

## In-line FY18 results

# Quick Note

### Construction makes up for weak precast segment, flat dividends

- A 3pp improvement in 4Q18 PBT margin of the construction segment and 10% growth in FY18 construction revenue ensured that SunCon finished the year in-line, with FY18 PATAMI forming 99% of both our estimates and Bloomberg consensus.
- FY18 revenue of MYR 2.3bn was up 9% y-y due to strong performance of the construction segment. But PBT of MYR183mn was up only 5% due to a weak precast segment. Total 4Q18 revenue was MYR 626mn, down 16% y-y (+12% q-q) due to completion of some construction jobs. PBT for the quarter at MYR47mn was up 7% y-y, despite losses in precast, due to a 3pp jump in construction PBT margins.
- The company announced a second interim dividend of 3.5 sen/share, thus bringing the total for the year to 7.0 sen/share, the same as last year.
- SunCon's current orderbook stands at MYR6bn, following the MYR781mn job win from Tenaga last week. The company also maintains a healthy net cash position of MYR370mn.

### Mega project win improves outlook; maintain Buy

- Last week, SunCon announced a MYR781mn construction contract win from Tenaga to build its campus in Jalan Bangsar, KL. This, we note, is SunCon's first contract win of the year, and puts it well on track to achieve its new project-win target of MYR1.5bn and our estimate of MYR1.8bn for 2019F. For a detailed analysis, see our [Quick Note: Big contract win](#).
- We maintain our Buy rating on SunCon given: 1) its healthy orderbook and 2) dividend upside from strong balance sheet/cash flow generation.
- We value SunCon at a cash-adjusted FY19F P/E of 15x (EPS of MYR0.12), vs the current cash-adjusted FY19F P/E of 11x, to arrive at our TP of MYR2.00 (implying 15.6% upside).

### Segment-wise performance

- **Construction segment:** 4Q18 revenue of MYR595mn was down 18% y-y after some projects like Putrajaya Parcel F were completed. PBT rose 22% y-y with a 3pp improvement in PBT margins because of the finalisation of some accounts. Revenue was up 14% q-q due to higher turnover from Sunway Carnival Mall Extension. For the full year, construction revenue was up 10% due to higher contribution from several projects such as KVMRT, LRT 3, Bukit Bintang City Centre development and International School of KL.
- **Precast segment:** Project completions and low margins affected this segment. It posted a pre-tax loss of MYR3mn in 4Q18 and PBT of just MYR1mn in FY18. The segment's FY18 revenue of MYR134mn was down 8% y-y. 4Q18 revenue of MYR31mn rose 16% y-y due to the current work schedule.

## Global Markets Research

26 February 2019

Rating Remains	<b>Buy</b>
Target Price Remains	MYR 2.00
Closing price 25 February 2019	MYR 1.73

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Fig. 1: SunCon – FY18 results snapshot

MYR mn	FY18	NMR FY18F	as % of NMR	Cons FY18F	as % of cons
Revenue	2,257	2,173	104%	2,315	97%
Adj PBT	183	184	99%	187	98%
Adj NPATAMI	145	146	99%	147	99%
Reported NPATAMI	145	146	99%	147	99%

Source: Company data, Bloomberg, Nomura estimates

Fig. 2: SunCon – 4Q18 results review

MYR mn	4Q18	4Q17	% chg y-y	3Q18	% chg q-q	FY18	FY17	% chg y-y	FY18F	as % of FY18F
<b>Revenues</b>	<b>626</b>	<b>748</b>	<b>(16%)</b>	<b>557</b>	<b>12%</b>	<b>2,257</b>	<b>2,076</b>	<b>9%</b>	<b>2,173</b>	<b>104%</b>
Construction	595	722	(18%)	524	14%	2,123	1,931	10%	2,001	106%
Precast concrete	31	26	16%	33	(8%)	134	145	(8%)	172	78%
<b>Operating profit</b>	<b>45</b>	<b>38</b>	<b>17%</b>	<b>45</b>	<b>1%</b>	<b>175</b>	<b>165</b>	<b>6%</b>	<b>174</b>	<b>100%</b>
Construction	48	35	35%	47	3%	174	137	26%		
Precast concrete	(3)	3	(195%)	(2)	49%	1	27	(96%)		
<b>Adjusted Pretax profit</b>	<b>47</b>	<b>44</b>	<b>7%</b>	<b>47</b>	<b>1%</b>	<b>183</b>	<b>174</b>	<b>5%</b>	<b>184</b>	<b>99%</b>
Construction	50	41	22%	49	3%	182	147	24%	177	103%
Precast concrete	(3)	3	(196%)	(2)	48%	1	28	(96%)	7	15%
Core PAT	37	32	15%	37	1%	145	138	5%	146	99%
<b>Core PAT - equityholders</b>	<b>37</b>	<b>32</b>	<b>15%</b>	<b>36</b>	<b>0%</b>	<b>145</b>	<b>138</b>	<b>5%</b>	<b>146</b>	<b>99%</b>
<b>Other one-off charges</b>	<b>0</b>	<b>0</b>	<b>NM</b>	<b>0</b>	<b>NM</b>	<b>0</b>	<b>0</b>	<b>NM</b>	<b>0</b>	<b>NM</b>
<b>Headline NPAT - equityholders</b>	<b>37</b>	<b>32</b>	<b>15%</b>	<b>36</b>	<b>0%</b>	<b>145</b>	<b>138</b>	<b>5%</b>	<b>146</b>	<b>99%</b>
<b>Adj Pretax margins</b>	<b>8%</b>	<b>6%</b>	<b>2 ppt</b>	<b>8%</b>	<b>-1 ppt</b>	<b>8%</b>	<b>8%</b>		<b>8%</b>	
Construction	8%	6%	3 ppt	9%	-1 ppt	9%	8%		9%	
Precast concrete	(9%)	11%	-21 ppt	(6%)	-4 ppt	1%	19%		4%	

Source: Company data, Nomura estimates

Fig. 3: SunCon's current outstanding orderbook

MYR mn	Contract Sum	Outstanding order book
<b>Infrastructure/Piling</b>		
MRT V201 + S201 (Sg Buloh-Persiaran Dagang)	1,213	459
LRT3: Package GS07-08	2,178	1,969
BBCC - Bore piling	88	0
Others	87	3
Piling Works	128	99
<b>Building</b>		
Putrajaya Parcel F	1,610	170
PPA1M project in Kota Bharu	582	180
Nippon Express	70	48
GDC (Plant 2)	14	14
TNB HQ Campus	781	781
Others	487	21
<b>Internal</b>		
Sunway Velocity Medical Centre	185	32
Sunway Medical Centre Phase 4	512	439
Sunway Iskandar - Emerald Residences	175	15
Big Box Iskandar	170	74
Sunway Serene - Serviced Residences	449	339
Velo 2	352	352
3C4	100	99
Sunway GEOLake	223	177
Carnival Mall Ext	286	256
SMC Seberang Jaya	180	167
Velocity Ecodeck	11	10
M&E works	30	11
<b>Singapore</b>		
Precast	331	53
Precast - New order 2018	229	233
<b>Total</b>	<b>10,469</b>	<b>6,001</b>
<b>Orderbook burn rate (FY18, including internal)</b>		<b>2,257</b>
<b>Implied earnings visibility (years)</b>		<b>2.7</b>

Source: Company data, Nomura research

Fig. 4: SunCon: Orderbook replenishment

2018	
MYR mn	Contract sum
Sunway Carnival 2 Extension	286
SunGeo Lake 44 storey residential tower	223
Sunway Medical Centre	180
Piling works	128
Precast	229
Sunway Velocity TWO	352
GDC (Plant 2)	14
3C4	100
Velocity Ecodeck	11
M&E works	30
<b>Total</b>	<b>1,553</b>
<b>YTD 2019</b>	
MYR mn	Contract sum
TNB HQ Campus	781
<b>Total</b>	<b>781</b>

Source: Company data, Nomura research

# Appendix A-1

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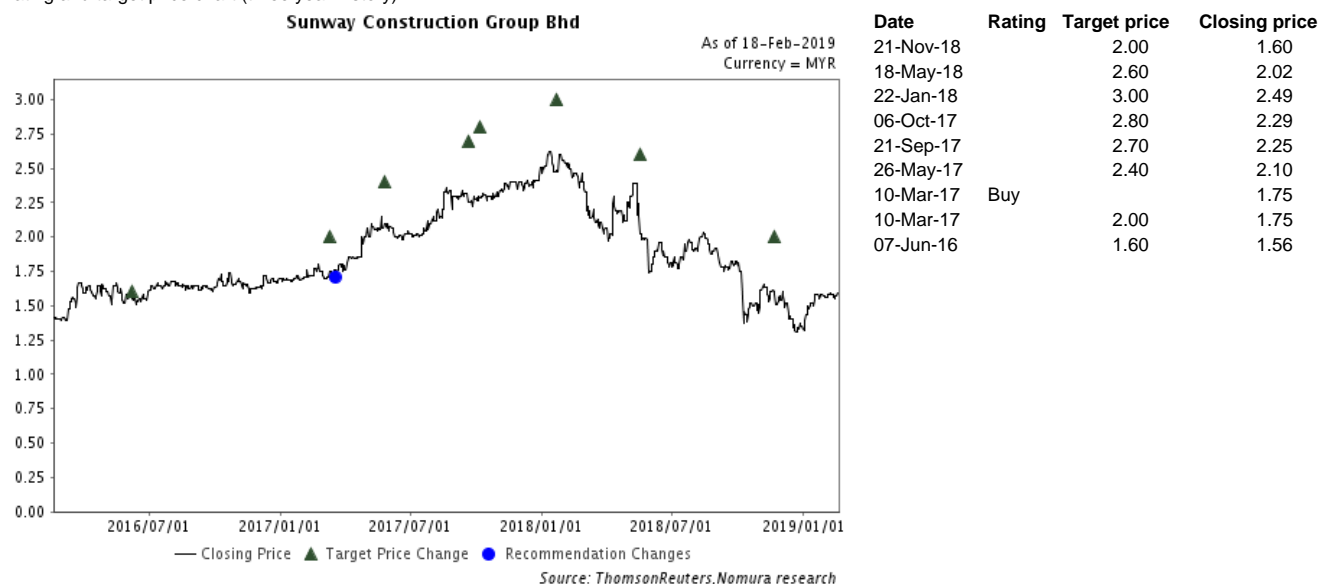
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Issuer	Ticker	Price	Price date	Stock rating	Sector rating	Disclosures
Sunway Construction Group Bhd	SCGB MK	MYR 1.73	25-Feb-2019	Buy	N/A	

### Sunway Construction Group Bhd (SCGB MK) MYR 1.73 (25-Feb-2019) Buy (Sector rating: N/A)

Rating and target price chart (three year history)



For explanation of ratings refer to the stock rating keys located after chart(s)

**Valuation Methodology** We value SunCon at a cash-adjusted P/E of 15x on FY19F earnings and value the cash on its balance sheet separately. Using net income less interest income of MYR136mn for FY19F and a cash-adjusted P/E of 15x, we arrive at an equity value, ex-cash holdings, of MYR2bn. To this we add the estimated cash balance at end-FY19F to arrive at our TP of MYR2.00. The benchmark index for the stock is the MSCI Malaysia.

**Risks that may impede the achievement of the target price** Downside risks: 1) delay or cancellation of construction project awards; 2) lower-than-expected margins; 3) Singapore housing units not growing as expected; and 4) lower-than-expected orderbook inflows.

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