

# Sunway Construction Group

## 9M18 In Line

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**9M18 CNP of RM104.9m is within our but below consensus expectations, at 70% and 67%, respectively, due to: (i) lower-than-expected construction billings, and (ii) a relatively weak pre-cast division due to stiff competition and high steel prices. No dividend as expected. Lowered FY18-19E CNPs by 7-23%. Downgrade to UNDERPERFORM with a lower TP of RM1.30 (previously MP, TP: RM1.65).**

**Within our expectation, below consensus'. 9M18 CNP of RM104.9m came in within our expectation but fell short of consensus', making up 70% and 67% of our and consensus full-year estimates, respectively. We believe that the negative variance could stem from several reasons, i.e. (i) slow progress on certain projects like LRT3, and (ii) weak performance from its pre-cast division due to higher cost structure and stiff competition. No dividends proposed in 3Q18, but year-to-date dividends declared of 3.5 seen are on track to meet our expectation of 7.0 sen.**

**Results highlight.** For 9M18, SUNCON registered decent revenue growth of 23%, YoY, mainly driven by its construction division. However, 9M18 CNP growth was marginal at only 3% as they experienced margin compression where pre-tax margin fell from 10% to 8%, coupled with the higher effective tax rate of 20% (+1ppt). The contraction in margin was mainly from its pre-cast division, which saw pre-tax margin compressed from 20.7% to 3.8% due to higher steel bar prices compared to tender price as steel content contributed to approximately 40% of its total cost coupled with stiff pricing competition. **QoQ**, 3Q18 CNP grew 7% albeit with a flattish revenue growth of 2% thanks to the improvements in construction pre-tax margin of 9.3% (+0.9ppt) due to finalisation of an account of certain completed projects. However, its pre-cast division registered pre-tax loss of RM1.9m vis-à-vis pre-tax profit of RM2.3m in 2Q18 due to high steel bar prices due to higher steel bar content needed for its current projects.

**Outlook.** The sector outlook is less aspiring due to the recent government review of spending on infrastructure jobs. We believe strong players like SUNCON are able to weather through these challenging times given their strong parent (SUNWAY) supported by decent outstanding order-book of c.RM5.6b with 3-year visibility. However, we note that LRT3 still makes up c.36% of its total outstanding order-book as the outstanding work from this particular project remains relatively high at RM2.0b as the project was put on hold for a cost review by the government. In the medium term from year 2020 and beyond, SUNCON might consider participating in overseas projects, i.e. in Myanmar and India.

**Earnings downgrade.** Post results, we take the opportunity to update our project recognition timeline by rescheduling the completion date for LRT3 and lowered or margin assumptions for its pre-cast division, which subsequently lowered our FY18-19E CNPs by 7-23%.

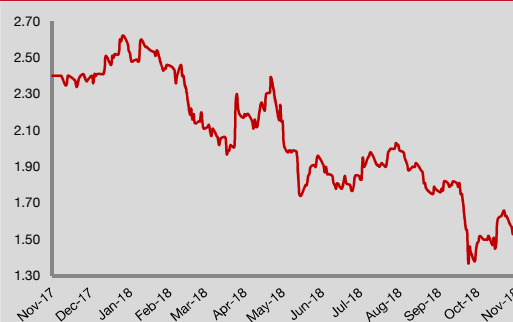
**Downgrade to UNDERPERFORM.** Following our downward earnings revision, our SoP-driven Target Price is also lowered to RM1.30 (previously, RM1.65). As a result, we downgrade SUNCON from MARKET PERFORM to UNDERPERFORM. Our TP of RM1.30 implies 12.5x FY19E PER which is at a higher range of our ascribed multiple of 11.0x for the sector.

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

# UNDERPERFORM ↓

Price : **RM1.61**  
Target Price : **RM1.30** ↓

### Share Price Performance



KLCI	1,710.71
YTD KLCI chg	-4.8%
YTD stock price chg	-35.9%

### Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	SCGB MK Equity
Market Cap (RM m)	2,080.5
Shares Outstanding	1,292.2
52-week range (H)	2.64
52-week range (L)	1.30
3-mth avg daily vol:	1,000,005
Free Float	28%
Beta	1.3

### Major Shareholders

Sunway Holdings Sdn Bhd	54.4%
Sungei Way Corp Sdn Bhd	10.1%
Employees Provident Fund Board	7.4%

### Summary Earnings Table

FYE Dec (RM m)	2017A	2018E	2019E
Turnover	2076	2318	2351
EBIT	165	194	200
PBT	174	185	180
<b>Net Profit</b>	<b>138</b>	<b>139</b>	<b>135</b>
<b>Core PATAMI</b>	<b>134</b>	<b>139</b>	<b>135</b>
Consensus (NP)	n.a.	157	174
Earnings Revision	n.a.	-7%	-23%
Core EPS (sen)	10.3	10.7	10.4
Core EPS growth (%)	14%	4%	-3%
NDPS (sen)	7.0	7.0	6.0
NTA per Share (RM)	0.4	0.5	0.5
Price to NTA (x)	3.8	3.5	3.2
PER (x)	15.6	15.0	15.5
Debt-to-Equity ratio (x)	0.2	0.2	0.2
Return on Asset (%)	7%	6%	6%
Return on Equity (%)	25%	23%	20%
Net Div. Yield (%)	4.3%	4.3%	3.7%

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Results Highlight								
FYE Dec (RM'm)	3Q18	2Q18	QoQ	3Q17	YoY	9M18	9M17	YoY
<b>Turnover</b>	<b>557.3</b>	<b>544.3</b>	<b>2%</b>	<b>491.4</b>	<b>13%</b>	<b>1,630.8</b>	<b>1,328.1</b>	<b>23%</b>
<b>EBIT</b>	<b>44.8</b>	<b>40.3</b>	<b>11%</b>	<b>42.4</b>	<b>6%</b>	<b>126.3</b>	<b>122.5</b>	<b>3%</b>
Interest inc/(exp)	2.1	3.2	-32%	0.7	227%	6.3	3.8	64%
Associates	0.0	0.0	n.m.	0.0	n.m.	0.0	0.0	n.m.
Exceptional items	0.1	1.8	-94%	0.0	n.m.	3.7	2.9	28%
Forex gain/(loss)	-0.1	-0.1	0%	0.0	n.m.	-0.5	0.8	-163%
<b>Pretax profit</b>	<b>46.9</b>	<b>45.2</b>	<b>4%</b>	<b>43.1</b>	<b>9%</b>	<b>135.8</b>	<b>130.0</b>	<b>4%</b>
Taxation	-10.4	-9.3	12%	-8.6	21%	-27.6	-24.2	14%
Deferred tax	0.0	0.0	n.m.	0.0	n.m.	0.0	0.0	n.m.
<b>Profit after tax</b>	<b>36.5</b>	<b>35.9</b>	<b>2%</b>	<b>34.5</b>	<b>6%</b>	<b>108.2</b>	<b>105.8</b>	<b>2%</b>
Minority interest	-0.1	0.0	319%	-0.1	-19%	-0.1	-0.2	-15%
<b>PATAMI</b>	<b>36.4</b>	<b>35.9</b>	<b>2%</b>	<b>34.4</b>	<b>6%</b>	<b>108.1</b>	<b>105.7</b>	<b>2%</b>
<b>Core PATAMI</b>	<b>36.4</b>	<b>34.2</b>	<b>7%</b>	<b>34.4</b>	<b>6%</b>	<b>104.9</b>	<b>102.0</b>	<b>3%</b>
EBIT margin	8%	7%		9%		8%	9%	
Pretax margin	8%	8%		9%		8%	10%	
CNP margin	7%	6%		7%		6%	8%	
EPS (sen)	2.8	2.8		2.8		5.5	5.5	
Core EPS(sen)	2.8	2.6		2.6		5.3	5.2	
BV/share (RM)	0.4	0.4		0.4		0.4	0.4	
Net gearing (x)	-0.6	-0.8		-0.7		-0.6	-0.7	
Effective tax	22%	21%		20%		20%	19%	

Source: Company, Kenanga Research

Segmental Breakdown								
Turnover Segmentation	3Q18	2Q18	QoQ	3Q17	YoY	9M18	9M17	YoY
Construction	524.1	511.6	2%	471.8	11%	1,527.8	1,209.7	26%
Pre-cast	33.3	32.6	2%	19.6	70%	103.1	118.5	-13%
<b>Total</b>	<b>557.3</b>	<b>544.3</b>	<b>2%</b>	<b>491.4</b>	<b>13%</b>	<b>1,630.8</b>	<b>1,328.1</b>	<b>23%</b>
<b>Construction</b>	<b>48.9</b>	<b>42.9</b>	<b>14%</b>	<b>40.7</b>	<b>20%</b>	<b>131.9</b>	<b>105.5</b>	<b>25%</b>
Pre-cast	-1.9	2.3	n.m.	2.4	n.m.	3.9	24.5	-84%
<b>Total</b>	<b>46.9</b>	<b>45.2</b>	<b>4%</b>	<b>43.1</b>	<b>9%</b>	<b>135.8</b>	<b>130.0</b>	<b>4%</b>
<b>Pre-tax margins</b>								
Construction	9.3%	8.4%		8.6%		8.6%	8.7%	
Pre-cast	-5.8%	7.0%		12.1%		3.8%	20.7%	

Source: Company, Kenanga Research

Sum-of-parts valuation		
SoP	Valuation/Discount	Value (RM'm)
FY19E Earnings	11.0	1480.7
FY19E cash pile (RM m)	50%	204.0
<b>Fair Value (RM m)</b>		<b>1684.7</b>
Shares Outstanding (m)		1297.9
<b>Target Price (RM)</b>		<b>1.30</b>
<b>Implied FY19E PER (x)</b>		<b>12.5</b>

Source: Kenanga Research

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## Peer Comparison

Name	Last Price (RM)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)	Net Div Yld (%)	Target Price (RM)	Rating
					1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.			
<b>STOCKS UNDER COVERAGE</b>																	
EVERSENDI CORP BHD	0.675	527.2	N	12/2018	-4.1%	-4.3%	2.1%	1.0%	8.4	8.2	8.1	0.9	0.5	8.0%	0.0%	0.665	UP
GAMUDA BHD	2.48	6,120.8	Y	07/2019	-20.8%	0.3%	-27.7%	1.2%	7.5	10.3	10.2	0.8	0.8	7.7%	4.8%	3.35	OP
GEORGE KENT (MALAYSIA) BHD	1.11	614.0	Y	01/2019	-5.2%	4.2%	-35.1%	7.0%	4.6	7.1	6.6	1.3	1.2	17.5%	5.0%	1.20	MP
HOCK SENG LEE BERHAD	1.33	730.9	Y	12/2018	18.0%	18.6%	31.4%	17.7%	15.7	12.0	10.2	1.0	0.9	8.1%	1.7%	1.30	MP
IJM CORP BHD	1.73	6,278.6	Y	03/2019	11.9%	3.8%	12.4%	9.7%	15.3	13.6	12.4	0.7	0.6	4.8%	2.9%	1.85	OP
KERJAYA PROSPEK GROUP BHD	1.29	1,596.5	Y	12/2018	32.9%	7.9%	16.9%	6.1%	12.9	11.0	10.4	2.0	1.8	16.8%	2.4%	1.40	OP
KIMLUN CORP BHD	1.18	391.6	Y	12/2018	-9.5%	6.5%	-14.1%	7.4%	5.5	6.4	6.0	0.6	0.6	9.5%	3.9%	1.40	OP
MITRAJAYA HOLDINGS BHD	0.330	292.5	Y	12/2018	-16.4%	-9.9%	-28.5%	7.4%	4.2	5.9	5.5	0.4	0.4	6.8%	6.1%	0.360	MP
MUHIBBAH ENGINEERING (M) BHD	2.95	1,420.7	Y	12/2018	-24.4%	5.7%	28.2%	6.7%	11.5	9.0	8.4	1.4	1.3	14.8%	2.8%	4.15	OP
SUNWAY CONSTRUCTION GROUP BHD	1.61	2,080.5	Y	12/2018	11.6%	1.4%	3.7%	-3.1%	15.6	15.0	15.5	3.8	3.5	23.0%	4.3%	1.30	UP
WCT HOLDINGS BHD	0.815	1,125.2	Y	12/2018	20.8%	13.9%	28.4%	14.6%	12.8	9.9	8.7	0.5	0.5	5.0%	0.0%	1.20	OP
<b>Simple Average</b>					<b>1.3%</b>	<b>4.4%</b>	<b>1.6%</b>	<b>6.9%</b>	<b>10.4</b>	<b>9.9</b>	<b>9.3</b>	<b>1.2</b>	<b>1.1</b>	<b>11.2%</b>	<b>3.1%</b>		
<b>CONSENSUS ESTIMATES</b>																	
AHMAD ZAKI RESOURCES BERHAD	0.350	186.1	Y	12/2018	N.A.	N.A.	N.A.	N.A.	6.4	N.A.	N.A.	0.4	N.A.	N.A.	N.A.	N.A.	SELL
BINA PURI HOLDINGS BHD	0.190	64.4	Y	12/2018	N.A.	N.A.	N.A.	N.A.	20.8	N.A.	N.A.	0.2	N.A.	N.A.	N.A.	N.A.	SELL
GABUNGAN AQRS BHD	0.970	463.3	Y	12/2018	64.4%	19.4%	48.0%	30.5%	9.6	6.5	0.0	0.9	1.2	17.2%	4.6%	1.73	BUY
GADANG HOLDINGS BHD	0.620	410.3	Y	05/2019	12.7%	11.4%	-4.3%	-2.9%	4.2	4.4	0.0	0.6	0.5	10.5%	4.5%	0.775	BUY
JAKS RESOURCES BHD	0.820	447.7	Y	12/2018	90.5%	-17.2%	-41.3%	8.7%	3.5	6.0	0.0	0.6	0.6	10.6%	0.0%	1.42	BUY
MUDAJAYA GROUP BHD	0.365	215.3	Y	12/2018	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	0.4	N.A.	N.A.	N.A.	N.A.	SELL
PINTARAS JAYA BHD	2.43	403.1	Y	06/2019	68.1%	26.5%	73.3%	25.1%	26.0	15.0	0.1	1.2	1.3	8.2%	8.4%	2.45	NEUTRAL
PESONA METRO HOLDINGS	0.230	159.8	Y	12/2018	22.0%	19.3%	-25.9%	74.3%	8.3	11.3	0.0	0.9	0.8	8.3%	5.7%	0.300	BUY
PROTASCO BHD	0.350	173.2	Y	12/2018	-8.7%	7.3%	-56.6%	87.1%	6.2	14.2	0.0	0.5	0.4	3.1%	4.6%	0.425	SELL
TRC SYNERGY BHD	0.520	249.9	Y	12/2018	10.0%	15.2%	-7.0%	35.9%	8.3	8.9	0.0	0.6	0.6	6.7%	3.8%	0.490	NEUTRAL

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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