



Sunway Construction (SCGB MK)

Inline

HOLD

Share Price RM1.73
Target Price RM1.60 -7.5%

Sluggish domestic outlook

- 4Q18 core earnings grew 14.3% qoq on higher progress billings while it surged 59.6% yoy on finalization of account for completed work.
- 2018 core earnings grew 15.4% and met ours and consensus estimates at 103% on major progress of on-going projects and improved margin ahead of a project handover.
- Outlook for the broader domestic construction industry remains sluggish amidst delays on mega projects. However, we believe SunCon is able to mitigate this by leveraging on Sunway Group's ongoing and future development plans.
- Maintain HOLD with RM1.60 TP. We like the stock for its net cash position, 3-year earnings visibility and steady job flows from Sunway Group. Accumulate on dips.

Advanced by building segment

4Q18 core earnings grew 14.3% on higher progress billings recorded for the Sunway Carnival Mall Extension, Seberang Jaya. Meanwhile, it surged 59.6% yoy due to finalization of account for completed work.

Within expectations

2018 core earnings grew 15.4% yoy on better construction segment performance while it was inline with ours and consensus estimates at 103%. This was due to significant progress for major contracts (ie. KVMRT2, Putrajaya Parcel F, International School of KL and both Seberang Jaya's Sunway Carnival Mall and Sunway Medical Centre). The margin was also uplifted by the finalization of account on a completed project.

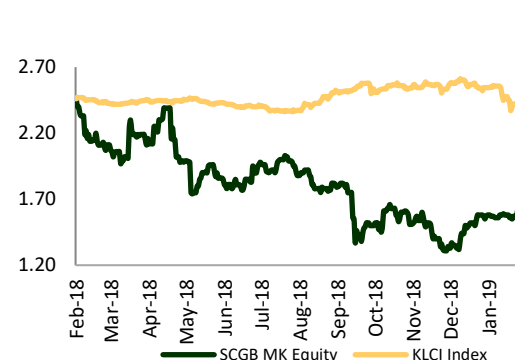
Sluggish domestic outlook

Management anticipated the domestic construction sector to remain sluggish amidst on-going cost review on mega projects. To note, it has yet to be informed of the full impact to its RM2.2bn LRT3 work package. Nevertheless, SunCon maintains its orderbook target of RM1.5bn for 2019 as it expects to leverage on Sunway Group's development plans after securing RM781m worth of contract from TNB last week.

Maintain Hold and TP of RM1.60

We maintain HOLD and TP of RM1.60 as share priced has rallied over 28% since our initiation. Despite sluggish industry outlook, we still like the stock for its solid fundamentals; it is in a net cash position while outstanding orderbook provide 3-year earnings visibility and we expect a steady job flow from Sunway Group in 2019.

Price Chart (RM)



Share Performance (%)	1m	3m	12m
Absolute	9.5	14.6	(25.1)
vs FBM KLCI	8.0	12.7	(22.2)

Stock Data

Mkt Cap (RM m)	2,235.59
Free float (%)	22.46%
Issued shares (m)	1,292.25
52w H/L (RM)	2.46/1.3
3m avg daily volume	878,774

Major Shareholders (%)

Sunway Holdings	54.44%
Sungei Way Corp Sdn	10.06%
EPF	8.25%

FYE 31 Dec (RM m)	2017	2018	2019F	2020F	2021F
Turnover	1,789	2,076	2,257	2,232	2,119
EBITDA	188	192	221	217	205
Pretax profit	154	169	183	183	174
Net Profit	124	127	151	145	136
Consensus			147	155	161
EPS (sen)	9.8	10.3	11.3	11.2	10.6
PER (x)	17.7	16.8	15.3	15.5	16.4
DPS (sen)	5.0	7.0	7.5	6.5	5.5
Div. Yield (%)	2.9	4.0	4.3	3.8	3.2
P/B Value	4.6	4.1	3.7	3.5	3.2

Key Ratios (%)

ROE	25.0	24.9	25.5	22.2	19.2
EBITDA margin	10.5	9.2	9.8	9.7	9.7
Pretax margin	8.6	8.1	8.1	8.2	8.2
Net margin	6.9	6.1	6.7	6.5	6.4

Source: Bloomberg, BIMB Securities

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Table 1 : Quarterly earnings summary

FYE 31 Dec (RM m)	Quarterly			Change (%/ppts)		FY17	FY18	Change YTD	BIMB	
	4QFY17	3QFY18	4QFY18	QoQ	YoY				FY18F	12M/F
Revenue	748.2	557.3	626.0	12.3%	-16.3%	2,076.3	2,256.8	8.7%	2,215.9	101.8%
Opex	-702.8	-502.4	-571.1	13.7%	-18.7%	-1,879.4	-2,042.3	8.7%	-1,999.7	102.1%
EBITDA	45.4	54.9	54.9	0.0%	21.0%	196.9	214.6	8.9%	216.2	99.2%
Depreciation	-9.9	-10.1	-9.9	-2.8%	0.0%	-37.8	-40.0	5.7%	-40.6	98.3%
EBIT	35.5	44.8	45.1	0.6%	26.9%	159.1	174.6	9.7%	175.6	99.4%
Finance Income	5.4	3.9	3.5	-9.4%	-34.4%	13.5	16.0	19.0%	14.4	111.2%
Finance Cost	-1.8	-1.7	-2.0	17.9%	14.7%	-6.1	-8.3	36.4%	-7.5	110.8%
Associate & JV	2.2	0.0	0.7	nm	-66.0%	2.2	0.7	-66.0%	0.0	n.m
Pretax profit	41.3	46.9	47.3	0.7%	14.6%	168.7	183.1	8.5%	182.5	100.3%
Taxation	-12.0	-10.4	-10.4	0.1%	-13.3%	-36.2	-38.0	5.0%	-36.1	105.3%
Minority interest	-0.3	-0.1	-0.3	192.0%	-20.7%	-0.1	-0.3	145.7%	-0.1	245.7%
PATAMI	28.9	36.4	36.6	0.4%	26.6%	132.3	144.7	9.4%	146.2	98.9%
El	-1.5	1.8	7.2	288.0%	n.m	-5.1	6.0	n.m	0.0	
Core EBITDA	43.9	56.8	62.1	9.4%	41.4%	191.8	220.6	15.0%	216.2	102.0%
Core PATAMI	27.4	38.3	43.7	14.3%	59.6%	127.2	150.7	18.5%	146.2	103.1%
Headline EPS	2.2	2.8	2.8	0.4%	26.6%	10.2	11.2	9.4%	11.3	98.9%
Core EPS	2.1	3.0	3.4	14.3%	59.6%	9.8	11.7	18.5%	11.3	103.1%
DPS (sen)	4.0	0.0	3.5	n.m	-12.5%	7.0	7.0	0.0%	7.5	93.3%
EBITDA margin (%)	6.4%	9.9%	8.8%	ppts	ppts	9.7%	9.5%	0.0	9.8%	
Core EBITDA margin (%)	5.9%	10.2%	9.9%	-0.3	4.1	9.2%	9.8%	0.5	9.8%	
PBT margin (%)	5.9%	8.4%	7.6%	-0.9	1.7	8.3%	8.1%	0.0	8.2%	
PATAMI margin (%)	4.3%	6.5%	5.8%	-0.7	1.6	6.6%	6.4%	0.0	6.6%	
Core PATAMI margin (%)	3.7%	6.9%	7.0%	0.1	3.3	6.1%	6.7%	0.6	6.6%	
Effective tax rate (%)	29.2%	22.2%	22.1%	-0.1	-7.1	21.5%	20.8%	-0.7	19.8%	

Sources: Company, BIMB Securities

Table 2 : Segmental earnings summary

FYE 31 Dec (RM m)	Quarterly			Change (%/ppts)		FY17	FY18	Change YTD
	4QFY17	3QFY18	4QFY18	QoQ	YoY			
Segment revenue								
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%
Segment pretax profit								
Construction	41.2	48.9	50.2	2.6%	21.9%	145.8	182.0	24.9%
Precast	3.0	-1.9	-2.9	48.3%	-195.6%	27.5	1.0	-96.3%
PBT margin								
Construction	5.7%	9.3%	8.4%	ppts	ppts	7.5%	8.6%	1.03
Precast	11.4%	-5.8%	-9.4%	-0.90	-20.83	19.0%	0.8%	-18.22

Sources: Company, BIMB Securities

DEFINITION OF RATINGS

BIMB Securities uses the following rating system:

STOCK RECOMMENDATION

BUY	Total return (price appreciation plus dividend yield) is expected to exceed 10% in the next 12 months.
TRADING BUY	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain.
HOLD	Share price may fall within the range of +/- 10% over the next 12 months
TAKE PROFIT	Target price has been attained. Fundamentals remain intact. Look to accumulate at lower levels.
TRADING SELL	Share price may fall by more than 15% in the next 3 months.
SELL	Share price may fall by more than 10% over the next 12 months.
NOT RATED	Stock is not within regular research coverage.

SECTOR RECOMMENDATION

OVERWEIGHT	The Industry as defined by the analyst's coverage universe, is expected to outperform the relevant primary market index over the next 12 months
NEUTRAL	The Industry as defined by the analyst's coverage universe, is expected to perform in line with the relevant primary market index over the next 12 months
UNDERWEIGHT	The Industry as defined by the analyst's coverage universe, is expected to underperform the relevant primary market index over the next 12 months

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