

Sunway Construction Group Berhad

(6238 | SCGB MK) Main | Construction

Maintain BUY

Jobs delay impacted revenue

Unchanged Target Price: RM2.21

KEY INVESTMENT HIGHLIGHTS

- SunCon reported lower revenue in 3QFY19 at RM402.5m (-8.5%yoy)
- Construction, which contributed 89.1% of revenue in the quarter, posted a decline of -30.3%yoy
- Contribution from pre-cast in 3QFY19 was +13.0%yoy higher at RM37.5m
- Following up with the recent summon case, we noted that the claim on special damages did not fall entirely on SunCon
- Maintain BUY call with unchanged TP of RM2.21

SunCon reported lower revenue in 3QFY19 at RM402.5m (-8.5%yoy). Cumulatively for 9MFY19, the quantum dipped -21.3%yoy to RM1.3b. In terms of PATANCI, it posted RM33.5m in 3QFY19, registering cumulative earnings of RM97.7m in 9MFY19. Accordingly, this constitutes 64.0% and 76.2% of our and consensus full year estimates. The figure was below our expectation, attributable to slower progress billings in construction segment.

Construction contributed 89.1% of revenue in 3QFY19. During the quarter, the segmental revenue posted a decline of -30.3%yoy. The deviation was a result of lower revenue from existing projects which were still at their early stages. LRT3 Package GS07-08 remains a dampener to revenue due to slow work progress due to the on-going cost optimization with clients. We understand from SunCon that negotiation was already at tail-end, with outcomes expected to be announced by 4Q19. In view of this, we could expect its progress work will only revert to normalcy in CY20. Outstanding orders stood at RM5.6b, after adding RM1.7b of new jobs this year. It is worth pointing out that SunCon exceeded its jobs target this year while other construction players were struggling due to job scarcity.

Contribution from pre-cast in 3QFY19 was +13.0%yoy higher at RM37.5m. The segment reversed its loss from last year, recording RM0.2m in PBT. Whilst margin has improved, earnings have yet to turn meaningful given the low-price impact from previous jobs secured. We understand that subsequent orders clinched in late 2018 were expected to fetch better margin, which could possibly manifest in FY20.

RETURN STATISTICS

Price @ 19 th Nov 2019 (RM)	1.98
Expected share price return (%)	+11.6
Expected dividend yield (%)	+1.7
Expected total return (%)	+13.3

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	+4.8	2.5
3 months	-3.4	-3.6
12 months	+22.9	+31.1

KEY STATISTICS

FBM KLCI	1,605.31
Syariah compliant	Yes
Issue shares (m)	1292.9
Estimated free float (%)	20.1
Market Capitalisation (RM'm)	2552.9
52-wk price range	1.3 – 2.2
Beta vs FBM KLCI (x)	1.2
Monthly velocity (%)	11.0
Monthly volatility (%)	28.9
3-mth average daily volume (m)	0.44
3-mth average daily value (RM'm)	0.88
Top Shareholders (%)	
Kho Kak Beng Holdings	54.56
Cahaya Mata Sarawak	10.08
Laman Satria	8.38


Analyst(s)
Danial Razak

muhammad.danial@midf.com.my

03-2173 8396

Updates from recent summon case. The company was served a Writ of Summon and Statement of Claim by PNSB Acmar, claiming special damages of RM711.4m. SunCon has already sought for professional advice on the matter, and further developments will be advised. It is still too early to determine the outcome, but we understand that their basis as defendant is strong. Notably, the claim on special damages did not fall entirely on SunCon. As the work package contractor, it was pointed out by SunCon that its construction work was done based on the Right of Way (ROW) as per instructed. At this juncture, we prefer to gather more details before making any assumptions.

Earnings impact. We made -16.4% adjustments to FY19F earnings, in recognition of the prolonged delays of construction jobs. Our estimates for FY20F remain, on the account of unchanged assumptions.

Recommendation. We maintain our **BUY** call with unchanged TP of **RM2.21** pegging its FY20F EPS to PE of 18x (+1std of 1-year average). The higher multiple is reflective of the broad-based improvement in sentiment, following the return of ECRL and continuation in Bandar Malaysia projects, as well as the strength of SunCon replenishment capability. All in, we are encouraged by the (1) group's healthy financial position, and (2) large order backlog which should bode well with its future value accretion. 

INVESTMENT STATISTICS

FYE Dec	FY17	FY18	FY19F	FY20F
Revenue (RM'm)	2,076.2	2,256.8	2,097.6	2,371.8
EBIT (RM'm)	164.6	174.6	166.3	212.5
Pre-tax Profit (RM'm)	174.1	183.1	148.9	194.5
Normalised PATAMI (RM'm)	137.8	144.7	127.9	158.9
EPS (sen)	10.6	11.2	9.9	12.3
EPS growth (%)	10.4	5.6	(11.6)	24.2
PER (x)	19.0	18.0	20.3	16.3
Net Dividend (sen)	1.8	7.0	2.3	3.3
Net Dividend Yield (%)	0.9	3.5	1.2	1.7

Source: Company, MIDFR

3QFY19 Results Review

FYE Dec (RM'm)	3Q19	3Q18	2Q19	YoY Chg	QoQ Chg	9MFY19	9MFY18	YoY Chg
Revenue	402.58	440.18	440.18	-8.5%	-8.5%	1,282.8	1,630.8	-21.3%
Operating Expenses	-371.50	-407.90	-407.90	-8.9%	-8.9%	-1,184.1	-1,513.7	-21.8%
Other Income	3.3	5.3	5.3	-38.4%	-37.8%	11.5	12.8	-10.1%
EBIT	34.38	37.62	37.62	-8.6%	-8.6%	110.19	129.97	-15.2%
Interest Income	5.11	7.16	7.16	-28.6%	-28.6%	16.5	12.5	31.7%
Finance cost	-3.93	-3.58	-3.58	9.7%	9.7%	-9.8	-7.0	41.0%
Share of Results of JV	0.00	0.00	0.00	NA	NA	0.0	0.0	NA
Pre-tax Profit	35.56	41.20	41.20	-13.7%	-13.7%	116.89	135.55	-13.8%
Taxation	-2.5	-8.2	-8.2	-69.2%	-69.0%	-19.3	-27.5	-30.1%
PAT	33.02	32.97	32.97	0.2%	0.2%	97.63	108.01	-9.6%
NCI	-0.46	-0.21	-0.21	115.0%	118.1%	-0.1	0.1	-168.3%
PATANCI	33.48	33.19	33.18	0.9%	0.9%	97.68	107.93	-9.5%
Diluted EPS	2.6	2.6	2.6	1.2%	0.0%	7.6	8.4	-9.6%
	3Q19	3Q18	2Q19	+/- ppts	+/- ppts	9MFY19	9MFY18	+/- ppts
Operating margin	8.5%	8.5%	8.5%	0.0	0.0	8.6%	8.0%	0.6
Pre-tax margin	8.8%	9.4%	9.4%	-0.5	-0.5	9.1%	8.3%	0.8
PATANCI margin	8.3%	7.5%	7.5%	0.8	0.8	7.6%	6.6%	1.0
Effective tax rate	-7.1%	-20.0%	-19.9%	12.8	12.8	-16.5%	-20.3%	3.8

Source: Company, MIDFR

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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <10% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.