

### COMPANY RESULTS

## Sunway Construction (SCGB MK)

3Q21: On The Road To Recovery

SunCon's earnings came in above our expectation but below consensus forecast at RM24.8m. This brought its 9M21 earnings to RM28.3m, accounting for 79%/68% of our and consensus forecasts respectively. The positive earnings surprise was mainly due to the re-calibration of nearly-completed projects' margins. The potential rollout of the MRT3 project in 1H22 could benefit SunCon given its participation in MRT1 and MRT2. **Maintain HOLD with an unchanged target price of RM1.50.**

### 3Q21 RESULTS

Year to 31 Dec	3Q21 (RMm)	qoq % chg	yoy % chg	9M21	yoy	Remarks
Revenue	272.1	(27.5)	(35.1)	1,102.5	19.1	
Construction	255.8	(26.7)	(36.6)	1,026.3	17.9	Progress billings have yet to fully recover
Precast Concrete	16.3	(37.6)	1.8	76.2	38.0	
Operating profit	22.1	245.6	(33.0)	54.5	5.5	
Construction	24.2	292.0	(23.5)	52.7	0.7	
Precast Concrete	(2.2)	n.m.	n.m.	1.8	<100	
Pre-tax Profit	24.5	157.3	(31.9)	61.2	2.9	
PATAMI	19.5	134.5	(18.8)	48.1	12.9	
Core PATAMI	24.8	213.2	(21.8)	53.1	(1.5)	Above our but below consensus' forecasts
<b>Margins</b>	<b>%</b>	<b>+/-ppt</b>	<b>+/-ppt</b>	<b>%</b>	<b>+/-ppt</b>	
Construction	1.8	(3.5)	(0.7)	3.7	(5.2)	Near-completion projects' margin re-calibrated
Precast Concrete	0.8	(10.3)	112.7	6.6	117.6	Affected by higher steel bar prices
PBT	2.5	(3.5)	0.9	4.4	(3.8)	
PATAMI	2.2	(2.2)	0.7	3.4	(3.0)	

Source: Sunway Construction, UOB Kay Hian

### RESULTS

• **3Q21 earnings beat our expectation but below consensus.** Sunway Construction Group (SunCon) reported a core net profit of RM24.8m (+>100% qoq, -21.8% yoy) and revenue of RM272.1m (-27.5% qoq, -35.1% yoy) in 3Q21. The core net profit came in above our expectation but below consensus, accounting for 79%/68% of our/consensus full-year forecasts, respectively. The positive variance was mainly attributed to the improvement in constructions' margin (+7.7ppt qoq, +1.6ppt yoy) due to the re-calibration of margins for some of its nearly-completed projects. No dividend was declared.

### KEY FINANCIALS

Year to 31 Dec (RMm)	2019	2020	2021F	2022F	2023F
Net turnover	1,769	1,553	1,846	2,125	2,258
EBITDA	181	124	115	163	193
Operating profit	141	91	86	138	166
Net profit (rep./act.)	129	73	73	119	141
Net profit (adj.)	133	92	73	119	141
EPS (sen)	10.3	7.1	5.6	9.2	11.0
PE (x)	15.1	21.9	27.7	17.0	14.2
P/B (x)	3.2	3.2	3.0	2.8	2.6
EV/EBITDA (x)	9.3	13.5	14.6	10.3	8.7
Dividend yield (%)	4.5	2.6	2.2	3.5	4.2
Net margin (%)	7.3	4.7	3.9	5.6	6.3
Net debt/(cash) to equity (%)	(65.3)	(53.3)	(50.4)	(51.4)	(52.2)
ROE (%)	21.3	11.6	11.2	17.2	19.1
Consensus net profit	-	-	78	136	144
UOBKH/Consensus (x)	-	-	0.94	0.87	0.98

Source: Sunway Construction, Bloomberg, UOB Kay Hian

### HOLD

(Maintained)

Share Price	RM1.56
Target Price	RM1.50
Upside	-3.8%

### 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):	2,011.4
Market cap (US\$m):	481.1
3-mth avg daily t'over (US\$m):	0.1

### Price Performance (%)

52-week high/low	RM1.94/RM1.51			
<b>1mth</b>	<b>3mth</b>	<b>6mth</b>	<b>1yr</b>	<b>YTD</b>
(7.1)	(1.3)	(8.2)	(15.2)	(17.0)

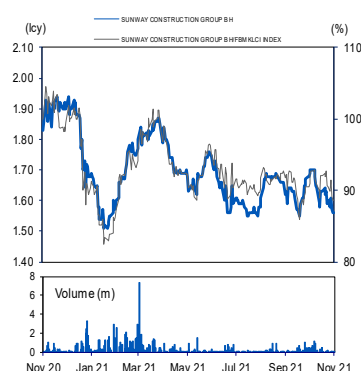
### Major Shareholders

	<b>%</b>
Sunway Holdings	54.6
Employees Provident Fund	9.2

FY21 NAV/Share (RM) 0.52

FY21 Net Cash/Share (RM) 0.26

### PRICE CHART



Source: Bloomberg

### ANALYST(S)

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- **Constructions' operating margin improved** at 9.5% (vs 1.8% in 2Q21, 7.8% in 3Q20) - some of nearly-completed projects' margin was re-calibrated after better visibility and certainty of the projects' costs. Separately, the precast segment reported a loss before tax of RM2.4m due to the impact of higher steel bar prices which increased by more than 25% ytd.

### STOCK IMPACT

- **MRT3: SunCon could emerge as an early winner.** MRT Corp recently shared that more details of the project's tendering process will be shared as early as the early part of next year. The prolonged lockdown and amendments to the project's details have pushed back the MRT3's rollout timeline, from the earlier projection of 4Q21. Nevertheless, positive development on the project should bode well for SunCon. Being a part of the MRT1 and MRT2 projects and its strong execution track record, the group is one of the frontrunners to secure the railway jobs.
- **Budget 2022: Focusing on ongoing projects and development of rural areas.** Notably, the government's allocations mainly focus on smaller infrastructure projects in rural areas, including water and electricity supply, especially in Sabah and Sarawak. The government also allocated RM3.5b for ongoing infrastructure projects such as the Pan Borneo Highway and Central Spine Road, while RM200m was allocated for the new Public-Private Partnership (PPP) 3.0 initiative – more details of the initiative are expected to be announced in mid-22.
- **No change in our orderbook replenishment assumptions** of RM1b (vs SunCon's target: RM2b). Despite the pandemic crisis, the group managed to secure RM796m worth of new contracts ytd. The group's outstanding orderbook now stands at RM4.7b (2.5x of revenue cover).
- **Construction material cost** (eg steel at RM3,200/tonne as of mid-Nov 21 vs RM2,100/tonne in the same period last year) remains elevated which could lead to thinning margin is another cause for concern. SunCon sources for its construction materials through Sunway Group by purchasing the materials in bulk to minimise the impact of high construction materials cost.

### EARNINGS REVISION/RISK

- **We adjust 2021 earnings** upwards by 8% to reflect the higher-than-expected earnings during this quarter.
- **Key risks.** Building materials prices remain elevated for longer than expected.

### VALUATION/RECOMMENDATION

- **Maintain HOLD with an unchanged target price of RM1.50**, implying 16.3x 2022F PE. SunCon is ascribed with a higher-than-peers' PE multiple in view of its solid fundamentals and earnings visibility, underpinned by its ability to clinch a balanced mix of external and internal construction projects.

### SHARE PRICE CATALYST

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

### ENVIRONMENTAL, SOCIAL, GOVERNANCE (ESG) UPDATES

<ul style="list-style-type: none"> <li>• <b>Environmental</b> <ul style="list-style-type: none"> <li>- The company measured the release of emissions, biodiversity impact, waste disposal, pollution and other environmental issues resulting from site operations to devise mitigation strategies.</li> </ul> </li> <li>• <b>Social</b> <ul style="list-style-type: none"> <li>- SunCon works together with local authorities and communities to ensure that the projects it implements are planned holistically and their impacts are managed sustainably.</li> <li>- The company is also driven by a Quality Management System that ensures their products are safe and meet relevant quality standards.</li> </ul> </li> <li>• <b>Governance</b> <ul style="list-style-type: none"> <li>- Complies with Malaysian Code on Corporate Governance which requires independent directors (four out of seven) to comprise the majority of the board.</li> </ul> </li> </ul>
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### OUTSTANDING ORDERBOOK AS OF 30 SEP 21

Projects	(RMm)
LRT 3	295
Tenaga HQ Campus (Phase 2)	373
PETRONAS Leadership Centre	104
India Highway	818
Others	148
<b>Total External (A)</b>	<b>1,738</b>
Sunway Medical Centre - Phase 4 + VO	387
Sunway Belfield	374
Sunway Serene	120
Sunway Velocity 2 (Plot A)	137
Sunway Velocity 2 (Plot B)	239
Sunway Carnival Mall	81
South Quay CP2	265
Others	824
<b>Total Internal (B)</b>	<b>2,427</b>
Precast Concrete (C)	504
<b>Grand Total (A+B+C)</b>	<b>4,669</b>

Source: SunCon

### ORDERBOOK REPLENISHMENT ASSUMPTIONS

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

Source: UOB Kay Hian

### SEGMENTAL FORECASTS

(RMm)	2021F	2022F	2023F
<b>Revenue</b>	<b>1,846</b>	<b>2,125</b>	<b>2,258</b>
Construction	1,684	1,928	2,035
Precast Concrete	163	198	223
<b>Operating profit</b>	<b>86</b>	<b>138</b>	<b>166</b>
Construction	84	135	163
Precast Concrete	2	3	3

Source: UOB Kay Hian

### VALUATION

	(RMm)	Value (RMm)	Remarks
2022F net profit ex net interest income	117	1,570	13x PE
Net cash	364	364	
<b>Total SOTP value</b>		<b>1,934</b>	
Share base		1,289	
			Implied PE (x)
TP (RM)		1.50	16.3

Source: SunCon, UOB Kay Hian

### PROFIT & LOSS

Year to 31 Dec (RMm)	2020	2021F	2022F	2023F
<b>Net turnover</b>	<b>1,553</b>	<b>1,846</b>	<b>2,125</b>	<b>2,258</b>
EBITDA	124	115	163	193
Deprec. & amort.	33	29	26	26
EBIT	91	86	138	166
Total other non-operating income	0	0	0	0
Associate contributions	0	9	9	9
Net interest income/(expense)	10	1	1	2
<b>Pre-tax profit</b>	<b>101</b>	<b>95</b>	<b>148</b>	<b>176</b>
Tax	(28)	(22)	(28)	(34)
Minorities	(1)	(1)	(1)	(1)
<b>Net profit</b>	<b>73</b>	<b>73</b>	<b>119</b>	<b>141</b>
Net profit (adj.)	92	73	119	141

### CASH FLOW

Year to 31 Dec (RMm)	2020	2021F	2022F	2023F
<b>Operating</b>	<b>93</b>	<b>69</b>	<b>113</b>	<b>148</b>
Pre-tax profit	101	95	148	176
Tax	(28)	(22)	(28)	(34)
Deprec. & amort.	33	29	26	26
Working capital changes	(29)	(24)	(23)	(11)
Non-cash items	26	(9)	(9)	(9)
Other operating cashflows	(10)	(1)	(1)	(2)
<b>Investing</b>	<b>181</b>	<b>(30)</b>	<b>(12)</b>	<b>(30)</b>
Capex (growth)	(3)	(30)	(12)	(30)
Investments	0	(9)	(9)	(9)
Proceeds from sale of assets	2	0	0	0
Others	183	9	9	9
<b>Financing</b>	<b>(147)</b>	<b>(68)</b>	<b>(80)</b>	<b>(93)</b>
Dividend payments	(52)	(44)	(71)	(85)
Issue of shares	0	0	0	0
Proceeds from borrowings	12	(5)	0	0
Others/interest paid	(108)	(19)	(9)	(8)
<b>Net cash inflow (outflow)</b>	<b>127</b>	<b>(29)</b>	<b>21</b>	<b>25</b>
Beginning cash & cash equivalent	429	558	529	550
Changes due to forex impact	85	82	82	82
<b>Ending cash &amp; cash equivalent</b>	<b>640</b>	<b>612</b>	<b>632</b>	<b>658</b>

### BALANCE SHEET

Year to 31 Dec (RMm)	2020	2021F	2022F	2023F
<b>Fixed assets</b>	<b>107</b>	<b>108</b>	<b>95</b>	<b>98</b>
Other LT assets	56	65	73	82
Cash/ST investment	640	612	632	658
Other current assets	1,102	1,307	1,502	1,594
<b>Total assets</b>	<b>1,906</b>	<b>2,092</b>	<b>2,302</b>	<b>2,431</b>
ST debt	234	214	204	194
Other current liabilities	961	1,142	1,313	1,395
LT debt	67	62	62	62
Other LT liabilities	6	6	6	6
Shareholders' equity	637	666	713	770
Minority interest	2	2	4	5
<b>Total liabilities &amp; equity</b>	<b>1,906</b>	<b>2,092</b>	<b>2,302</b>	<b>2,431</b>

### KEY METRICS

Year to 31 Dec (%)	2020	2021F	2022F	2023F
<b>Profitability</b>				
EBITDA margin	8.0	6.2	7.7	8.5
Pre-tax margin	6.5	5.2	6.9	7.8
Net margin	4.7	3.9	5.6	6.3
ROA	3.8	3.6	5.4	6.0
ROE	11.6	11.2	17.2	19.1
<b>Growth</b>				
EBITDA	(31.6)	(7.1)	42.0	17.9
Pre-tax profit	(35.8)	(5.6)	54.7	19.6
Net profit	(43.7)	(0.1)	63.1	19.3
Net profit (adj.)	(31.1)	(20.8)	63.1	19.3
EPS	(31.0)	(20.8)	63.1	19.3
<b>Leverage</b>				
Debt to total capital	32.0	29.2	27.1	24.8
Debt to equity	47.2	41.4	37.3	33.2
Net debt/(cash) to equity	(53.3)	(50.4)	(51.4)	(52.2)

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