

20 August 2019

# Sunway Construction Group

## Within Our Forecast, Below Consensus

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**1H19 CNP of RM61.4m makes up 50%/42% of our/consensus full-year expectations. It came in within our, but below consensus, expectations, Market consensus could have been slightly optimistic on margin assumptions or billings progress. A 3.5 sen dividend declared, as expected. No changes to FY19-20E numbers. Maintain UP with an unchanged SoP-driven TP of RM1.45.**

**Within our forecast, below consensus.** 1H19 CNP of RM61.4m makes up 50%/42% of our/consensus full-year expectations. It came in within our forecast but below consensus. We believe the market consensus could have been slightly optimistic on margin assumptions or billings progress. A 3.5 sen dividend declared, as expected.

**Results highlight.** 1H19 CNP decreased by 10%, YoY, dragged by lower revenue (-18%). The decrease in revenue stemmed from both the construction (-19%), and pre-cast (-4%) divisions, due to: (i) construction performance bogged down by slower work progress from LRT3, (ii) pre-cast division affected by timing as bulk of jobs secured previously will only commence on a later date which we presume to be in 2H19, and (iii) higher effective tax of 21% (+2ppt). **QoQ**, 2Q19 CNP improved 11%, thanks to the increase in net financing income (+85%) coupled with a lower effective tax rate of 20% (-1ppt).

**Outlook.** We remain unexcited with the near-term prospects in the construction sector, despite the revival of ECRL. However, management is actively venturing overseas with an active tender-book of RM12.5b, of which we believe they stand a good winning chance in the ASEAN market, thanks to their strong execution track record. Nonetheless, its outstanding order-book of RM5.8b provides 2.5 years of visibility.

**Earnings review.** Post results, no changes to our FY19-20E earnings.

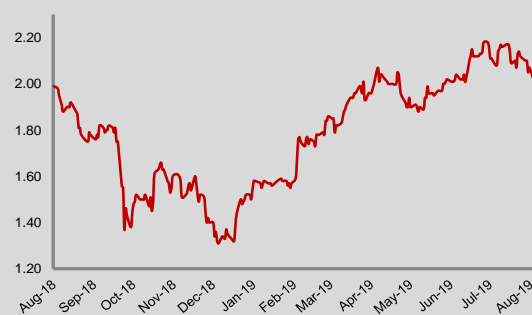
**Maintain UNDERPERFORM.** We reiterate our UNDERPERFORM call on SUNCON with an unchanged SoP-driven Target Price of RM1.45 of which we ascribed 11.0x PER to its FY20E Core EPS. However, our SoP-driven TP of RM1.45 which includes cash implies FY20 PER of 12.0x, which is higher than our universe's ascribed valuation range of 6-11.0x for the sector, and close to KLCON's 10-year average of 13.3x.

**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 :** **RM1.45** ↔

### Share Price Performance



KLCI	1,596.45
YTD KLCI chg	-5.6%
YTD stock price chg	51.9%

### Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	SCGB MK EQUITY
Market Cap (RM m)	2,604.5
Shares Outstanding	1,289.4
52-week range (H)	2.20
52-week range (L)	1.30
3-mth avg daily vol:	637,700
Free Float	27%
Beta	1.2

### Major Shareholders

Sunway Holdings Sdn Bhd	54.6%
Sungei Way Corp Sdn Bhd	10.1%
Employees Provident Fund Board	8.4%

### Summary Earnings Table

FYE Dec (RM m)	2018A	2019E	2020E
Turnover	2257	2119	2693
EBIT	175	125	170
PBT	183	164	209
<b>Net Profit</b>	<b>145</b>	<b>123</b>	<b>157</b>
<b>Core PATAMI</b>	<b>140</b>	<b>123</b>	<b>157</b>
Consensus (NP)	N.A.	148	163
Earnings Revision	N.A.	0%	0%
Core EPS (sen)	10.8	9.5	12.1
Core EPS growth (%)	4%	-12%	28%
NDPS (sen)	7.0	5.5	7.3
NTA per Share (RM)	0.5	0.5	0.6
Price to NTA (x)	4.3	4.0	3.6
PER (x)	18.7	21.3	16.7
Debt-to-Equity ratio (x)	0.2	0.2	0.2
Return on Asset (%)	7%	6%	7%
Return on Equity (%)	24%	19%	22%
Net Div. Yield (%)	3.4%	2.7%	3.6%

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**Results Highlight**

	2Q19	1Q19	QoQ	2Q19	YoY	1H19	1H18	YoY
<b>FYE Dec (RM'm)</b>								
<b>Turnover</b>	<b>440.2</b>	<b>440.0</b>	<b>0%</b>	<b>440.2</b>	<b>0%</b>	<b>880.2</b>	<b>1,073.5</b>	<b>-18%</b>
<b>EBIT</b>	<b>36.7</b>	<b>36.3</b>	<b>1%</b>	<b>36.7</b>	<b>0%</b>	<b>73.0</b>	<b>81.4</b>	<b>-10%</b>
Interest inc/(exp)	3.6	1.9	85%	3.6	0%	5.5	3.7	51%
Associates/JV	0.0	0.0	n.m.	0.0	n.m.	0.0	0.0	n.m.
Exceptional items	0.8	2.0	-60%	0.8	0%	2.8	3.6	-22%
Forex gain/(loss)	0.1	-0.1	n.m.	0.1	0%	0.0	0.0	n.m.
<b>Pretax profit</b>	<b>41.2</b>	<b>40.1</b>	<b>3%</b>	<b>41.2</b>	<b>0%</b>	<b>81.3</b>	<b>88.7</b>	<b>-8%</b>
Taxation	-8.2	-8.5	-3%	-8.2	0%	-16.7	-17.2	-3%
Deferred tax	0.0	0.0	n.m.	0.0	n.m.	0.0	0.0	n.m.
<b>Profit after tax</b>	<b>33.0</b>	<b>31.6</b>	<b>4%</b>	<b>33.0</b>	<b>0%</b>	<b>64.6</b>	<b>71.5</b>	<b>-10%</b>
Minority interest	0.2	-0.6	n.m.	0.2	0%	-0.4	0.0	n.m.
<b>PATAMI</b>	<b>33.2</b>	<b>31.0</b>	<b>7%</b>	<b>33.2</b>	<b>0%</b>	<b>64.2</b>	<b>71.5</b>	<b>-10%</b>
<b>Core PATAMI</b>	<b>32.3</b>	<b>29.1</b>	<b>11%</b>	<b>32.3</b>	<b>0%</b>	<b>61.4</b>	<b>67.9</b>	<b>-10%</b>
DPS (sen)	3.5	0.0		3.5		3.5	3.5	
EBIT margin	8%	8%		8%		8%	8%	
Pretax margin	9%	9%		9%		9%	8%	
NP margin	9%	9%		9%		9%	8%	
CNP margin	7%	7%		7%		7%	6%	
EPS (sen)	2.6	2.4		2.6		5.0	5.5	
Core EPS(sen)	2.5	2.3		2.5		4.7	5.3	
BV/share (RM)	0.5	0.5		0.5		0.5	0.4	
Net gearing (x)	-0.7	-0.7		-0.7		-0.7	-0.8	
Effective tax	20%	21%		20%		21%	19%	

Source: Company, Kenanga Research

**Segmental Breakdown**

	2Q19	1Q19	QoQ	2Q19	YoY	1H19	1H18	YoY
<b>External Revenue</b>								
Construction	406.3	407.0	0%	406.3	0%	813.3	1,003.7	-19%
Pre-cast	33.9	33.0	3%	33.9	0%	66.9	69.8	-4%
<b>Pre-tax Segmentation</b>								
Construction	41.1	40.1	3%	41.1	0%	81.2	82.9	-2%
Pre-cast	0.1	0.1	-18%	0.1	0%	0.1	5.8	-98%
<b>Pre-tax margins</b>								
Construction	10%	10%		10%		10%	8%	
Pre-cast	0%	0%		0%		0%	8%	

Source: Company, Kenanga Research

**Sum-of-parts valuation**

SoP	Valuation/Discount	Value (RM'm)
FY20E Earnings	11.0	1726.3
FY20E cash pile (RM m)	55%	181.4
<b>Fair Value (RM m)</b>		<b>1907.7</b>
Shares Outstanding (m)		1297.9
<b>Target Price (RM)</b>		<b>1.45</b>
<b>Implied FY20E PER (x)</b>		<b>12.0</b>

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.			
<b>STOCKS UNDER COVERAGE</b>																	
GAMUDA BHD	3.65	9,024.0	Y	07/2019	-20.8%	0.3%	-17.1%	-13.9%	11.0	13.3	15.4	1.2	1.1	8.7%	3.3%	3.75	MP
GEORGE KENT (MALAYSIA) BHD	1.08	581.7	Y	01/2020	14.4%	-0.2%	-23.1%	38.3%	7.7	10.0	7.2	1.2	1.1	11.9%	3.3%	1.15	MP
HOCK SENG LEE BERHAD	1.38	758.3	Y	12/2019	18.7%	15.6%	31.6%	10.3%	14.1	10.7	9.7	1.0	0.9	8.5%	1.9%	1.40	MP
IJM CORP BHD	2.27	8,238.9	Y	03/2020	22.8%	2.0%	11.0%	2.2%	19.7	17.8	17.4	0.8	0.8	4.7%	2.2%	1.80	UP
KERJAYA PROSPEK GROUP BHD	1.43	1,763.0	Y	12/2019	28.3%	-4.4%	11.5%	1.9%	12.8	11.5	11.3	1.8	1.6	14.9%	2.1%	1.20	UP
KIMLUN CORP BHD	1.23	418.0	Y	12/2019	6.0%	-5.2%	-1.2%	2.5%	6.5	6.6	6.5	0.6	0.6	9.0%	3.5%	1.35	MP
MITRAJAYA HOLDINGS BHD	0.305	271.4	Y	12/2019	-4.7%	-7.3%	-40.7%	-11.7%	6.1	10.3	11.7	0.3	0.3	3.3%	4.9%	0.200	UP
MUHIBBAH ENGINEERING (M) BHD	2.61	1,261.5	Y	12/2019	-5.8%	3.8%	-2.5%	4.7%	7.8	8.0	7.6	1.1	1.0	13.4%	2.7%	3.20	OP
SUNWAY CONSTRUCTION GROUP BHD	2.02	2,604.5	Y	12/2019	-6.1%	27.1%	-12.2%	27.7%	18.7	21.3	16.7	4.3	4.0	19.4%	2.7%	1.45	UP
WCT HOLDINGS BHD	1.05	1,480.4	Y	12/2019	6.4%	14.1%	-13.8%	19.3%	11.6	13.4	11.2	0.5	0.4	3.4%	0.0%	0.815	UP
<b>Simple Average</b>	<b>5.9%</b>	<b>4.6%</b>	<b>-5.7%</b>	<b>8.1%</b>	<b>11.6</b>	<b>12.3</b>	<b>11.5</b>	<b>1.3</b>	<b>1.2</b>	<b>9.7%</b>	<b>2.7%</b>	<b>5.9%</b>	<b>4.6%</b>	<b>-5.7%</b>	<b>8.1%</b>	<b>11.6</b>	<b>12.3</b>
<b>CONSENSUS ESTIMATES</b>																	
AHMAD ZAKI RESOURCES BERHAD	0.395	236.2	Y	12/2019	N.A.	N.A.	N.A.	N.A.	16.1	N.A.	N.A.	0.5	N.A.	N.A.	N.A.	N.A.	SELL
BINA PURI HOLDINGS BHD	0.125	47.7	Y	06/2019	N.A.	N.A.	N.A.	N.A.	91.6	N.A.	N.A.	0.2	N.A.	N.A.	N.A.	N.A.	SELL
GABUNGAN AQRS BHD	1.28	631.6	Y	12/2019	23.3%	38.2%	22.9%	33.6%	10.3	8.4	0.0	1.3	1.3	15.4%	4.5%	1.86	BUY
GADANG HOLDINGS BHD	0.720	524.2	Y	05/2020	7.4%	11.6%	45.5%	12.3%	12.1	8.3	0.0	0.7	N.A.	9.5%	2.1%	0.783	SELL
JAKS RESOURCES BHD	0.765	485.6	Y	12/2019	74.4%	-48.7%	655.6%	-21.2%	32.1	4.2	0.0	0.5	0.5	12.6%	0.0%	0.750	BUY
MUDAJAYA GROUP BHD	0.270	159.3	Y	12/2019	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	0.9	N.A.	N.A.	N.A.	N.A.	SELL
PINTARAS JAYA BHD	2.73	452.8	Y	06/2019	223.5%	-1.7%	135.7%	-6.4%	29.2	12.4	0.1	1.4	1.4	11.4%	6.0%	2.56	NEUTRAL
PESONA METRO HOLDINGS	0.225	156.4	Y	12/2019	12.1%	9.5%	166.6%	13.6%	18.9	7.1	0.0	1.0	N.A.	11.7%	4.4%	0.310	BUY
PROTASCO BHD	0.265	129.0	Y	12/2019	-1.4%	7.9%	365.8%	31.2%	N.A.	9.8	0.0	0.4	0.4	3.6%	5.3%	0.240	SELL
TRC SYNERGY BHD	0.550	264.3	Y	12/2019	15.8%	23.6%	70.8%	29.9%	12.7	7.4	0.0	0.6	0.6	8.5%	5.8%	0.750	BUY

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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