

17 August 2018

Sunway Construction Group

1H18 Below Expectations

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1H18 CNP of RM68.5m is below our/consensus expectations at 39%/41% due to: (i) lower-than-expected construction billings, and (ii) its relatively weak pre-cast division due to stiff competition and high steel prices. 3.5 sen dividend was declared as expected. Lowered FY18-19E CNP by 15-9%, respectively. Downgrade to UNDERPERFORM with a lower TP of RM1.80 (previously, MP, TP: RM1.95).

Below expectations. 1H18 CNP of RM68.5m came in below our and consensus expectations at 39% and 41%, respectively. The shortfall in our/consensus expectations could stem from: (i) lower-than-expected construction billings, and (ii) its pre-cast division which performance had been relatively weak due to stiff competition and high steel prices. 3.5 sen dividend was declared as expected, hitting 50% of our full-year estimates.

Results highlight. For 1H18, SUNCON registered decent revenue growth of 28%, YoY, mainly driven by its construction division. However, 1H18 CNP growth was flattish at only 1% as they experienced margin compression where pre-tax margin fell from 10% to 8%, coupled with the higher effective tax rate of 19% (+1ppt). The contraction in margin is mainly from its pre-cast division, which saw pre-tax margin compressed from 22% to 8% due to higher steel bar prices compared to tender price as steel content contributed to approximately 30% of its total cost coupled with stiff competition on pricing. QoQ, 2Q18 CNP was also flattish due to similar reasons mentioned above.

Outlook. Due to the uncertainty in the construction sector, management reviewed their order-book replenishment target from RM2.0b to RM1.5b, which we believe is reasonable as we expect minimal or no infrastructure project awards to be rolled out this year due to the project reviews undertaken by the government. To date, SUNCON has secured RM854.0m worth of replenishment where the bulk is from its parent SUNWAY. Positively, its outstanding order-book of RM5.8b still provides SUNCON 3-year visibility. In the medium term, SUNCON might consider participating in overseas projects, i.e. Myanmar and India.

Earnings maintained. Post results, we downgraded our FY18-19E CNP by 15-9%, respectively, after (i) reducing our FY18E order-book replenishment assumptions from RM2.0b to RM1.5b in line with the management's new target, and (ii) lowering our margin assumptions for its pre-cast division.

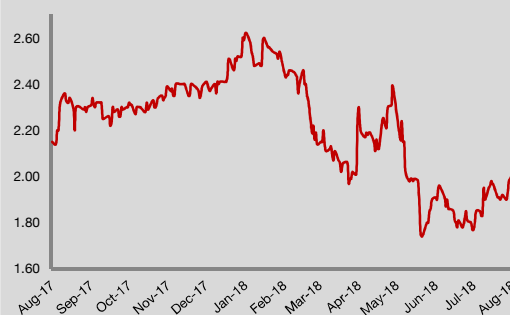
Downgrade to UNDERPERFORM. Following our downward earnings revision, we also downgraded SUNCON to UNDERPERFORM with a lower SoP-driven Target Price of RM1.80 (previously, MP, TP: RM1.95). Despite our downgrade due to earnings revision, we still like SUNCON for its strong parentage, which could help them weather through the challenging times, especially when there is a lull in infrastructure projects in the country. We believe that should the government restart most of the infrastructure projects SUNCON would be one of the first few to benefit owing to their strong track record in the Malaysia construction scene. At our TP of RM1.80, it implies FY19E PER of 13.3x which is below its 3-year -1SD levels. Our ascribed multiple of 12.0x is in line with the range of 12.0-14.0x applied to the big boys.

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

UNDERPERFORM ↓

Price : **RM2.02**
Target Price : **RM1.80** ↓

Share Price Performance



KLCI	1,777.27
YTD KLCI chg	-1.1%
YTD stock price chg	-19.5%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	SCGB MK Equity
Market Cap (RM m)	2,610.3
Shares Outstanding	1,292.2
52-week range (H)	2.64
52-week range (L)	1.72
3-mth avg daily vol:	1,348,434
Free Float	28%
Beta	1.0

Major Shareholders

Sunway Holdings Sdn Bhd	54.4%
Sungei Wang Corp Sdn Bhd	10.1%
True Paragon Sdn Bhd	7.3%

Summary Earnings Table

FYE Dec (RM m)	2017A	2018E	2019E
Turnover	2076	2323	2630
EBIT	165	195	230
PBT	174	200	234
Net Profit	138	150	176
Core PATAMI	134	150	176
Consensus (NP)	n.a.	169	187
Earnings Revision	n.a.	-15%	-9%
Core EPS (sen)	10.3	11.5	13.5
Core EPS growth (%)	14%	12%	17%
NDPS (sen)	7.0	7.0	7.4
NTA per Share (RM)	0.4	0.5	0.5
Price to NTA (x)	4.7	4.3	3.8
PER (x)	19.6	17.5	14.9
Debt-to-Equity ratio (x)	0.2	0.2	0.2
Return on Asset (%)	7%	7%	7%
Return on Equity (%)	25%	24%	25%
Net Div. Yield (%)	3%	3%	4%

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Results Highlight								
FYE Dec (RM'm)	2Q18	1Q18	QoQ	2Q17	YoY	1H18	1H17	YoY
Turnover	544.3	529.2	3%	417.2	30%	1,073.5	836.8	28%
EBIT	40.3	41.2	-2%	38.7	4%	81.5	80.1	2%
Interest inc/(exp)	3.2	1.0	226%	1.0	202%	4.1	3.2	31%
Associates	0.0	0.0	n.m.	0.0	n.m.	0.0	0.0	n.m.
Exceptional items	1.8	1.8	0%	2.9	-38%	3.6	2.9	24%
Forex gain/(loss)	-0.1	-0.3	-67%	0.1	-200%	-0.4	0.8	-150%
Pretax profit	45.2	43.7	3%	42.8	6%	88.9	86.9	2%
Taxation	-9.3	-7.9	18%	-6.1	53%	-17.2	-15.6	10%
Deferred tax	0.0	0.0	n.m.	0.0	n.m.	0.0	0.0	n.m.
Profit after tax	35.9	35.8	0%	36.7	-2%	71.7	71.3	1%
Minority interest	0.0	0.0	-22%	-0.1	-68%	0.0	-0.1	-8%
PATAMI	35.9	35.8	0%	36.6	-2%	71.7	71.3	1%
Core PATAMI	34.2	34.3	0%	33.6	2%	68.5	67.6	1%
EBIT margin	7%	8%		9%		8%	10%	
Pretax margin	8%	8%		10%		8%	10%	
CNP margin	6%	6%		8%		6%	8%	
EPS (sen)	2.8	2.8		2.8		5.5	5.5	
Core EPS(sen)	2.6	2.7		2.6		5.3	5.2	
BV/share (RM)	0.4	0.5		0.4		0.4	0.4	
Net gearing (x)	-0.8	-0.8		-0.7		-0.8	-0.7	
Effective tax	21%	18%		14%		19%	18%	

Source: Company, Kenanga Research

Segmental Breakdown								
Turnover Segmentation	2Q18	1Q18	QoQ	2Q17	YoY	1H18	1H17	YoY
Construction	511.6	492.1	4%	387.1	32%	1,003.7	737.9	36%
Pre-cast	32.6	37.1	-12%	30.1	8%	69.8	98.9	-29%
Total	544.3	529.2	3%	417.2	30%	1,073.5	836.8	28%
Pre-tax profit								
Construction	42.9	40.1	7%	36.4	18%	83.0	64.8	28%
Pre-cast	2.3	3.6	-37%	6.3	-64%	5.8	22.1	-74%
Total	45.2	43.7	3%	42.8	6%	88.9	86.9	2%
Pre-tax margins								
Construction	8%	8%		9%		8%	9%	
Pre-cast	7%	10%		21%		8%	22%	

Source: Company, Kenanga Research

Sum-of-parts valuation	
12x FY19E PER on existing business (RM m)	2107.5
50% of FY19E cash pile (RM m)	225.1
Fair Value (RM m)	2332.6
Shares Outstanding (m)	1292.9
Target Price (RM)	1.80
Implied FY19E PER (x)	13.3

Source: Kenanga Research

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Peer Comparison

Name	Last Price (RM)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)	Net Div Yld (%)	Target Price (RM)	Rating
					1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.			
STOCKS UNDER COVERAGE																	
EVERSENDAI CORP BHD	0.850	663.8	N	12/2018	1.8%	-5.7%	14.1%	-2.2%	9.6	8.4	8.6	0.7	0.6	7.8%	2.1%	0.720	UP
GAMUDA BHD	3.63	8,959.0	Y	07/2018	20.0%	5.0%	14.9%	7.4%	12.8	11.1	10.4	1.2	1.1	10.4%	3.8%	4.30	OP
GEORGE KENT (MALAYSIA) BHD	1.41	786.4	Y	01/2019	21.8%	6.4%	13.3%	4.4%	4.3	3.8	3.6	1.3	1.1	32.0%	6.2%	2.20	OP
HOCK SENG LEE BERHAD	1.45	796.8	Y	12/2018	18.0%	18.6%	31.4%	17.7%	17.1	13.0	11.1	1.1	1.0	8.1%	1.5%	1.30	UP
IJM CORP BHD	1.95	7,080.3	Y	03/2019	11.9%	1.8%	16.3%	8.0%	17.1	14.7	13.6	0.7	0.7	4.9%	2.7%	2.20	OP
KERJAYA PROSPEK GROUP BHD	1.51	1,875.4	Y	12/2018	32.9%	7.9%	22.8%	8.6%	6.8	5.6	5.1	1.0	0.9	17.6%	2.1%	1.60	MP
KIMLUN CORP BHD	1.51	501.1	Y	12/2018	-3.2%	9.0%	-0.3%	2.9%	6.7	6.7	6.5	0.8	0.7	11.3%	3.6%	1.80	OP
MITRAJAYA HOLDINGS BHD	0.535	479.1	Y	12/2018	-3.6%	-6.6%	19.9%	-12.9%	7.1	5.9	6.8	0.7	0.6	10.7%	3.7%	0.475	MP
MUHIBBAH ENGINEERING (M) BHD	3.10	1,490.6	Y	12/2018	-24.4%	5.7%	28.2%	6.7%	12.1	9.5	8.9	1.5	1.3	14.8%	2.6%	4.15	OP
SUNWAY CONSTRUCTION GROUP BHD	2.02	2,610.3	Y	12/2018	11.9%	13.2%	11.6%	17.4%	19.6	17.5	14.9	4.7	4.3	25.6%	3.5%	1.80	UP
WCT HOLDINGS BHD	0.965	1,335.1	Y	12/2018	20.8%	13.9%	28.4%	14.6%	14.1	11.0	9.6	0.6	0.5	5.0%	0.0%	1.35	OP
Simple Average					9.8%	6.3%	18.3%	6.6%	11.6	9.7	9.0	1.3	1.2	13.5%	2.9%		
CONSENSUS ESTIMATES																	
AHMAD ZAKI RESOURCES BERHAD	0.525	279.1	Y	12/2018	N.A.	N.A.	N.A.	N.A.	9.6	N.A.	N.A.	0.6	N.A.	N.A.	N.A.	N.A.	N.A.
BINA PURI HOLDINGS BHD	0.255	74.7	Y	12/2018	N.A.	N.A.	N.A.	N.A.	24.1	N.A.	N.A.	0.3	N.A.	N.A.	N.A.	N.A.	N.A.
GABUNGAN AQRS BHD	1.35	644.8	Y	12/2018	74.5%	17.0%	49.7%	31.1%	13.4	9.0	0.0	1.3	1.6	15.9%	3.3%	1.89	BUY
GADANG HOLDINGS BHD	0.745	493.0	Y	05/2019	26.0%	17.0%	7.8%	-0.1%	5.2	4.8	0.0	0.7	0.6	13.7%	4.0%	1.00	BUY
JAKS RESOURCES BHD	1.01	551.4	Y	12/2018	90.5%	-22.4%	-38.5%	6.7%	4.4	7.1	0.0	0.7	0.7	10.7%	0.0%	1.60	BUY
MUDAJAYA GROUP BHD	0.530	312.6	Y	12/2018	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	0.5	N.A.	N.A.	N.A.	N.A.	N.A.
PINTARAS JAYA BHD	2.60	431.2	Y	06/2018	-41.5%	49.6%	-47.4%	43.3%	11.9	22.6	0.1	1.3	1.4	5.8%	7.7%	2.57	NEUTRAL
PESONA METRO HOLDINGS	0.290	201.5	Y	12/2018	27.4%	2.5%	-3.0%	37.6%	10.5	10.8	0.0	1.2	1.0	10.5%	4.5%	0.285	SELL
PROTASCO BHD	0.525	259.8	Y	12/2018	3.8%	11.1%	10.6%	16.3%	9.3	8.4	0.0	0.7	0.6	7.7%	6.7%	0.537	SELL
TRC SYNERGY BHD	0.515	247.5	Y	12/2018	17.2%	15.4%	16.7%	29.6%	8.2	7.0	0.0	0.6	0.6	8.4%	3.9%	0.515	NEUTRAL

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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