HLIB Research
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BUY (Maintain)

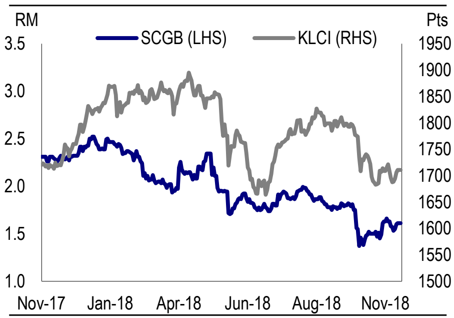
Target Price:	**RM1.86**
Previously:	**RM1.86**
Current Price:	**RM1.61**

Capital upside	15.5%
Dividend yield	4.1%
Expected total return	19.6%

Sector coverage: Construction

Company description: SunCon is involved in construction and precast products.

Share price



Historical return (%)	1M	3M	12M
Absolute	5.9	-17.4	-32.9
Relative	7.2	-13.7	-32.6

Stock information

Bloomberg ticker	SCGB MK
Bursa code	5263
Issued shares (m)	1,292
Market capitalisation (RM m)	2,081
3-mth average volume ('000)	1,000
SC Shariah compliant	Yes

Major shareholders

Sunway Berhad	64.5%
EPF	7.4%

Earnings summary

FYE (Dec)	FY17	FY18f	FY19f
PATMI - core (RM m)	138	143	146
EPS - core (sen)	10.7	11.0	11.3
P/E (x)	15.1	14.6	14.3

Sunway Construction Group

Steady as usual

SunCon's 9MFY18 earnings of RM108m (+3% YoY) were above our expectations but below consensus. YTD core PATAMI increased due to higher progress of work in construction segment, partially offset by lower contribution from precast segment due to low margin jobs secured earlier from stiff competition. Competitive pressure in Singapore precast industry has come down and the product pricing has recovered but we only expect the segment PBT margin to normalize back to 10-15% starting from 2H19 as contribution from newly secured projects takes time to kick in. Outstanding order book of RM5.6bn translates into 3x cover ratio and going forward we expect more jobs from parent-co Sunway. Raise FY18 earnings by 6% after taking into account higher construction margin. Maintain BUY with unchanged TP of RM1.86 based on 16.5x FY19 earnings.

Above HLIB but below consensus estimates. SunCon reported 3QFY18 results with revenue of RM557.3m (+2% QoQ, +13% YoY) and core earnings of RM36.4m (+2% QoQ, +5% YoY). This brings 9MFY18 core earnings to RM108.1m, increasing by 3% YoY. The core earnings accounted for 80% of our full year forecast (consensus: 69%), above our expectations but below consensus estimates. This is mainly due to higher than expected construction margin. No dividend was declared.

QoQ. Core PATAMI increased by 2% mainly due to higher revenue from both construction and precast segments, partially offset by lower margin in precast segment.

YoY. Core PATAMI increased by 5% as higher contribution from construction segment is offset by lower contribution from precast segment

YTD. Core PATAMI increased by 3% due to higher progress of work in construction segment, partially offset by lower contribution from precast segment due to low margin jobs secured earlier from stiff competition.

Precast. Precast segment PBT margin dropped significantly as the precast projects in Singapore were secured at a time when the industry was very competitive. Competitive pressure has come down and the product pricing has recovered but we only expect the segment PBT margin to normalize back to 10-15% starting from 2H19 as contribution from newly secured projects takes time to kick in.

Parent-co comes to rescue. SunCon's latest outstanding orderbook stands at c.RM5.6bn, translating into healthy level of 3x cover of FY17 construction revenue. Management maintains its orderbook target of RM1.5bn for FY18, of which RM1.35bn has been achieved YTD. Going forward, we expect more jobs to come from its parent co Sunway (BUY, TP: RM2.15) due to reduction in government spending on public infrastructure projects and continue slowdown of property market which results in less building jobs.

Forecast. Raise FY18 earnings forecast by 6% after impute higher construction margin. We maintain our forward earnings forecast as we prefer to remain conservative at this juncture due to slowdown of domestic construction industry.

Maintain BUY, TP: RM1.86. Maintain BUY rating with unchanged TP of RM1.86. TP is pegged to 16.5x P/E multiple to FY19 earnings. SunCon remains as our top pick among local construction peers due to (i) healthy balance sheet; (ii) pure construction play and (iii) strong support from parent co which enable it to ride through current down cycle.

Figure #1 Quarterly results comparison

FYE Dec (RM m)	3QFY17	2QFY18	3QFY18	*QoQ (%)*	*YoY (%)*	9MFY17	9MFY18	*YoY (%)*
Revenue	491.4	544.3	557.3	*2.4*	*13.4*	1,328.1	1,630.8	*22.8*
EBIT	42.4	42.0	44.8	*6.6*	*5.6*	125.3	129.5	*3.4*
Finance income	2.6	4.9	3.9	*(20.1)*	*48.1*	8.1	12.5	*54.3*
Finance cost	(2.0)	(1.7)	(1.7)	*2.1*	*(11.7)*	(4.3)	(6.3)	*45.3*
PBT	43.1	45.2	46.9	*3.9*	*9.0*	129.1	135.8	*5.2*
PAT	34.5	35.9	36.5	*1.7*	*5.9*	105.0	108.2	*3.1*
Core PATMI	34.6	35.9	36.4	*1.6*	*5.3*	105.1	108.1	*2.8*
Reported PATMI	34.6	35.9	36.4	*1.6*	*5.3*	105.1	108.1	*2.8*
Core EPS (sen)	2.7	2.8	2.8	*1.6*	*5.3*	8.1	8.4	*2.8*
EBIT margin (%)	8.6	7.7	8.0			9.4	7.9	
PBT margin (%)	8.8	8.3	8.4			9.7	8.3	
PATMI margin (%)	7.0	6.6	6.5			7.9	6.6	

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Financial Forecast

All items in (RM m) unless otherwise stated

Balance Sheet

FYE Dec (RM m)	FY16	FY17	FY18f	FY19f	FY20f
Cash	466	487	570	654	736
Receivables	764	1,106	950	966	1,013
Inventories	24	24	23	24	25
PPE	138	150	137	118	96
Others	205	120	120	120	120
Assets	**1,597**	**1,887**	**1,801**	**1,882**	**1,990**
Debts	137	135	137	140	146
Payables	872	1,036	890	910	948
Others	95	162	162	162	162
Liabilities	**1,104**	**1,332**	**1,189**	**1,212**	**1,255**
Shareholder's equity	493	554	611	669	733
Minority interest	1	1	1	1	1
Equity	**494**	**555**	**612**	**670**	**735**

Cash Flow Statement

FYE Dec (RM m)	FY16	FY17	FY18f	FY19f	FY20f
Profit before taxation	135	174	183	187	206
Depreciation & amortisation	39	38	37	40	42
Changes in working capital	(14)	(178)	11	3	(10)
Share of JV profits	-	(2)	-	-	-
Taxation	(30)	(36)	(40)	(41)	(45)
Others	(44)	68	(0)	(0)	(0)
Operating cash flow	**86**	**63**	**192**	**188**	**193**
Net capex	(5)	(28)	(25)	(20)	(20)
Others	78	63	-	-	-
Investing cash flow	**73**	**35**	**(25)**	**(20)**	**(20)**
Changes in borrowings	(0)	(2)	2	3	6
Issuance of shares	-	-	-	-	-
Dividends paid	(65)	(90)	(86)	(87)	(96)
Others	(19)	18	-	-	-
Financing cash flow	**(84)**	**(74)**	**(84)**	**(84)**	**(91)**
Net cash flow	**74**	**24**	**83**	**84**	**82**
Forex	2	(2)	-	-	-
Others	(78)	0	-	-	-
Beginning cash	468	466	487	570	654
Ending cash	466	487	570	654	736

Income Statement

FYE Dec (RM m)	FY16	FY17	FY18f	FY19f	FY20f
Revenue	**1,789**	**2,076**	**2,166**	**2,205**	**2,311**
EBITDA	169	202	213	219	241
EBIT	130	165	176	180	199
Net finance income/ (cost)	4	7	7	7	7
Associates & JV	-	2	-	-	-
Profit before tax	**135**	**174**	**183**	**187**	**206**
Tax	(30)	(36)	(40)	(41)	(45)
Net profit	**105**	**138**	**143**	**146**	**161**
Minority interest	(0)	(0)	(0)	(0)	(0)
Core earnings	**105**	**138**	**143**	**146**	**161**
Exceptional items	19	-	-	-	-
Reported earnings	124	138	143	146	161

Valuation & Ratios

FYE Dec (RM m)	FY16	FY17	FY18f	FY19f	FY20f
Core EPS (sen)	8.1	10.7	11.0	11.3	12.4
P/E (x)	19.9	15.1	14.6	14.3	12.9
EV/EBITDA (x)	9.6	8.0	7.6	7.4	6.7
DPS (sen)	5.0	7.0	6.6	6.8	7.5
Dividend yield	3.1%	4.3%	4.1%	4.2%	4.6%
BVPS (RM)	0.38	0.43	0.47	0.52	0.57
P/B (x)	4.2	3.8	3.4	3.1	2.8
EBITDA margin	9.5%	9.7%	9.8%	9.9%	10.4%
EBIT margin	7.3%	7.9%	8.1%	8.1%	8.6%
PBT margin	7.5%	8.4%	8.5%	8.5%	8.9%
Net margin	5.8%	6.6%	6.6%	6.6%	7.0%
ROE	22.2%	26.3%	24.5%	22.7%	22.9%
ROA	7.0%	7.9%	7.7%	7.9%	8.3%
Net gearing	CASH	CASH	CASH	CASH	CASH

Assumptions

FYE Dec (RM m)	FY16	FY17	FY18f	FY19f	FY20f
Construction	2,541	3,587	1,500	2,000	2,000
Precast	115	158	120	150	200
Total new job wins	**2,656**	**3,745**	**1,620**	**2,150**	**2,200**

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Stock rating definitions

BUY	Expected absolute return of +10% or more over the next 12 months.
HOLD	Expected absolute return of -10% to +15% over the next 12 months.
SELL	Expected absolute return of -10% or less over the next 12 months.
UNDER REVIEW	Rating on the stock is temporarily under review which may or may not result to a change from the previous rating.
NOT RATED	Stock is not or no longer within regular coverage.

Sector rating definitions

OVERWEIGHT	Sector expected to outperform the market over the next 12 months.
NEUTRAL	Sector expected to perform in-line with the market over the next 12 months.
UNDERWEIGHT	Sector expected to underperform the market over the next 12 months.