

18 May 2018

Sunway Construction Group

Steady Start...

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1Q18 CNP of RM35.8m came in within our but below street expectations at 20% and 19%, respectively. The shortfall to street expectations could stem from the weak performance of its pre-cast division. No dividend proposed, as expected. No changes to FY18-19E earnings. Maintain OUTPERFORM with a higher SoP-driven Target Price of RM2.40 (previously, RM2.30).

Within our, below street. 1Q18 CNP of RM35.8m came in within our but below street expectations at 20% and 19%, respectively. We believe the shortfall to street expectations could stem from its pre-cast division which performance has been relatively weak due to stiff competition and high steel prices. No dividend proposed for the quarter but we will be expecting full-year dividend of 7.0 sen.

Results highlight. 1Q8 CNP grew 5%, YoY underpinned by a decent revenue growth of 26% that is backed by its construction division. Its construction division registered strong revenue growth of 40%, thanks to higher work progress from Parcel F, Putrajaya, and International School of Kuala Lumpur, cushioning the weak performance of its pre-cast division which saw a 77% decline in pre-tax profit. QoQ, its 1Q18 revenue was down by 29%, but registered 12% growth in CNP thanks to improvement in pre-tax margins of 3ppt to 8% coupled with lower effective tax of 18% compared to 27% in 4Q17. That said, its pre-cast division also registered better performance with 41% growth in revenue and 19% improvement in pre-tax profit.

Outlook. Despite the uncertainty in the construction sector arising from the change in government, we believe that it is "business as usual" for SUNCON given their strong parent company (SUNWAY)'s support and strong track record in securing projects from both government and private sector. Hence, we are maintaining our order-book replenishment of RM2.0b at this junction. That said, we believe its earnings remain intact backed its strong order-book of RM6.3b with three-year rs visibility.

Earnings maintained. Post results, we make no changes to our FY18-19E earnings.

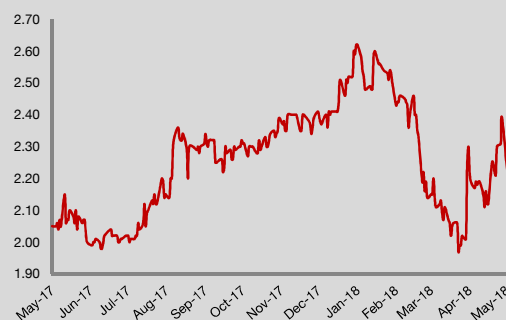
Maintain OUTPERFORM. We reiterate OUTPERFORM on the stock with a higher SoP-driven Target Price of RM2.40 (previously, RM2.30) as we roll forward our valuation base year to FY19E with a lower PER of 15x (previously, 16x) due to uncertainty arising from the change in government. However, we believe that it would not have any major impact on SUNCON given their ability and competitiveness in the construction scene coupled with a strong order-book of RM6.3b. At our TP of RM2.40, it implies FY19E PER of 15.4x.

Risks to our call include: (i) higher-than-expected margins/order-book replenishment, and (ii) higher government spending on infrastructure and affordable housing projects.

OUTPERFORM ↔

Price : **RM2.15**
Target Price : **RM2.40** ↑

Share Price Performance



KLCI	1,858.29
YTD KLCI chg	3.4%
YTD stock price chg	-14.3%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	SCGB MK Equity
Market Cap (RM m)	2,778.3
Issued shares	1,292.2
52-week range (H)	2.64
52-week range (L)	1.92
3-mth avg daily vol:	1,805,313
Free Float	29%
Beta	0.8

Major Shareholders

Sunway Holdings Sdn Bhd	54.4%
Sungei Wang Corp Sdn Bhd	10.1%
True Paragon Sdn Bhd	6.4%

Summary Earnings Table

FYE Dec (RM m)	2017A	2018E	2019E
Turnover	2,076.3	2,708.7	2,988.7
EBIT	164.6	224.6	247.0
PBT	174.2	234.7	257.1
Net Profit (NP)	137.8	176.0	192.8
Core net profit	134.0	176.0	192.8
Consensus (NP)		188.5	206.2
Earnings Revision		0.0%	0.0%
Basic EPS	10.4	13.6	14.9
EPS growth (%)	12%	28%	10%
DPS (sen)	3.8	7.0	7.5
Basic PER (x)	20.7	15.8	14.4
BVPS (RM)	0.45	0.52	0.59
Net Gearing (x)	n.c.	n.c.	n.c.
Dividend Yield (%)	1.8%	3.3%	3.5%

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Results Highlight						
	1Q18	4Q17	QoQ	1Q17	YoY	
FYE Dec (RM'm)						
Turnover	529.2	748.2	-29%	419.5	26%	
EBITDA	42.7	38.6	11%	41.4	3%	
Depreciation	0.0	0.0	n.m.	0.0	n.m.	
EBIT	42.7	38.6	11%	41.4	3%	
Interest inc/(exp)	1.0	3.6	-73%	2.1	-54%	
Associates	0.0	2.2	n.m.	0.0	n.m.	
Exceptional items	0.0	-2.9	n.m.	0.0	n.m.	
Forex gain/(loss)	0.0	2.7	n.m.	0.7	n.m.	
Pretax profit	43.7	44.2	-1%	44.2	-1%	
Taxation	-7.9	-12.0	-35%	-9.5	-17%	
Deferred tax	0.0	0.0	n.m.	0.0	n.m.	
Profit after tax	35.8	32.1	12%	34.6	3%	
Minority interest	0.0	-0.3	-92%	0.0	-308%	
PATAMI	35.8	31.8	13%	34.7	3%	
Core PATAMI	35.8	32.0	12%	34.0	5%	
EBIT margin	8%	5%		10%		
Pretax margin	8%	6%		11%		
CNP margin	7%	4%		8%		
EPS (sen)	2.5	2.6		2.5		
Core EPS(sen)	2.5	2.6		1.8		
BV/share (RM)	0.4	0.4		0.4		
Net gearing (x)	-0.6	-0.6		-0.7		
Effective tax	18%	27%		22%		

Source: Company, Kenanga Research

Segmental Breakdown						
Turnover Segmentation	1Q18	4Q17	QoQ	1Q17	YoY	
Construction	492.1	721.7	-32%	350.7	40%	
Pre-cast	37.1	26.4	41%	68.8	-46%	
Total	529.2	748.2	-29%	419.5	26%	
Construction	40.1	41.2	-3%	28.4	41%	
Pre-cast	3.6	3.0	19%	15.8	-77%	
Total	43.7	44.2	-1%	44.2	-1%	
Pre-tax margins						
Construction	8%	6%		8%		
Pre-cast	10%	11%		23%		

Source: Company, Kenanga Research

Sum-of-parts valuation	
15x FY19E PER on existing business (RM m)	2891.6
50% of FY19E cash pile (RM m)	210.2
Fair Value (RM m)	3101.8
Shares Outstanding (m)	1292.9
Target Price (RM)	2.40
Implied FY19E PER (x)	16.1

Source: Kenanga Research

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Peer Comparison

CORE COVERAGE																
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)		
EVERSENDAI CORP BHD	0.995	777	14.2	10.8	11.1	2%	8%	0.8	86.5	78.4	76.7	-9%	-2%	0.740	Underperform	15.0
GAMUDA BHD	4.25	10466	19.9	14.9	13.2	3%	12%	1.5	602.1	804.3	909.9	34%	13%	5.65	Outperform	-14.3
IJM CORP BHD	2.04	7398	13.7	15.9	14.4	3%	5%	0.8	539.1	462.9	511.9	-14%	11%	3.35	Outperform	-33.1
KIMLUN CORP BHD	1.81	580	9.1	7.1	6.4	4%	13%	0.9	70.0	81.6	90.3	17%	11%	2.55	Outperform	-18.5
MUHIBBAH ENGINEERING (M) BHD	3.03	1455	11.8	10.7	10.1	2%	12%	1.3	131.6	136.5	143.7	4%	5%	3.55	Outperform	6.7
HOCK SENG LEE BERHAD	1.45	797	17.1	11.5	10.2	2%	9%	1.0	46.6	69.1	77.9	48%	13%	1.40	Market Perform	1.4
WCT HOLDINGS BHD	0.81	1140	12.7	9.9	8.6	0%	5%	0.5	114.4	146.9	168.3	28%	15%	1.90	Outperform	-50.0
MITRAJAYA HOLDINGS BHD [^]	0.551	519	7.0	4.7	4.5	4%	15%	0.6	70.6	104.9	109.1	49%	4%	0.90	Outperform	-32.9
SUNWAY CONSTRUCTION GROUP	2.15	2778	20.7	15.8	14.4	3%	26%	4.1	137.8	176.0	192.8	28%	10%	2.40	Outperform	-14.3
KERJAYA PROSPEK GROUP BHD	1.66	2062	16.6	13.5	12.4	2%	38%	2.3	124.5	152.9	166.1	23%	9%	1.55	Market Perform	-10.0
GEORGE KENT (MALAYSIA) BHD	1.62	912	7.3	6.5	6.2	6%	21%	1.4	124.4	141.0	147.2	13%	4%	3.65	Market Perform	-53.8
<i>Average</i>			13.6	11.0	10.1											
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	0.70	413	-1.5	10.1	7.4	N.A.	N.A.	N.A.	-264.9	38.5	52.9	-115%	37%	n.a.	Not Rated	-24.7
PROTASCO	0.67	332	6.4	5.7	5.5	8%	14%	0.8	51.8	58.5	60.1	13%	3%	1.52	Trading Buy	-25.6
PINTARAS JAYA	3.10	514	28.5	12.0	10.0	6%	13%	1.6	17.8	42.2	50.6	137%	20%	4.2	Trading Buy	-16.7
GABUNGAN AQRS	0.94	437	16.9	10.3	4.9	3%	11%	1.1	22.6	37.2	77.9	65%	109%	1.6	Not Rated	-51.6
GADANG HOLDINGS	0.79	519	2.7	2.9	2.8	3%	27%	0.8	94.2	86.8	90.8	-8%	5%	2.44	Not Rated	-29.3
AZRB	0.41	215	7.7	3.6	2.9	N.A.	14%	0.5	27.2	57.4	73	111%	27%	1.35	Trading Buy	-57.6
TRC SYNERGY	0.54	257	8.6	7.8	9.8	4%	8%	0.6	29.9	32.9	26.3	10%	-20%	n.a.	Not Rated	-15.1
BINA PURI	0.34	93	88.9	6.0	6.0	N.A.	N.A.	N.A.	1	14.9	14.9	1390%	0%	n.a.	Not Rated	0.0
PESONA	0.30	208	10.4	5.9	4.3	4%	20%	1.2	20	35.3	48.5	77%	37%	0.485	Take Profit	-33.3
JAKS	1.50	819	1.0	11.5	8.3	0%	9%	1.1	736	61.933	85.433	-92%	38%	1.54	Not Rated	0.7
<i>Average</i>	0.70	413	-1.5	10.1	7.4	N.A.	N.A.	N.A.	-264.9	38.5	52.9	-115%	37%	n.a.	Not Rated	-24.7

[^]Ex-all basis

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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