

25 August 2017

Sunway Construction Group

In-Line But Steep Valuations

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SUNCON's 1H17 CNP of RM67.6m is within our expectations but below consensus, at 47%/44% of full-year estimates, respectively. Single-tier interim dividend of 3.0 sen proposed. No changes to FY17-18E core earnings. Downgrade to UNDERPERFORM from MARKET PERFORM with an unchanged SoP-driven Target Price of RM2.00.

In line. SUNCON's 1H17 Core Net Profit (CNP) of RM67.6m was within our but below consensus expectations, accounting for 47% and 44% of respective full-year estimates. We believe that consensus could be slightly aggressive on their construction progressive billings and margins assumptions. Single-tier interim dividend of 3.0 sen was proposed, compared to our full-year estimates of 4.0 sen. We believe that there is potential upside to its dividends compared to our conservative assumptions as SUNCON has paid out higher than its minimum pay-out policy of 35% in the past and we are looking forward to upgrade post clarification with management

Results highlight. 1H17 CNP registered YoY growth of 9% despite a 2% decline in revenue, mainly due to the PBT margin improvements in its construction division from 6% to 9%, which drove its construction PBT up by 37%. The improvement in construction margins are driven by better margin jobs coupled with reversal of doubtful debts.

On QoQ basis, 2Q17 CNP was flattish (-1%) despite its construction division registering decent growth rates in both revenue and pre-tax profits of 10% and 28%, respectively. The decent performance by its construction division was dragged down by its pre-cast division, which saw its revenue and PBT down by 56% and 60%, respectively. The sharp decline in its pre-cast segment was mainly due to the slower construction progress by the main contractor, while its new jobs secured will only be contributing from next year onwards.

Outlook. For FY17, we believe that SUNCON is on track to meet their and our orderbook replenishment target of RM2.0b, given that it has already secured RM0.6b worth of jobs year-to-date excluding its MRT2 station works, which is expected to be lumpy. We are also expecting SUNCON to at least bag a package of civil works from LRT3. Its current outstanding order book stands at RM4.3b providing earnings visibility for the next 2-3 years. Post results, there are **no changes to our FY17-18E earnings.**

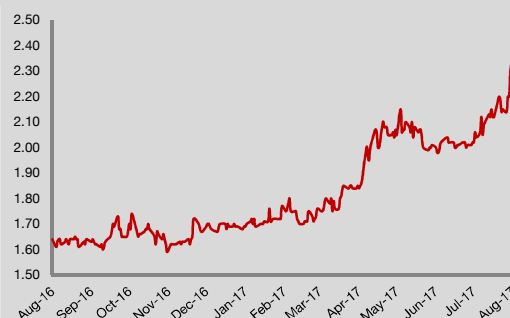
Downgrade to UNDERPERFORM. While we still like SUNCON for its pure exposure to the construction industry and ability to secure big-ticket infrastructure projects, we are downgrading the stock to UNDERPERFORM with an unchanged SoP-driven Target Price of RM2.00 (previously, MARKET PERFORM) as its share price had rallied by 38% since beginning of the year to steep valuation levels of FY18 PER of 18.2x vs big-cap peers' average of 18.0-20.0x or FBMKLCI FY18 PER of 15.6x. However, we shall relook to upgrade the stock should any fresh catalysts emerge in the mid-to-near term or if there are share price retracements as we remain confident of the group's prospects.

Risks to our call include: (i) lower-than-expected margins/order book replenishment, (ii) delay in construction works, and (iii) cut or delay in government spending on infrastructure and affordable housing projects.

UNDERPERFORM ↓

Price : **RM2.32**
Target Price : **RM2.00** ↔

Share Price Performance



KLCI	1,775.50
YTD KLCI chg	8.1%
YTD stock price chg	36.5%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	SCGB MK Equity
Market Cap (RM m)	2,998.0
Issued shares	1,292.2
52-week range (H)	2.41
52-week range (L)	1.56
3-mth avg daily vol:	1,426,236
Free Float	32%
Beta	0.4

Major Shareholders

Sunway Holdings Sdn Bhd	54.4%
Sungei Wang Corp Sdn Bhd	10.1%
True Paragon Sdn Bhd	3.9%

Summary Earnings Table

FYE Dec (RM m)	2016A	2017E	2018E
Turnover	1,788.8	2,339.0	2,414.3
EBIT	149.6	185.3	185.7
PBT	153.7	193.7	195.9
Net Profit (NP)	123.5	145.2	146.9
Core NP	117.7	145.2	146.9
Consensus (CNP)	n.a.	154.4	169.2
Earnings Revision	n.a.	n.a.	n.a.
Basic EPS (sen)	9.1	11.2	11.4
EPS growth %	-3%	18%	1%
NDPS (sen)	5.0	3.9	4.0
Basic PER (x)	22.7	18.4	18.2
BV/Share (RM)	0.38	0.45	0.53
Net Gearing (x)	n.c.	n.c.	n.c.
Dividend Yield (%)	2.4%	1.9%	1.9%

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Results Highlight								
FYE Dec (RM'm)	2Q17	1Q17	QoQ	2Q16	YoY	1H17	1H16	YoY
Turnover	417.2	419.5	-1%	430.3	-3%	836.8	854.6	-2%
EBIT	38.7	41.4	-6%	38.2	1%	80.1	74.5	8%
Interest inc/(exp)	1.0	2.1	-51%	0.5	104%	3.2	3.4	-6%
Associates	0.0	0.0	n.m.	0.0	n.m.	0.0	-0.7	-100%
Exceptional items	2.9	0.0	n.m.	0.1	3525%	2.9	-1.0	-379%
Forex gain/(loss)	0.1	0.7	-86%	-0.6	-116%	0.8	-0.4	-282%
Pretax profit	42.8	44.2	-3%	38.1	12%	86.9	75.6	15%
Taxation	-6.1	-9.5	-36%	-6.8	-11%	-15.6	-15.3	2%
Deferred tax	0.0	0.0	n.m.	0.0	n.m.	0.0	0.0	n.m.
Profit after tax	36.7	34.6	6%	31.3	17%	71.3	60.4	18%
Minority interest	-0.1	0.0	-600%	0.0	44%	-0.1	0.0	16%
PATAMI	36.6	34.7	6%	31.3	17%	71.3	60.3	18%
Core PATAMI	33.6	34.0	-1%	31.8	6%	67.6	61.8	9%
EBIT margin	9%	10%		9%		10%	9%	
Pretax margin	10%	11%		9%		10%	9%	
CNP margin	8%	8%		7%		8%	7%	
EPS (sen)	2.7	2.5		2.2		4.7	5.6	
Core EPS(sen)	2.6	1.8		2.3		4.8	5.9	
BV/share (RM)	0.4	0.4		0.4		0.4	0.4	
Net gearing (x)	-0.5	-0.7		-0.6		-0.5	-0.6	
Effective tax	14%	22%		18%		18%	20%	

Source: Company, Kenanga Research

Segmental Breakdown								
Turnover Segmentation	2Q17	1Q17	QoQ	2Q16	YoY	1H17	1H16	YoY
Construction	387.1	350.7	10%	360.5	7%	737.9	734.3	0%
Pre-cast	30.1	68.8	-56%	69.8	-57%	98.9	120.3	-18%
Total	417.2	419.5	-1%	430.3	-3%	836.8	854.6	-2%
Construction	36.4	28.4	28%	21.2	71%	64.8	47.2	37%
Pre-cast	6.3	15.8	-60%	16.9	-62%	22.1	28.4	-22%
Total	42.8	44.2	-3%	38.1	12%	86.9	75.6	15%
Pre-tax margins								
Construction	9%	8%		6%		9%	6%	
Pre-cast	21%	23%		24%		22%	24%	

Source: Company, Kenanga Research

Sum-of-parts valuation	
16x FY18E PER on existing business (RM m)	2349.7
50% of FY17E cash pile (RM m)	238.7
Fair Value (RM m)	2588.4
Shares Outstanding (m)	1292.9
Target Price (RM)	2.00
Implied FY18E PER (x)	17.6

Source: Kenanga Research

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Peer Comparison

CORE COVERAGE																
NAME	Price (24/8/17)	Mkt Cap	PER (x)			Est. Div. Yld.	Est. ROE	P/BV	Net Profit (RMm)			1 Yr Fwd NP Growth	2 Yr Fwd NP Growth	Target Price	Rating	YTD (%)
	(RM)	(RMm)	Actual	1 Yr Fwd	2 Yr Fwd	(%)	(%)	(x)	Actual	1 Yr Fwd	2 Yr Fwd	(%)	(%)	(RM)		
EVERSENDAI CORP BHD	1.08	836	-6.0	14.2	11.9	1%	6%	0.9	-140.3	58.9	70.0	-142%	19%	0.75	Underperform	87.8
GAMUDA BHD	5.41	13269	30.5	21.5	20.6	2%	10%	1.8	499.3	709.5	741.7	42%	5%	5.45	Market Perform	13.2
IJM CORP BHD	3.46	12552	23.2	21.4	19.1	2%	6%	1.3	539.1	585.8	656.1	9%	12%	3.48	Market Perform	8.1
KIMLUN CORP BHD	2.20	703	8.3	9.7	8.7	3%	12%	1.2	81.9	70.7	78.3	-14%	11%	2.27	Market Perform	5.8
MUHIBBAH ENGINEERING (M) BHD	2.87	1379	16.9	14.6	14.0	1%	11%	1.5	87.7	101.5	106.2	16%	5%	2.94	Market Perform	28.7
HOCK SENG LEE BERHAD	1.46	802	14.2	16.2	11.6	2%	7%	1.1	56.5	49.4	69.0	-13%	40%	1.40	Market Perform	-8.8
WCT HOLDINGS BHD	1.85	2599	36.5	21.1	18.7	2%	5%	1.1	84.8	146.9	165.3	73%	13%	1.83	Market Perform	7.6
MITRAJAYA HOLDINGS BHD	1.33	916	10.3	9.8	10.2	4%	15%	1.4	97.3	102.1	98.6	5%	-3%	1.49	Market Perform	5.6
SUNWAY CONSTRUCTION GROUP	2.32	2998	25.5	20.7	20.4	2%	25%	5.2	117.7	145.2	146.9	23%	1%	2.00	Underperform	36.5
KERJAYA PROSPEK GROUP BHD	3.68	2062	20.8	16.4	14.0	1%	16%	2.6	100	126.7	148.1	27%	17%	3.30	Underperform	69.6
<i>Average</i>			18.0	16.6	14.9											
NOT RATED/ON OUR RADAR																
NAME	Price	Mkt Cap	PER (x)			Est. Div. Yld.	Est. ROE	P/BV	Net Profit (RMm)			1 Yr Fwd NP Growth	2 Yr Fwd NP Growth	Target Price	Rating	YTD (%)
	(RM)	(RMm)	Actual	1 Yr Fwd	2 Yr Fwd	(%)	(%)	(x)	Actual	1 Yr Fwd	2 Yr Fwd	(%)	(%)	(RM)		
MUDAJAYA	1.08	581	-2.2	15.1	11.0	n.a.	n.a.	n.a.	-264.9	38.5	52.9	-115%	37%	n.a.	Not Rated	18.7
PROTASCO	1.02	433	8.3	7.4	7.2	6%	14%	1.1	51.8	58.5	60.1	13%	3%	1.52	Trading Buy	-9.7
PINTARAS JAYA	4.04	666	37.0	15.6	13.0	5%	13%	2.0	17.8	42.2	50.6	137%	20%	4.2	Trading Buy	14.8
GABUNGAN AQRS	1.70	730	29.4	17.8	8.5	1%	11%	2.0	22.6	37.2	77.9	65%	109%	1.6	Not Rated	87.8
GADANG HOLDINGS	1.30	855	8.9	9.7	9.3	2%	14%	1.4	94.2	86.8	90.8	-8%	5%	2.44	Not Rated	23.8
AZRB	1.08	574	19.2	9.1	7.2	n.a.	15%	1.4	27.2	57.4	73	111%	27%	1.35	Trading Buy	70.1
TRC SYNERGY	0.83	399	13.3	12.1	15.2	2%	8%	0.9	29.9	32.9	26.3	10%	-20%	n.a.	Not Rated	118.4
BINA PURI	0.36	95	84.7	5.7	5.7	n.a.	n.a.	n.a.	1	14.9	14.9	1390%	0%	n.a.	Not Rated	-18.4
GKENT	2.79	1572	15.5	16.8	14.8	3%	21%	3.5	101.4	93.8	106	-7%	13%	2.8	Trading Buy	37.7
PESONA	0.59	390	19.2	10.9	7.9	4%	22%	2.4	20	35.3	48.5	77%	37%	0.485	Take Profit	-3.3
JAKS	1.31	632	0.8	9.3	6.7	0%	12%	1.1	736	61.933	85.433	-92%	38%	1.54	Not Rated	28.4
<i>Average</i>			21.3	11.8	9.7											

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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