

HLIB Research

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BUY (Maintain)

Target Price: RM2.16
Previously: RM2.24
Current Price: RM2.02

Capital upside	6.9%
Dividend yield	3.5%
Expected total return	10.4%

Sector coverage: Construction

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

Share price


Historical return (%)	1M	3M	12M
Absolute	-3.8	6.3	1.5
Relative	-0.1	6.9	13.4

Stock information

Bloomberg ticker	SCGB MK
Bursa code	5263
Issued shares (m)	1,289
Market capitalisation (RM m)	2,605
3-mth average volume ('000)	638
SC Shariah compliant	Yes

Major shareholders

Sunway Berhad	54.6%
Sungei Way Corp SB	10.1%
EPF	8.4%

Earnings summary

FYE (Dec)	FY18	FY19f	FY20f
PATMI - core (RM m)	145	130	149
EPS - core (sen)	11.2	10.0	11.5
P/E (x)	18.1	20.1	17.5

Sunway Construction Group

Performance dragged by LRT3

SunCon's 1HFY19 earnings of RM62m (-13% YoY) were below both ours and consensus expectations mainly due to continued delay in LRT3 package. YTD core PATAMI decreased due to lower contribution from both construction and precast segment. Outstanding order book of RM5.8bn translates into 2.6x cover ratio and going forward we expect more jobs would be from regional opportunities. Cut FY19-21 earnings forecast by 1-7%. Maintain BUY with lower TP of RM2.16 (from RM2.24) after earnings forecast adjustment, based on 20x PE multiple pegged to mid-FY19 earnings.

Below expectations. SunCon reported 2QFY19 results with revenue of RM440.2m (flat QoQ, -19% YoY) and core earnings of RM33.2m (+14% QoQ, -7% YoY). This brings 1HFY19 core earnings to RM62.2m, decreasing by 13% YoY. The core earnings accounted for 45% of our full year forecast (consensus: 43%) which is below expectations. Declared 1st interim dividend of 3.5 sen (1HFY18: 3.5 sen).

Deviations. The lower than expected performance was mainly due to continued delay in LRT3 package due to ongoing cost optimisation. LRT3 project will only resume in 4QFY19 (as opposed to previous expectations of mid-2019) and back to full swing in FY20.

QoQ. Core PATAMI increased by 14% attributable to higher margin in construction segment due to recognition of final account.

YoY. Core PATAMI decreased by 7% due to lower contribution from precast segment as current projects are yielding lower margin.

YTD. Core PATAMI decreased by 13% due to lower contribution from both construction and precast segment.

Precast. Precast segment performance remains flattish QoQ. Nonetheless this is better than losses recorded in 2H18 and we expect performance of this segment to normalize starting from 2H19 as contribution from newly secured projects takes time to kick in.

Orderbook. SunCon's latest outstanding orderbook stands at c.RM5.8bn, translating into healthy level of 2.6x cover of FY18 revenue. SunCon is actively exploring for regional opportunities particularly in India and ASEAN in order to diversify the sources of job opportunities. 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.

Forecast. Cut FY19-21 earnings by 6.5%, 1.5% and 1.0% respectively after adjusting LRT3 package progress assumptions due to longer than expected delay.

Maintain BUY, TP: RM2.16. Maintain BUY with lower TP of RM2.16 (from RM2.24) after earnings forecast adjustment, based on 20x PE multiple pegged to mid-FY19 earnings. We like Suncon for its (i) good execution track record; (ii) strong support from parent-co Sunway Berhad (BUY, TP: RM2.18) and (iii) strong balance sheet with net cash position.

Figure #1 **Quarterly results comparison**

FYE Dec (RM m)	2QFY18	1QFY19	2QFY19	QoQ (%)	YoY (%)	FY18	FY19	YoY (%)
Revenue	544.3	440.0	440.2	0.0	(19.1)	1,073.5	880.2	(18.0)
EBIT	42.0	36.2	37.6	3.8	(10.4)	84.7	73.9	(12.9)
Finance income	4.9	4.2	7.2	69.4	47.5	8.6	11.4	31.6
Finance cost	(1.7)	(2.3)	(3.6)	55.9	111.2	(4.5)	(5.9)	29.9
PBT	45.2	38.2	41.2	8.0	(8.8)	88.9	79.4	(10.7)
PAT	35.9	29.7	33.0	11.1	(8.1)	71.7	62.6	(12.6)
Core PATMI	35.9	29.1	33.2	14.2	(7.5)	71.7	62.2	(13.2)
Reported PATMI	35.9	31.0	33.2	7.0	(7.5)	71.7	64.2	(10.5)
Core EPS (sen)	2.8	2.2	2.6	14.2	(7.5)	5.5	4.8	(13.2)
EBIT margin (%)	7.7	8.2	8.5			7.9	8.4	
PBT margin (%)	8.3	8.7	9.4			8.3	9.0	
PATMI margin (%)	6.6	6.6	7.5			6.7	7.1	

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Financial Forecast

All items in (RM m) unless otherwise stated

Balance Sheet

FYE Dec (RM m)	FY17	FY18	FY19f	FY20f	FY21f
Cash	487	485	556	635	718
Receivables	1,106	917	933	1,006	1,008
Inventories	24	30	23	25	25
PPE	150	163	142	119	94
Others	120	160	160	160	160
Assets	1,887	1,754	1,814	1,944	2,004
Debts	135	114	119	128	128
Payables	1,036	874	888	951	950
Others	162	175	175	175	175
Liabilities	1,332	1,162	1,183	1,253	1,252
Shareholder's equity	554	591	630	689	751
Minority interest	1	1	1	1	1
Equity	555	593	631	690	752

Cash Flow Statement

FYE Dec (RM m)	FY17	FY18	FY19f	FY20f	FY21f
Profit before taxation	174	183	167	192	195
Depreciation & amortisation	38	40	41	43	45
Changes in working capital	(178)	21	5	(12)	(3)
Share of JV profits	(2)	(1)	-	-	-
Taxation	(36)	(38)	(37)	(42)	(43)
Others	68	(16)	(0)	(0)	-
Operating cash flow	63	189	177	181	195
Net capex	(28)	(50)	(20)	(20)	(20)
Others	63	(25)	-	-	-
Investing cash flow	35	(74)	(20)	(20)	(20)
Changes in borrowings	(2)	(21)	6	8	(0)
Issuance of shares	-	-	-	-	-
Dividends paid	(90)	(90)	(91)	(90)	(90)
Others	18	(7)	-	-	-
Financing cash flow	(74)	(118)	(85)	(82)	(91)
Net cash flow	24	(3)	71	78	84
Forex	(2)	1	-	-	-
Others	0	-	-	-	-
Beginning cash	466	487	485	556	635
Ending cash	487	485	556	635	718

Income Statement

FYE Dec (RM m)	FY17	FY18	FY19f	FY20f	FY21f
Revenue	2,076	2,257	2,128	2,294	2,299
EBITDA	202	215	197	225	230
EBIT	165	175	156	181	185
Net finance income/ (cost)	7	8	11	10	10
Associates & JV	2	1	-	-	-
Profit before tax	174	183	167	192	195
Tax	(36)	(38)	(37)	(42)	(43)
Net profit	138	145	130	150	152
Minority interest	(0)	(0)	(0)	(0)	(0)
Core earnings	138	145	130	149	152
Exceptional items	-	-	-	-	-
Reported earnings	138	145	130	149	152

Valuation & Ratios

FYE Dec (RM m)	FY17	FY18	FY19f	FY20f	FY21f
Core EPS (sen)	10.7	11.2	10.0	11.5	11.8
P/E (x)	18.9	18.1	20.1	17.5	17.2
EV/EBITDA (x)	9.9	9.4	10.2	8.9	8.7
DPS (sen)	7.0	7.0	7.0	7.0	7.0
Dividend yield	3.5%	3.5%	3.5%	3.5%	3.5%
BVPS (RM)	0.43	0.46	0.49	0.53	0.58
P/B (x)	4.7	4.4	4.1	3.8	3.5
EBITDA margin	9.7%	9.5%	9.3%	9.8%	10.0%
EBIT margin	7.9%	7.7%	7.3%	7.9%	8.1%
PBT margin	8.4%	8.1%	7.8%	8.4%	8.5%
Net margin	6.6%	6.4%	6.1%	6.5%	6.6%
ROE	26.3%	25.3%	21.2%	22.6%	21.1%
ROA	7.9%	7.9%	7.3%	7.9%	7.7%
Net gearing	CASH	CASH	CASH	CASH	CASH

Assumptions

FYE Dec (RM m)	FY17	FY18	FY19f	FY20f	FY21f
Construction	3,587	1,324	1,600	2,000	2,000
Precast	158	229	150	200	200
Total new job wins	3,745	1,553	1,750	2,200	2,200

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Stock rating guide

BUY	Expected absolute return of +10% or more over the next 12 months.
HOLD	Expected absolute return of -10% to +10% 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 in a change from the previous rating.
NOT RATED	Stock is not or no longer within regular coverage.

Sector rating guide

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.

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