

# Sunway Construction Group Berhad

**TP: RM1.32 (-18.0%)**
*Unexpected Loss in Precast Division*
*Last Traded: RM1.61*
**SELL**

Ooi Beng Hooi

Tel: +603-2167 9612

benghooi@ta.com.my

www.taonline.com.my

## Results Review

- SUNCON's 9M18 net profit of RM108.1mn came in below expectations, accounting for 65.7% and 69.0% of ours and consensus full-year estimates. The variance was mainly due to lower-than-expected progress of works and unexpected loss suffered by its precast division in 3Q18.
- 9M18 net profit was slightly higher by 2.0% at RM108.1mn despite revenue jumping 22.8% to RM1630.8mn. The margin compression came mainly from the precast division in which the operating margin declined sharply by 16.9%-pts to 3.8%. The drop in precast margin was a result of higher steel bar price, coupled with stiff competition on pricing.
- QoQ, net profit was higher by 1.6% at RM36.4mn as the revenue for the reporting quarter improved by 2.4% to RM557.3mn. While construction margin increased by 1.1%-pts to 8.9% due to the finalisation of account of a project, the precast division unexpectedly turned into loss-making for the reasons mentioned above.
- Its net cash position reduced from RM457.1mn a quarter ago to RM324.7mn (25.1sen/share).

## Impact

- Earnings forecasts for FY18/FY19/FY20 were cut by 11.3%/20.0%/13.9% respectively after:
  - Reducing FY18/FY19/FY20 order book replenishment assumptions from RM1.8bn/RM2.0bn/RM2.0bn to RM1.5bn/RM1.5/RM1.5bn respectively, in view of the postponements and cancellations of mega projects post-GE14, coupled with the challenging environment in the property market;
  - A downward revision in precast margin following the weaker-than-expected results;
  - Upward adjustments in construction margin for various projects to factor in potential project cost savings in view of softening of steel bar price; and
  - Adjustments in progress assumptions for various projects, including package GS07-08 of LRT3 to reflect the extension of the overall project completion date for LRT3 by 3 years.

## Outlook

- YTD, the group has secured RM1.35bn of new jobs. Its outstanding order book stood at RM5.6bn (including RM405mn of new jobs secured after 3Q18), sufficient to provide earnings visibility until 2020.

## Valuation

- Following the earnings downgrade, we cut **SUNCON's** target price from RM1.65 to **RM1.32**, based on unchanged 12x CY19 earnings. Downgrade the stock from HOLD to **SELL**.

## Share Information

Bloomberg Code	SCGB MK
Bursa	SUNCON
Stock Code	5263
Listing	Main Market
Share Cap (mn)	1,292.2
Market Cap (RMmn)	2080.5
52-wk Hi/Lo (RM)	2.64/1.30
12-mth Avg Daily Vol ('000 shrs)	1466.8
Estimated Free Float (%)	23.1
Beta	1.3

## Major Shareholders (%)

Sunholdings - 54.44
Sungei Way Corp Sdn Bhd - 10.06
Employee Provident Fund - 7.40

## Forecast Revision

	FY18	FY19
Forecast Revision (%)	(11.3)	(20.0)
Net profit (RMmn)	145.9	142.6
Consensus	156.8	174.1
TA's / Consensus (%)	93.0	81.9
Previous Rating	Hold (Downgraded)	

## Financial Indicators

	FY18	FY19
Net Debt / Equity (%)	net cash	net cash
CFPS (sen)	13.9	(7.6)
Price / CFPS (x)	11.6	(21.3)
ROA (%)	7.7	7.6
NTA/Share (RM)	46.1	48.1
Price/NTA (x)	3.5	3.3

## Scorecard

	% of FY	
vs. TA	65.7	Below
vs. Consensus	69.0	Below

## Share Performance (%)

Price Change	SUNCON	FBM KLCI
1 mth	5.9	(1.2)
3 mth	(17.4)	(4.3)
6 mth	(18.7)	(7.8)
12 mth	(32.9)	(0.4)

## (12-Mth) Share Price relative to the FBMKLCI



Source: Bloomberg

**Table 1: Earnings Summary (RMmn)**

FYE Dec (RMmn)	2016	2017	2018F	2019F	2020F
Revenue	1,788.8	2,076.3	2,195.0	2,190.0	2,199.0
Gross profit	379.0	428.6	461.0	459.9	461.8
EBITDA	188.3	202.4	215.9	202.2	222.1
EBITDA margin (%)	10.5	9.7	9.8	9.2	10.1
EBIT	149.2	164.6	173.8	165.0	171.2
PBT	153.7	174.2	184.4	180.5	184.0
PAT	123.5	137.8	145.9	142.6	145.4
Core net profit	123.5	137.8	145.9	142.6	145.4
Core EPS (sen)	9.6	10.7	11.3	11.0	11.2
PER (x)	16.9	15.1	14.3	14.6	14.3
Gross dividend (sen)	5.0	7.0	8.0	9.0	9.0
Dividend yield (%)	3.1	4.3	5.0	5.6	5.6
ROE (%)	26.2	26.3	25.4	23.4	22.8

**Table 2: 3QFY18 Results Analysis (RMmn)**

FYE Dec	3Q17	2Q18	3Q18	QoQ (%)	YoY (%)	9MFY17	9MFY18	YoY (%)
Revenue	491.4	544.3	557.3	2.4	13.4	1328.1	1630.8	22.8
- Construction	471.8	511.6	524.1	2.4	11.1	1209.7	1527.8	26.3
- Precast	19.6	32.6	33.3	1.9	69.9	118.5	103.1	(13.0)
Operating profit	42.4	42.0	44.8	6.6	5.6	126.2	129.5	2.6
Finance income	2.6	4.9	3.9	(20.1)	48.1	8.1	12.5	54.3
Finance costs	(2.0)	(1.7)	(1.7)	2.1	(11.7)	(4.3)	(6.3)	45.3
Profit before taxation	43.1	45.2	46.9	3.9	9.0	130.0	135.8	4.5
- Construction	40.7	42.9	48.9	13.9	20.1	105.5	131.9	25.0
- Precast	2.4	2.3	(1.9)	(185.6)	(182.2)	24.5	3.9	(84.1)
Income tax expense	(8.6)	(9.3)	(10.4)	12.2	21.3	(24.2)	(27.6)	14.1
Non-controlling interests	(0.1)	0.0	0.1	319.0	(181.5)	(0.2)	0.1	(144.1)
Net profit	34.6	35.9	36.4	1.6	5.3	106.0	108.1	2.0
- Construction	32.9	34.2	38.2	11.6	16.2	86.4	105.1	21.6
- Precast	1.8	1.7	(1.8)	(206.9)	(197.5)	19.6	3.0	(84.6)
Core net profit	34.6	35.9	36.4	1.6	5.3	106.0	108.1	2.0
Reported EPS (sen)	2.7	2.8	2.8	1.4	5.2	8.2	8.4	2.1
Core EPS (sen)	2.7	2.8	2.8	1.4	5.2	8.2	8.4	2.1
Dividend (sen)	0.0	3.5	0.0	(100.0)	na	3.0	3.5	16.7
Margin (%):				% pts	% pts			% pts
- Operating	8.6	7.7	8.0	0.3	(0.6)	9.5	7.9	(1.6)
- Construction	8.5	7.8	8.9	1.1	0.4	8.4	8.2	(0.2)
- Precast	12.1	6.9	(5.7)	(12.7)	(17.9)	20.7	3.8	(16.9)
- PBT	8.8	8.3	8.4	0.1	(0.3)	9.8	8.3	(1.5)
- PAT	7.0	6.6	6.5	(0.0)	(0.5)	8.0	6.6	(1.4)
- Effective tax rate	20.0	20.6	22.2	1.6	2.3	18.6	20.3	1.7

**Table 3: Ongoing projects**

Project	Contract Value (RMmn)	Outstanding Amount (RMmn)
<b>Infrastructure</b>		<b>2,639</b>
MRT Package V201 + S201	1,213	527
BBCC Piling Works	88	12
LRT 3 Package GS07-08	2,178	2,021
Others	87	14
Piling works	75	64
<b>Buildings</b>		<b>697</b>
Putrajaya Parcel F	1,610	287
KLCC (NEC + Package 2 & 2a)	646	82
Gas District Cooling (Plant 2)	14	14
PPAIM Kota Bharu	582	208
Nippon Express	70	68
Others	487	39
<b>Internal</b>		<b>1,644</b>
Sunway Velocity Medical Centre	185	67
Sunway Medical Centre Phase 4	512	449
Sunway Iskandar – Emerald Residences	175	6
Sunway Iskandar –Big Box	170	114
Sunway Serene – Serviced Residence	449	351
Sunway GEOLake	223	190
Sunway Carnival Ext	286	261
Sunway Medical Centre (Seberang Jaya)	180	176
Velocity Ecodeck	11	11
M&E Works	30	20
<b>Singapore</b>		<b>226</b>
Precast	330	98
Precast – new order 2018	130	128
	<b>9,729</b>	<b>5,205</b>

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.

### Disclaimer

The information in this report has been obtained from sources believed to be reliable. Its accuracy and/ or completeness is not guaranteed and opinions are subject to change without notice. This report is for information only and not to be construed as a solicitation for contracts. We accept no liability for any direct or indirect loss arising from the use of this document. We, our associates, directors, employees may have an interest in the securities and/or companies mentioned herein.

As of Wednesday, November 21, 2018, the analyst, Ooi Beng Hooi, who prepared this report, has interest in the following securities covered in this report:  
(a) nil

**Kaladher Govindan – Head of Research**

TA SECURITIES HOLDINGS BERHAD (14948-M)

A Participating Organisation of Bursa Malaysia Securities Berhad

Menara TA One | 22 Jalan P. Ramlee | 50250 Kuala Lumpur | Malaysia | Tel: 603 – 2072 1277 | Fax: 603 – 2032 5048  
www.ta.com.my