17 May 2019 | 1QFY19 Results Review

Sunway Construction Group Berhad

Precast earnings subdued

***Maintain* NEUTRAL**

***Adjusted* Target Price (TP): RM2.00**
(*from* RM1.81)

INVESTMENT HIGHLIGHTS

- **Overall revenue was down -29.7%yoy in 1QFY19**
- **Construction segment underperformed**
- **Meanwhile for precast, revenue contracted by -11.1%**
- **No earnings adjustment**
- **Maintain NEUTRAL but TP adjusted higher at RM2.00 from higher valuation multiple due to improving sectoral sentiment**

Overall revenue was down -29.7%yoy. For 1QFY19, SunCon reported lower revenue at RM440.0m in comparison to 1QFY18 figure of RM529.2m. Moreover, quarterly PATANCI declined by -13.3%yoy albeit by lower deviation due to better profit margin. Nonetheless, SunCon's first three-month earnings came in within our and consensus expectations at 20.3% and 20.7% of full year earnings respectively.

Construction segment underperformed. During the quarter, the segment contributed approximately RM407.0m to the group's total revenue. The figure was comparatively low at -17.3%yoy due to substantial completion of Parcel F, Putrajaya. Notably, this was further impacted by the delay in LRT3 and MRT2 works, attributed to cost optimisation exercise for station scope by the client. Currently, LRT3 project represents a larger chunk of outstanding work at circa 84.3%. Accordingly, we expect a pick up in the near-term for the construction segment as some works for LRT3 has already recommenced in 2QFY19. The slight delay was inevitable as the project had to go through some redesigning, following the cost reduction exercise.

Meanwhile for precast, revenue contracted by -11.1% to RM33.0m in 1QFY19. The current projects were seen yielding lower PBT margin at below <1.0%. Compared to last year, the difference was stark as the PBT margin in 1QFY18 stood at 9.7%. The margin contraction was largely due to the highly competitive market. Nonetheless, some improvements were seen in the business environment for precast during the later part of FY18 hence providing headroom for better jobs pricing. In recognition of this, margin improvement is already on the horizon which will likely manifest in 2HFY19 once the new orders start to kick-in.

RETURN STATS	
Price (16 May 2019)	RM1.94
Target Price	RM2.00
Expected Share Price Return	+3.1%
Expected Dividend Yield	+1.7%
Expected Total Return	**+4.8%**

STOCK INFO	
KLCI	1,611.43
Bursa / Bloomberg	5263 / SCGB MK
Board / Sector	MM/Construction
Syariah Compliant	Yes
Issued shares (mil)	1,292.3
Market cap. (RM'm)	2,507.0
Price over NA	4.24x
52-wk price Range	RM1.3 – RM2.2
Beta (against KLCI)	1.30x
3-mth Avg Daily Vol	1.20m
3-mth Avg Daily Value	RM2.24m
Major Shareholders (%)	
Sunholdings	54.4
Sungei Way Cort	10.1
EPF	8.4

Impact to earnings. The earnings came in within our expectation. Hence, we make no changes to our earnings forecasts.

Recommendation. SunCon aims to further expand its footing on foreign grounds, a strategy we consider appropriate to manage risks stemming from local cyclical impacts. Recently, the group signed an MOU with Capital Construction Limited (CCL) to join hands in delivering infrastructure and construction projects in Myanmar. Looking ahead, the mutual understanding expressed will see both entities to jointly bids for projects such as mixed-used developments, offices, hotels and hospital over the medium term. Locally, SunCon is eyeing on few large scale projects such as the Large Scale Solar 3 worth about RM2b and the development of hospitals by JKR worth RM29b, to name a few. It has a high chance of meeting its new orderbook target of RM1.5b this year, considering only 33% job value left to be replenished. While we left our forecast unchanged, **TP** was adjusted higher to **RM2.00**, after pegging our FY20 EPS to PE of 16.5 (1-year average). The higher multiple was reflective of the improved sector wide sentiment for construction, following the return of ECRL and Bandar Malaysia. However, our **NEUTRAL** call remains as we believe the current price level is fair.

INVESTMENT STATISTICS

FYE Dec	FY16	FY17	FY18	FY19F	FY20F
Revenue (RM'm)	1,788.8	2,076.2	2,256.8	2,507.0	2,335.1
EBIT (RM'm)	149.5	164.6	174.6	198.7	209.5
Pre-tax Profit (RM'm)	153.6	174.1	183.1	178.0	191.5
Normalised PATAMI (RM'm)	123.5	137.8	144.7	152.9	156.5
EPS (sen)	9.6	10.6	11.2	11.8	12.1
EPS growth (%)	(35.9)	10.4	5.6	5.7	2.3
PER (x)	20.2	18.3	17.3	16.4	16.0
Net Dividend (sen)	1.8	1.8	7.0	2.3	3.3
Net Dividend Yield (%)	0.9	0.9	3.6	1.2	1.7

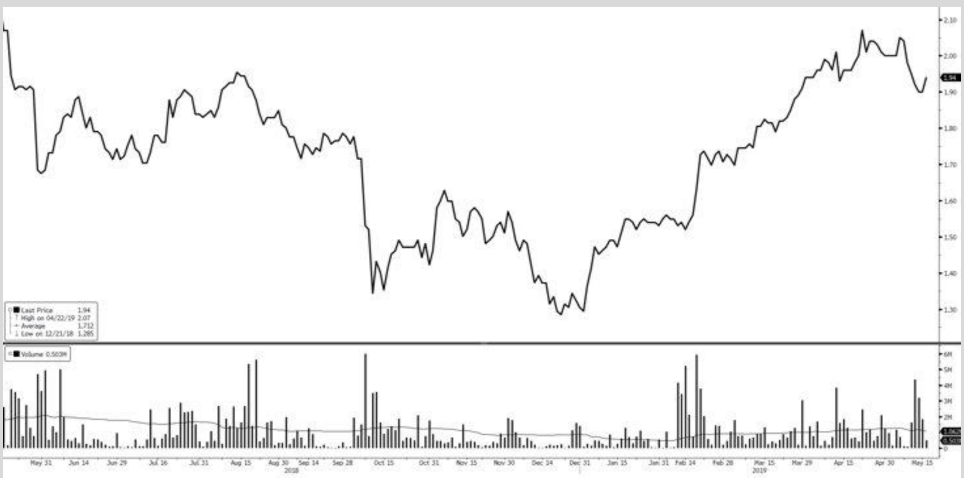
Source: Bloomberg, MIDFR

3MFY19 RESULTS SUMMARY

FYE Dec (RM'm)	1Q19	1Q18	4Q18	YoY Chg	QoQ Chg
Revenue	**440.0**	**529.2**	**626.0**	-16.9%	-29.7%
Operating Expenses	-404.7	-490.9	-588.8	-17.6%	-31.3%
Other Income	2.9	4.6	7.9	-37.0%	-63.3%
EBIT	**38.2**	**42.9**	**45.1**	-10.9%	-15.2%
Interest Income	4.2	3.8	3.5	11.3%	20.3%
Finance cost	-2.3	-3.1	-2.0	-25.0%	12.5%
Share of Results of JV	0.0	0.0	0.7	NA	-100.0%
Pre-tax Profit	40.1	43.6	47.3	-8.0%	-15.1%
Taxation	-8.5	-7.9	-10.4	7.8%	-18.6%
PAT	**31.6**	**35.7**	36.8	-11.5%	-14.1%
NCI	0.6	0.0	0.3	-2377.8%	139.3%
PATANCI	**31.0**	**35.8**	36.6	-13.3%	-15.2%
Diluted EPS	**2.4**	**2.8**	**2.8**	-13.4%	-15.2%
	1Q19	**1Q18**	**4Q18**	**+/- ppts**	**+/- ppts**
Operating margin	8.7%	8.1%	7.2%	0.6	1.5
Pre-tax margin	9.1%	8.2%	7.6%	0.9	1.6
PATANCI margin	7.0%	6.8%	5.8%	0.3	1.2
Effective tax rate	-21.2%	-18.1%	-22.1%	-3.1	0.9

Source: MIDFR, Bursa Malaysia

DAILY PRICE CHART



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Source: Bloomberg

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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS	
STOCK RECOMMENDATIONS	
BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to *rise* by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <-10% over the next 12 months.
TRADING SELL	Stock price is expected to *fall* by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.
SECTOR RECOMMENDATIONS	
POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.