two highway contracts from the National Highways Authority of India. The company also plans to bid for more private finance initiative (PFI) contracts in India, such as the US\$19b HSR in India. The 463km HSR project in India connecting Mumbai and Ahmedabad has called for technical bids, based on our checks. SunCon may team up with a local company to bid for the civil works subcontract. Should the company require more initial funding for such PFI projects, SunCon will look at borrowings and/or corporate exercises like share placement. On a positive note, SunCon has stated that for future pipeline projects in India, the contract terms should mitigate the country's project execution risk.
- ICPH to commence operations by mid-22.** The Integrated Construction and Prefabrication Hub (ICPH) in Singapore has an annual capacity of 100,000 cubic metres (cum) and is expected to begin operations by mid-22. It will supply precast products like prefabricated bathroom units and prefabricated volumetric construction products, primarily for Housing Development Board flats in Singapore. The HL Building Materials (51%)-SunCon (49%) JV is expected to contribute from mid-21 with an estimated bottom-line of >S\$5m annually (at the JV level based on 50% utilisation rate). In addition, ICPH's precast products yield better margins (>10%) than Johor's precast products (annual capacity of 150,000 cum).

EARNINGS REVISION/RISK

- We trim 2021 earnings by 6% to reflect the impact of MCO 2.0**, which slows down construction progress, as well as for housekeeping purposes.
- Key risks.** Rampant spread of COVID-19 cases which would lead to slower-than-expected pick-up in progress billings.

VALUATION/RECOMMENDATION

- Maintain HOLD** with reduced target price of RM1.60 (from RM1.70), based on 13x 2021F PE and net cash as of 2021F, implying net cash PE of 14.7x (or -0.5SD of its 5-year average). We ascribe a higher-than peers' PE multiple in view of SunCon's solid fundamentals and earnings visibility, underpinned by new contracts secured, its ability to clinch a balanced mix of external and internal construction projects and a strong balance sheet (net cash). Entry price is RM1.45.

SHARE PRICE CATALYST

- Better visibility on the timeline of mega infrastructure projects revival.

OUTSTANDING ORDERBOOK AS OF 31 DEC 20

Projects	(RMm)
LRT 3	573
Tenaga HQ Campus (Phase 2)	508
PETRONAS Leadership Centre	211
India Highway	823
Others	287
Total External (A)	2,402
Sunway Medical Centre - Phase 4	293
Sunway Belfield	396
Sunway Serene	188
Sunway Velocity 2 (Plot A)	196
Sunway Velocity 2 (Plot B)	251
Sunway Carnival Mall	151
Others	925
Total Internal (B)	2,400
Precast Concrete (C)	259
Grand Total (A+B+C)	5,061

Source: SunCon

ORDERBOOK REPLENISHMENT ASSUMPTIONS

(RMm)	2021F	2022F	2023F
Construction	1,800	2,000	2,000
Precast Concrete	200	250	250

Source: UOB Kay Hian

SEGMENT FORECASTS

(RMm)	2021F	2022F	2023F
Revenue	2,443	2,636	2,651
Construction	2,280	2,439	2,429
Precast Concrete	163	198	223
Operating profit	166	186	193
Construction	164	183	189
Precast Concrete	2	3	3

Source: UOB Kay Hian

VALUATION

	(RMm)	Value (RMm)	Remarks
2021F net profit	140		
Net interest	13		
income after tax			
2021F net profit	128	1,709	13x PE
ex net interest			
income			
Net cash	319	319	As of 2021F
Total SOTP		2,029	
value			
Share base		1,289	
			Implied PE (x)
TP (RM)		1.60	14.7
TP (RM) (ex -cash)		1.33	12.2

Source: SunCon, UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (RMm)	2020	2021F	2022F	2023F
Net turnover	1,553	2,443	2,636	2,651
EBITDA	124	206	227	237
Deprec. & amort.	33	40	41	44
EBIT	91	166	186	193
Total other non-operating income	0	0	0	0
Associate contributions	0	1	1	1
Net interest income/(expense)	10	10	12	15
Pre-tax profit	101	177	198	208
Tax	(28)	(35)	(40)	(41)
Minorities	(1)	(1)	(2)	(2)
Net profit	73	140	157	165
Net profit (adj.)	84	140	157	165

CASH FLOW

Year to 31 Dec (RMm)	2020	2021F	2022F	2023F
Operating	93	98	172	194
Pre-tax profit	101	177	198	208
Tax	(28)	(35)	(40)	(41)
Deprec. & amort.	33	40	41	44
Working capital changes	(29)	(73)	(16)	(1)
Non-cash items	26	(1)	(1)	(1)
Other operating cashflows	(10)	(10)	(12)	(15)
Investing	181	(30)	(12)	(30)
Capex (growth)	(3)	(30)	(12)	(30)
Investments	0	(1)	(1)	(1)
Proceeds from sale of assets	2	0	0	0
Others	183	1	1	1
Financing	(147)	(113)	(108)	(111)
Dividend payments	(52)	(98)	(110)	(115)
Issue of shares	0	0	0	0
Proceeds from borrowings	12	(5)	0	0
Others/interest paid	(108)	(10)	2	5
Net cash inflow (outflow)	127	(45)	52	54
Beginning cash & cash equivalent	429	558	513	564
Changes due to forex impact	85	82	82	82
Ending cash & cash equivalent	640	595	647	700

BALANCE SHEET

Year to 31 Dec (RMm)	2020	2021F	2022F	2023F
Fixed assets	107	97	68	54
Other LT assets	56	57	57	58
Cash/ST investment	640	595	647	700
Other current assets	1,102	1,723	1,858	1,868
Total assets	1,906	2,472	2,630	2,680
ST debt	234	214	204	194
Other current liabilities	961	1,509	1,628	1,637
LT debt	67	62	62	62
Other LT liabilities	6	6	6	6
Shareholders' equity	637	679	726	775
Minority interest	2	3	5	6
Total liabilities & equity	1,906	2,472	2,630	2,680

KEY METRICS

Year to 31 Dec (%)	2020	2021F	2022F	2023F
Profitability				
EBITDA margin	8.0	8.4	8.6	8.9
Pre-tax margin	6.5	7.2	7.5	7.8
Net margin	4.7	5.7	6.0	6.2
ROA	3.8	6.4	6.2	6.2
ROE	11.6	21.3	22.3	21.9
Growth				
EBITDA	(31.6)	66.1	10.3	4.4
Pre-tax profit	(35.8)	74.9	12.0	5.0
Net profit	(43.7)	92.6	12.0	5.0
Net profit (adj.)	(36.9)	66.7	12.0	5.0
EPS	(36.8)	66.7	12.0	5.0
Leverage				
Debt to total capital	32.0	28.8	26.7	24.7
Debt to equity	47.2	40.6	36.6	33.0
Net debt/(cash) to equity	(53.3)	(47.0)	(52.4)	(57.3)

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