

# Sunway Construction Group (SCGB MK)

## 3Q19: within expectations

### Maintain HOLD; TP raised by 8%

3Q19 net profit was within ours but below consensus full-year expectations. Having secured MYR1.73b of new jobs (incl. precast) as of end-Sep 2019, SCG is now targeting MYR2b in FY20E. Our FY20E-FY21E earnings are raised by 4%-7% after imputing for higher job wins. Despite the strong replenishment pipeline, earnings growth in FY20E could be hampered by continued delay at its KVLRT 3 project. SCG remains a HOLD based on our revised TP of MYR2.05 [4Y-mean].

### YoY weakness from construction & precast

3Q19 net profit of MYR34m (-8% YoY, +1% QoQ) brought 9M19 net profit to MYR98m (-10% YoY), meeting 73%/69% of ours/consensus full-year forecasts. Construction EBIT declined by 28% YoY (-9% QoQ), in tandem with the lower revenue (-30% YoY, -10% QoQ) in 3Q19 due to certain projects still in the early stages and delays at its KVLRT 3 package. The precast segment continued to report a weak EBIT of only MYR0.8m (vs losses of MYR1.9m in 3Q18, +5% QoQ) from its low-margin-yielding contracts. As highlighted previously, precast contracts secured in FY18 that have better margins won't contribute until FY20E onwards.

### Targeting MYR2b of job replenishment for FY20E

SCG is now targeting MYR2b of job wins (incl. precast) for FY20E. We believe this will be supported by jobs from its parent, Sunway Bhd (SWB MK, CP MYR1.75 HOLD, TP MYR1.68) such as the Sunway Giza Hospital and Sunway Velocity Phase 2 with a value of up to e.MYR500m. At the same time, SCG is also vying for building works for a project in Putrajaya and within the KLCC vicinity. On the overseas front, SCG is targeting to secure its maiden project in Myanmar, while in Singapore, SCG expects to secure up MYR200m of new precast orders in FY20E.

### Revising job win assumption

Our FY20E/FY21E earnings are revised up by 4%/7%, respectively after imputing for the higher construction job win of MYR1.8b (from MYR1.5b) in FY20E, keeping our precast win assumption of MYR200m unchanged. Consequently, our TP is raised to MYR2.05, pegged to a slightly higher 17x FY20E PER (4Y-mean) from 16.5x previously.

FYE Dec (MYR m)	FY17A	FY18A	FY19E	FY20E	FY21E
Revenue	2,076	2,257	2,208	2,449	2,351
EBITDA	197	215	208	235	236
Core net profit	132	145	134	155	156
Core EPS (sen)	10.2	11.2	10.4	12.0	12.0
Core EPS growth (%)	7.2	9.4	(7.5)	15.8	0.4
Net DPS (sen)	7.0	7.0	7.0	7.0	7.0
Core P/E (x)	24.5	11.9	19.1	16.5	16.4
P/BV (x)	6.0	2.9	4.0	3.7	3.4
Net dividend yield (%)	2.8	5.3	3.5	3.5	3.5
ROAE (%)	25.5	25.5	21.7	23.1	21.4
ROAA (%)	7.8	8.1	7.5	8.2	7.9
EV/EBITDA (x)	14.7	6.3	10.7	9.3	9.0
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Consensus net profit	-	-	148	159	167
MKE vs. Consensus (%)	-	-	(9.5)	(2.6)	(6.8)

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# HOLD

Share Price	MYR 1.98
12m Price Target	MYR 2.05 (+4%)
Previous Price Target	MYR 1.90

### Company Description

Sunway Construction Group offers integrated construction services and has precast concrete business in Singapore.

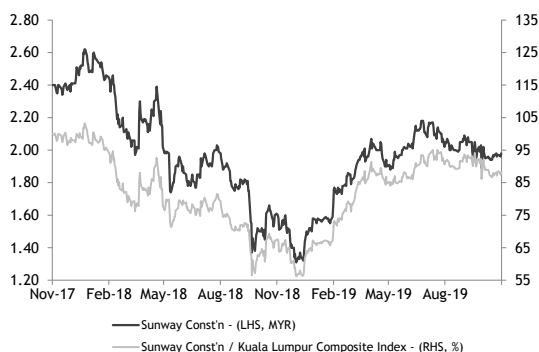
### Statistics

52w high/low (MYR)	2.18/1.31
3m avg turnover (USDm)	0.2
Free float (%)	25.7
Issued shares (m)	1,293
Market capitalisation	MYR2.6B
	USD616M

### Major shareholders:

Sunway Bhd.	54.4%
Active Equity Sdn. Bhd.	10.1%
Employees Provident Fund	8.4%

### Price Performance



	-1M	-3M	-12M
Absolute (%)	5	(2)	23
Relative to index (%)	3	(2)	31

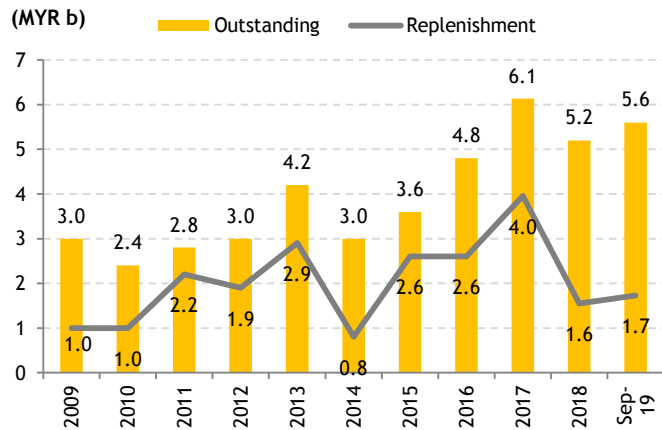
Source: FactSet

Fig 1: Results summary

	Quarterly results					Cumulative		
	3Q19	3Q18	% YoY	2Q19	% QoQ	9M19	9M18	% YoY
<b>FY Dec (MYR m)</b>								
Turnover	402.6	557.3	(27.8)	440.2	(8.5)	1,282.8	1,630.8	(21.3)
EBIT	34.4	44.9	(23.5)	37.6	(8.6)	110.2	130.0	(15.2)
Net interest	1.2	1.9	(38.1)	3.6	(66.9)	6.7	5.6	20.1
<b>Pre-tax profits</b>	<b>35.6</b>	<b>46.8</b>	<b>(24.1)</b>	<b>41.2</b>	<b>(13.7)</b>	<b>116.9</b>	<b>135.5</b>	<b>(13.8)</b>
Tax	(2.5)	(10.4)	(75.5)	(8.2)	(69.2)	(19.3)	(27.5)	(30.1)
Minority Interests	0.5	(0.1)	NM	0.2	115.0	0.1	(0.1)	NM
<b>Net profit</b>	<b>33.5</b>	<b>36.4</b>	<b>(8.0)</b>	<b>33.2</b>	<b>0.9</b>	<b>97.7</b>	<b>107.9</b>	<b>(9.5)</b>
	3Q19	3Q18	+/- ppt	2Q19	+/- ppt	9M19	9M18	+/- ppt
<i>EBIT margin (%)</i>	8.5	8.1	0.5	8.5	(0.0)	8.6	8.0	0.6
<i>Pretax margin (%)</i>	8.8	8.4	0.4	9.4	(0.5)	9.1	8.3	0.8
<i>Tax rate (%)</i>	7.1	22.1	(15.0)	20.0	(12.8)	16.5	20.3	(3.8)
<b>Revenue</b>	3Q19	3Q18	% YoY	2Q19	% QoQ	9M19	9M18	% YoY
Construction	365.1	524.1	(30.3)	406.3	(10.1)	1,178.4	1,527.8	(22.9)
Precast concrete	37.5	33.3	12.7	33.9	10.7	104.4	103.1	1.3
<b>Total</b>	<b>402.6</b>	<b>557.3</b>	<b>(27.8)</b>	<b>440.2</b>	<b>(8.5)</b>	<b>1,282.8</b>	<b>1,630.8</b>	<b>(21.3)</b>
<b>EBIT</b>								
Construction	33.6	46.8	(28.3)	36.9	(8.9)	108.3	125.9	(14.0)
Precast concrete	0.8	(1.9)	NM	0.8	5.1	1.9	4.1	(53.0)
<b>Total</b>	<b>34.4</b>	<b>44.9</b>	<b>(23.5)</b>	<b>37.6</b>	<b>(8.6)</b>	<b>110.2</b>	<b>130.0</b>	<b>(15.2)</b>
<b>EBIT margin (%)</b>	3Q19	3Q18	+/- ppt	2Q19	+/- ppt	9M19	9M18	+/- ppt
Construction	9.2	8.9	0.3	9.1	0.1	9.2	8.2	0.9
Precast concrete	2.2	(5.6)	7.8	2.3	(0.1)	1.8	3.9	(2.1)
<b>Total</b>	<b>8.5</b>	<b>8.1</b>	<b>0.5</b>	<b>8.5</b>	<b>(0.0)</b>	<b>8.6</b>	<b>8.0</b>	<b>0.6</b>

Source: Company

Fig 2: Outstanding orderbook as of end-Sep 2019



\*Including precast

Source: Company data

Fig 3: Forward PER



Source: Company data, Maybank Kim Eng

Fig 4: Sunway Construction: O/S orderbook of MYR5.6b as of end-Sep 2019

YTD-Sep 2019	Contract value (MYR m)	Outstanding (MYR m)
<b>Infrastructure</b>		
KVMRT 2, V201 (Sg Buloh-Persiaran Dagang)	1,213	205
LRT 3 : Package GS07-08	2,178	1,817
Piling Works	128	30
Piling Works <sup>#</sup>	99	56
Sentul West Station <sup>#</sup>	57	57
<b>Building</b>		
Putrajaya Parcel F	1,610	34
PPA1M Project in Kota Bahru	582	107
Warehouse in Shah Alam	70	17
TNB HQ Campus <sup>#</sup>	781	739
Petronas Learning Centre <sup>#</sup>	310	307
Oxley Tower <sup>#</sup>	68	68
IOI Mall <sup>#</sup>	68	68
<b>Internal</b>		
Sunway Medical Centre 4 (2 towers)	512	401
Sunway Property - Kelana Jaya Condo	449	281
Sunway Carnival 2 Extension - PDP contract	286	234
SunGeo Lake 44 storey residential tower	223	118
SMC Seberang Jaya	180	154
Sunway Velocity Two	352	312
Sunway Velocity 3C4	100	83
BigBox Hotel <sup>#</sup>	100	87
Parcel CP2 <sup>#</sup>	119	114
BB Solar <sup>#</sup>	8	8
<b>Precast</b>		
Precast new-order 2019 <sup>#</sup>	331	201
	120	120
<b>Total</b>	<b>9,944</b>	<b>5,618</b>

<sup>#</sup>Secured in 2019

Source: Company

## Risk statement

There are several risk factors for our earnings estimates, target price and rating for SCG. Slower-than-expected work progress at major construction projects may affect timing of earnings recognition. The review of major infrastructure projects by the new government could also delay implementation of new projects affecting future orderbook replenishment. At the precast segment, any significant increase in steel prices and stiffer competition could also affect project margins.

FYE 31 Dec	FY17A	FY18A	FY19E	FY20E	FY21E
<b>Key Metrics</b>					
P/E (reported) (x)	20.2	17.4	19.1	16.5	16.4
Core P/E (x)	24.5	11.9	19.1	16.5	16.4
P/BV (x)	6.0	2.9	4.0	3.7	3.4
P/NTA (x)	6.0	2.9	4.0	3.7	3.4
Net dividend yield (%)	2.8	5.3	3.5	3.5	3.5
FCF yield (%)	0.4	7.8	1.8	5.8	6.0
EV/EBITDA (x)	14.7	6.3	10.7	9.3	9.0
EV/EBIT (x)	18.2	7.7	13.3	11.2	11.0
<b>INCOME STATEMENT (MYR m)</b>					
Revenue	2,076.3	2,256.8	2,207.7	2,448.9	2,350.9
Gross profit	428.6	441.2	413.2	423.6	433.1
EBITDA	196.9	214.6	208.0	235.3	235.6
Depreciation	(37.8)	(40.0)	(40.8)	(41.6)	(43.5)
EBIT	159.1	174.6	167.2	193.6	192.1
Net interest income / (exp)	7.4	7.7	8.7	9.6	11.6
Associates & JV	2.2	0.7	0.0	0.0	0.0
Exceptionals	0.0	0.0	0.0	0.0	0.0
Pretax profit	168.7	183.1	175.9	203.2	203.7
Income tax	(36.2)	(38.0)	(42.0)	(48.1)	(48.0)
Minorities	(0.1)	(0.3)	0.0	0.0	0.0
Reported net profit	132.3	144.7	133.9	155.1	155.7
Core net profit	132.3	144.7	133.9	155.1	155.7
<b>BALANCE SHEET (MYR m)</b>					
Cash & Short Term Investments	487.2	484.9	446.6	497.1	552.0
Accounts receivable	1,118.3	1,000.2	1,087.5	1,195.3	1,145.2
Inventory	24.4	30.0	29.5	33.3	31.5
Property, Plant & Equip (net)	149.8	163.2	166.6	173.9	177.4
Intangible assets	2.2	0.5	0.5	0.5	0.5
Investment in Associates & JVs	0.0	44.7	44.7	44.7	44.7
Other assets	28.2	31.0	31.0	31.0	31.0
<b>Total assets</b>	<b>1,810.2</b>	<b>1,754.5</b>	<b>1,806.4</b>	<b>1,975.8</b>	<b>1,982.5</b>
ST interest bearing debt	134.7	113.6	113.6	113.6	113.6
Accounts payable	1,118.9	936.0	937.8	1,049.0	997.3
LT interest bearing debt	0.0	0.0	0.0	0.0	0.0
Other liabilities	13.0	112.0	112.0	112.0	112.0
<b>Total Liabilities</b>	<b>1,266.2</b>	<b>1,162.0</b>	<b>1,163.7</b>	<b>1,275.0</b>	<b>1,223.3</b>
Shareholders Equity	542.9	591.1	641.3	699.4	757.7
Minority Interest	1.1	1.4	1.4	1.4	1.4
<b>Total shareholder equity</b>	<b>544.0</b>	<b>592.5</b>	<b>642.7</b>	<b>700.8</b>	<b>759.2</b>
<b>Total liabilities and equity</b>	<b>1,810.2</b>	<b>1,754.5</b>	<b>1,806.4</b>	<b>1,975.8</b>	<b>1,982.5</b>
<b>CASH FLOW (MYR m)</b>					
Pretax profit	168.7	183.1	175.9	203.2	203.7
Depreciation & amortisation	37.8	40.0	40.8	41.6	43.5
Adj net interest (income)/exp	7.4	7.7	8.7	9.6	11.6
Change in working capital	(112.0)	(10.4)	(85.1)	(0.3)	0.1
Cash taxes paid	(37.1)	(37.4)	(42.0)	(48.1)	(48.0)
Other operating cash flow	(1.8)	6.2	(8.7)	(9.6)	(11.6)
Cash flow from operations	62.8	189.2	89.6	196.4	199.3
Capex	(48.4)	(54.8)	(44.2)	(49.0)	(47.0)
Free cash flow	14.4	134.4	45.5	147.4	152.3
Dividends paid	(71.1)	(96.9)	(83.7)	(96.9)	(97.4)
Change in Debt	(1.9)	(21.1)	0.0	0.0	0.0
Other invest/financing cash flow	89.6	(18.1)	0.0	0.0	0.0
Net cash flow	31.0	(1.7)	(38.2)	50.5	54.9

FYE 31 Dec	FY17A	FY18A	FY19E	FY20E	FY21E
<b>Key Ratios</b>					
<b>Growth ratios (%)</b>					
Revenue growth	16.1	8.7	(2.2)	10.9	(4.0)
EBITDA growth	4.6	9.0	(3.0)	13.1	0.1
EBIT growth	6.6	9.7	(4.2)	15.8	(0.8)
Pretax growth	9.7	8.5	(3.9)	15.5	0.3
Reported net profit growth	7.1	9.4	(7.5)	15.8	0.4
Core net profit growth	7.1	9.4	(7.5)	15.8	0.4
<b>Profitability ratios (%)</b>					
EBITDA margin	9.5	9.5	9.4	9.6	10.0
EBIT margin	7.7	7.7	7.6	7.9	8.2
Pretax profit margin	8.1	8.1	8.0	8.3	8.7
Payout ratio	68.4	62.5	67.6	58.3	58.1
<b>DuPont analysis</b>					
Net profit margin (%)	6.4	6.4	6.1	6.3	6.6
Revenue/Assets (x)	1.1	1.3	1.2	1.2	1.2
Assets/Equity (x)	3.3	3.0	2.8	2.8	2.6
ROAE (%)	25.5	25.5	21.7	23.1	21.4
ROAA (%)	7.8	8.1	7.5	8.2	7.9
<b>Liquidity &amp; Efficiency</b>					
Cash conversion cycle	(43.0)	(29.4)	(11.8)	(3.2)	(6.8)
Days receivable outstanding	178.3	169.0	170.2	167.8	179.2
Days inventory outstanding	5.3	5.4	6.0	5.6	6.1
Days payables outstanding	226.6	203.7	188.0	176.6	192.1
Dividend cover (x)	1.5	1.6	1.5	1.7	1.7
Current ratio (x)	1.3	1.5	1.5	1.5	1.6
<b>Leverage &amp; Expense Analysis</b>					
Asset/Liability (x)	1.4	1.5	1.6	1.5	1.6
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Net gearing (%) (excl. perps)	net cash	net cash	net cash	net cash	net cash
Net interest cover (x)	na	na	na	na	na
Debt/EBITDA (x)	0.7	0.5	0.5	0.5	0.5
Capex/revenue (%)	2.3	2.4	2.0	2.0	2.0
Net debt/ (net cash)	(352.6)	(371.2)	(333.0)	(383.5)	(438.4)

Source: Company; Maybank

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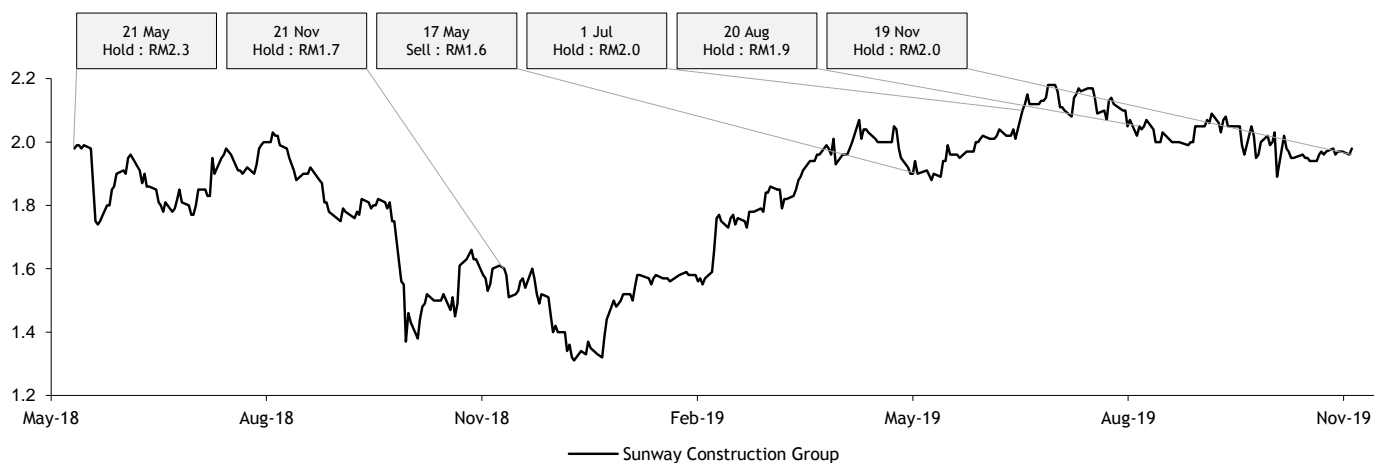
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