

Sunway Construction Group Berhad

TP: RM1.64 (-15.5%)

A Slow Start

Last Traded: RM1.94

SELL

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Results Review

- SUNCON's IQFY19 net profit of RM31.0mn came in within our expectations but below consensus' forecast, accounting for 21.9% and 20.7% of ours and consensus full-year estimates.
- SUNCON had a slow start in IQFY19. Both its revenue and net profit dropped 16.9% and 13.3% YoY, and 29.7% and 15.2% QoQ respectively.
- The decline in IQFY19 revenue was mainly due to lower revenue recognition from Parcel F, Putrajaya project, as well as delays in both LRT3 and MRT2 work packages due to cost optimisation of station works. Nevertheless, overall PBT margin improved from 8.2% to 9.1%.
- While its precast division remained in the red, the net loss reported by the division narrowed to RM0.1mn from RM0.9mn a quarter ago.
- The commencement of construction of Integrated Construction Fabrication Hub in Singapore, in which SUNCON has 49% stake, is now delayed to 4Q19 from 2Q19 previously.

Impact

- We raise FY20 and FY21 earnings forecasts slightly higher by 2.4% and 3.2% respectively after incorporating audited FY18 results into our earnings model.

Outlook

- Its outstanding order book eased from RM6.0bn a quarter ago to RM5.7bn, translating into 2.5x FY18 revenue. This could provide earnings visibility to the group for the next 2 to 3 years.
- The group has secured RM1.0bn of new order book YTD, versus the management's target of RM1.5bn, and our assumption of RM1.7bn for 2019. Currently it has an outstanding tender of RM7.4bn.
- To grow its business, the group is exploring opportunities in overseas markets, which include Myanmar and India. Besides its existing precast business in Singapore, SUNCON is expanding its product offering to include piling works.

Valuation

- We roll forward our valuation base year to CY20 and arrive at a higher target price of **RM1.64** (from RM1.54 previously), based on unchanged 14x CY20 earnings. Maintain **SELL** on the stock on valuation ground.

Share Information

Bloomberg Code	SCGB MK
Bursa	SUNCON
Stock Code	5263
Listing	Main Market
Share Cap (mn)	1,292.2
Market Cap (RMmn)	2507.0
52-wk Hi/Lo (RM)	2.16/1.30
12-mth Avg Daily Vol ('000 shrs)	1081.9
Estimated Free Float (%)	20.2
Beta	1.3

Major Shareholders (%)

Sunholdings	- 54.44
Sungei Way Corp Sdn Bhd	- 10.06
Employee Provident Fund	- 8.42

Forecast Revision

	FY19	FY20
Forecast Revision (%)	-	2.4
Net profit (RMmn)	141.9	151.6
Consensus	150.1	157.5
TA's / Consensus (%)	94.5	96.2
Previous Rating	Sell (Maintained)	

Financial Indicators

	FY19	FY20
Net Debt / Equity (%)	net cash	net cash
CFPS (sen)	16.5	(1.2)
Price / CFPS (x)	11.8	(168.7)
ROA (%)	7.5	7.3
NTA/Share (RM)	48.7	52.4
Price/NTA (x)	4.0	3.7

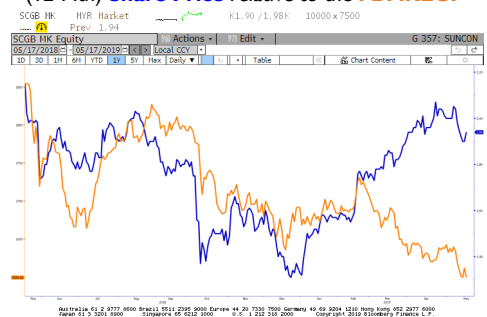
Scorecard

	% of FY	
vs. TA	21.9	Within
vs. Consensus	20.7	Below

Share Performance (%)

Price Change	SUNCON	FBM KLCI
1 mth	(1.0)	(1.3)
3 mth	23.6	(5.3)
6 mth	21.3	(6.3)
12 mth	(9.8)	(13.8)

(12-Mth) Share Price relative to the FBMKLCI



Source: Bloomberg

Table 1: Earnings Summary (RMmn)

FYE Dec (RMmn)	2017	2018	2019F	2020F	2021F
Revenue	2,076.3	2,256.8	2,240.0	2,249.0	1,600.0
Gross profit	428.6	444.7	224.0	224.9	160.0
EBITDA	196.9	214.6	210.0	229.0	200.6
EBITDA margin (%)	9.5	9.5	9.4	10.2	12.5
EBIT	159.1	174.6	169.2	175.4	132.5
PBT	168.7	183.1	179.7	191.9	149.5
PAT	132.3	144.7	141.9	151.6	118.1
Core net profit	132.3	144.7	141.9	151.6	118.1
Core EPS (sen)	10.2	11.2	11.0	11.7	9.1
PER (x)	19.0	17.3	17.7	16.5	21.2
Gross dividend (sen)	7.0	7.0	8.0	8.0	6.0
Dividend yield (%)	3.6	3.6	4.1	4.1	3.1
ROE (%)	25.5	25.5	23.3	23.2	16.9

Table 2: IQFY19 Results Analysis (RMmn)

FYE Dec	1Q18	4Q18	1Q19	QoQ (%)	YoY (%)	3MFY18	3MFY19	YoY(%)
Revenue	529.2	626.0	440.0	(29.7)	(16.9)	529.2	440.0	(16.9)
- Construction	492.1	595.4	407.0	(31.6)	(17.3)	492.1	407.0	(17.3)
- Precast	37.1	30.6	33.0	7.7	(11.2)	37.1	33.0	(11.2)
Operating profit	42.9	45.1	38.2	(15.2)	(10.9)	42.9	38.2	(10.9)
Finance income	3.8	3.5	4.2	20.3	11.3	3.8	4.2	11.3
Finance costs	(3.1)	(2.0)	(2.3)	12.5	(25.0)	(3.1)	(2.3)	(25.0)
Profit before taxation	43.6	47.3	40.1	(15.1)	(8.0)	43.6	40.1	(8.0)
- Construction	40.1	50.2	40.1	(20.1)	0.0	40.1	40.1	0.0
- Precast	3.6	(2.9)	0.1	(102.1)	(98.3)	3.6	0.1	(98.3)
Income tax expense	(7.9)	(10.4)	(8.5)	(18.6)	7.8	(7.9)	(8.5)	7.8
Non-controlling interests	(0.0)	0.3	0.6	139.3	<(100.0)	(0.0)	0.6	<(100.0)
Net profit	35.8	36.6	31.0	(15.2)	(13.3)	35.8	31.0	(13.3)
- Construction	32.6	37.5	31.1	(17.1)	(4.8)	32.6	31.1	(4.8)
- Precast	3.1	(0.9)	(0.1)	(92.8)	(102.1)	3.1	(0.1)	(102.1)
Core net profit	35.8	36.6	31.0	(15.2)	(13.3)	35.8	31.0	(13.3)
Reported EPS (sen)	2.8	2.8	2.4	(15.2)	(13.4)	2.8	2.4	(13.4)
Core EPS (sen)	2.8	2.8	2.4	(15.2)	(13.4)	2.8	2.4	(13.4)
Dividend (sen)	0.0	3.5	0.0	(100.0)	na	0.0	0.0	na
Margin (%):				% pts	% pts			% pts
- Operating	8.1	7.2	8.7	1.5	0.6	8.1	8.7	0.6
Construction	8.0	8.0	9.3	1.3	1.3	8.0	9.3	1.3
Precast	9.7	(9.3)	1.0	10.3	(8.7)	9.7	1.0	(8.7)
- PBT	8.2	7.6	9.1	1.6	0.9	8.2	9.1	0.9
- PAT	6.8	5.9	7.2	1.3	0.4	6.8	7.0	0.3
- Effective tax rate	18.1	22.1	21.2	(0.9)	3.1	18.1	21.2	3.1

Table 3: Ongoing projects

Project	Contract Value (RMmn)	Outstanding Amount (RMmn)
Infrastructure		2,348
MRT Package V201 + S201	1,213	359
LRT 3 Package GS07-08	2,178	1,929
Piling works	128	61
Piling works – Y19	99	99
Buildings		1,045
Putrajaya Parcel F	1,610	69
PPA1M Kota Bharu	582	141
Nippon Express	70	48
GDC (Plant 2)	14	6
TNB Campus	781	781
Internal		1,923
Sunway Velocity Medical Centre	185	10
Sunway Medical Centre Phase 4	512	429
Sunway Iskandar – Emerald Residences	175	8
Sunway Iskandar –Big Box	170	45
Sunway Serene – Serviced Residence	449	306
Velo 2	352	343
3C4	100	96
Sunway GEOLake	223	161
Sunway Carnival Ext	286	247
Sunway Medical Centre (Seberang Jaya)	180	163
Velocity Ecodeck	11	9
M&E Works	27	6
Big Box Hotel	100	100
Singapore		316
Precast	331	285
Precast – new order 2019	31	31
Grand Total @ Mar 2019	9,805	5,731

Source: Company, TA Research

Stock Recommendation Guideline

- BUY** : Total return within the next 12 months exceeds required rate of return by 5%-point.
HOLD : Total return within the next 12 months exceeds required rate of return by between 0-5%-point.
SELL : Total return is lower than the required rate of return.
Not Rated: The company is not under coverage. The report is for information only.

Total Return is defined as expected share price appreciation plus gross dividend over the next 12 months. Gross dividend is excluded from total return if dividend discount model valuation is used to avoid double counting.

Required Rate of Return of 7% is defined as the yield for one-year Malaysian government treasury plus assumed equity risk premium.

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As of Friday, May 17, 2019, the analyst, Ooi Beng Hooi, who prepared this report, has interest in the following securities covered in this report:
(a) nil

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