

Sunway Construction Group (SCGB MK)

1Q19: Lacklustre earnings

SELL

[Prior:HOLD]

Share Price MYR 1.94
 12m Price Target MYR 1.60 (-18%)
 Previous Price Target MYR 1.70

Fully valued; D/G to SELL

1Q19 results missed ours/consensus expectations due to the weaker-than-expected contribution from both precast and construction. Our earnings are revised down by 3%-8% for FY19E-FY21E after adjusting for slower construction progress and lower margins at precast. We derive a lower TP of MYR1.60 after rolling forward valuation to FY20E pegging to an unchanged 14x PER. Fully valued at 17x FY20E PER; SELL.

Precast continues to drag earnings

1Q19 group net profit of MYR31m (-13% YoY, -15% QoQ) met only 20%/21% of ours/consensus full-year forecasts. The shortfall against our forecast largely came from the precast segment which saw its EBIT shrunk by 91% YoY (LBIT of MYR2.7m in 4Q18). The segment only reported an EBIT margin of 1ppt (-8.7ppts YoY) on current low margins yielding contracts. As highlighted previously, contracts secured in FY18 which have better margins are only expected to significantly contribute in FY20.

Slower-than-expected construction recognition

Construction revenue also fell by 17% YoY (-32% QoQ) in 1Q19. This was attributed to completion of the Putrajaya Parcel F project in 1Q19 and delay in both the KVLRT 3 and KVMRT 2 station works as a result of on-going cost optimization by the clients. However, construction EBIT was only lower by 4% YoY (-21% QoQ), cushioned by the improvement in EBIT margin (+1.3ppts YoY/QoQ). We have already factored in SCG's MYR1.5b job win target for FY19E into our earnings forecasts (MYR1b YTD FY19). Outstanding order book stood at MYR5.7b end-Mar 2019 (+MYR0.5b QoQ).

Revisiting assumptions

We adjust for slower progress billing at its KVLRT 3 package and lower EBIT precast margin for FY19E-FY21E by 2ppts for each year. As a result, our FY19E/FY20E/FY21E net profit forecasts are lowered by 8%/3%/3%. We roll forward our valuation to FY20E but continue to peg SCG to 14x PER (-1SD), above peer's average of 12x for its strong execution abilities. Currently at 17.1x FY20E PER, we believe this has fully factored in SCG's commendable job win YTD and prospects, relative to its peers.

FYE Dec (MYR m)	FY17A	FY18A	FY19E	FY20E	FY21E
Revenue	2,076	2,257	2,311	2,317	2,133
EBITDA	197	215	217	225	214
Core net profit	132	145	141	147	139
Core EPS (sen)	10.2	11.2	10.9	11.4	10.8
Core EPS growth (%)	7.2	9.4	(2.4)	4.0	(5.0)
Net DPS (sen)	7.0	7.0	3.8	4.0	3.8
Core P/E (x)	24.5	11.9	17.8	17.1	18.0
P/BV (x)	6.0	2.9	3.7	3.2	2.9
Net dividend yield (%)	2.8	5.3	2.0	2.0	1.9
ROAE (%)	25.5	25.5	22.2	20.1	16.9
ROAA (%)	7.8	8.1	7.7	7.6	7.0
EV/EBITDA (x)	14.7	6.3	9.8	9.1	9.2
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Consensus net profit	-	-	151	151	160
MKE vs. Consensus (%)	-	-	(6.5)	(2.8)	(12.6)

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Company Description

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

Statistics

52w high/low (MYR)	2.15/1.31
3m avg turnover (USDm)	0.5
Free float (%)	25.9
Issued shares (m)	1,293
Market capitalisation	MYR2.5B USD602M

Major shareholders:

Sunway Bhd.	54.4%
Active Equity Sdn. Bhd.	10.1%
Employees Provident Fund	8.2%

Price Performance



	-1M	-3M	-12M
Absolute (%)	(1)	24	(10)
Relative to index (%)	0	30	4

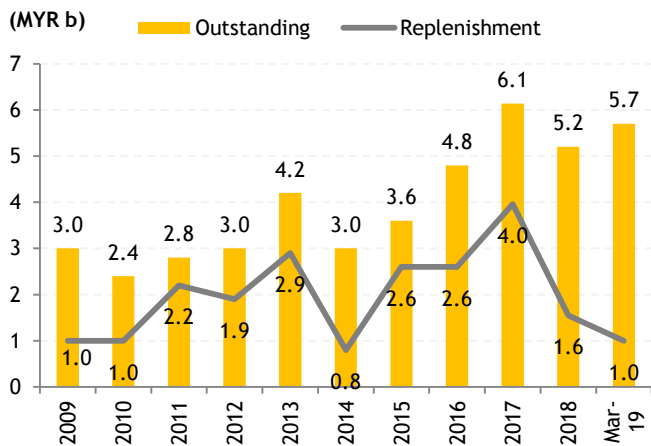
Source: FactSet

Fig 1: SCG summary results table

	Quarterly results				
	1Q19	1Q18	% YoY	4Q18	% QoQ
FY Dec (RM m)	440.0	529.2	(16.9)	626.0	(29.7)
Turnover	38.2	42.9	(10.9)	45.2	(15.5)
EBIT	1.9	0.7	162.4	1.2	55.6
Net interest	-	-	NA	0.7	NM
Associates, JV	40.1	43.6	(8.0)	47.2	(15.0)
Pre-tax profits	(8.5)	(7.9)	7.8	(10.4)	(18.7)
Tax	(0.6)	0.0	NM	(0.3)	139.3
Minority Interests	31.0	35.8	(13.3)	36.5	(15.0)
Net profit					
	1Q19	1Q18	+/- ppt	4Q18	+/- ppt
EBIT margin (%)	8.7	8.1	0.6	7.2	1.5
Pretax margin (%)	9.1	8.2	0.9	7.5	1.6
Tax rate (%)	21.2	18.1	3.1	22.1	(1.0)
Revenue:	1Q19	1Q18	% YoY	4Q18	% QoQ
Construction	407.0	492.1	(17.3)	595.3	(31.6)
Precast concrete	33.0	37.1	(11.2)	30.7	7.5
Total	440.0	529.2	(16.9)	626.0	(29.7)
EBIT					
Construction	37.9	39.3	(3.6)	47.9	(20.9)
Precast concrete	0.3	3.6	(90.9)	(2.7)	NM
Total	38.2	42.9	(10.9)	45.2	(15.5)
EBIT margin (%)	1Q19	1Q18	+/- ppt	4Q18	+/- ppt
Construction	9.3	8.0	1.3	8.0	1.3
Precast concrete	1.0	9.7	(8.7)	(8.8)	NM
Total	8.7	8.1	0.6	7.2	1.5

Source: Company

Fig 2: Outstanding orderbook as of end-Mar 2019



*Including precast

Source: Company data, Maybank Kim Eng

Fig 3: Forward PER Chart



Source: Company data, Maybank Kim Eng

Fig 4: Sunway Construction: Outstanding orderbook of MYR5.7b as of end-Mar 2019

YTD-May 2019	Contract value (MYR m)	Outstanding (MYR m)
Infrastructure		
KVMRT 2, V201 (Sg Buloh-Persiaran Dagang)	1,213	359
LRT 3 : Package GS07-08	2,178	1,929
Piling Works*	128	61
Piling Works [#]	99	99
Building		
Putrajaya Parcel F	1,610	69
PPA1M Project in Kota Bahru	582	141
Warehouse in Shah Alam	70	48
GDC (Plant 2)*	14	6
TNB HQ Campus [#]	781	781
Internal		
Sunway Velocity Medical Centre	185	10
Sunway Medical Centre 4 (2 towers)	512	429
Sunway Iskandar - Emerald Residences	175	8
Sunway Iskandar - Retail Complex	170	45
Sunway Property - Kelana Jaya Condo	449	306
Sunway Carnival 2 Extension - PDP contract *	286	247
SunGeo Lake 44 storey residential tower *	223	161
SMC Seberang Jaya*	180	163
Velocity Ecodeck*	11	9
M&E Works*	27	6
Sunway Velocity Two*	352	343
Sunway Velocity 3C4*	100	96
BigBox Hotel [#]	100	100
Precast		
Precast new-order 2019 [#]	31	31
Total	9,807	5,732

*Secured in 2018; [#]Secured in 2019

Source: Company

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	17.8	17.1	18.0
Core P/E (x)	24.5	11.9	17.8	17.1	18.0
P/BV (x)	6.0	2.9	3.7	3.2	2.9
P/NTA (x)	6.0	2.9	3.7	3.2	2.9
Net dividend yield (%)	2.8	5.3	2.0	2.0	1.9
FCF yield (%)	0.4	7.8	2.2	5.2	5.4
EV/EBITDA (x)	14.7	6.3	9.8	9.1	9.2
EV/EBIT (x)	18.2	7.7	12.1	11.2	11.5
INCOME STATEMENT (MYR m)					
Revenue	2,076.3	2,256.8	2,311.0	2,316.8	2,132.7
Gross profit	428.6	441.2	425.5	416.2	414.4
EBITDA	196.9	214.6	217.4	225.3	213.5
Depreciation	(37.8)	(40.0)	(40.8)	(42.2)	(43.2)
EBIT	159.1	174.6	176.6	183.2	170.3
Net interest income / (exp)	7.4	7.7	8.7	8.9	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	185.3	192.0	181.9
Income tax	(36.2)	(38.0)	(44.1)	(45.2)	(42.5)
Minorities	(0.1)	(0.3)	0.0	0.0	0.0
Reported net profit	132.3	144.7	141.2	146.8	139.4
Core net profit	132.3	144.7	141.2	146.8	139.4
BALANCE SHEET (MYR m)					
Cash & Short Term Investments	487.2	484.9	490.8	568.5	656.3
Accounts receivable	1,118.3	1,000.2	1,125.7	1,146.4	1,064.5
Inventory	24.4	30.0	31.0	31.2	28.2
Property, Plant & Equip (net)	149.8	163.2	168.6	172.8	172.3
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	1,892.4	1,995.2	1,997.5
ST interest bearing debt	134.7	113.6	113.6	113.6	113.6
Accounts payable	1,118.9	936.0	982.2	989.6	901.1
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	1,208.1	1,215.5	1,127.1
Shareholders Equity	542.9	591.1	682.8	778.3	868.9
Minority Interest	1.1	1.4	1.4	1.4	1.4
Total shareholder equity	544.0	592.5	684.3	779.7	870.3
Total liabilities and equity	1,810.2	1,754.5	1,892.4	1,995.2	1,997.5
CASH FLOW (MYR m)					
Pretax profit	168.7	183.1	185.3	192.0	181.9
Depreciation & amortisation	37.8	40.0	40.8	42.2	43.2
Adj net interest (income)/exp	7.4	7.7	8.7	8.9	11.6
Change in working capital	(112.0)	(10.4)	(80.4)	(13.5)	(3.5)
Cash taxes paid	(37.1)	(37.4)	(44.1)	(45.2)	(42.5)
Other operating cash flow	(1.8)	6.2	(8.7)	(8.9)	(11.6)
Cash flow from operations	62.8	189.2	101.6	175.5	179.2
Capex	(48.4)	(54.8)	(46.2)	(46.3)	(42.7)
Free cash flow	14.4	134.4	55.3	129.1	136.5
Dividends paid	(71.1)	(96.9)	(49.4)	(51.4)	(48.8)
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)	5.9	77.7	87.7

FYE 31 Dec	FY17A	FY18A	FY19E	FY20E	FY21E
Key Ratios					
Growth ratios (%)					
Revenue growth	16.1	8.7	2.4	0.3	(7.9)
EBITDA growth	4.6	9.0	1.3	3.6	(5.2)
EBIT growth	6.6	9.7	1.2	3.7	(7.0)
Pretax growth	9.7	8.5	1.2	3.7	(5.3)
Reported net profit growth	7.1	9.4	(2.4)	4.0	(5.0)
Core net profit growth	7.1	9.4	(2.4)	4.0	(5.0)
Profitability ratios (%)					
EBITDA margin	9.5	9.5	9.4	9.7	10.0
EBIT margin	7.7	7.7	7.6	7.9	8.0
Pretax profit margin	8.1	8.1	8.0	8.3	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	2.3
ROAE (%)	25.5	25.5	22.2	20.1	16.9
ROAA (%)	7.8	8.1	7.7	7.6	7.0
Liquidity & Efficiency					
Cash conversion cycle	(43.0)	(29.4)	(11.7)	(4.3)	(5.2)
Days receivable outstanding	178.3	169.0	165.6	176.5	186.6
Days inventory outstanding	5.3	5.4	5.8	5.9	6.2
Days payables outstanding	226.6	203.7	183.1	186.7	198.1
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	1.8
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)	(377.2)	(454.9)	(542.6)

Source: Company; Maybank

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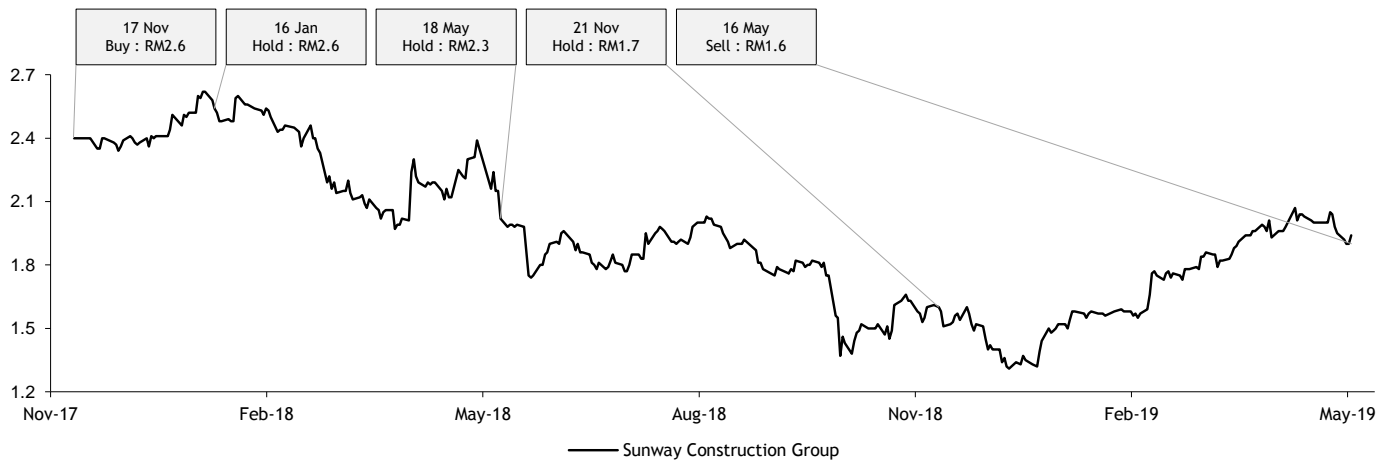
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