

### COMPANY RESULTS

## Sunway Construction Group (SCGB MK)

9M18: Below Expectations

SunCon's 9M18 core net profit of RM106.8m missed our expectations, coming in at 63% of our full-year estimate. We cut our 2018-20 core net profit forecasts by 9%, 5% and 8% respectively. Key variances against our forecasts were slower-than-expected progress billings of LRT3 due to ongoing redesign of its work package, ailing precast margins due to high material costs, and lower ASP. Maintain HOLD with a lower target price of RM1.54. Entry price: RM1.40.

### 9M18 Results

Year to 31 Dec (RMm)	3Q18	2Q18	qoq % chg	yoy % chg	9M18	yoy % chg
Revenue	557.3	544.3	2.4	13.4	1,630.8	22.8
Construction	524.1	511.6	2.4	11.1	1,527.8	26.3
Precast Concrete	33.3	32.7	1.8	69.9	103.1	(13.0)
EBIT	44.8	42.0	6.6	5.6	129.5	4.8
Construction	46.7	39.8	17.1	16.4	125.7	23.5
Precast Concrete	(1.9)	2.2	n.m.	n.m.	3.9	(82.3)
Pre-tax Profit	46.9	45.2	3.9	9.0	135.8	6.6
PATMI	36.4	35.9	1.6	5.4	108.1	4.7
Core PATMI	38.3	35.2	9.0	5.7	106.8	7.1
<b>Margins</b>	<b>%</b>	<b>%</b>	<b>+/-ppt</b>	<b>+/-ppt</b>	<b>%</b>	<b>+/-ppt</b>
Construction	8.9	7.8	1.1	0.4	8.2	(0.2)
Precast Concrete	-5.7	6.7	(12.5)	(17.6)	3.8	(14.7)
PBT	8.4	8.3	0.1	(0.3)	8.3	(1.3)
PATMI	6.5	6.6	(0.1)	(0.5)	6.6	(1.1)

Source: SunCon, UOB Kay Hian

### RESULTS

• **Earnings missed expectations.** Sunway Construction Group (SunCon) reported 3Q18 net profit of RM38m (+9.0% qoq, +5.7% yoy) on revenue of RM557m (+2.4% qoq, +13.4% yoy). 9M18 earnings missed our expectations, coming in at 63% of our full-year estimate, dragged by slower-than-expected progress billings from the LRT3 project and lacklustre precast performance. 9M18 core net profit grew 7.1% yoy on the back of accelerated progress billings of other projects (excluding LRT3) such as MRT2 and Parcel F in Putrajaya but partially negated by a sluggish performance of its precast business.

### KEY FINANCIALS

Year to 31 Dec (RMm)	2016	2017	2018F	2019F	2020F
Net turnover	1,789	2,076	2,040	2,572	2,904
EBITDA	113	147	237	241	262
Operating profit	74	110	197	197	214
Net profit (rep./act.)	85	100	154	166	181
Net profit (adj.)	85	100	154	166	181
EPS (sen)	6.6	7.8	11.9	12.9	14.0
PE (x)	24.4	20.6	13.5	12.5	11.5
P/B (x)	4.2	3.7	3.2	2.7	2.4
EV/EBITDA (x)	14.2	10.9	6.9	6.8	6.2
Dividend yield (%)	2.1	2.3	2.6	2.8	3.0
Net margin (%)	4.7	4.8	7.6	6.5	6.2
Net debt/(cash) to equity (%)	(66.8)	(63.7)	(69.1)	(73.0)	(75.8)
ROE (%)	17.9	19.2	25.5	23.5	22.0
Consensus net profit	-	-	157	174	180
UOBKH/Consensus (x)	-	-	0.98	0.96	1.00

Source: SunCon, Bloomberg, UOB Kay Hian

### HOLD

(Maintained)

Share Price	RM1.61
Target Price	RM1.54
Upside	-4.5%
Previous TP	RM1.62)

### COMPANY DESCRIPTION

A leading construction company in Malaysia

### STOCK DATA

GICS sector	Industrials
Bloomberg ticker:	SCGB MK
Shares issued (m):	1,292.2
Market cap (RMm):	2,080.5
Market cap (US\$m):	496.8
3-mth avg daily t'over (US\$m):	0.4

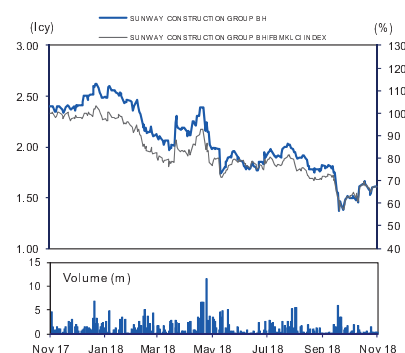
### Price Performance (%)

52-week high/low	RM2.62/RM1.37			
<b>1mth</b>	<b>3mth</b>	<b>6mth</b>	<b>1yr</b>	<b>YTD</b>
5.9	(18.7)	(20.3)	(32.9)	(35.9)

### Major Shareholders

Sunway Berhad	54.4%
FY18 NAV/Share (RM)	0.51
FY18 Net Cash/Share (RM)	0.36

### PRICE CHART



Source: Bloomberg

### ANALYST(S)

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- Stronger earnings in 2019 from LRT3 project.** Despite the slower-than-expected progress billing of the LRT3 project, SunCon's construction arm reported 3Q18 EBIT of RM47m (+17% qoq, +16% yoy), underpinned by good progress billings at the MRT2 and Putrajaya Parcel F which is slated to be handed over by 1Q19. Also, the completion of the ISKL project partly contributed to 3Q18 earnings. Meanwhile, we expect SunCon would be able to finalise with the LRT3 turnkey contractor (MRCB:GKENT JV) by 4Q18 on its revised scope of work, primarily on the iconic cable bridge, and expect progress billings to pick up gradually in 1H19 post finalisation.
- Sluggish precast performance to continue into 2019.** The dismal performance at the precast segment was driven by a low realised ASP (per m<sup>3</sup>) in 2018 due to competitive pricing in the Singapore market compounded with low margins due to high production cost (steel bar makes up 40% of its production costs). Recall, the high production cost was attributed to time lag effect of higher steel prices in the previous quarters (negative cost push impact). We believe its precast earnings could improve marginally in the near term on easing steel prices coupled with stronger growth in 2020 on the back of improving ASP (realised per m<sup>3</sup>) coupled with stronger demand for precast for HDB construction activities in Singapore.

### STOCK IMPACT

- Strong diversified outstanding orderbook.** SunCon's outstanding orderbook backlog of RM5.2b as of Sep 18 provides earnings visibility for its construction arm for the next 3- 4 years. In addition, the company has a balanced outstanding orderbook from: a) external clients, mainly the federal government and private entities like KLCC Holdings; and b) works from parent company, Sunway Bhd. The company is concentrating on construction jobs from Sunway Bhd, such as building hospitals, shopping malls and high-rise residential block developments. Ytd, SunCon has secured contracts worth RM1.35b, predominantly from Sunway Bhd.
- ICPH to commence operations by mid-21.** The integrated construction prefabrication hub (ICPH) has an annual capacity of 100,000m<sup>3</sup> and is expected to begin operations by mid-21, supplying various precast products like prefabricated bathroom units (PBU) and prefabricated volumetric construction (PPVC) products. We expect stronger earnings contribution from the ICPH plant from mid-21, with an estimated bottom line at >\$10m annually. In addition, ICPH's precast products yield better margins (~10%) relative to Johor precast products (annual capacity of 150,000m<sup>3</sup>).

### EARNINGS REVISION/RISK

- We cut our net profit forecasts for 2018-20 by 9%, 5% and 8% respectively** to reflect: a) slower-than-expected LRT3 progress billing recognition which is expected to be extended till end-Feb 24 (construction period) with the assumption contract amount remaining unchanged at RM2.18b; and b) a tweak to our construction margins. Meanwhile, it is still preliminary to finalise the absolute savings from the review of SunCon LRT3 work package (GS07-08) as none of its six stations were proposed to be shelved at this point of time. However, the company guided it will obtain further clarity in 4Q18 on the impact of cost review of its work contract, particularly on the redesigning of its cable bridge across Klang River. Based on our estimates, for every RM200m cost reduction, we expect SunCon 2019-20F earnings to be reduced by 1% and 3% respectively.
- We are keeping our annual orderbook replenishment of RM1.5b annually for 2018-20.

### VALUATION/RECOMMENDATION

- Maintain HOLD with a lower target price of RM1.54** (from RM1.62), based on 12x 2019F EPS of 12.8 sen. Entry price is RM1.40.

### OUTSTANDING ORDERBOOK AS OF SEP 18

	(RMm)	(RMm)
LRT3	2,021	
MRT2	527	
Putrajaya Parcel F	287	
PPA1M Kelantan	208	
Others	293	
<b>Total External (A)</b>		<b>3,336</b>
Sunway Serene	351	
Sunway REITS	261	
Sunway GeoLAKE	190	
Others	842	
<b>Total Internal (B)</b>		<b>1,644</b>
<b>Precast (C)</b>		<b>226</b>
<b>Total (A+B+C)</b>		<b>5,205</b>

Source: UOB Kay Hian

Excludes the recent contract award of RM352m by Sunway Velocity 2

### ANNUAL ORDERBOOK REPLENISHMENT ASSUMPTIONS

(RMm)	2018F	2019F	2020F
Orderbook Replenishment	1,500	1,500	1,500

Source: UOB Kay Hian

### PROFIT & LOSS

Year to 31 Dec (RMm)	2017	2018F	2019F	2020F
<b>Net turnover</b>	<b>2,076</b>	<b>2,040</b>	<b>2,572</b>	<b>2,904</b>
EBITDA	147	237	241	262
Deprec. & amort.	38	40	44	47
EBIT	110	197	197	214
Total other non-operating income	17	0	0	0
Associate contributions	2	0	0	0
Net interest income/(expense)	7	3	4	6
<b>Pre-tax profit</b>	<b>136</b>	<b>200</b>	<b>203</b>	<b>222</b>
Tax	(36)	(46)	(36)	(42)
Minorities	0	0	0	0
<b>Net profit</b>	<b>100</b>	<b>154</b>	<b>166</b>	<b>181</b>
Net profit (adj.)	100	154	166	181

### CASH FLOW

Year to 31 Dec (RMm)	2017	2018F	2019F	2020F
<b>Operating</b>	<b>63</b>	<b>208</b>	<b>217</b>	<b>227</b>
Pre-tax profit	174	200	202	220
Tax	(37)	(46)	(36)	(42)
Deprec. & amort.	38	40	44	47
Working capital changes	(112)	14	7	1
Other operating cashflows	0	0	0	0
<b>Investing</b>	<b>35</b>	<b>(55)</b>	<b>(55)</b>	<b>(55)</b>
Capex (growth)	(55)	(55)	(55)	(55)
Investments	83	0	0	0
Proceeds from sale of assets	6	0	0	0
Others	0	0	0	0
<b>Financing</b>	<b>(74)</b>	<b>(54)</b>	<b>(58)</b>	<b>(63)</b>
Dividend payments	(71)	(54)	(58)	(63)
Issue of shares	0	0	0	0
Proceeds from borrowings	0	0	0	0
Loan repayment	0	0	0	0
Others/interest paid	(3)	0	0	0
<b>Net cash inflow (outflow)</b>	<b>24</b>	<b>100</b>	<b>104</b>	<b>110</b>
<b>Beginning cash &amp; cash equivalent</b>	<b>465</b>	<b>487</b>	<b>586</b>	<b>690</b>
Changes due to forex impact	(2)	0	0	0
<b>Ending cash &amp; cash equivalent</b>	<b>487</b>	<b>586</b>	<b>690</b>	<b>800</b>

### BALANCE SHEET

Year to 31 Dec (RMm)	2017	2018F	2019F	2020F
Other LT assets	158	176	190	201
Cash/ST investment	487	586	690	800
Other current assets	1,242	766	808	903
<b>Total assets</b>	<b>1,887</b>	<b>1,528</b>	<b>1,689</b>	<b>1,904</b>
ST debt	135	135	135	135
Other current liabilities	1,191	734	788	887
LT debt	0	0	0	0
Other LT liabilities	7	4	4	4
Shareholders' equity	554	654	761	878
Minority interest	1	1	1	1
<b>Total liabilities &amp; equity</b>	<b>1,887</b>	<b>1,528</b>	<b>1,689</b>	<b>1,904</b>

### KEY METRICS

Year to 31 Dec (%)	2017	2018F	2019F	2020F
<b>Profitability</b>				
EBITDA margin	7.1	11.6	9.4	9.0
Pre-tax margin	6.6	9.8	7.9	7.7
Net margin	4.8	7.6	6.5	6.2
ROA	5.8	9.0	10.4	10.1
ROE	19.2	25.5	23.5	22.0
<b>Growth</b>				
Turnover	16.1	(1.7)	26.1	12.9
EBITDA	30.0	60.7	1.9	8.5
Pre-tax profit	19.0	46.7	1.3	9.7
Net profit	18.4	53.6	8.0	8.5
Net profit (adj.)	18.4	53.6	8.0	8.5
EPS	18.4	53.5	8.0	8.5
<b>Leverage</b>				
Debt to total capital	19.5	17.1	15.0	13.3
Debt to equity	24.3	20.6	17.7	15.3
Net debt/(cash) to equity	(63.7)	(69.1)	(73.0)	(75.8)