

Sunway Construction Group (SCGB MK) : HOLD

Mkt. Cap: US\$550m | 3m Avg. Daily Val: US\$0.33m

Last Traded Price (25 Feb 2019): RM1.73

Price Target 12-mth: RM1.66 (4% downside) (Prev RM1.66)

Analyst

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Strong construction earnings offset losses for precast

- 4Q18 met expectations, DPS of 3.5 sen declared
- 2018 new wins of RM1.55bn met forecast
- Construction earnings supported growth as 4Q18 precast losses widened q-o-q
- Maintain HOLD and SOP-derived TP of RM1.66

Forecasts and Valuation

FY Dec (RMm)	2017A	2018A	2019F	2020F
Revenue	2,076	2,257	2,928	2,851
EBITDA	205	218	252	260
Pre-tax Profit	174	183	198	200
Net Profit	138	145	158	160
Net Pft (Pre Ex.)	138	145	158	160
Net Pft Gth (Pre-ex) (%)	11.6	5.0	9.4	1.1
EPS (sen)	10.7	11.2	12.2	12.4
EPS Pre Ex. (sen)	10.7	11.2	12.2	12.4
EPS Gth Pre Ex (%)	12	5	9	1
Diluted EPS (sen)	10.7	11.2	12.2	12.4
Net DPS (sen)	5.50	7.50	6.12	6.19
BV Per Share (sen)	42.8	45.7	51.8	58.0
PE (X)	16.2	15.5	14.1	14.0
PE Pre Ex. (X)	16.2	15.5	14.1	14.0
P/Cash Flow (X)	35.9	11.8	9.7	10.5
EV/EBITDA (X)	9.2	9.0	7.5	7.0
Net Div Yield (%)	3.2	4.3	3.5	3.6
P/Book Value (X)	4.0	3.8	3.3	3.0
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	26.3	25.3	25.1	22.5

Source of all data on this page: Company, AllianceDBS, Bloomberg Finance L.P.

Company Guide



Summary of our point of view, and highlights the relevant data points, which are actively tracked

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What's New

Within expectations. Sunway Construction Group Berhad (SCG) reported a 4Q18 net profit of RM37m (+15% y-o-y, +0.4% q-o-q), bringing 12M18 headline net profit to RM145m (+5% y-o-y). This was on the back of a 9% y-o-y increase in 12M18 revenue to RM2,257m. The results were within our forecast and consensus estimate. A single interim dividend of 3.5 sen was declared, bringing FY18 dividends to 7 sen that translates into a payout ratio of more than 60%.

Construction division lifted earnings. Construction revenue for 4Q18 declined 18% y-o-y to RM595m due to near completion of its Putrajaya Parcel F which will be handed over in 1QFY19. However, FY18 construction pretax profit was up 29% y-o-y to RM182m. 4Q18 construction pretax margin was 8.3% vs 4Q17's 5.3% due to the finalisation of the account of one project. Its outstanding construction orderbook as at 31 December 2018 stands at RM5.8bn. The softer prices for steel now will help some of its larger projects in its orderbook such as LRT 3 and TNB HQ Campus.

Losses for precast division widened. For 4Q18, its precast division losses widened to RM2.9m (vs 3Q18 pretax loss of RM1.9m). 4Q18 revenue also slid by 17% y-o-y and 8% q-o-q to RM31m. Profitability for the quarter was impacted by current projects, higher raw material prices locked in and management fees paid to parent company. We now expect meaningful improvement for its precast business in 2020. The outstanding precast orderbook as at 31 December 2018 stood at RM286m, sufficient for more than one year of revenue visibility.



Flash Note

New order wins for FY18 met guidance. SCG's new order wins for FY18 was RM1.55bn which met its guidance (FY17's new order wins stood at RM4bn). The majority of its new wins have been from its parent company Sunway Berhad. For FY19F, it is guiding for RM1.5bn new wins where YTD wins amount to RM781m coming from one project, the Tenaga Nasional Project in Bangsar.

Maintain HOLD rating and TP. We are maintaining our HOLD rating on SCG and TP of RM1.66. While we like the stock for its strong execution track record, solid balance sheet and consistent dividend payment, we think its current valuation of 14x FY19F PE is not compelling vs its larger cap peers.

Flash Note
Quarterly Income Statement (RMm)

FY Dec	4Q2017	3Q2018	4Q2018	% chg yoy	% chg qoq
Revenue	748	557	626	(16.3)	12.3
Other Oper. (Exp)/Inc	(710)	(513)	(581)	(18.1)	13.3
Operating Profit	38.4	44.8	45.1	17.3	0.6
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	nm	nm
Associates & JV Inc	2.15	0.0	0.73	(66.0)	nm
Net Interest (Exp)/Inc	3.58	2.15	1.47	(58.8)	(31.4)
Exceptional Gain/(Loss)	0.0	0.0	0.0	nm	nm
Pre-tax Profit	44.2	46.9	47.3	7.0	0.7
Tax	(12.1)	(10.4)	(10.4)	(13.3)	0.1
Minority Interest	(0.3)	(0.1)	(0.3)	20.7	192.0
Net Profit	31.8	36.4	36.6	15.0	0.4
Net profit bef Except.	31.8	36.4	36.6	15.0	0.4
EBITDA	40.6	44.8	45.8	12.8	2.3

Margins (%)

Opg Profit Margins	5.1	8.0	7.2
Net Profit Margins	4.2	6.5	5.8

Source of all data: Company, AllianceDBS

Target Price & Ratings History


S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	27 Feb 18	2.40	2.60	HOLD
2:	09 Apr 18	2.01	2.60	BUY
3:	14 May 18	2.16	2.18	HOLD
4:	18 May 18	2.02	2.18	HOLD
5:	17 Aug 18	1.99	2.04	HOLD
6:	14 Nov 18	1.53	2.04	HOLD
7:	21 Nov 18	1.60	1.66	HOLD
8:	04 Jan 19	1.44	1.66	HOLD
9:	20 Feb 19	1.76	1.66	HOLD

Note: Share price and Target price are adjusted for corporate actions.

Source: AllianceDBS

Analyst: Tjen San CHONG

Flash Note

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STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

BUY (>15% total return over the next 12 months for small caps, >10% for large caps)

HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

FULLY VALUED (negative total return i.e. > -10% over the next 12 months)

SELL (negative total return of > -20% over the next 3 months, with identifiable catalysts within this time frame)

Share price appreciation + dividends

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Sources for all charts and tables are AllianceDBS unless otherwise specified.

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