

27 February 2018

Sunway Construction Group

Working Hard

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FY17 CNP of RM134.0m came in below expectations at 92%/90% of our/consensus' full-year expectation. Full-year dividend of 7.0 sen is above our estimate of 4.0 sen. Raised FY18E CNP marginally by 1.7% and introduces FY19E CNP of RM192.8m. Maintain MARKET PERFORM with a slightly higher SoP-driven Target Price of RM2.30 (previously, RM2.29).

Below expectations. FY17 CNP of RM134.0m came in below expectations at 92%/90% of our/consensus' full-year estimates. The shortfall is due to the weaker-than-expected performance from its pre-cast division owing to timing issues. A 4.0 sen dividend was declared, bringing full-year dividend declared to 7.0 sen, above our full-year expectation of 4.0 sen.

Results highlight. FY17 CNP grew 14%, YoY underpinned by a strong revenue growth of 16% backed by the construction division. Its construction division registered revenue growth of 29% thanks to higher work progress from Parcel F, Putrajaya, and KVMRT V201 from Sg Buloh to Persiaran Dagang coupled with the finalisation of the earlier KVMRT V4 package from Seksyen 16 to Semantan Portal. That said, its construction pre-tax margin also saw improvement by 2ppt to 8%. QoQ-wise, 4Q17 CNP was down by 7% despite a strong revenue growth of 52% as its construction division registered lower pre-tax margins of 6% (-3ppt) coupled with the higher effective tax rate of 27%.

Outlook. SUNCON's outstanding order-book now stands at RM6.1b providing earnings visibility for the next 2-3 years and management has raised its order-book replenishment target of RM1.5b to RM2.0b for FY18 in view of the slew of infrastructure jobs available in the market coupled with jobs from Sunway group. That said, SUNCON is also participating in the bid for PDP role in KL-SG High Speed Rail of which we believe they stand a good chance in competing with players like GAMUDA.

Marginal tweak in FY18 earnings. Post results, we also raised our FY18 replenishment target to RM2.0b (previously, RM1.0b) in accordance with management's new target. Following the hike in order-book replenishment assumptions and lower billings recognition for its pre-cast division by half and fine-tuned pre-tax margins, this resulted in a marginal adjustment to our FY18E CNP (+1.7%). At the same time, we also take the opportunity to introduce our FY19E CNP of RM192.8m

Maintain MARKET PERFORM. We reiterate our MARKET PERFORM call on SUNCON with a higher SoP-driven Target Price of RM2.30, backed by massive outstanding order-book of RM6.1b. Our TP of RM2.30 implies FY18E PER of 16.9x, trading close to big-cap peers' average of 18.0-20.0x.

Risks to our call include: (i) higher-than-expected margins/order-book replenishment, and (ii) higher government spending on infrastructure and affordable housing projects.

MARKET PERFORM ↔

Price : **RM2.46**
Target Price : **RM2.30** ↑

Share Price Performance



KLCI	1,860.08
YTD KLCI chg	3.5%
YTD stock price chg	-2.0%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	SCGB MK Equity
Market Cap (RM m)	3,178.9
Issued shares	1,292.2
52-week range (H)	2.64
52-week range (L)	1.70
3-mth avg daily vol:	1,541,077
Free Float	30%
Beta	0.6

Major Shareholders

Sunway Holdings Sdn Bhd	54.4%
Sungei Wang Corp Sdn Bhd	10.1%
True Paragon Sdn Bhd	5.6%

Summary Earnings Table

FYE Dec (RM m)	2016A	2018E	2019E
Turnover	2,076.3	2,708.7	2,988.7
EBIT	164.6	224.6	247.0
PBT	174.2	234.7	257.1
Net Profit (NP)	137.8	176.0	192.8
Core net profit	134.0	176.0	192.8
Consensus (NP)	n.a.	149.1	192.4
Earnings Revision	n.a.	1.7%	0.0%
Basic EPS	10.4	13.6	14.9
EPS growth (%)	12%	28%	10%
DPS (sen)	3.8	7.0	7.5
Basic PER (x)	23.7	18.1	16.5
BVPS (RM)	0.45	0.52	0.59
Net Gearing (x)	n.c.	n.c.	n.c.
Dividend Yield (%)	1.6%	2.8%	3.0%

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Results Highlight								
FYE Dec (RM'm)	4Q17	3Q17	QoQ	4Q16	YoY	FY17	FY16	YoY
Turnover	748.2	491.4	52%	553.1	35%	2,076.3	1,788.8	16%
EBIT	38.6	42.4	-9%	28.6	35%	161.1	143.8	12%
Interest inc/(exp)	3.6	0.7	445%	0.6	498%	7.4	4.8	54%
Associates	2.2	0.0	n.m.	0.0	n.m.	2.2	-0.7	-402%
Exceptional items	-2.9	0.0	n.m.	8.4	-135%	0.0	6.4	-100%
Forex gain/(loss)	2.7	0.0	n.m.	0.0	n.m.	3.5	-0.6	-665%
Pretax profit	44.2	43.1	3%	37.6	17%	174.2	153.7	13%
Taxation	-12.0	-8.6	40%	-5.7	113%	-36.2	-30.0	21%
Deferred tax	0.0	0.0	n.m.	0.0	n.m.	0.0	0.0	n.m.
Profit after tax	32.1	34.5	-7%	32.0	0%	138.0	123.6	12%
Minority interest	-0.3	-0.1	200%	-0.1	398%	-0.5	-0.3	90%
PATAMI	31.8	34.4	-7%	31.9	0%	137.5	123.4	11%
Core PATAMI	32.0	34.4	-7%	23.5	36%	134.0	117.6	14%
EBIT margin	5%	9%		5%		8%	8%	
Pretax margin	6%	9%		7%		8%	9%	
CNP margin	4%	7%		4%		6%	7%	
EPS (sen)	2.5	2.6		2.5		10.6	9.5	
Core EPS(sen)	2.5	2.6		1.8		10.3	9.1	
BV/share (RM)	0.4	0.4		0.4		0.4	0.4	
Net gearing (x)	-0.6	-0.6		-0.7		-0.6	-0.7	
Effective tax	27%	20%		15%		21%	20%	

Source: Company, Kenanga Research

Segmental Breakdown								
Turnover Segmentation	4Q17	3Q17	QoQ	4Q16	YoY	FY17	FY16	YoY
Construction	721.7	471.8	53%	466.5	55%	1,931.4	1,502.1	29%
Pre-cast	26.4	19.6	35%	86.6	-69%	144.9	286.7	-49%
Total	748.2	491.4	52%	553.1	35%	2,076.3	1,788.8	16%
Construction	41.2	40.7	1%	20.3	103%	146.7	95.4	54%
Pre-cast	3.0	2.4	28%	17.4	-83%	27.5	58.2	-53%
Total	44.2	43.1	3%	37.7	17%	174.2	153.7	13%
Pre-tax margins								
Construction	6%	9%		4%		8%	6%	
Pre-cast	11%	12%		20%		19%	20%	

Source: Company, Kenanga Research

Sum-of-parts valuation	
16x FY18E PER on existing business (RM m)	2815.7
50% of FY18E cash pile (RM m)	161.3
Fair Value (RM m)	2977.0
Shares Outstanding (m)	1292.9
Target Price (RM)	2.30
Implied FY18E PER (x)	16.8

Source: Kenanga Research

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Peer Comparison

CORE COVERAGE																
NAME	Price (26/02/18)	Mkt Cap	PER (x)			Est. Div. Yld.	Est. ROE	P/BV	Net Profit (RMm)			1 YrFwd NP Growth	2 YrFwd NP Growth	Target Price	Rating	YTD (%)
	(RM)	(RMm)	Actual	1 YrFwd d	2 YrFwd d	(%)	(%)	(x)	Actual	1 YrFwd	2 YrFwd	(%)	(%)	(RM)		
EVERSENDAI CORP BHD	0.810	633	-4.5	9.5	8.8	2%	7%	0.7	-140.3	65.9	78.4	-147%	19%	0.740	Underperform	-6.4
GAMUDA BHD	4.98	12236	0.2	18.9	15.9	2%	10%	1.6	700.6	741.7	885.9	6%	19%	5.45	Outperform	0.4
IJM CORP BHD	2.84	10305	19.1	19.6	17.8	2%	5%	1.0	539.1	523.9	578.6	-3%	10%	3.45	Outperform	-6.9
KIMLUN CORP BHD	2.16	693	8.2	10.5	8.6	2%	11%	1.1	81.9	63.9	78.3	-22%	23%	2.27	Market Perform	-2.7
MUHIBBAH ENGINEERING (M) BHD	3.10	1489	16.9	11.7	10.9	2%	13%	1.5	87.7	127.4	136.5	45%	7%	3.55	Outperform	9.2
HOCK SENG LEE BERHAD	1.63	896	15.8	18.1	13.0	1%	7%	1.2	56.5	49.4	69.0	-13%	40%	1.40	Market Perform	14.0
WCT HOLDINGS BHD	1.58	2223	24.7	19.2	16.8	113%	5%	0.9	114.4	146.9	168.3	28%	15%	1.90	Outperform	-2.5
MITRAJAYA HOLDINGS BHD	0.812	634	7.5	10.4	6.9	2%	12%	1.1	97.3	70.3	104.8	-28%	49%	1.03	Outperform	-5.2
SUNWAY CONSTRUCTION GROUP	2.46	3179	23.7	18.1	16.5	24%	26%	4.7	134.0	176.0	192.8	31%	10%	2.30	Market Perform	-2.0
KERJAYA PROSPEK GROUP BHD	1.74	2161	17.8	14.5	13.3	47%	38%	2.4	124.5	152.9	166.1	23%	9%	1.55	Underperform	-5.7
GEORGE KENT (MALAYSIA) BHD	4.36	2456	24.2	19.5	17.4	2%	26%	5.1	101.3	126.1	141.0	24%	12%	3.65	Market Perform	24.2
<i>Average</i>			13.9	15.4	13.2											
NOT RATED/ON OUR RADAR																
NAME	Price	Mkt Cap	PER (x)			Est. Div. Yld.	Est. ROE	P/BV	Net Profit (RMm)			1 YrFwd NP Growth	2 YrFwd NP Growth	Target Price	Rating	YTD (%)
	(RM)	(RMm)	Actual	1 YrFwd d	2 YrFwd d	(%)	(%)	(x)	Actual	1 YrFwd	2 YrFwd	(%)	(%)	(RM)		
MUDAJAYA	0.89	525	-1.8	12.5	9.1	n.a.	n.a.	n.a.	-264.9	38.5	52.9	-115%	37%	n.a.	Not Rated	-4.3
PROTASCO	1.06	450	8.6	7.7	7.4	5%	15%	1.2	51.8	58.5	60.1	13%	3%	1.52	Trading Buy	1.0
PINTARAS JAYA	3.36	555	30.9	13.0	10.9	6%	12%	1.6	17.8	42.2	50.6	137%	20%	4.2	Trading Buy	-9.7
GABUNGAN AQRS	1.94	894	35.1	21.3	10.2	2%	10%	2.2	22.6	37.2	77.9	65%	109%	1.6	Not Rated	0.5
GADANG HOLDINGS	1.07	706	3.7	4.0	3.8	3%	27%	1.1	94.2	86.8	90.8	-8%	5%	2.44	Not Rated	-3.6
AZRB	0.85	452	15.1	7.2	5.6	n.a.	15%	1.1	27.2	57.4	73	111%	27%	1.35	Trading Buy	-11.0
TRC SYNERGY	0.74	356	11.9	10.8	13.5	3%	8%	0.8	29.9	32.9	26.3	10%	-20%	n.a.	Not Rated	17.5
BINA PURI	0.34	91	81.1	5.4	5.4	n.a.	n.a.	n.a.	1	14.9	14.9	1390%	0%	n.a.	Not Rated	0.0
PESONA	0.41	281	13.3	7.5	5.5	4%	25%	1.8	20	35.3	48.5	77%	37%	0.485	Take Profit	-10.0
JAKS	1.77	876	1.1	12.5	9.1	0%	12%	1.5	736	61.933	85.433	-92%	38%	1.54	Not Rated	18.8
<i>Average</i>			19.9	10.2	8.1											

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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