

14 November 2018

Sunway Construction Group

Bags Sunway Velocity 2 Job

By **Adrian Ng** | adrian.ng@kenanga.com.my

We are neutral on the win as it is well within our order-book replenishment assumptions of RM1.5b. No changes to FY18-19E earnings estimates at this juncture, as we look to review our numbers in the upcoming 9M18 results that is slated to be released on 19th November 2018. Maintain **MARKET PERFORM** with an unchanged SoP-driven Target Price of RM1.65.

Bags Sunway Velocity 2 job. Yesterday, SUNCON announced that they had won a construction job from SunwayVelocity Two Sdn Bhd amounting to RM352.1m. The job scope encompasses the construction works of 2 blocks of service apartment of 53 storeys, office tower of 28 storeys and podium car park. The project is expected to complete in 37 months upon commencement of work.

Neutral. We are neutral with the win as it is part of our FY18E order-book replenishment of RM1.5b which we scaled down from RM2.0b during its 1H18 results inline with management's revision in target. To date, SUNCON has won RM1.35b worth of jobs (inclusive of pre-cast jobs), bringing its outstanding order-book to c.RM6.2b. It's year-to-date win of RM1.35b represents 90% of our full-year assumption of RM1.5b. Assuming pre-tax margin of 8%, this particular contract would contribute c.RM6.8m to its bottom-line for FY18-19.

Outlook. The sector outlook remains gloomy due to the recent review of government spending on infrastructure jobs. We believe strong players like SUNCON are able to weather through these challenging times given their strong parent (SUNWAY) support. Nevertheless, we note that there could be further earnings risks to our and consensus estimates due to their huge exposure to LRT3.

Earnings maintained. We make no changes to our FY18-19E earnings for now, but might look to review our numbers in the upcoming results season.

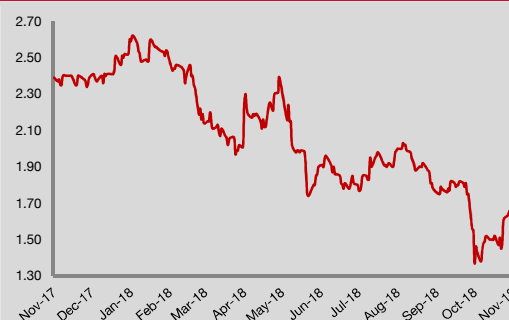
Maintain MARKET PERFORM. We reiterate MARKET PERFORM on the stock with an unchanged SoP-driven Target Price of RM1.65, which we ascribed 11.0x FY19E PER to its earnings. While we remain confident with SUNCON's competitiveness in the market, the recent review of LRT3 by the government might see the progress recognition timeline being extended, which would result in a downward revision in earnings due to timing issue, as we would need to stretch out our earnings recognition for the particular project. Nonetheless, we are only looking to review our numbers in the upcoming results.

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

MARKET PERFORM ↔

Price : RM1.57
Target Price : RM1.65 ↔

Share Price Performance



KLCI	1,687.57
YTD KLCI chg	-6.1%
YTD stock price chg	-37.5%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	SCGB MK Equity
Market Cap (RM m)	2,028.8
Shares Outstanding	1,292.2
52-week range (H)	2.64
52-week range (L)	1.30
3-mth avg daily vol:	1,173,377
Free Float	28%
Beta	1.3

Major Shareholders

Sunway Holdings Sdn Bhd	54.4%
Sungei Way Corp Sdn Bhd	10.1%
Employee Provident Fund	7.4%

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.	157	174
Earnings Revision	n.a.	0%	0%
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)	3.7	3.3	2.9
PER (x)	15.2	13.6	11.6
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 (%)	4.4%	4.4%	4.7%

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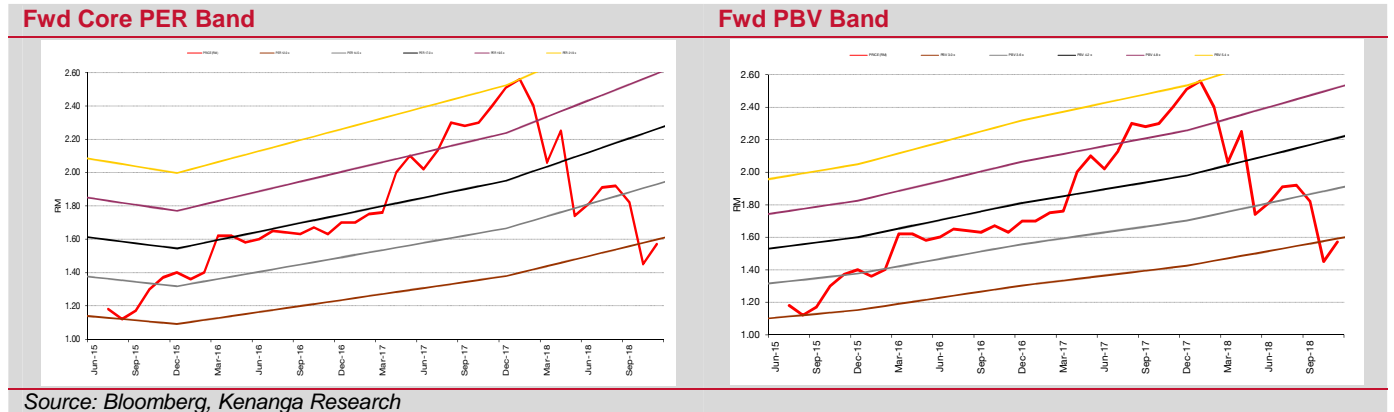
Income Statement						Financial Data & Ratios					
FY Dec (RM'm)	2015A	2016A	2017A	2018E	2019E	FY Dec (RM'm)	2015A	2016A	2017A	2018E	2019E
Revenue	1917	1789	2076	2323	2630	Growth (%)					
EBITDA	177	188	202	235	266	Revenue	2%	-7%	16%	12%	13%
Depreciation	-42	-39	-38	-40	-36	EBITDA	113%	106%	108%	116%	113%
EBIT	135	149	165	195	230	EBIT	20%	10%	10%	18%	18%
Interest Expense	3	4	5	5	5	Pre-tax Income	1%	9%	13%	15%	17%
Associates/JV	0	0	0	0	0	Net Income	-22%	-3%	12%	9%	17%
Exceptional Items	9	6	4	0	0	Core Net Income	-22%	-7%	14%	12%	17%
PBT	141	154	174	200	234	Profitability (%)					
Taxation	-13	-30	-36	-50	-59	EBITDA Margin	9%	11%	10%	10%	10%
MI/Perps	-1	0	0	0	0	EBIT Margin	7%	8%	8%	8%	9%
Net Profit	127	124	138	150	176	PBT Margin	7%	9%	8%	9%	9%
Core Net Profit	127	118	134	150	176	Net Margin	7%	7%	7%	6%	7%
						Core Net Margin	7%	7%	6%	6%	7%
						Effective Tax Rate	-9%	-20%	-21%	-25%	-25%
						ROE	28%	25%	25%	24%	25%
						ROA	9%	7%	7%	7%	7%
						DuPont Analysis					
						Net margin (%)	7%	7%	7%	6%	7%
						Assets Turnover (x)	1.4	1.1	1.1	1.1	1.1
						Leverage Factor (x)	3.1	3.2	3.4	3.5	3.4
						ROE (%)	28%	25%	25%	24%	25%
						Leverage					
						Debt/Asset (x)	0.1	0.1	0.1	0.1	0.1
						Debt/Equity (x)	0.3	0.3	0.2	0.2	0.2
						Net Debt/(Cash)	-253.6	-329.3	-352.6	-440.9	-450.2
						Net Debt/Equity (x)	-0.6	-0.7	-0.6	-0.7	-0.7
						Valuations					
						Core EPS (sen)	9.8	9.1	10.3	11.5	13.5
						FD Core EPS (sen)	9.8	9.1	10.3	11.5	13.5
						NDPS (sen)	5.4	6.5	7.0	7.0	7.4
						BV/share (RM)	0.35	0.38	0.43	0.47	0.53
						Core PER (x)	16.0	17.3	15.2	13.6	11.6
						FD Core PER (x)	16.0	17.3	15.2	13.6	11.6
						Net Div. Yield (%)	3.4%	4.1%	4.4%	4.4%	4.7%
						PBV (x)	4.52	4.13	3.68	3.33	2.95
						EV/EBITDA (x)	9.01	8.49	7.89	6.80	6.00

Source: Kenanga Research

Sum-of-parts valuation	
11x FY19E PER on existing business (RM m)	1931.8
50% of FY19E cash pile (RM m)	225.1
Fair Value (RM m)	2157.0
Shares Outstanding (m)	1292.9
Target Price (RM)	1.65
Implied FY19E PER (x)	12.3

Source: Kenanga Research

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Source: Bloomberg, 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.	1-Yr. Fwd.		
STOCKS UNDER COVERAGE																	
EVERSENDAL CORP BHD	0.695	542.8	N	12/2018	-4.1%	-4.3%	2.1%	1.0%	8.6	8.4	8.4	0.9	0.5	8.0%	0.0%	0.665	UP
GAMUDA BHD	2.36	5,824.6	Y	07/2019	-20.8%	0.3%	-27.7%	1.2%	7.1	9.8	9.7	0.8	0.7	7.7%	5.1%	3.35	OP
GEORGE KENT (MALAYSIA) BHD	1.12	619.9	Y	01/2019	-5.2%	4.2%	-35.1%	7.0%	4.6	7.1	6.7	1.3	1.2	17.5%	4.9%	1.20	MP
HOCK SENG LEE BERHAD	1.33	730.9	Y	12/2018	18.0%	18.6%	31.4%	17.7%	15.7	12.0	10.2	1.0	0.9	8.1%	1.7%	1.30	MP
IJM CORP BHD	1.65	5,988.2	Y	03/2019	11.9%	3.8%	12.4%	9.7%	14.6	13.0	11.8	0.6	0.6	4.8%	3.1%	1.85	OP
KERJAYA PROSPEK GROUP BHD	1.24	1,534.7	Y	12/2018	32.9%	7.9%	16.9%	6.1%	12.4	10.6	10.0	1.9	1.7	16.8%	2.5%	1.40	OP
KIMLUN CORP BHD	1.20	398.2	Y	12/2018	-9.5%	6.5%	-14.1%	7.4%	5.6	6.5	6.1	0.6	0.6	9.5%	3.8%	1.40	OP
MITRAJAYA HOLDINGS BHD	0.345	305.8	Y	12/2018	-16.4%	-9.9%	-28.5%	7.4%	4.4	6.1	5.7	0.5	0.4	6.8%	5.8%	0.360	MP
MUHIBBAH ENGINEERING (M) BHD	2.81	1,353.1	Y	12/2018	-24.4%	5.7%	28.2%	6.7%	11.0	8.6	8.0	1.3	1.2	14.8%	2.9%	4.15	OP
SUNWAY CONSTRUCTION GROUP BH	1.57	2,028.8	Y	12/2018	11.9%	13.2%	11.6%	17.4%	15.2	13.6	11.6	3.7	3.3	25.6%	4.4%	1.65	MP
WCT HOLDINGS BHD	0.815	1,125.2	Y	12/2018	20.8%	13.9%	28.4%	14.6%	12.8	9.9	8.7	0.5	0.5	5.0%	0.0%	1.20	OP
Simple Average					1.4%	5.5%	2.3%	8.7%	10.2	9.6	8.8	1.2	1.1	11.3%	3.1%		
CONSENSUS ESTIMATES																	
AHMAD ZAKI RESOURCES BERHAD	0.360	191.4	Y	12/2018	N.A.	N.A.	N.A.	N.A.	6.6	N.A.	N.A.	0.4	N.A.	N.A.	N.A.	N.A.	SELL
BINA PURI HOLDINGS BHD	0.195	66.1	Y	12/2018	N.A.	N.A.	N.A.	N.A.	21.3	N.A.	N.A.	0.2	N.A.	N.A.	N.A.	N.A.	SELL
GABUNGAN AQRS BHD	0.940	448.9	Y	12/2018	64.4%	19.4%	48.0%	30.5%	9.3	6.3	0.0	0.9	1.1	16.2%	4.8%	1.73	BUY
GADANG HOLDINGS BHD	0.665	440.0	Y	05/2019	12.7%	11.4%	-4.3%	-2.9%	4.5	4.7	0.0	0.6	0.6	10.5%	4.2%	0.773	BUY
JAKS RESOURCES BHD	0.905	494.1	Y	12/2018	90.5%	-17.2%	-41.3%	8.7%	3.9	6.6	0.0	0.6	0.6	10.5%	0.0%	1.42	BUY
MUDAJAYA GROUP BHD	0.390	230.1	Y	12/2018	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	0.4	N.A.	N.A.	N.A.	N.A.	SELL
PINTARAS JAYA BHD	2.35	389.8	Y	06/2019	68.1%	26.5%	73.3%	25.1%	25.1	14.5	0.1	1.2	1.2	8.2%	8.6%	2.45	NEUTRAL
PESONA METRO HOLDINGS	0.235	163.3	Y	12/2018	22.0%	19.3%	-25.9%	74.3%	8.5	11.5	0.0	0.9	0.8	8.3%	5.5%	0.300	BUY
PROTASCO BHD	0.350	173.2	Y	12/2018	-0.2%	8.4%	-35.8%	54.0%	6.2	9.6	0.0	0.5	0.4	4.5%	6.0%	0.423	SELL
TRC SYNERGY BHD	0.480	230.6	Y	12/2018	10.0%	15.2%	-7.0%	35.9%	7.6	8.2	0.0	0.6	0.5	6.7%	4.2%	0.490	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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KENANGA INVESTMENT BANK BERHAD (15678-H)
Level 12, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia
Telephone: (603) 2172 0880 Website: www.kenanga.com.my E-mail: research@kenanga.com.my



Chan Ken Yew
Head of Research