

26 February 2019

Sunway Construction Group

FY18 Within Expectations

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FY18 CNP of RM139.9m came in within expectations, making up 100%/95% of our/consensus full-year estimates. A 3.5 sen dividend was declared, bringing full-year dividend declared to 7.0 sen, within our estimate. No changes to FY19E CNP, introduces FY20E CNP of RM150.3m. Maintain UNDERPERFORM with an unchanged SoP-driven Target Price of RM1.40.

Within expectations. FY18 CNP of RM139.9m came in within expectations, making up 100%/95% of our/consensus full-year estimates. A 3.5 sen dividend was declared, bringing full-year dividend declared to 7.0 sen, within our estimate.

Results highlight. For FY18, SUNCON registered CNP growth of 4% underpinned by revenue growth of 9%, YoY. The growth in CNP was mainly driven by its construction division, which registered 24% growth in pre-tax profits backed by: (i) revenue growth of 10%, and (ii) improvements in pre-tax margins from 7.6% to 8.6%. As for its pre-cast division, it only registered RM1.0m in pre-tax profit which represents a decline of 96%, YoY, due to recognition of lower margin jobs, which was secured under stiff competition. **QoQ**, 4Q18 CNP saw a marginal decline by 4% albeit registering revenue growth of 12% as its construction division pre-tax margins came down to 8.4% (-0.9ppt), and its precast division losses widened by 48%, QoQ. Its precast division continued to register losses due to decline in revenue (-8%) which resulted in further margin erosion.

Outlook. The sector outlook remains uncertain due to the recent review of government spending on infrastructure jobs. However, we believe strong players like SUNCON can weather through these challenging times given their strong parent (SUNWAY)'s support and competitiveness to secure huge jobs from the private sector coupled with an existing tender-book of RM6.0b and their intention to participate in overseas projects, i.e. Myanmar and India.

Earnings unchanged. Post results, there are no changes to our FY19E CNP of RM145.1m, and we take the opportunity to introduce our FY20E CNP of RM150.3m.

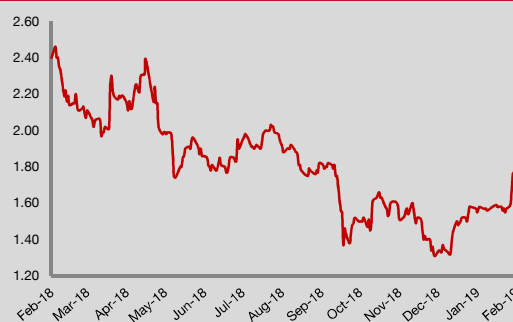
Maintain UNDERPERFORM. We reiterate our UNDERPERFORM call on SUNCON with an unchanged SoP-driven Target Price of RM1.40 which we ascribed an 11.0x to its FY19E Core EPS. Our Target Price of RM1.40 implies 12.1x FY19E PER which is at a higher range to our ascribed multiple of 11.0x for the sector.

Risks to our call include: (i) higher-than-expected margins/order-book replenishment, and (ii) higher government spending on infrastructure and affordable housing projects.

UNDERPERFORM ↔

Price : **RM1.73**
Target Price : **RM1.40** ↔

Share Price Performance



KLCI	1,724.58
YTD KLCI chg	2.0%
YTD stock price chg	30.1%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	SCGB MK Equity
Market Cap (RM m)	2,235.6
Shares Outstanding	1,292.2
52-week range (H)	2.46
52-week range (L)	1.30
3-mth avg daily vol:	878,774
Free Float	27%
Beta	1.4

Major Shareholders

Sunway Holdings Sdn Bhd	54.4%
Sungei Way Corp Sdn Bhd	10.1%
Employees Provident Fund Board	8.1%

Summary Earnings Table

FYE Dec (RM m)	2018A	2019E	2020E
Turnover	2257	2527	2583
EBIT	175	158	-140
PBT	183	194	201
Net Profit	145	145	150
Core PATAMI	140	145	150
Consensus (NP)	n.a.	154	160
Earnings Revision	n.a.	0%	0%
Core EPS (sen)	10.3	10.8	11.6
Core EPS growth (%)	4%	4%	4%
NDPS (sen)	7.0	6.5	6.7
NTA per Share (RM)	0.5	0.5	0.6
Price to NTA (x)	3.7	3.4	3.1
PER (x)	16.0	15.5	14.9
Debt-to-Equity ratio (x)	0.2	0.2	0.2
Return on Asset (%)	7%	6%	6%
Return on Equity (%)	24%	22%	21%
Net Div. Yield (%)	4.0%	3.7%	3.9%

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Results Highlight

FYE Dec (RM'm)	4Q18	3Q18	QoQ	4Q17	YoY	FY18	FY17	YoY
Turnover	626.0	557.3	12%	748.2	-16%	2,256.8	2,076.3	9%
EBIT	44.3	44.8	-1%	38.6	15%	170.6	161.1	6%
Interest inc/(exp)	1.5	2.1	-31%	3.6	-59%	7.7	7.4	5%
Associates	0.0	0.0	n.m.	2.2	-100%	0.0	2.2	-100%
Exceptional items	0.5	0.1	400%	-2.9	n.m.	4.2	0.0	n.m.
Forex gain/(loss)	1.0	-0.1	n.m.	2.7	-63%	0.5	3.5	-86%
Pretax profit	47.3	46.9	1%	44.2	7%	183.1	174.2	5%
Taxation	-10.4	-10.4	0%	-12.0	-13%	-38.0	-36.2	5%
Deferred tax	0.0	0.0	n.m.	0.0	n.m.	0.0	0.0	n.m.
Profit after tax	36.8	36.5	1%	32.1	15%	145.0	138.0	5%
Minority interest	-0.3	-0.1	192%	-0.3	-21%	-0.4	-0.5	-19%
PATAMI	36.6	36.4	0%	31.8	15%	144.6	137.5	5%
Core PATAMI	35.1	36.4	-4%	32.0	10%	139.9	134.0	4%
EBIT margin	7%	8%		5%		8%	8%	
Pretax margin	8%	8%		6%		8%	8%	
CNP margin	6%	7%		4%		6%	6%	
EPS (sen)	2.8	2.8		2.5		11.2	10.6	
Core EPS(sen)	2.7	2.8		2.5		10.8	10.3	
BV/share (RM)	0.5	0.4		0.4		0.5	0.4	
Net gearing (x)	-0.6	-0.6		-0.6		-0.6	-0.6	
Effective tax	22%	22%		27%		21%	21%	

Source: Company, Kenanga Research

Segmental Breakdown

Turnover Segmentation	4Q18	3Q18	QoQ	4Q17	YoY	FY18	FY17	YoY
Construction	595.4	524.1	14%	721.7	-18%	2,123.2	1,931.4	10%
Pre-cast	30.6	33.3	-8%	26.4	16%	133.7	144.9	-8%
Total	626.0	557.3	12%	748.2	-16%	2,256.8	2,076.3	9%
Construction	50.2	48.9	3%	41.2	22%	182.0	146.7	24%
Pre-cast	-2.9	-1.9	48%	3.0	-196%	1.0	27.5	-96%
Total	47.3	46.9	1%	44.2	7%	183.1	174.2	5%
Pre-tax margins								
Construction	8.4%	9.3%		5.7%		8.6%	7.6%	
Pre-cast	-9.4%	-5.8%		11.4%		0.8%	19.0%	

Source: Company, Kenanga Research

Sum-of-parts valuation

SoP	Valuation/Discount	Value (RM'm)
FY19E Earnings	11.0	1596.4
FY19E cash pile (RM m)	50%	201.7
Fair Value (RM m)		1798.1
Shares Outstanding (m)		1297.9
Target Price (RM)		1.40
Implied FY19E PER (x)		12.1

Source: Kenanga Research

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Peer Comparison

Name	Last Price (RM)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)	Net Div Yld (%)	Target Price (RM)	Rating
					1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.			
STOCKS UNDER COVERAGE																	
EVERSENDAI CORP BHD	0.565	441.3	Y	12/2018	-7.7%	-6.4%	-13.0%	-6.1%	6.4	7.4	7.9	0.7	0.4	6.9%	0.0%	0.505	UP
GAMUDA BHD	2.86	7,058.7	Y	07/2019	-20.8%	0.3%	-27.7%	1.2%	8.6	11.9	11.8	0.9	0.9	7.7%	4.2%	3.05	MP
GEORGE KENT (MALAYSIA) BHD	1.13	608.8	Y	01/2019	-24.1%	5.3%	-45.1%	9.7%	4.7	8.5	7.7	1.3	1.2	15.0%	4.4%	0.845	MP
HOCK SENG LEE BERHAD	1.57	862.7	Y	12/2018	18.0%	18.6%	31.3%	17.7%	18.5	14.1	12.0	1.2	1.1	8.1%	1.4%	1.30	UP
IJM CORP BHD	1.88	6,817.4	Y	03/2019	10.1%	4.7%	9.8%	9.8%	16.6	15.1	13.8	0.7	0.7	4.7%	2.6%	1.85	MP
KERJAYA PROSPEK GROUP BHD	1.33	1,642.7	Y	12/2018	32.9%	7.9%	16.9%	6.1%	13.3	11.4	10.7	2.0	1.8	16.8%	2.3%	1.20	MP
KIMLUN CORP BHD	1.30	431.4	Y	12/2018	-3.8%	5.8%	-24.5%	1.3%	6.1	8.1	8.0	0.7	0.7	8.4%	3.1%	1.15	MP
MITRAJAYA HOLDINGS BHD	0.345	305.3	Y	12/2018	-28.0%	-1.7%	-46.6%	10.9%	4.4	8.2	7.4	0.5	0.4	5.2%	4.3%	0.290	MP
MUHIBBAH ENGINEERING (M) BHD	2.99	1,440.6	Y	12/2018	-24.4%	5.7%	28.2%	6.7%	11.7	9.1	8.5	1.4	1.3	14.8%	2.3%	3.20	OP
SUNWAY CONSTRUCTION GROUP BHD	1.73	2,235.6	Y	12/2019	12.0%	2.2%	3.7%	3.6%	16.0	15.5	14.9	3.7	3.4	22.4%	3.7%	1.40	UP
WCT HOLDINGS BHD	0.865	1,194.2	Y	12/2018	9.6%	30.7%	6.7%	20.5%	10.6	10.0	8.3	0.4	0.4	3.8%	0.0%	0.850	OP
Simple Average					-2.4%	6.7%	-5.5%	7.4%	10.6	10.8	10.1	1.2	1.1	10.4%	2.6%		
CONSENSUS ESTIMATES																	
AHMAD ZAKI RESOURCES BERHAD	0.420	251.2	Y	12/2018	N.A.	N.A.	N.A.	N.A.	8.6	N.A.	N.A.	0.9	N.A.	N.A.	N.A.	N.A.	SELL
BINA PURI HOLDINGS BHD	0.195	74.3	Y	12/2018	N.A.	N.A.	N.A.	N.A.	24.0	N.A.	N.A.	0.3	N.A.	N.A.	N.A.	N.A.	SELL
GABUNGAN AQRS BHD	1.17	560.6	Y	12/2018	57.9%	23.7%	37.8%	30.9%	11.7	8.5	0.0	1.1	1.4	16.6%	3.4%	1.74	BUY
GADANG HOLDINGS BHD	0.630	416.9	Y	05/2019	3.7%	11.9%	-19.8%	6.5%	4.3	5.4	0.0	0.6	N.A.	5.9%	4.0%	0.685	BUY
JAKS RESOURCES BHD	0.635	371.3	Y	12/2018	8.7%	45.7%	-76.7%	194.7%	2.9	12.6	0.0	0.4	0.5	4.4%	0.0%	0.775	BUY
MUDAJAYA GROUP BHD	0.335	197.6	Y	12/2018	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	1.8	N.A.	N.A.	N.A.	N.A.	SELL
PINTARAS JAYA BHD	2.30	381.5	Y	06/2019	99.1%	9.6%	65.9%	16.7%	24.6	14.8	0.1	1.2	1.2	8.2%	8.8%	2.38	NEUTRAL
PESONA METRO HOLDINGS	0.240	166.8	Y	12/2018	22.8%	9.1%	-12.9%	69.5%	8.7	10.0	0.0	0.9	N.A.	10.3%	6.3%	0.290	BUY
PROTASCO BHD	0.260	127.9	Y	12/2018	-15.0%	8.7%	-102.5%	4.8%	4.6	N.A.	0.0	0.4	0.3	-0.2%	3.5%	0.210	SELL
TRC SYNERGY BHD	0.570	273.9	Y	12/2018	4.6%	19.4%	-30.3%	39.9%	9.1	13.0	0.0	0.7	0.6	5.1%	3.5%	0.620	NEUTRAL

Source: Bloomberg, Kenanga Research

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Stock Ratings are defined as follows:**Stock Recommendations**

OUTPERFORM : A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM : A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM : A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT : A particular sector's Expected Total Return is MORE than 10%
NEUTRAL : A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT : A particular sector's Expected Total Return is LESS than -5%

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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