

19 November 2021

Sunway Construction Group

9MFY21 Above Expectations

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9MFY21 CNP of RM52.7m exceeded expectations as the group recalibrated construction margins higher for certain jobs nearing completion. Meanwhile, we are expecting 4QFY21 to come in strong given the absence of lockdowns and activities back at full swing. YTD replenishment of RM796m is still in-line with our RM1.5b target, with outstanding order-book currently at RM4.7b. Increase FY21E earnings by 50% on higher construction margins but keep FY22E earnings unchanged. Maintain MP with unchanged TP of RM1.52 anchored to 16x FY22E construction PER.

Exceeded expectations. 3QFY21 CNP of RM24.6m brought 9MFY21 CNP to RM52.8m – above our/consensus expectations at 90%/67% of full-year estimates. The outperformance stems from stronger-than-expected construction EBIT margin (of 9.5% in 3QFY21 vs. typical 5-8%) as the group recalibrated project margins higher for certain projects nearing completion that have higher certainty of profits to be recognised. By imputing higher margins, unrecognised earnings from prior quarters (due to lower margins being ascribed) are imputed in 3QFY21 numbers. Meanwhile, no dividend was declared as expected.

Highlights. 3QFY21 CNP of RM24.6m increased 214% **QoQ** mainly due to: (i) recalibration of profit margins as explained above, and (ii) 2QFY21 dragged down by a one-off bank upfront charge of RM5.7m as Suncon reached financial close for two of its Indian Highway project. Net cash level* of RM390m (+RM172m from 2QFY21) remains healthy as Suncon received a sizeable payment for its LRT3 progress work during the quarter.

Net cash includes money market funds parked under investment in associate in Suncon's balance sheet.*

YoY, 9MFY21 CNP of RM52.8m increased 18% on the back of higher revenue (+19%) due to higher productivity from its construction and precast segments. 9MFY21 was less affected by the lockdowns as both segments were still able to operate (albeit at lower productivity) compared to 9MFY20's inactivity of 2.5 months.

Earnings outlook for 4QFY21. We anticipate 4QFY21 earnings to come in strong at c.RM35m in the absence of lockdowns and operations being back at full swing as all their workers have been fully vaccinated. Note, Suncon's construction arm has been operating at 100% since early-September while its precast segment has been operating at 100% since late-September.

YTD, Suncon has replenished RM796m worth of new jobs, in line with our target of RM1.5b (management is targeting RM2b). Despite with 1.5 months left till year-end and c.RM700m to be secured to meet our target, we keep our target unchanged as we foresee job wins from: (i) its parent company, (ii) LSS4 worth RM360m, and (iii) some external building jobs. Outstanding order-book of RM4.7b (as of Sept 2021) provides c.2.5x revenue cover.

Increase FY21E earnings by 50% to RM88m after imputing higher margins for its construction segment attributable to the recalibrated construction margins. Meanwhile, we keep FY22E earnings unchanged despite the outperformance as our FY22E EBIT margin assumption is already at a normalised level of 8%.

Maintain MP with unchanged SoP-derived TP of RM1.52 anchored to unchanged 16x FY22E construction earnings and 10x precast segment earnings. **Risks include** fresh stricter lockdown measures, lower-than-expected margins, and delay in work progress.

MARKET PERFORMANCE ↔

Price : RM1.56
Target Price : RM1.52 ↔

Share Price Performance



KLCI	1,523.79
YTD KLCI chg	-6.4%
YTD stock price chg	-17.0%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	SCGB MK EQUITY
Market Cap (RM m)	2,011.4
Shares Outstanding	1,289.4
52-week range (H)	2.00
52-week range (L)	1.50
3-mth avg daily vol:	233,124
Free Float	18%
Beta	0.8

Major Shareholders

Sunway Holdings Sdn Bhd	54.6%
Sungei Way Corp Sdn Bhd	10.1%
Employees Provident Fund Board	9.2%

Summary Earnings Table

FYE Dec (RM m)	2020A	2021E	2022E
Turnover	1552.7	1619.0	2146.3
EBIT	100.5	103.6	165.0
PBT	101.5	112.7	162.7
Net Profit	72.8	87.7	127.6
Core PATAMI	82.8	87.7	127.6
Consensus (NP)	n.a.	77.8	135.9
Earnings Revision	n.a.	50%	0%
Core EPS (sen)	6.4	6.8	9.9
Core EPS growth (%)	-37	6	45
NDPS (sen)	4.0	4.0	5.0
NTA per Share (RM)	0.49	0.52	0.57
Price to NTA (x)	3.2	3.0	2.7
PER (x)	0.5	23.0	15.8
Net Gearing (x)	N.C	N.C	N.C
Return on Equity (%)	10	12	16
Net Div. Yield (%)	2.6	2.6	3.2

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Results Highlight								
FYE Dec (RM m)	3Q21	2Q21	QoQ	3Q20	YoY	9M21	9M20	YoY
Turnover	272.1	375.3	-27%	419.4	-35%	1102.5	925.4	19%
EBIT (adjusted for EI)	27.4	5.9	365%	31.6	-14%	59.4	54.0	10%
Interest income	1.0	1.4	-29%	4.6	-79%	3.1	10.2	-70%
Interest expense	-0.9	-1.0	-7%	-1.6	-41%	-3.5	-6.6	-47%
Associates	2.4	2.8	n.a.	0.0	n.a.	7.1	4.6	n.a.
Exceptional items	-5.3	0.5	-1160%	1.3	-508%	-4.9	-2.3	113%
PBT	24.5	9.5	157%	36.0	-32%	61.2	59.9	2%
Tax	-5.0	-3.6	38%	-11.7	-58%	-15.5	-16.3	-5%
Minority interest	0.2	-2.4	-109%	0.2	19%	-2.1	1.1	-294%
PATAMI	19.3	8.3	132%	24.0	-20%	47.9	42.6	12%
CNP	24.6	7.8	214%	22.7	8%	52.8	44.9	18%
Net DPS (sen)	0.0	1.3		0.0		1.3	1.3	
Margins								
EBIT	10.1%	1.6%		7.5%		5.4%	5.8%	
PBT	9.0%	2.5%		8.6%		5.6%	6.5%	
PATAMI	7.1%	2.2%		5.7%		4.3%	4.6%	
CNP	9.0%	2.1%		5.4%		4.8%	4.9%	

Source: Company, Kenanga Research

Segmental Breakdown								
	3Q21	2Q21	QoQ	3Q20	YoY	9M21	9M20	YoY
Revenue								
Construction	255.8	349.2	-27%	403.4	-37%	1026.3	870.2	18%
Precast concrete	16.2	26.1	-38%	16.0	2%	76.2	55.2	38%
Total	272.1	375.3	-28%	419.4	-35%	1102.5	925.4	19%
EBIT								
Construction	24.2	6.2	292%	31.7	-24%	52.7	52.4	1%
Precast concrete	-2.2	0.2	-1146%	1.3	-267%	1.8	-0.7	-378%
Total	22.1	6.4	246%	32.9	-33%	54.5	51.7	6%
Pretax profit								
Construction	26.9	9.5	183%	34.8	-23%	60.0	61.1	-2%
Precast concrete	-2.4	0.0	n.a.	1.2	-300%	1.2	-1.6	-180%
Total	24.5	9.5	158%	36.0	-32%	61.2	59.5	3%
Net profit								
Construction	21.4	8.1	162%	23.2	-8%	46.9	44.7	5%
Precast concrete	-2.1	0.2	-1282%	0.9	-340%	1.0	-2.1	-147%
Total	19.3	8.3	132%	24.0	-20%	47.9	42.6	12%
PAT Margins								
Construction	8.4%	2.3%		5.7%		4.6%	5.1%	
Precast	-12.8%	0.7%		5.4%		1.3%	-3.8%	
Total	7.1%	2.2%		5.7%		4.3%	4.6%	

Source: Company, Kenanga Research

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Sum of Parts Target Price		
Items	Value (RM m)	Remarks
Construction	1,858	Apply 16x FY22F PE
Precast concrete	106	Apply 10x FY22F PE
Business equity value	1,964	
Net cash/(debt)		
Equity value	1,964	
No. of shares (m)	1,293	
Equity value per share (RM)	1.52	

Source: Kenanga Research

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Peer Comparison

Name	Last Price (RM)	Market Cap (RM'm)	Shariah Compliant	Current FYE	PER (x) - Core Earnings			PBV (x)		ROE (%)		Net Div Yld (%)	Target Price	Rating
					Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.			
STOCKS UNDER COVERAGE														
GAMUDA BHD	3.06	7,691.4	Y	07/2022	12.8	12.8	13.8	0.9	0.9	6.8%	2.0%	2.80	MP	
HOCK SENG LEE BERHAD	0.975	535.8	Y	12/2021	16.8	16.0	10.2	0.7	0.6	4.0%	1.5%	0.950	MP	
IJM CORP BHD	1.80	6,427.9	Y	03/2022	17.8	28.6	22.2	0.7	0.7	10.5%	11.7%	2.00	OP	
KERJAYA PROSPEK GROUP BHD	1.18	1,460.1	Y	12/2021	16.1	15.5	9.2	1.5	1.3	9.1%	2.3%	1.50	OP	
KIMLUN CORP BHD	0.860	303.9	Y	12/2021	19.2	10.6	6.2	0.5	0.4	4.1%	2.0%	1.25	OP	
MUHIBBAH ENGINEERING (M) BHD	0.915	442.4	Y	12/2021	N.A.	N.A.	18.3	0.4	0.4	-1.7%	1.1%	1.25	OP	
SUNWAY CONSTRUCTION GROUP BHD	1.56	2,011.4	Y	12/2021	24.4	22.9	15.8	3.2	3.0	13.3%	2.6%	1.52	MP	
WCT HOLDINGS BHD	0.595	843.3	Y	12/2021	N.A.	13.0	6.5	0.3	0.3	3.6%	0.0%	0.640	MP	
Simple Average					17.9	17.0	12.8	1.0	0.9	6.2%	2.9%			

Source: Bloomberg, Kenanga Research

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Stock Ratings are defined as follows:**Stock Recommendations**

OUTPERFORM	: A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM	: A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM	: A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT	: A particular sector's Expected Total Return is MORE than 10%
NEUTRAL	: A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT	: A particular sector's Expected Total Return is LESS than -5%

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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