

HLIB Research

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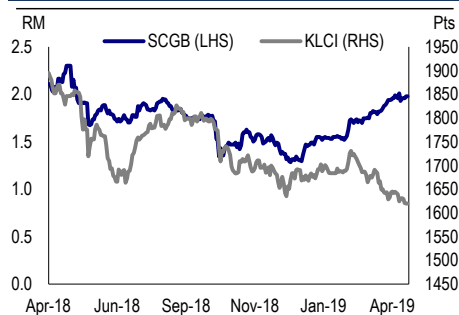
HOLD (Maintain)

Target Price:	RM1.81
Previously:	RM1.81
Current Price:	RM1.98

Capital upside	-8.6%
Dividend yield	3.3%
Expected total return	-5.3%

Sector coverage: Construction

Company description: SunCon is involved in construction and precast products.

Share price


Historical return (%)	1M	3M	12M
Absolute	7.0	25.3	-9.6
Relative	11.5	30.9	5.8

Stock information

Bloomberg ticker	SCGB MK
Bursa code	5263
Issued shares (m)	1,292
Market capitalisation (RM m)	2,559
3-mth average volume ('000)	1,156
SC Shariah compliant	Yes

Major shareholders

Sunway Berhad	64.5%
EPF	8.2%

Earnings summary

FYE (Dec)	FY18	FY19f	FY20f
PATMI - core (RM m)	145	142	152
EPS - core (sen)	11.2	11.0	11.7
P/E (x)	15.4	17.8	16.7

Sunway Construction Group

Priced to perfection

Suncon is planning to bid for LSS3 jobs (RM2bn) as EPCC contractor in the form of JV with foreign partners. Although we expect robust job flows from Sarawak in the near term, we understand that the company is cautiously evaluating tender opportunities in the state given potential low construction margin caused by overly competitive bidding. We expect the precast segment PBT margin to normalize back to 10-15% starting from 2H19 due to recovery of product pricing. Management does not expect any more contracts from its parent-co in FY19 and hence the balance to its replenishment target is expected to come from overseas contract, piling jobs and also precast orders from Singapore. Maintain forecast and HOLD rating with unchanged TP of RM1.81, based on an unchanged 16.5x PE multiple tagged to FY19 earnings.

We met up with the management of SunCon recently with the following key takeaways:

LSS3. Suncon is planning to bid for LSS3 (large scale solar) jobs (RM2bn) as EPCC contractor via JV with foreign partners that have the required experience and technical expertise. Total capacity for LSS3 is 500MW and the quota offered to each developer is 100MW. There is no limitation on sizes of job that Suncon can bid for. The tender is closing in Aug 2019 and an outcome is expected by Feb 2020.

Domestic opportunities. Suncon is actively looking for hospital job opportunities given that as much as RM29bn has been budgeted by the Government in 2019 for new hospitals. Although we expect robust job flows from Sarawak in the near term, we understand that the company is cautiously evaluating tender opportunities in the state given potential low construction margin caused by overly competitive bidding.

Exploring foreign ground. Given the slowdown in the domestic construction industry, SunCon is actively exploring for regional opportunities particularly in India and ASEAN. We understand the company is currently bidding for a highway construction contract in India worth RM900m. Separately, Suncon has entered into a MoU with Myanmar conglomerate CDSG. It is evaluating internal projects undertaken by CDSG and its member companies in which the CDSG-Suncon JV will be on a 65:35 basis. Suncon is also actively looking for piling jobs in Singapore and we understand that there is under-supply for piling capacity in the country at the moment.

Precast. Precast segment PBT margin dropped significantly as the precast projects in Singapore were secured at a time when the industry was very competitive. Competitive pressure has come down and the product pricing has recovered but we only expect the segment PBT margin to normalize back to 10-15% starting from 2H19 as contribution from newly secured projects takes time to kick in.

Orderbook. Management has reiterated its FY19 orderbook replenishment target of RM1.5bn, of which, RM967m has been achieved YTD. Management does not expect any more contracts from its parent-co in FY19 and hence the balance to its replenishment target is expected to come from overseas contract, piling jobs and also precast orders from Singapore. Outstanding orderbook currently stands at RM6.2bn, translating into healthy level of 2.7x cover of FY18 revenue.

Forecast. Maintained as the meeting yielded no major surprises.

Maintain HOLD, TP: RM1.81. Maintain HOLD with unchanged TP of RM1.81, based on an unchanged 16.5x PE multiple tagged to FY19 earnings. While we like SunCon as a well-managed contractor, we reckon that valuations are fair at current levels.

Figure #1 Financial forecast summary

FYE Dec (RM m)	FY16	FY17	FY18	FY19f	FY20f
Revenue	1,788.8	2,076.3	2,256.8	2,154.8	2,186.4
EBITDA	169.4	202.4	214.6	214.7	229.2
EBIT	130.3	164.6	174.6	175.0	187.5
PBT	134.8	174.2	183.1	182.4	194.8
PAT	104.7	138.0	145.0	142.2	151.9
PATMI – Core	104.6	137.8	144.7	142.1	151.8
PATMI – Reported	123.5	137.8	144.7	142.1	151.8
% change YoY – Core PATMI	-9%	32%	5%	-2%	7%
HLIB/ Consensus (%) – Core PATMI	NA	NA	NA	-8%	-6%
Core EPS (sen)	8.1	10.7	11.2	11.0	11.7
P/E (x)	24.2	18.4	15.4	17.8	16.7
EV/EBITDA (x)	12.3	10.3	8.7	9.7	9.1
DPS (sen)	5.0	7.0	7.0	6.6	7.0
Yield (%)	3%	4%	4%	3%	4%
Shareholders' equity	493	554	593	668	728
BVPS (RM/share)	0.4	0.4	0.5	0.5	0.6
P/B (x)	5.1	4.6	3.8	3.8	3.5
ROE (%)	22%	26%	24%	22%	22%
Net Gearing (%)	CASH	CASH	CASH	CASH	CASH

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Stock rating definitions

BUY	Expected absolute return of +10% or more over the next 12 months.
HOLD	Expected absolute return of -10% to +15% over the next 12 months.
SELL	Expected absolute return of -10% or less over the next 12 months.
UNDER REVIEW	Rating on the stock is temporarily under review which may or may not result to a change from the previous rating.
NOT RATED	Stock is not or no longer within regular coverage.

Sector rating definitions

OVERWEIGHT	Sector expected to outperform the market over the next 12 months.
NEUTRAL	Sector expected to perform in-line with the market over the next 12 months.
UNDERWEIGHT	Sector expected to underperform the market over the next 12 months.