

17 May 2019

Construction and Engineering | Construction

Sunway Construction (SCGB MK)

Neutral (from Buy)

Fully Valued After Strong Run; D/G To NEUTRAL

Target Price (Return)	MYR2.12 (+9%)
Price:	MYR1.94
Market Cap:	USD602.5m
Avg Daily Turnover (MYR/USD)	4.4m/1.1m

- Downgrade to NEUTRAL, MYR2.12 TP** implies 9% upside with 4% FY19F yield. Sunway Construction's stock has rallied 49% YTD, as sentiment improved amidst large-scale infrastructure project revivals. It announced contract wins totalling MYR1bn early this year, which further aided its rise. However, the company's reluctance to increase its FY19 new order target of MYR1.5bn suggests that new job visibility could be less rosy. Amidst a lack of fresh catalysts, upside to our TP has narrowed to 9%, hence our downgrade.
- Remaining quarters to make up for 1Q19's shortfall.** Suncon's 1Q19 earnings registered at MYR31m (-10% YoY, -1% QoQ). This represents 19-21% of our and Street FY19 forecasts, which we deem to be in line, as we expect a pick-up in construction billings in the coming quarters.
- Weaker showing from both key segments.** Construction revenue fell 17% YoY and 32% QoQ, but EBIT margin for the segment remained robust at 9% (past 3-year average: 7%). This is likely attributed to recognition of higher-margin projects. Meanwhile, Suncon's precast division revenue and EBIT fell 17% and 3% YoY, as new orders remained elusive.
- Lower progress billings from internal projects.** For the 3-month period ended Mar 2019, Suncon's Mass Rapid Transit 2 (MRT2) and Light Rail Transit 3 (LRT3) projects progressed by 8ppts and 2ppts. The slow pace of progress for LRT3 was expected, with resumption of works projected in 2H19. Currently, redesign works and negotiations between the main contractor and subcontractors (Suncon) are taking place. On the other hand, the bulk of internal projects which form 34% of Suncon's outstanding orderbook are either at the tail-end or in the early stages of the project cycle, where billings are typically sub-optimal.
- We make no changes to our earnings forecasts.** Our valuation methodology is also maintained, as we are still ascribing an ex-cash target P/E of 14x FY19F earnings –in line with that of larger-cap contractors.
- Key risks.** Key downside risks include failure to secure new contracts, and a prolonged downturn in the retail and property markets. The reverse of these factors would present upside risks.

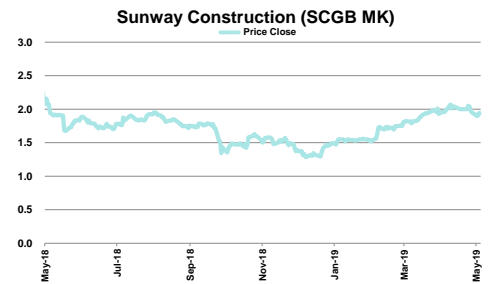
Analyst

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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	45.9	(1.0)	23.6	21.3	(9.8)
Relative	50.7	0.3	28.3	27.0	3.7
52-wk Price low/high (MYR)	1.3 – 2.16				



Source: Bloomberg

Forecasts and Valuations	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
Total turnover (MYRm)	2,076	2,257	2,301	2,449	2,686
Recurring net profit (MYRm)	138	146	164	176	186
Recurring net profit growth (%)	11.7	5.9	12.2	7.7	5.5
Recurring EPS (MYR)	0.11	0.11	0.13	0.14	0.14
Recurring P/E (x)	18.2	17.2	15.3	14.2	13.5
P/B (x)	4.53	4.37	3.93	3.53	3.20
P/CF (x)	5.15	3.99	3.54	3.17	2.81
Dividend Yield (%)	3.6	3.5	3.9	4.2	4.5
EV/EBITDA (x)	10.65	8.36	7.44	6.58	5.84
Return on average equity (%)	26.4	26.1	27.0	26.2	24.9
Net debt to equity (%)	net cash	net cash	net cash	net cash	net cash

Source: Company data, RHB

Figure 1: Sunway Construction's results review

FYE Dec (MYRm)	1Q18	4Q18	1Q19	QoQ (%)	YoY (%)	Comments
Revenue	419.5	748.2	440.0	(41.2)	4.9	Lower billings for LRT3 and internal projects.
EBIT	42.1	39.9	38.2	(4.3)	(9.2)	
<i>EBIT Margin (%)</i>	<i>10.0</i>	<i>5.3</i>	<i>8.7</i>			Lower contributions from precast division.
Interest expense	(1.1)	(1.8)	(2.3)	29.1	113.4	
Interest income	3.2	5.4	4.2	(21.1)	32.5	
EI/Others	0.0	0.7	0.0	nm	nm	
Pretax profit	44.2	44.2	40.1	(9.2)	(9.1)	
<i>Pretax Margin (%)</i>	<i>10.5</i>	<i>5.9</i>	<i>9.1</i>			
Tax	(9.5)	(12.0)	(8.5)	(29.5)	(10.8)	
<i>Effective tax rate (%)</i>	<i>(21.6)</i>	<i>(27.3)</i>	<i>(21.2)</i>			
Minority Interest	(0.0)	(0.2)	(0.6)	230.6	4,630.8	
Net Profit	34.6	31.9	31.0	(2.9)	(10.4)	
Core Profit	34.6	31.2	31.0	(0.7)	(10.4)	Represents 19-21% of FY19 forecasts, but we expect a pick-up.
<i>Core Net Margin (%)</i>	<i>8.3</i>	<i>4.2</i>	<i>7.0</i>			

Source: Company data, RHB

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