

COMPANY RESULTS

Sunway Construction (SCGB MK)

4Q21: On Track For Recovery

SunCon's earnings came in above expectations at RM65.8m. This brought its 2021 earnings to RM113.3m, accounting for 155/140% 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 2022 could benefit SunCon given its participation in MRT1 and MRT2. Maintain HOLD with a higher target price of RM1.57.

4Q21 RESULTS

Year to 31 Dec	4Q21 (RMm)	3Q21 (RMm)	qoq % chg	yoy % chg	2021 (RMm)	yoy % chg
Revenue	626.6	272.1	130.3	(0.1)	1,729.2	11.4
Construction	579.9	255.8	126.7	(0.9)	1,606.2	10.4
Precast Concrete	46.7	16.3	187.1	10.7	122.9	26.2
EBIT	84.9	22.1	284.7	118.6	139.4	54.0
Construction	82.2	24.2	239.4	136.0	134.9	54.8
Precast Concrete	2.7	(2.2)	225.0	(32.6)	4.5	34.7
Pre-tax Profit	91.0	24.5	271.8	118.9	152.2	50.6
PATAMI	64.7	19.3	235.4	114.3	112.6	54.7
Core PATAMI	65.8	19.2	242.0	73.5	113.3	23.4
Margins (%)						
Construction	14.2	9.5	4.7	8.2	8.4	2.4
Precast Concrete	5.8	(13.2)	19.0	(3.7)	3.7	0.2
PBT	14.5	9.0	5.5	7.9	8.8	2.3
PATAMI	10.3	7.1	3.2	5.5	6.5	1.8

Source: Sunway Construction, UOB Kay Hian

RESULTS

- 2021 earnings above expectations.** Sunway Construction Group (SunCon) reported a core net profit of RM65.8m (+>100% qoq, +73.5% yoy) and revenue of RM626.6m (+>100% qoq, -0.1% yoy) in 4Q21. This brings the full-year 2021 core net profit to RM113.3m (+23.4% yoy), accounting for 155/140% of our/consensus' full-year forecasts. The positive variance was mainly attributed to the improvement in construction's margins (+4.7ppt qoq, +8.2ppt yoy) due to the re-calibration of margins for some of its nearly-completed projects.
- Dividends.** SunCon has declared a dividend of RM0.04/share for 4Q21, bringing its full-year dividend to RM0.0525/share. Its sturdy balance sheet allows the group to maintain its payout track record of around 60% despite the pandemic-plagued year.

KEY FINANCIALS

Year to 31 Dec (RMm)	2020	2021	2022F	2023F	2024F
Net turnover	1,553	1,729	2,276	2,452	2,196
EBITDA	124	167	175	195	163
Operating profit	91	139	157	169	151
Net profit (rep./act.)	73	113	127	143	132
Net profit (adj.)	92	113	127	143	132
EPS (sen)	7.1	8.8	9.9	11.0	10.2
PE (x)	20.8	16.8	15.8	14.1	14.5
P/B (x)	3.0	2.9	2.8	2.6	2.6
EV/EBITDA (x)	12.5	13.4	9.5	8.0	8.5
Dividend yield (%)	2.7	3.5	3.8	4.3	4.3
Net margin (%)	4.7	6.6	5.6	6.0	6.5
Net debt/(cash) to equity (%)	(53.3)	(50.4)	(51.4)	(52.2)	(55.2)
ROE (%)	11.6	17.0	18.4	19.2	19.1
Consensus net profit	-	-	133	142	-
UOBKH/Consensus (x)	-	-	0.95	1.00	-

Source: Sunway Construction, Bloomberg, UOB Kay Hian

HOLD

(Maintained)

Share Price	RM1.48
Target Price	RM1.57
Upside	+6.1%
(Previous Target Price)	RM1.50

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):	1,908.3
Market cap (US\$m):	456.0
3-mth avg daily t'over (US\$m):	0.1

Price Performance (%)

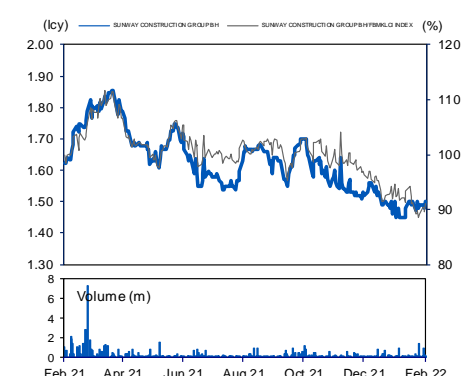
52-week high/low RM1.87/RM1.45

1mth	3mth	6mth	1yr	YTD
1.4	(5.7)	(8.1)	(8.1)	(5.1)

Major Shareholders

	%
Sunway Berhad	54.4
Employees Provident Fund	9.2
FY22 NAV/Share (RM)	0.55
FY22 Net Cash/Share (RM)	0.28

PRICE CHART



ANALYST(S)

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- Construction's operating margin continues to improve in 4Q21** at 14.2% (+4.7ppt qoq, +8.2ppt yoy). SunCon's construction arm reported a higher PBT of RM148.8m (+50.6% yoy) on revenue of RM1.6b (+10.4% yoy) in 2021 due to accelerated progress billings on the back of resumption of construction activities after the easing of lockdown. Productivity levels at sites had reached the pre-pandemic levels. Construction PBT margins in 2021 inched up 2.5ppt yoy to 9.3% due to higher recognition of projects' final account as some of nearly-completed projects' margins were re-calibrated after better visibility and certainty of the projects' costs. We expect margins to remain around this level in the coming quarters.
- Precast: Gradual recovery.** 2021 PBT profit was RM3.4m (+26% yoy) on revenue of RM122.9m (+26% yoy). The rejuvenation of economic activities in both Malaysia and Singapore after the easing of nationwide lockdowns has helped to improve both revenue and profit in 2021. However, PBT margin remained at around 2.8% as the division continued to be impacted by higher steel bar prices which increased by over 28% yoy.

STOCK IMPACT

- SunCon has exceeded our orderbook replenishment target** of RM1b after securing RM1.5b (vs SunCon's target of RM2b) of new contracts in 2021 despite the pandemic. The group remains cautiously optimistic on its orderbook replenishment prospects in 2022. The group is eyeing: a) local infrastructure and building contracts (both private and public sectors) like PFI projects; b) overseas projects such as in India and the ASEAN region; c) internal contracts from Sunway, such as hospitals and high-rise residential projects, among others; and d) sustainability energy sector. The group's outstanding orderbook now stands at RM4.8b (2.5x of revenue cover). With the economic reopening, we believe SunCon will be able to replenish its orderbook by RM2b in 2022.
- MRT3: SunCon is among the potential beneficiaries.** Prolonged lockdown and amendments to the project's details have pushed back MRT3's rollout timeline, from the earlier projection of 4Q21. Nevertheless, positive development on the project this year should bode well for SunCon. Being a part of the MRT1 and MRT2 projects and its strong execution track record, SunCon is among the frontrunners to secure the railway jobs.
- Construction material cost** (eg steel at RM3,000/tonne as of mid-Feb 21 vs RM2,350/tonne in the same period last year) remains elevated, which could lead to thinning margins and 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 2022 earnings** upwards by 6% to reflect the higher-than-expected earnings during this quarter. We are keeping our assumption of an annual orderbook replenishment of RM2b for 2022-23.

VALUATION/RECOMMENDATION

- Maintain HOLD with a higher target price of RM1.57**, implying 15.9x 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.

ENVIRONMENTAL, SOCIAL, GOVERNANCE (ESG) UPDATES

<ul style="list-style-type: none"> Environmental -SunCon measured the release of emissions, biodiversity impact, waste disposal, pollution resulting from site operations to devise mitigation strategies.
<ul style="list-style-type: none"> Social -SunCon works together with local authorities and communities to ensure that the projects it implements are planned holistically and sustainably.
<ul style="list-style-type: none"> Governance -Complies with Malaysian Code on Corporate Governance which requires independent directors (four out of seven) to comprise the majority of the board.

OUTSTANDING ORDERBOOK AS OF 31 DEC 21

Projects	(RMm)
LRT 3	196
Tenaga HQ Campus (Phase 2)	294
PETRONAS Leadership Centre	49
India Highway	818
Others	565
Total External (A)	1,868
Sunway Medical Centre - Phase 4 + VO	329
Sunway Belfield	361
Sunway Serene	86
Sunway Velocity 2 (Plot A)	115
Sunway Velocity 2 (Plot B)	225
Sunway Carnival Mall	42
South Quay CP2	558
Others	731
Total Internal (B)	2,428
Precast Concrete (C)	456
Grand Total (A+B+C)	4,751

Source: SunCon

ORDER BOOK REPLENISHMENT ASSUMPTION

(RMm)	2022F	2023F	2024F
Construction	2,000	2,000	1,500
Precast Concrete	250	250	250

Source: UOB Kay Hian

SEGMENTAL FORECASTS

(RMm)	2022F	2023F	2024F
Revenue	2,276	2,452	2,196
Construction	2,078	2,229	1,958
Precast Concrete	198	223	238
Operating profit	157	169	151
Construction	154	165	147
Precast Concrete	3	4	4

Source: UOB Kay Hian

VALUATION

	(RMm)	Value (RMm)	Remarks
2022F net profit ex net interest income	126	1,690	13x PE
Net cash	340	340	
Total SOTP value		2,030	
Share base		1,289	
			Implied PE (x)
TP (RM)		1.57	15.9

Source: SunCon, UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (RMm)	2021	2022F	2023F	2024F
Net turnover	1,729	2,276	2,452	2,196
EBITDA	167	175	195	163
Deprec. & amort.	27	26	26	26
EBIT	139	157	169	151
Total other non-operating income	4	0	0	0
Associate contributions	9	9	9	9
Net interest income/(expense)	0	1	1	2
Pre-tax profit	152	159	179	162
Tax	(41)	(30)	(34)	(30)
Minorities	(2)	(1)	(1)	(1)
Net profit	113	127	143	132
Net profit (adj.)	113	127	143	132

BALANCE SHEET

Year to 31 Dec (RMm)	2021	2022F	2023F	2024F
Fixed assets	107	108	95	98
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
Total assets	1,906	2,092	2,302	2,431
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
Total liabilities & equity	1,906	2,092	2,302	2,431

CASH FLOW

Year to 31 Dec (RMm)	2021	2022F	2023F	2024F
Operating	99	121	138	136
Pre-tax profit	152	159	179	162
Tax	(41)	(30)	(34)	(30)
Deprec. & amort.	27	26	26	26
Working capital changes	(29)	(24)	(23)	(11)
Non-cash items	(9)	(9)	(9)	(9)
Other operating cashflows	(1)	(1)	(1)	(2)
Investing	(173)	(30)	(12)	(30)
Capex (growth)	(34)	(30)	(12)	(30)
Investments	7	(9)	(9)	(9)
Proceeds from sale of assets	3	0	0	0
Others	183	9	9	9
Financing	(122)	(68)	(80)	(93)
Dividend payments	(52)	(44)	(71)	(85)
Issue of shares	0	0	0	0
Proceeds from borrowings	0	(5)	0	0
Others/interest paid	(70)	(19)	(9)	(8)
Net cash inflow (outflow)	(57)	(29)	21	25
Beginning cash & cash equivalent	118	640	612	632
Changes due to forex impact	0	0	0	0
Ending cash & cash equivalent	640	612	632	658

KEY METRICS

Year to 31 Dec (%)	2021	2022F	2023F	2024F
Profitability				
EBITDA margin	8.0	6.2	7.7	8.5
Pre-tax margin	6.5	5.2	6.9	7.8
Net margin	6.6	5.6	6.0	6.5
ROA	3.8	3.6	5.4	6.0
ROE	17.0	18.4	19.2	19.1
Growth				
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
Leverage				
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	(50.4)	(51.4)	(52.2)	(55.2)

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