

Sunway Construction Group (SCGB MK)

Job win target for FY19E met

U/G to HOLD; TP +23%

SCG has achieved its MYR1.5b job win target for FY19E with the latest three job wins of MYR497m. Our FY19E-FY21E net profit are raised by 2%-6% largely after imputing for higher construction job wins of MYR1.8b (+20%) in FY19E. Additional jobs could come from a project in Myanmar and other building jobs. With its resilient job wins and decent earnings visibility, we now peg SCG to a higher PER of 16.5x (4Y-mean; previously 14x [-1SD]). Our TP is raised 23% to MYR1.96. We U/G SCG to a HOLD.

Awarded MYR310m Petronas building job

SCG has accepted a Letter of Award by Petronas Management Training Sdn Bhd for the construction and completion of its Petronas Leadership Centre in Bangi, Selangor for MYR310m. The works are expected to be completed on 31 Mar 2021 over a construction period of 20 months.

Additional two contracts worth MYR187m secured

SCG has also been awarded the foundation and earthworks contract for Sunway South Quay with a value of MYR119m. The works are expected to be completed over a period of 20 months with completion by 14 Mar 2021. Additionally, SCG (through its wholly-owned Sunway Engineering Sdn Bhd) has been confirmed as the Nominated Sub-Contractor for the supply, delivery, installation, testing and commissioning of the Electrical and ELV Services for the Oxley mixed development project in Kuala Lumpur. This MYR68m contract is expected to be completed by 3 May 2022 with a construction period of 35 months.

MYR1.5b job win target achieved

Assuming a blended pretax margin of 8% for these wins, we forecast a net profit contribution of MYR30m (2.3sen EPS) into FY22E. SCG's YTD construction orderbook replenishment of MYR1.5b has hit its internal target of MYR1.5b. With 6 months of FY19E remaining, we believe SCG could secure additional work packages. As such, we raise our FY19E construction job win assumption to MYR1.8b (from MYR1.5b). However, we lower our FY19E precast win assumption to MYR100m (from MYR200m), with SCG having only secured MYR33m YTD 2019. Our FY19E/FY20E/FY21E net profit are raised by 2%/5%/6%, respectively.

FYE Dec (MYR m)	FY17A	FY18A	FY19E	FY20E	FY21E
Revenue	2,076	2,257	2,353	2,448	2,278
EBITDA	197	215	221	235	225
Core net profit	132	145	144	154	147
Core EPS (sen)	10.2	11.2	11.1	11.9	11.4
Core EPS growth (%)	7.2	9.4	(0.4)	6.8	(4.2)
Net DPS (sen)	7.0	7.0	3.9	4.2	4.0
Core P/E (x)	24.5	11.9	18.0	16.9	17.6
P/BV (x)	6.0	2.9	3.8	3.3	3.0
Net dividend yield (%)	2.8	5.3	1.9	2.1	2.0
ROAE (%)	25.5	25.5	22.6	20.9	17.7
ROAA (%)	7.8	8.1	7.9	7.7	7.1
EV/EBITDA (x)	14.7	6.3	10.0	9.1	9.1
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Consensus net profit	-	-	144	154	163
MKE vs. Consensus (%)	-	-	(0.1)	0.1	(9.5)

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HOLD

[Prior:SELL]

Share Price MYR 2.01
 12m Price Target MYR 1.96 (-2%)
 Previous Price Target MYR 1.60

Company Description

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

Statistics

52w high/low (MYR) 2.07/1.31
 3m avg turnover (USDm) 0.4
 Free float (%) 25.5
 Issued shares (m) 1,293
 Market capitalisation MYR2.6B
 USD629M

Major shareholders:

Sunway Bhd. 54.4%
 Active Equity Sdn. Bhd. 10.1%
 Employees Provident Fund 8.5%

Price Performance



	-1M	-3M	-12M
Absolute (%)	4	6	13
Relative to index (%)	0	4	12

Source: FactSet

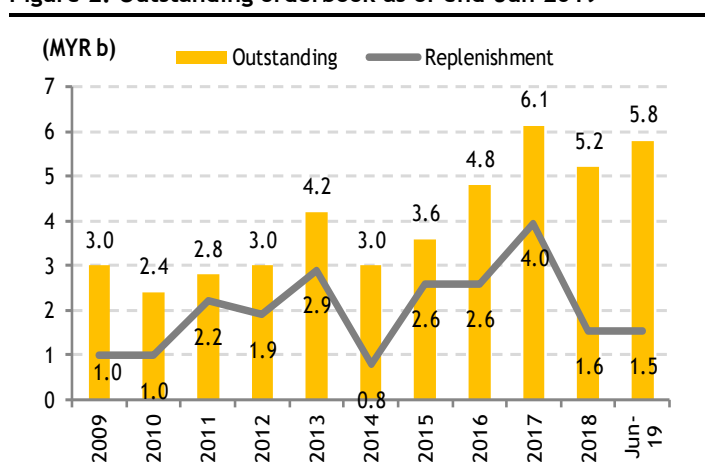
Figure 1: YTD job wins in FY19E of MYR1.54b (incl. precast)

YTD-Jun 2019	Duration (months)	Contract value (MYR m)
Construction		
TNB HQ Campus	26	781.3
LRT 3 : GS10 piling works	12	47.6
LRT 3 : GS06 piling works	4	12.8
Transit Oriented Development - piling works	16	38.8
Bix Box Hotel	16	99.5
Punggol North C14	18	26.6
South Quay (CP2) - Earthwork and pilings	20	119.0
Oxley Mixed Development - Electrical & ELV	35	67.8
Petronas Leadership Centre	20	310
		1,503.4
Precast		
Kallang Whampoa (C57)	36	29.5
Precast- others		3.8
		33.3
Total		1,536.7

*Secured in 2018; #Secured in 2019

Source: Company

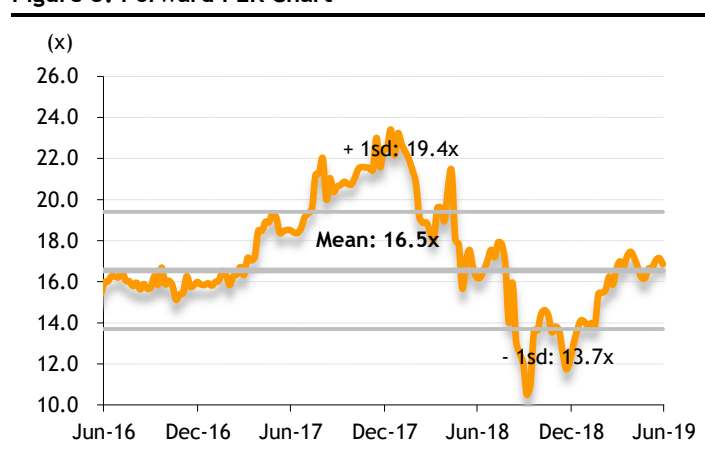
Figure 2: Outstanding orderbook as of end-Jun 2019



*Including precast

Source: Company data, Maybank Kim Eng

Figure 3: Forward PER Chart



Source: Company data, Maybank Kim Eng

Risk statement

There are several risk factors for our earnings estimates, price target 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
Key Metrics					
P/E (reported) (x)	20.2	17.4	18.0	16.9	17.6
Core P/E (x)	24.5	11.9	18.0	16.9	17.6
P/BV (x)	6.0	2.9	3.8	3.3	3.0
P/NTA (x)	6.0	2.9	3.8	3.3	3.0
Net dividend yield (%)	2.8	5.3	1.9	2.1	2.0
FCF yield (%)	0.4	7.8	2.3	5.4	5.5
EV/EBITDA (x)	14.7	6.3	10.0	9.1	9.1
EV/EBIT (x)	18.2	7.7	12.3	11.1	11.3
INCOME STATEMENT (MYR m)					
Revenue	2,076.3	2,256.8	2,353.3	2,448.0	2,278.4
Gross profit	428.6	441.2	426.4	422.3	421.5
EBITDA	196.9	214.6	221.3	234.7	224.5
Depreciation	(37.8)	(40.0)	(40.8)	(42.4)	(44.0)
EBIT	159.1	174.6	180.5	192.3	180.5
Net interest income / (exp)	7.4	7.7	8.7	9.0	12.0
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	189.1	201.4	192.5
Income tax	(36.2)	(38.0)	(45.1)	(47.6)	(45.2)
Minorities	(0.1)	(0.3)	0.0	0.0	0.0
Reported net profit	132.3	144.7	144.0	153.8	147.3
Core net profit	132.3	144.7	144.0	153.8	147.3
BALANCE SHEET (MYR m)					
Cash & Short Term Investments	487.2	484.9	495.0	580.6	672.2
Accounts receivable	1,118.3	1,000.2	1,141.4	1,195.0	1,118.4
Inventory	24.4	30.0	31.7	33.3	30.5
Property, Plant & Equip (net)	149.8	163.2	169.5	176.1	177.6
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
Total assets	1,810.2	1,754.5	1,913.8	2,061.1	2,075.0
ST interest bearing debt	134.7	113.6	113.6	113.6	113.6
Accounts payable	1,118.9	936.0	1,001.7	1,049.0	967.1
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
Total Liabilities	1,266.2	1,162.0	1,227.6	1,275.0	1,193.1
Shareholders Equity	542.9	591.1	684.7	784.7	880.5
Minority Interest	1.1	1.4	1.4	1.4	1.4
Total shareholder equity	544.0	592.5	686.1	786.1	881.9
Total liabilities and equity	1,810.2	1,754.5	1,913.8	2,061.1	2,075.0
CASH FLOW (MYR m)					
Pretax profit	168.7	183.1	189.1	201.4	192.5
Depreciation & amortisation	37.8	40.0	40.8	42.4	44.0
Adj net interest (income)/exp	7.4	7.7	8.7	9.0	12.0
Change in working capital	(112.0)	(10.4)	(77.2)	(7.8)	(2.5)
Cash taxes paid	(37.1)	(37.4)	(45.1)	(47.6)	(45.2)
Other operating cash flow	(1.8)	6.2	(8.7)	(9.0)	(12.0)
Cash flow from operations	62.8	189.2	107.6	188.3	188.8
Capex	(48.4)	(54.8)	(47.1)	(49.0)	(45.6)
Free cash flow	14.4	134.4	60.6	139.4	143.2
Dividends paid	(71.1)	(96.9)	(50.4)	(53.8)	(51.6)
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)	10.1	85.5	91.7

FYE 31 Dec	FY17A	FY18A	FY19E	FY20E	FY21E
Key Ratios					
Growth ratios (%)					
Revenue growth	16.1	8.7	4.3	4.0	(6.9)
EBITDA growth	4.6	9.0	3.1	6.1	(4.3)
EBIT growth	6.6	9.7	3.4	6.6	(6.2)
Pretax growth	9.7	8.5	3.3	6.5	(4.4)
Reported net profit growth	7.1	9.4	(0.4)	6.8	(4.2)
Core net profit growth	7.1	9.4	(0.4)	6.8	(4.2)
Profitability ratios (%)					
EBITDA margin	9.5	9.5	9.4	9.6	9.9
EBIT margin	7.7	7.7	7.7	7.9	7.9
Pretax profit margin	8.1	8.1	8.0	8.2	8.5
Payout ratio	68.4	62.5	35.0	35.0	35.0
DuPont analysis					
Net profit margin (%)	6.4	6.4	6.1	6.3	6.5
Revenue/Assets (x)	1.1	1.3	1.2	1.2	1.1
Assets/Equity (x)	3.3	3.0	2.8	2.6	2.4
ROAE (%)	25.5	25.5	22.6	20.9	17.7
ROAA (%)	7.8	8.1	7.9	7.7	7.1
Liquidity & Efficiency					
Cash conversion cycle	(43.0)	(29.4)	(11.4)	(4.7)	(6.5)
Days receivable outstanding	178.3	169.0	163.8	171.8	182.8
Days inventory outstanding	5.3	5.4	5.8	5.8	6.2
Days payables outstanding	226.6	203.7	181.0	182.2	195.4
Dividend cover (x)	1.5	1.6	2.9	2.9	2.9
Current ratio (x)	1.3	1.5	1.5	1.6	1.7
Leverage & Expense Analysis					
Asset/Liability (x)	1.4	1.5	1.6	1.6	1.7
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)	(381.4)	(466.9)	(558.6)

Source: Company; Maybank

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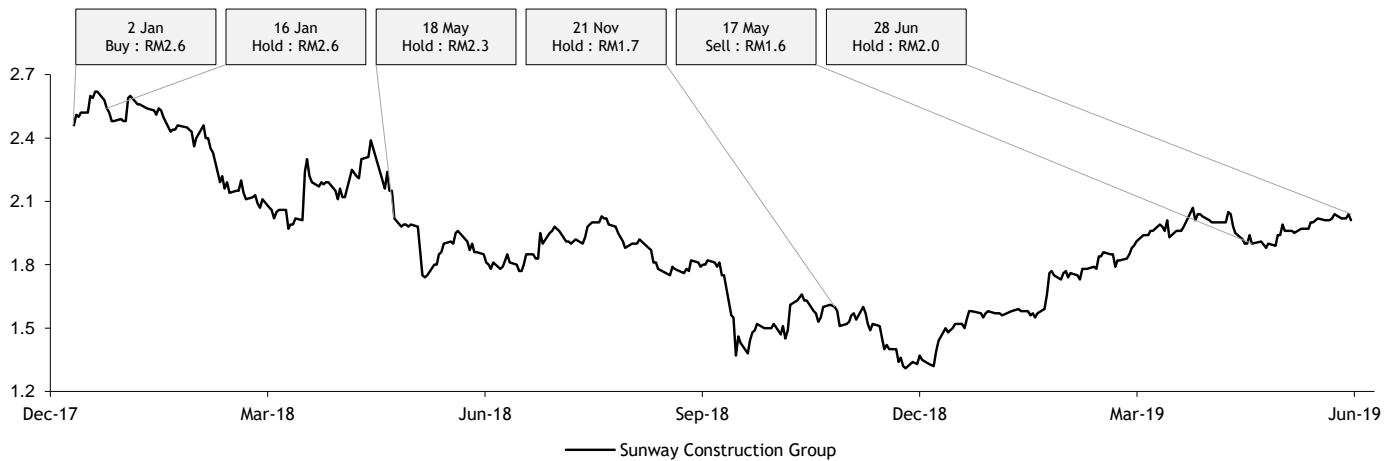
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