

Sunway Construction Group Berhad

TP: RM1.35 (-22.0%)

Precast Division Remains A Drag on Earnings

Last Traded: RM1.73

SELL

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Results Review

- SUNCON's FY18 net profit of RM144.7mn came in within expectations, accounting for 99.2% and 98.7% of ours and consensus full-year estimates.
- A second interim dividend of 3.5sen/share was declared, bringing total dividend declared for FY18 to 7.0sen/share (FY17: 7.0sen/share).
- FY18 net profit was 5.0% higher at RM144.7mn, backed by an 8.7% growth in full-year revenue to RM2,256.8mn. FY18 construction operating margin improved by 1.1%-pts to 8.2% due to finalisation of account of a completed project. However, operating margin for the precast segment nose-dived from 18.9% to 0.8%, due to stiff competition and projects with lower margin.
- QoQ, core profit grew at a slower pace of 0.4% to RM36.6mn, versus a 12.3% jump in revenue to RM626.0mn, dragged by lower construction and precast margins. The LBT in the precast segment widened from RM1.9mn to RM2.9mn, affected by further decline in precast operating margin from -5.7% a quarter ago to -9.3%.

Impact

- Maintain FY19 to FY20 earnings forecasts. We introduce FY21 earnings forecasts with a projected net profit contraction of 22.5% to RM115.4mn.

Outlook

- Its outstanding order book stood at RM6.0bn, translating into 2.7x FY18 revenue. This could provide earnings visibility to the group for the next 2 to 3 years.
- After securing RM1.6bn of new contracts in FY18, the group targets an order replenishment of RM1.5bn in FY19. Currently, it has a tender book of RM6.0bn.

Valuation

- No change to our target price of **RM1.35**, based on unchanged 12x CY19 earnings. Maintain **SELL**.

Share Information

Bloomberg Code	SCGB MK
Bursa	SUNCON
Stock Code	5263
Listing	Main Market
Share Cap (mn)	1,292.2
Market Cap (RMmn)	2235.6
52-wk Hi/Lo (RM)	2.64/1.30
12-mth Avg Daily Vol ('000 shrs)	1269.2
Estimated Free Float (%)	22.5
Beta	1.4

Major Shareholders (%)

Sunholdings	- 54.44
Sungei Way Corp Sdn Bhd	- 10.06
Employee Provident Fund	- 8.25

Forecast Revision

	FY19	FY20
Forecast Revision (%)	-	-
Net profit (RMmn)	146.0	149.0
Consensus	155.3	161.2
TA's / Consensus (%)	94.0	92.5
Previous Rating	Sell (Maintained)	

Financial Indicators

	FY19	FY20
Net Debt / Equity (%)	net cash	net cash
CFPS (sen)	(6.6)	(1.6)
Price / CFPS (x)	(26.4)	(107.6)
ROA (%)	7.7	7.8
NTA/Share (RM)	49.4	52.9
Price/NTA (x)	3.5	3.3

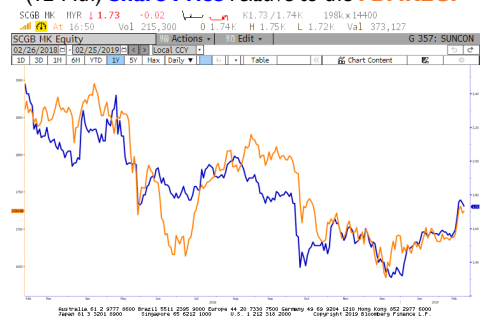
Scorecard

	% of FY	
vs. TA	99.2	Within
vs. Consensus	98.7	Within

Share Performance (%)

Price Change	SUNCON	FBM KLCI
1 mth	9.5	1.4
3 mth	13.8	1.3
6 mth	(8.0)	(4.6)
12 mth	(29.7)	(7.3)

(12-Mth) Share Price relative to the FBMKLCI



Source: Bloomberg

Table 1: Earnings Summary (RMmn)

FYE Dec (RMmn)	2017	2018	2019F	2020F	2021F
Revenue	2,076.3	2,256.8	2,240.0	2,249.0	1,600.0
Gross profit	428.6	na	470.4	472.3	336.0
EBITDA	202.4	214.6	206.5	226.3	198.6
EBITDA margin (%)	9.7	9.5	9.2	10.1	12.4
EBIT	164.6	174.6	169.2	175.4	132.5
PBT	174.2	183.1	184.8	188.7	146.1
PAT	137.8	145.0	146.0	149.0	115.4
Core net profit	137.8	144.7	146.0	149.0	115.4
Core EPS (sen)	10.7	11.2	11.3	11.5	8.9
PER (x)	16.2	15.4	15.3	15.0	19.4
Gross dividend (sen)	7.0	7.0	8.0	8.0	6.0
Dividend yield (%)	4.0	4.0	4.6	4.6	3.5
ROE (%)	26.3	25.5	23.6	22.5	16.4

Table 2: 4QFY18 Results Analysis (RMmn)

FYE Dec	4Q17	3Q18	4Q18	QoQ (%)	YoY (%)	FY17	FY18	YoY(%)
Revenue	748.2	557.3	626.0	12.3	(16.3)	2076.3	2256.8	8.7
- Construction	721.7	524.1	595.4	13.6	(17.5)	1931.4	2123.2	9.9
- Precast	26.4	33.3	30.6	(7.9)	15.8	144.9	133.7	(7.7)
Operating profit	38.4	44.8	45.1	0.6	17.2	164.6	174.6	6.0
Finance income	5.4	3.9	3.5	(9.4)	(34.4)	13.5	16.0	19.0
Finance costs	(1.8)	(1.7)	(2.0)	17.9	14.7	(6.1)	(8.3)	36.4
Profit before taxation	44.2	46.9	47.3	0.7	7.0	174.2	183.1	5.1
- Construction	41.2	48.9	50.2	2.6	21.9	146.7	182.0	24.1
- Precast	3.0	(1.9)	(2.9)	48.3	(195.6)	27.5	1.0	(96.3)
Income tax expense	(12.0)	(10.4)	(10.4)	0.1	(13.3)	(36.2)	(38.0)	5.0
Non-controlling interests	0.3	0.1	0.3	192.0	(20.7)	0.1	0.3	145.7
Net profit	31.8	36.4	36.6	0.4	15.0	137.8	144.7	5.0
- Construction	27.1	38.2	37.5	(1.8)	38.5	113.5	142.6	25.6
- Precast	4.7	(1.8)	(0.9)	(47.5)	(119.6)	24.3	2.1	(91.4)
Core net profit	31.8	36.4	36.6	0.4	15.0	137.8	144.7	5.0
Reported EPS (sen)	2.5	2.8	2.8	0.4	15.0	10.7	11.2	5.1
Core EPS (sen)	2.5	2.8	2.8	0.4	15.0	10.7	11.2	5.1
Dividend (sen)	4.0	0.0	3.5	na	(12.5)	7.0	7.0	0.0
Margin (%):				% pts	% pts			% pts
- Operating	5.1	8.0	7.2	(0.8)	2.1	7.9	7.7	(0.2)
- Construction	4.9	8.9	8.0	(0.9)	3.1	7.1	8.2	1.1
- Precast	11.2	(5.7)	(9.3)	(3.5)	(20.4)	18.9	0.8	(18.1)
- PBT	5.9	8.4	7.6	(0.9)	1.6	8.4	8.1	(0.3)
- PAT	4.3	6.5	5.9	(0.7)	1.6	6.6	6.4	(0.2)
- Effective tax rate	27.3	22.2	22.1	(0.1)	(5.2)	20.8	20.8	(0.0)

Table 3: Ongoing Projects

Project	Contract Value (RMmn)	Outstanding Amount (RMmn)
Infrastructure		2,530
MRT Package V201 + S201	1,213	459
LRT 3 Package GS07-08	2,178	1,969
Others	87	3
Piling works	128	99
Buildings		433
Putrajaya Parcel F	1,610	170
PPA1M Kota Bharu	582	180
Nippon Express	70	48
GDC (Plant 2)	14	14
Others	487	21
Internal		1,971
Sunway Velocity Medical Centre	185	32
Sunway Medical Centre Phase 4	512	439
Sunway Iskandar – Emerald Residences	175	15
Sunway Iskandar –Big Box	170	74
Sunway Serene – Serviced Residence	449	339
Velo 2	352	352
3C4	100	99
Sunway GEOLake	223	177
Sunway Carnival Ext	286	256
Sunway Medical Centre (Seberang Jaya)	180	167
Velocity Ecodeck	11	10
M&E Works	30	11
Singapore		286
Precast	331	53
Precast – new order 2018	229	233
Grand Total @ Dec 2018	9,688	5,219
TNB HQ Campus	781	781
Outstanding Order Book to date	10,469	6,001

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.

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As of Tuesday, February 26, 2019, the analyst, Ooi Beng Hooi, who prepared this report, has interest in the following securities covered in this report:
(a) nil

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