

### COMPANY RESULTS

## Sunway Construction (SCGB MK)

1Q19: Within Expectation, Stronger Prospects Ahead

SunCon's 1Q19 core net profit accounts for 17% and 19% of our and consensus full-year estimates respectively. We deem the results in line as we expect stronger quarters ahead from billings recognition of LRT3 (post finalisation) and its outstanding orderbook backlog of RM5.7b, while anticipating gradual improvement in precast business earnings on improved margins and better ASPs. Maintain HOLD. Target price: RM1.79. Entry price: RM1.65.

### 1Q19 RESULTS

Year to 31 Dec (RMm)	1Q19	qoq % chg	yoy % chg
Revenue	440.0	(29.7)	(16.9)
Construction	407.0	(31.6)	(17.3)
Precast Concrete	33.0	7.7	(11.2)
EBIT	38.2	(15.2)	(10.9)
Construction	37.9	(22.3)	(3.6)
Precast Concrete	0.3	(111.3)	(90.9)
Pre-tax Profit	40.1	(15.1)	(8.0)
PATMI	31.0	(15.2)	(13.3)
Core PATMI	27.9	(36.2)	(16.1)
<b>Margins</b>	<b>%</b>	<b>+/-ppt</b>	<b>+/-ppt</b>
Construction	9.3	1.1	1.3
Precast Concrete	1.0	10.5	(8.7)
PBT	9.1	1.6	0.9
PATMI	7.0	1.2	0.3

Source: Sunway Construction, UOB Kay Hian

### RESULTS

• **1Q19: In line.** Sunway Construction (SunCon) reported a 1Q19 core net profit of RM28m (-36% qoq, -16% yoy) on revenue of RM440m (-30% qoq, -17% yoy). 1Q19 core net profit came in within our expectation, coming in at 17% and 19% of our and consensus full-year estimates respectively. Its 1Q19 core net profit declined 16% yoy on lower billings recognition from MRT2 and LRT3 due to cost optimisation of station works coupled with current precast deliveries yielding lower margins. However, we expect earnings to pick up in the coming quarters on the back of accelerated billings of its outstanding orderbook backlog, as well as billing recognition of LRT3 which is expected to resume from 2H19 onwards.

### KEY FINANCIALS

Year to 31 Dec (RMm)	2017	2018	2019F	2020F	2021F
Net turnover	2,076	2,257	2,080	2,229	2,579
EBITDA	147	214	233	251	262
Operating profit	110	175	191	206	215
Net profit (rep./act.)	100	145	165	179	188
Net profit (adj.)	100	145	165	179	188
EPS (sen)	7.8	11.2	12.8	13.8	14.5
PE (x)	25.0	17.3	15.2	14.1	13.3
P/B (x)	4.5	4.2	3.5	3.0	2.6
EV/EBITDA (x)	14.5	10.0	9.2	8.5	8.2
Dividend yield (%)	1.8	2.0	2.3	2.5	2.6
Net margin (%)	4.8	6.4	8.0	8.0	7.3
Net debt/(cash) to equity (%)	(64.9)	(46.5)	(52.9)	(58.5)	(63.1)
ROE (%)	19.4	25.6	25.7	23.6	21.5
Consensus net profit	-	-	150	158	159
UOBKH/Consensus (x)	-	-	1.10	1.13	1.18

Source: Sunway Construction, Bloomberg, UOB Kay Hian

### HOLD

(Maintained)

Share Price	RM1.94
Target Price	RM1.79
Upside	-7.6%

### 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):	2,507.0
Market cap (US\$m):	602.0
3-mth avg daily t'over (US\$m):	0.5

### Price Performance (%)

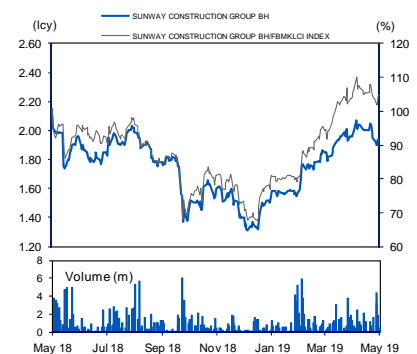
52-week high/low RM2.15/RM1.31

1mth	3mth	6mth	1yr	YTD
(1.0)	23.6	21.3	(9.8)	45.9

### Major Shareholders

Shareholder	%
Sunway Berhad	54.4
FY19 NAV/Share (RM)	0.54
FY19 Net Cash/Share (RM)	0.29

### PRICE CHART



Source: Bloomberg

### ANALYST(S)

**Farhan Ridzwan**  
 +603 2147 1989  
 farhanridzwan@uobkayhian.com

- Construction division – Resilient orderbook backlog to drive future earnings.** SunCon's construction arm reported a 1Q19 EBIT of RM38m (-22% qoq, -4% yoy) on 1Q19 revenue of RM407m (-32% qoq, -17% yoy). The weaker qoq EBIT was due to high-base effect in 4Q18 due to finalisation of accounts of three completed projects while weaker yoy EBIT was negated by lower progress billings recognition from its key project like LRT3 and MRT2 due to cost optimisation of station works. However, margins have inched up by 1.1 ppt qoq, attributable to some of its projects entering advance stages.
- Precast to deliver stronger earnings in 2H19.** The company continued to report weak precast earnings in 1Q19 (1Q19 EBIT of RM0.3m; -91% yoy) which was largely negated by a low realised ASP/m<sup>3</sup> in the period due to competitive pricing in the Singapore market which was compounded by low margins (high steel prices that led to negative cost-push effects). However, the company believes this segment will deliver better earnings in 2H19, underpinned by: a) better realised ASPs, b) stable margins on easing steel prices, and c) stronger demand for precast products for public-housing projects in Singapore. Recall that SunCon recognises precast revenue upon delivery of projects to customers (based on pre-agreed ASP), while incurring prevailing costs during precast production.

### STOCK IMPACT

- Strong diversified outstanding orderbook.** SunCon's outstanding orderbook backlog of RM5.7b provides earnings visibility for its construction arm for the next 3-4 years, with ytd job wins of RM1b. The company remains upbeat of achieving its RM1.5b annual orderbook replenishment target in 2019, and expects to secure building jobs locally from its existing client, coupled with local piling jobs. Also, the recent tie-up with its JV partner, Capital Construction Ltd, a subsidiary of Capital Diamond Star Group (CDSG) will allow SunCon to jointly develop major infrastructure and construction projects in Yangon and Mandalay, while expecting new construction jobs to flow in as early as end-19, such as hospitals and office buildings.
- LRT3 progress to date.** SunCon is actively engaging turnkey contractor (MRCB: George Kent) to finalise the design and scope of works for the six stations under its work package (expect contract value to drop), with margins to remain unchanged. Based on our estimates, for every RM200m reduction in costs, we expect SunCon's 2019-21 earnings to fall 1-2%. SunCon is hopeful for the review to be finalised by 1H19, construction works to go into full swing in 2H19 and the projects to be completed by 2024.
- ICPH to commence operations by mid-21.** The integrated construction prefabrication hub (ICPH) in Singapore has an annual capacity of 100,000m<sup>3</sup> and is expected to begin operations by mid-21, supplying precast products like prefabricated bathroom units (PBU) and prefabricated volumetric construction (PPVC) products primarily for Housing Development Board (HDB) flats in Singapore. The 51:49 JV (HL Building Materials Pte Ltd: SunCon) is expected to contribute positively from mid-21 with an estimated bottom-line of >\$5m annually (on JV level based on 50% utilisation rate). In addition, ICPH's precast products yield better margins (~>10%) than Johor precast products (annual capacity of 150,000m<sup>3</sup>).

### EARNINGS REVISION/RISK

- No change to earnings forecasts for 2019-21.** We assume an annual RM1.5b replenishment orderbook for 2019-21 and slower-than-expected progress billings from the LRT3 project. We expect the company to deliver commendable earnings in the coming quarters, underpinned by progress billings from existing work contracts (except LRT3 which works are expected to kick-start in 2H19) and improved performance from its precast business in 2H19.

### VALUATION/RECOMMENDATION

- Maintain HOLD and target price of RM1.79, based on 14x 2019F EPS of 12.8 sen.** We ascribe an above-peers PE multiple in view of SunCon's solid fundamentals and earnings visibility underpinned by the new contracts secured, its ability to clinch a balanced mix of external and internal construction projects and a strong balance sheet (net cash). The JV with its partner in Myanmar will enable SunCon to meet its annual orderbook replenishment target to sustain earnings visibility in the long term. Entry price is RM1.65.

### OUTSTANDING ORDERBOOK AS OF MAR 19

	(RMm)
LRT3	1,929
MRT2	359
Tenaga HQ Campus*	781
PPA1M Kelantan	141
LRT3 piling*	48
Mixed development Putrajaya piling*	39
Others	534
<b>Total External (A)</b>	<b>3,831</b>
Sunway Medical Centre – Phase 4	429
Sunway Serene	306
Sunway Carnival (Extension)	247
Sunway GeoLAKE	161
Big Box Hotel, Medini*	45
Others	735
<b>Total Internal (B)</b>	<b>1,923</b>
Precast (C)	316
<b>Total (A+B+C)</b>	<b>5,731</b>

\*New contracts secured in 2019

Source: UOB Kay Hian

### ORDERBOOK REPLENISHMENT

(RMm)	2019F	2020F	2021F
Orderbook Replenishment	1,500	1,500	1,500

Source: UOB Kay Hian

### JOINT VENTURE STRUCTURE BETWEEN SUNCON & CCL

	Proportion of JV	
	CCL	SunCon
<b>Internal projects</b> (Internal projects undertaken by CDSG and CCL is the lead contractor)	65%	35%
<b>External projects</b> (apart of internal projects category)	40%	60%

Source: UOB Kay Hian

### PROFIT & LOSS

Year to 31 Dec (RMm)	2018	2019F	2020F	2021F
Net turnover	2,257	2,080	2,229	2,579
EBITDA	214	233	251	262
Deprec. & amort.	39	42	45	47
EBIT	175	191	206	215
Total other non-operating income	0	0	0	0
Associate contributions	1	0	0	0
Net interest income/(expense)	8	11	14	18
<b>Pre-tax profit</b>	<b>183</b>	<b>202</b>	<b>220</b>	<b>232</b>
Tax	(38)	(36)	(42)	(44)
Minorities	0	0	0	0
<b>Net profit</b>	<b>145</b>	<b>165</b>	<b>179</b>	<b>188</b>
Net profit (adj.)	145	165	179	188

### CASH FLOW

Year to 31 Dec (RMm)	2018	2019F	2020F	2021F
<b>Operating</b>	<b>189</b>	<b>208</b>	<b>224</b>	<b>236</b>
Pre-tax profit	183	202	220	232
Tax	(37)	(36)	(42)	(44)
Deprec. & amort.	39	42	45	47
Working capital changes	0	0	0	0
Other operating cashflows	4	0	0	0
<b>Investing</b>	<b>(74)</b>	<b>(55)</b>	<b>(55)</b>	<b>(55)</b>
Capex (growth)	(56)	(55)	(55)	(55)
Investments	25	0	0	0
Proceeds from sale of assets	1	0	0	0
Others	(44)	0	0	0
<b>Financing</b>	<b>(118)</b>	<b>(58)</b>	<b>(63)</b>	<b>(66)</b>
Dividend payments	(97)	(58)	(63)	(66)
Issue of shares	0	0	0	0
Proceeds from borrowings	0	0	0	0
Loan repayment	0	0	0	0
Others/interest paid	(21)	0	0	0
<b>Net cash inflow (outflow)</b>	<b>(3)</b>	<b>95</b>	<b>106</b>	<b>115</b>
<b>Beginning cash &amp; cash equivalent</b>	<b>487</b>	<b>485</b>	<b>580</b>	<b>686</b>
Changes due to forex impact	1	0	0	0
<b>Ending cash &amp; cash equivalent</b>	<b>485</b>	<b>580</b>	<b>686</b>	<b>801</b>

### BALANCE SHEET

Year to 31 Dec (RMm)	2018	2019F	2020F	2021F
Other LT assets	215	228	238	245
Cash/ST investment	485	580	686	801
Other current assets	1,112	1,112	1,112	1,112
<b>Total assets</b>	<b>1,812</b>	<b>1,920</b>	<b>2,036</b>	<b>2,158</b>
ST debt	114	114	114	114
Other current liabilities	1,009	1,009	1,009	1,009
LT debt	96	96	96	96
Other LT liabilities	1	1	1	1
Shareholders' equity	591	699	815	937
Minority interest	1	1	1	1
<b>Total liabilities &amp; equity</b>	<b>1,812</b>	<b>1,920</b>	<b>2,036</b>	<b>2,158</b>

### KEY METRICS

Year to 31 Dec (%)	2018	2019F	2020F	2021F
<b>Profitability</b>				
EBITDA margin	9.5	11.2	11.3	10.2
Pre-tax margin	8.1	9.7	9.9	9.0
Net margin	6.4	8.0	8.0	7.3
ROA	7.9	8.9	9.0	9.0
ROE	25.6	25.7	23.6	21.5
<b>Growth</b>				
Turnover	8.7	(7.8)	7.1	15.7
EBITDA	45.3	8.9	7.9	4.2
Pre-tax profit	34.2	10.2	9.3	5.4
Net profit	44.9	13.8	7.9	5.4
Net profit (adj.)	44.9	13.8	7.9	5.4
EPS	44.8	13.8	7.9	5.3
<b>Leverage</b>				
Debt to total capital	26.2	23.1	20.5	18.3
Debt to equity	35.5	30.1	25.8	22.4
Net debt/(cash) to equity	(46.5)	(52.9)	(58.5)	(63.1)