

COMPANY RESULTS

Sunway Construction (SCGB MK)

2018: Commendable Results, Great Prospects Ahead

SunCon's 2018 core net profit came in within expectation, at 98% of our full-year estimate, on progress billings recognition from its outstanding orderbook. But this was partly negated by the sluggish precast business. Meanwhile, SunCon is hopeful the precast business will return to the black by 2H19 on improved margins and better ASPs, while the kick-start of LRT 3 post-finalisation will further boost earnings growth. Maintain HOLD. Target price: RM1.54. Entry price: RM1.45.

4Q18 RESULTS

Year to 31 Dec (RMm)	4Q18	3Q18	qoq % chg	yoy % chg	2018	yoy % chg
Revenue	626.0	557.3	12.3	(16.3)	2,256.8	8.7
Construction	595.4	524.1	13.6	(17.5)	2,123.2	9.9
Precast Concrete	30.6	33.3	(7.9)	15.8	133.7	(7.7)
EBIT	45.1	44.8	0.6	19.9	174.6	9.7
Construction	48.7	46.7	4.4	37.5	174.4	32.4
Precast Concrete	(2.9)	(1.9)	52.6	(196.8)	1.0	(96.5)
Pre-tax Profit	47.3	46.9	0.7	9.1	183.1	8.5
PATMI	36.6	36.4	0.4	18.1	144.7	9.4
Core PATMI	43.8	38.3	14.2	47.6	150.6	18.4
Margins	%	%	+/-ppt	+/-ppt	%	+/-ppt
Construction	8.2	8.9	(0.7)	3.3	8.2	1.4
Precast Concrete	-9.5	-5.7	(3.8)	(20.8)	0.7	(18.2)
PBT	7.6	8.4	(0.9)	1.8	8.1	(0.0)
PATMI	5.8	6.5	(0.7)	1.7	6.4	0.0

Source: Sunway Construction, UOB Kay Hian

RESULTS

• **2018: In line.** Sunway Construction (SunCon) reported a 4Q18 core net profit of RM43.8m (+14.2% qoq, +20.7% yoy) on revenue of RM626m (+12.3% qoq, -16.3% yoy) while full-year 2018 core net profit came in within our expectation, coming in at 98% of our full-year estimate. SunCon's 2018 core net profit rose 18% yoy on the back of accelerated progress billings for its key projects: a) MRT2 and Putrajaya Parcel F, b) for piling works at various sites other projects, and c) for internal jobs from Sunway Bhd. However, this was partially negated by the sluggish performance of its precast business.

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)	22.3	15.4	13.5	12.5	11.9
P/B (x)	4.1	3.8	3.2	2.7	2.4
EV/EBITDA (x)	12.7	8.7	8.0	7.4	7.1
Dividend yield (%)	2.1	2.3	2.6	2.8	2.9
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	-	-	155	161	-
UOBKH/Consensus (x)	-	-	1.07	1.11	-

Source: Sunway Construction, Bloomberg, UOB Kay Hian

HOLD

(Maintained)

Share Price	RM1.73
Target Price	RM1.54
Upside	-12.2%

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):	2,235.6
Market cap (US\$m):	549.7
3-mth avg daily t'over (US\$m):	0.3

Price Performance (%)

52-week high/low RM2.46/RM1.31

1mth	3mth	6mth	1yr	YTD
9.5	14.6	(8.0)	(27.9)	30.1

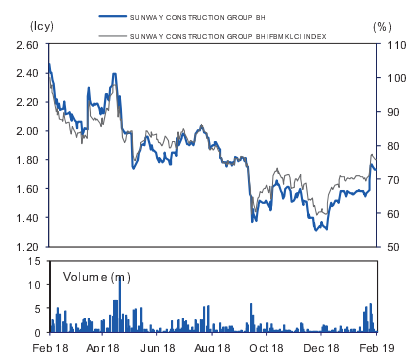
Major Shareholders

Sunway Berhad 54.4%

FY19 NAV/Share (RM) 0.54

FY19 Net Cash/Share (RM) 0.29

PRICE CHART



Source: Bloomberg

ANALYST(S)

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- Construction division – Strong orderbook backlog boosted earnings.** SunCon's construction arm reported a 4Q18 EBIT of RM49m (+4% qoq, +38% yoy) on 4Q18 revenue of RM595m (+14% qoq, -18% yoy). The stronger qoq EBIT was underpinned by accelerated billings while the improvement on a yoy basis was largely attributable to improved margins (+3.3 ppt yoy) as finalisation of accounts on a project was concluded in 4Q18. Meanwhile, 2018 EBIT rose 10% yoy to RM175m, driven by progress billing recognitions on key projects like MRT2, Putrajaya Parcel F, for internal jobs from Sunway Bhd and for piling works at various sites. Construction margin inched up 1.4ppt yoy to 8.2% (in line with our estimates).
- Precast to return to the black in 2H19.** The company continued to report weak precast earnings in 2018 (2018 EBIT of RM1m; -97% yoy) which was largely negated by a low realised ASP/m³ in 2018 due to competitive pricing in the Singapore market which was compounded by low margins (high steel prices which led to negative cost-push effects). However, the company believes this segment will return to the black 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, 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 RM6.0b as of Dec 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 a single contract from Tenaga Nasional Bhd (TNB) to build a TNB Campus worth RM781m.
- LRT3 updates.** Being awarded the single largest LRT3 contract, SunCon has not been spared from the impact of the revision to project size, which caused the company to recognise slower-than-expected progress billings. Meanwhile, we understand the turnkey contractor, the MRCB:George Kent JV, is actively engaging with respective sub-contractors including SunCon, to finalise the design and scope of works for its six stations along the alignment under SunCon's work package (expected to reduce the contract value) by 2Q19. Based on our estimates, for every RM200m reduction in costs, we expect SunCon's 2019-21 earnings to be reduced by 1-2%. SunCon is hopeful for the review to be finalised by 1H19 and construction works to go into full swing in 2H19.
- ICPH to commence operations by mid-21.** The integrated construction prefabrication hub (ICPH) which is in Singapore, has an annual capacity of 100,000m³ and is expected to begin operations by mid-21, supplying various precast products like prefabricated bathroom units (PBU) and prefabricated volumetric construction (PPVC) products primarily for flats built under the Housing Development Board (HDB) in Singapore. We expect stronger earnings contribution from the ICPH plant from mid-21, with an estimated bottom line at >S\$10m annually. In addition, ICPH's precast products yield better margins (~>10%) relative to Johor precast products (annual capacity of 150,000m³)

EARNINGS REVISION/RISK

- No change to our earnings estimates for 2019-20; introduce 2021 forecasts.** We had assumed an annual RM1.5b replenishment orderbook for 2019-21 as well as 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 its existing work contracts (except LRT3; progress works are expected to kick-start in 2H19) coupled with the improved performance from its precast business in 2H19.

VALUATION/RECOMMENDATION

- Maintain HOLD with a target price of RM1.54,** based on 12x 2019F EPS of 12.8 sen. Entry price is RM1.45.

OUTSTANDING ORDERBOOK AS OF DEC 18

	(RMm)
LRT3	1,969
MRT2	459
Tenaga HQ Campus	781
PPA1M Kelantan	180
Others	293
Total External (A)	3,744
Sunway Medical Centre – Phase 4	439
Sunway Serene	339
Sunway Carnival (Extension)	256
Sunway GeoLAKE	177
Others	760
Total Internal (B)	1,971
Precast (C)	286
Total (A+B+C)	6,001

Excludes the recent contract award of RM352m by Sunway Velocity 2
Source: UOB Kay Hian

ORDERBOOK REPLENISHMENT

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

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
Pre-tax profit	183	202	220	232
Tax	(38)	(36)	(42)	(44)
Minorities	0	0	0	0
Net profit	145	165	179	188
Net profit (adj.)	145	165	179	188

CASH FLOW

Year to 31 Dec (RMm)	2018	2019F	2020F	2021F
Operating	189	208	224	236
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
Investing	(74)	(55)	(55)	(55)
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
Financing	(118)	(58)	(63)	(66)
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
Net cash inflow (outflow)	(3)	95	106	115
Beginning cash & cash equivalent	487	485	580	686
Changes due to forex impact	1	0	0	0
Ending cash & cash equivalent	485	580	686	801

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
Total assets	1,812	1,920	2,036	2,158
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
Total liabilities & equity	1,812	1,920	2,036	2,158

KEY METRICS

Year to 31 Dec (%)	2018	2019F	2020F	2021F
Profitability				
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
Growth				
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
Leverage				
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)