



17 May, 2019

Sunway Construction (SCGB MK)

Inline

HOLD

Share Price RM1.94
Target Price RM1.90▲ -2.1%

Elevating prospect ahead

- 1Q19 core earnings dipped 21.3% qoq and 16.3% yoy on lower progress billings due to completion of Parcel F and delays in LRT3 and MRT2.
- SunCon has secured RM1bn new orderbook so far, which represents 67.4% of its 2019F replenishment target.
- The outlook for the construction industry seems to have improved amidst the revival of mega projects which would see new tender opportunities.
- Maintain HOLD with a higher TP of RM1.90. We still like the stock given its net cash position, 3-year earnings visibility and steady job flow from Sunway Group. Accumulate on dips.

Completion and delays

1Q19 core earnings dipped 21.3% qoq and 16.3% yoy on lower progress billings recorded due to the completion of Parcel F in 1Q19 and delays in LRT3 and MRT2. The delays were mainly on cost reduction exercise for station works. As for LRT3, the main contractor, MRCB-GK, expects works to resume in 2H2019.

Orderbook remains strong

SunCon has secured RM1bn new orderbook so far or 67% from ours and management's orderbook target of RM1.5bn. Its current outstanding orderbook of RM5.7bn could provide earnings visibility for up to 3 years.

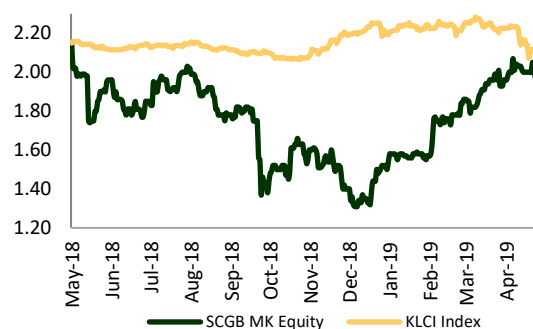
Improving outlook but yet to normalise

We believe the outlook for the construction industry is recovering albeit yet to normalise. While the revival of mega projects i.e ECRL and Bandar Malaysia is positive, project scale is less amidst cost reduction exercise. From our recent meeting with the management, the changes of ECRL alignment would interest SunCon to participate as a subcontractor on the western alignment. It is also keen to participate as EPCC for the LSS3 (Large Scale Solar 3) as well as seeking new opportunities in Myanmar and India to manage its concentration risk.

Maintain Hold with higher TP of RM1.90

We maintain HOLD and TP of RM1.90 as we revised our PE multiple to 15x (from 13x) in our SOP valuation (Table 3). Since Jan 2019, the stock has traded at a PE band ranging from 12x to peak at 18x. We believe this reflects the improving risk appetite towards the broader sector amidst revival of mega projects. Consequently, this prompted us to raise our PE multiple though we have yet to reflect potential job wins from some of these revived projects. All in, we still favor SunCon for its solid fundamentals; it is in a net cash position while outstanding orderbook provides 3-year earnings visibility and we also expect a steady job flow from Sunway Group.

Price Chart (RM)



Share Performance (%)	1m	3m	12m
Absolute	(1.0)	26.0	(6.2)
vs FBM KLCI	0.5	30.0	4.5

Stock Data

Mkt Cap (RM m)	2,506.96
Free float (%)	20.4%
Issued shares (m)	1,292.3
52w H/L (RM)	2.23/1.3
3m avg daily volume	1,202,543

Major Shareholders (%)

Sunway Holdings	54.4%
Sungei Way Corp Sdn	10.1%
EPF	8.3%

FYE 31 Dec (RM m)	2017	2018	2019F	2020F	2021F
Turnover	2,076	2,257	2,232	2,119	2,191
EBITDA	197	215	217	205	212
Pretax profit	169	183	183	174	188
Net Profit	132	145	144	136	145
Consensus			150	158	159
EPS (sen)	9.9	11.2	11.2	10.6	11.3
PER (x)	17.5	15.4	15.5	16.4	15.4
DPS (sen)	7.0	7.0	6.5	7.0	7.0
Div. Yield (%)	4.0	4.0	3.8	4.0	4.0
P/B Value	4.1	3.8	3.5	3.2	3.0

Key Ratios (%)

ROE	24.3	24.5	22.4	19.5	19.3
EBITDA margin	9.5	9.5	9.7	9.7	9.7
Pretax margin	8.1	8.1	8.2	8.2	8.6
Net margin	6.4	6.4	6.5	6.4	6.6

Source: Bloomberg, BIMB Securities

Annur Rahman

ahmadannur@bimbsec.com.my
(603) 2613 1741

Table 1 : Quarterly earnings summary

FYE 31 Dec (RM m)	Quarterly			Change (%/ppts)		BIMB	
	1Q18	4Q18	1Q19	QoQ Chg	YoY Chg	BIMB 3M19	Actual vs BIMB
Revenue	529.2	626.0	440.0	-29.7%	-16.9%	2,232.2	19.7%
Opex	-476.6	-570.0	-391.8	-31.3%	-17.8%	-2,015.3	19.4%
EBITDA	52.6	56.0	48.3	-13.9%	-8.3%	216.8	22.3%
Depreciation	-9.7	-10.8	-10.1	-6.9%	3.6%	-43.6	23.1%
EBIT	42.9	45.2	38.2	-15.5%	-10.9%	173.3	22.0%
Finance Income	3.8	3.5	4.2	20.3%	11.3%	15.6	27.1%
Finance Cost	-3.1	-2.3	-2.3	1.1%	-25.0%	-6.3	36.7%
Associate & JV	0.0	0.7	0.0	-100.0%	n.m	0.0	#DIV/0!
Pretax profit	43.6	47.2	40.1	-15.0%	-8.0%	182.6	22.0%
Taxation	-7.9	-10.4	-8.5	-18.7%	7.8%	-37.9	22.4%
Minority interest	0.0	-0.3	-0.6	139.3%	n.m	-0.1	445.7%
PATAMI	35.8	36.5	31.0	-15.0%	-13.3%	144.5	21.5%
EI	-2.5	-1.1	-3.2	189.6%	26.7%	0.0	
Core EBITDA	50.1	54.9	45.1	-17.9%	-10.0%	216.8	20.8%
Core PATAMI	33.3	35.4	27.9	-21.3%	-16.3%	144.5	19.3%
Headline EPS	2.8	2.8	2.4	-15.0%	-13.3%	11.2	21.5%
Core EPS	2.6	2.7	2.2	-21.3%	-16.3%	11.2	19.3%
DPS (sen)	0.0	3.5	0.0	-100.0%	n.m	6.5	0.0%
				ppts	Ppts		Ppts
EBITDA margin (%)	9.9%	8.9%	11.0%	2.02	1.03	9.7%	-1.3
Core EBITDA margin (%)	9.5%	8.8%	10.2%	1.47	0.78	9.7%	-0.5
PBT margin (%)	8.2%	7.5%	9.1%	1.58	0.88	8.2%	-0.9
PATAMI margin (%)	6.8%	5.8%	7.0%	1.22	0.29	6.5%	-0.6
Core PATAMI margin (%)	6.3%	5.7%	6.3%	0.68	0.04	6.5%	0.1
Effective tax rate (%)	18.1%	22.1%	21.2%	-0.98	3.10	20.8%	-0.4

Sources: Company, BIMB Securities

Table 2 : Segmental earnings summary

FYE 31 Dec (RM m)	Quarterly			Change (%/ppts)	
	1Q18	4Q18	1Q19	QoQ	YoY
Segment revenue					
Construction	492.1	595.4	407.0	-31.6%	-17.3%
Precast	37.1	30.6	33.0	7.7%	-11.2%
Segment pretax profit					
Construction	40.1	50.2	40.1	-20.1%	0.0%
Precast	3.6	-2.9	0.1	-102.1%	-98.3%
PBT margin				ppts	ppts
Construction	8.1%	8.4%	9.8%	1.42	1.70
Precast	9.6%	-9.4%	0.2%	9.61	-9.41

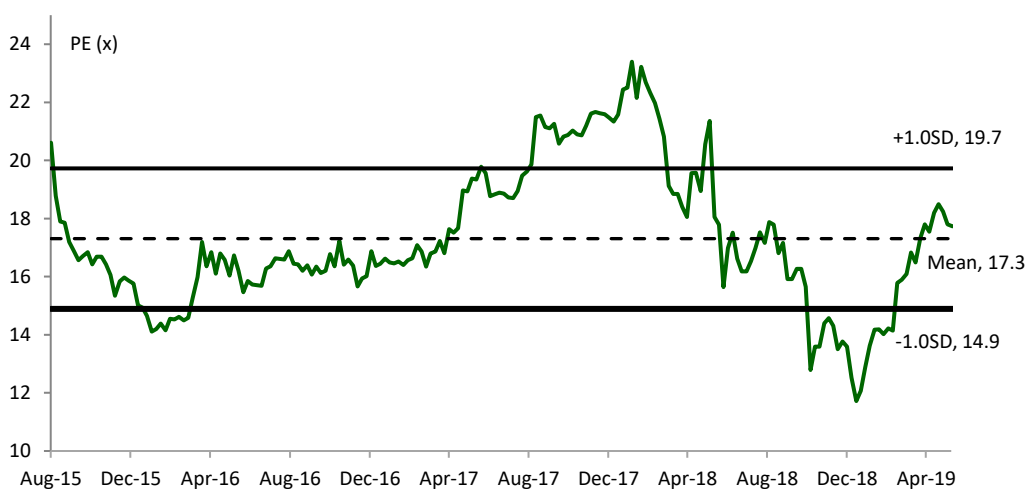
Sources: Company, BIMB Securities

Table 3: SOP derived TP

RM m	FY	PER (x)	Value (RM m)	Per Share (RM)
Net earnings	144.6			
Net interest expense / (income)	(9.3)			
Net earnings ex-interest income	135.3	15	2,056.6	1.59
Net cash 1QFY19	404.7	1	404.7	0.31
Total Equity Value			2,461.4	
No. of shares (m)			1292.2	
Target Price (RM)			1.90	1.90

Source: BIMB Securities

Chart 1: SunCon’s trading forward PE multiples



Source: Bloomberg, BIMB Securities

DEFINITION OF RATINGS

BIMB Securities uses the following rating system:

STOCK RECOMMENDATION

BUY	Total return (price appreciation plus dividend yield) is expected to exceed 10% in the next 12 months.
TRADING BUY	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain.
HOLD	Share price may fall within the range of +/- 10% over the next 12 months
TAKE PROFIT	Target price has been attained. Fundamentals remain intact. Look to accumulate at lower levels.
TRADING SELL	Share price may fall by more than 15% in the next 3 months.
SELL	Share price may fall by more than 10% over the next 12 months.
NOT RATED	Stock is not within regular research coverage.

SECTOR RECOMMENDATION

OVERWEIGHT	The Industry as defined by the analyst's coverage universe, is expected to outperform the relevant primary market index over the next 12 months
NEUTRAL	The Industry as defined by the analyst's coverage universe, is expected to perform in line with the relevant primary market index over the next 12 months
UNDERWEIGHT	The Industry as defined by the analyst's coverage universe, is expected to underperform the relevant primary market index over the next 12 months

Applicability of ratings

The respective analyst maintains a coverage universe of stocks, the list of which may be adjusted according to needs. Investment ratings are only applicable to the stocks which form part of the coverage universe. Reports on companies which are not part of the coverage do not carry investment ratings as we do not actively follow developments in these companies

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BIMB SECURITIES SDN BHD (290163-X)

A Participating Organisation of Bursa Malaysia Securities Berhad
Level 32, Menara Multi Purpose, Capital Square,

No. 8 Jalan Munshi Abdullah,
50100 Kuala Lumpur

Tel: 03-2613 1600 Fax: 03-2613 1799

<http://www.bimbsec.com.my>

Azharuddin Nordin
Head of Research