

20 November 2019

Sunway Construction Group

Slow Billings Drag

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9MFY19 CNP of RM97.7m accounted for 79%/70% of our/consensus full year expectations. The results at the CNP level exceeded our expectation due mainly to lower effective tax rate. While our PBT forecast for FY19 is trimmed, we maintain CNP for the full year on account of lower tax rate. Maintain UP with unchanged SoP-driven TP of RM1.45.

CNP exceeded our expectation and below consensus. 9MFY19 CNP of RM97.7m made up 79%/70% of our/consensus full year expectations, while pretax profit of RM116.9m came in at 71% of ours. The effective tax rate was just 7.1% in 3QFY19 and 16.5% for the 9MFY19 (versus 20.3% for 9MFY18) mainly due to tax exempt interest income and overprovision of tax in the prior year.

Results highlight. 3QFY19 PBT came in at RM35.6m (-24.1% YoY and -13.7% QoQ) on the back of revenue of RM402.6m (-27.8% YoY and -8.5% QoQ). The continued delay in LRT 3 package GS0708 and the fact that a majority of its existing projects are at initial stages are reasons why revenue and profit were lower. The progress of LRT3 is particularly disappointing given that as at end 3Q, the company reported an outstanding orderbook of RM1,882m versus RM1,817m at the end of 2Q, implying the delivery of works for the quarter at merely RM65m. The contract value of RM1.82bn in the LRT3 represents close to one-third its total outstanding orderbook of RM5.6bn – its single largest project. Property development projects contracted from the Sunway group that makes up another RM1.8bn of orderbook are progressing at a slow pace. The good news is that its precast segment which broke even the last quarter has turned in a small PBT of RM0.2m (vs a loss of RM1.9m a year ago). However, this segment remains too small to make a significant positive impact.

On a cumulative 9M basis, 9MFY19 revenue of RM1,283m (-21.3%) and PBT of RM117m (-13.8%) declined due to decline in earnings from the construction division as the civil and building divisions' jobs are mostly at their early stages. However, PBT margins were higher (from 8.3% to 9.1%) due to recognition of a final account.

Suncon's new order secured in 2019 rose during the quarter from RM1.5bn to RM1.7bn resulting in an outstanding order book at RM5.6bn which provides 2.5 years visibility. We have lowered our FY19 expectations at the pretax profit level from RM164m to RM152m. While we cut our PBT forecast for FY19 by 7%, our forecast at the CNP level remains unchanged at RM123m on account of the lower tax rate realised in the 3Q. We leave our forecast for FY20 unchanged on expectation that its construction projects especially the LRT3, will gather pace next year.

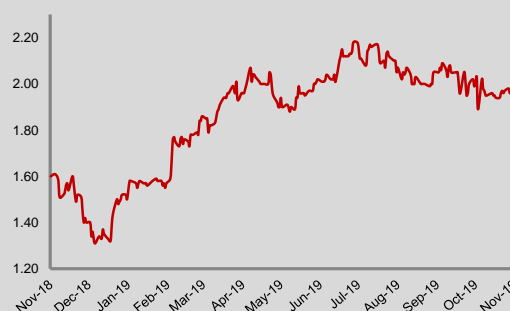
Maintain UNDERPERFORM with unchanged SoP Target Price of RM1.45, arrived at by applying a 11x PE to FY2020 earnings – at the top end of our universe ascribed range of 6 – 11x for the sector - and 55% discount to cash.

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 : RM1.98
Target Price : RM1.45 ↔

Share Price Performance



KLCI	1,605.31
YTD KLCI chg	-5.0%
YTD stock price chg	48.9%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	SCGB MK Equity
Market Cap (RM m)	2,552.9
Shares Outstanding	1,289.4
52-week range (H)	2.20
52-week range (L)	1.30
3-mth avg daily vol:	449,587
Free Float	20%
Beta	1.2

Major Shareholders

Sunway Holdings Sdn Bhd	54.6%
Sungei Way Corp Sdn Bhd	10.1%
Employees Provident Fund Board	8.4%

Summary Earnings Table

FYE Dec (RM m)	2018A	2019E	2020E
Turnover	2257	2119	2693
EBIT	175	125	170
PBT	183	152	209
Net Profit	145	123	157
Core PATAMI	140	123	157
Consensus (NP)	N.A.	141	160
PBT Revision	N.A.	-7%	0%
Core EPS (sen)	10.8	9.5	12.1
Core EPS growth (%)	4%	-12%	28%
NDPS (sen)	7.0	5.5	7.3
NTA per Share (RM)	0.5	0.5	0.6
Price to NTA (x)	4.2	3.9	3.6
PER (x)	18.4	20.9	16.4
Debt-to-Equity ratio (x)	0.2	0.2	0.2
Return on Asset (%)	7	6	7
Return on Equity (%)	24	19	22
Net Div. Yield (%)	3.5	2.8	3.7

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Results Highlight

	3QFY19	2QFY19	QoQ	3QFY18	YoY	9MFY19	9MFY18	YoY
FYE Dec (RM'm)								
Turnover	402.6	440.2	-9%	557.3	-28%	1,282.8	1,630.8	-21%
EBIT	37.2	36.7	1%	44.9	-17%	110.2	126.3	-13%
Interest inc/(exp)	1.2	3.6	-67%	2.6	-55%	6.7	6.3	7%
Associates/JV	0.0	0.0	N.A.	0.0	N.A.	0.0	0.0	N.A.
Exceptional items	-2.8	0.8	-450%	0.1	-2900%	0.0	3.7	-100%
Forex gain/(loss)	0.0	0.1	-100%	-0.5	-100%	0.0	-0.5	-100%
Pretax profit	35.6	41.2	-14%	47.1	-24%	116.9	135.8	-14%
Taxation	-2.5	-8.2	-69%	-10.4	-76%	-19.3	-27.6	-30%
Deferred tax	0.0	0.0	N.A.	0.0	N.A.	0.0	0.0	N.A.
Profit after tax	33.0	33.0	0%	36.7	-10%	97.6	108.2	-10%
Minority interest	0.4	0.2	89%	-0.1	-450%	0.0	-0.1	-100%
PATAMI	33.5	33.2	1%	36.6	-9%	97.6	108.1	-10%
Core PATAMI	33.5	32.3	4%	37.0	-2%	97.6	104.9	-7%
DPS (sen)	0.0	3.5		0.0		3.5	3.5	
EBIT margin	9%	8%		8%		9%	8%	
Pretax margin	9%	9%		8%		9%	8%	
NP margin	9%	9%		8%		9%	8%	
CNP margin	9%	7%		7%		8%	6%	
EPS (sen)	2.6	2.6		2.8		7.6	8.4	
Core EPS(sen)	2.8	2.5		2.9		7.6	8.1	
BV/share (RM)	0.5	0.5		0.4		0.5	0.4	
Net gearing (x)	-0.6	-0.7		-0.6		-0.6	-0.6	
Effective tax	7%	20%		22%		16%	20%	

Source: Company, Kenanga Research

Segmental Breakdown

	3QFY19	2QFY19	QoQ	3QFY18	YoY	9MFY19	9MFY18	YoY
External Revenue								
Construction	365.1	406.3	-10%	524.1	-30%	1,178.4	1,527.8	-23%
Pre-cast	37.5	33.9	11%	33.3	13%	104.4	103.1	1%
Pre-tax Segmentation								
Construction	35.4	41.1	-14%	49.0	-28%	116.6	131.9	-12%
Pre-cast	0.2	0.1	300%	-1.9	-111%	0.3	3.9	-92%
Pre-tax margins								
Construction	10%	10%		9%		10%	9%	
Pre-cast	1%	0%		-6%		0%	4%	

Source: Company, Kenanga Research

Sum-of-parts valuation

SoP	Valuation/Discount	Value (RM'm)
FY20E Earnings	11.0	1726.3
FY20E cash pile (RM m)	55%	181.4
Fair Value (RM m)		1907.7
Shares Outstanding (m)		1297.9
Target Price (RM)		1.45
Implied FY20E PER (x)		12.0

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																	
GAMUDA BHD	3.80	9,399.7	Y	07/2020	-26.4%	-10.2%	-17.3%	-9.8%	13.3	16.1	17.8	1.2	1.2	7.5%	3.1%	3.75	MP
GEORGE KENT (MALAYSIA) BHD	1.03	554.3	Y	01/2020	14.4%	-0.2%	-23.1%	38.3%	7.4	9.6	6.9	1.2	1.1	11.9%	3.5%	1.15	OP
HOCK SENG LEE BERHAD	1.31	719.9	Y	12/2019	18.7%	15.6%	23.0%	18.0%	13.4	10.9	9.2	0.9	0.9	8.2%	1.8%	1.40	MP
IJM CORP BHD	2.11	7,658.1	Y	03/2020	22.8%	2.0%	11.0%	2.2%	18.3	16.5	16.2	0.8	0.8	4.7%	2.4%	1.80	UP
KERJAYA PROSPEK GROUP BHD	1.32	1,627.4	Y	12/2019	28.3%	-4.4%	11.5%	1.9%	11.8	10.6	10.4	1.7	1.5	14.9%	2.3%	1.20	UP
KIMLUN CORP BHD	1.30	441.7	Y	12/2019	6.0%	-5.2%	-1.2%	2.5%	6.9	7.0	6.8	0.7	0.6	9.0%	3.3%	1.35	MP
MITRAJAYA HOLDINGS BHD	0.270	240.1	Y	12/2019	-14.7%	-9.7%	-94.7%	210.5%	5.4	102.8	33.1	0.3	0.3	0.3%	0.0%	0.200	UP
MUHIBBAH ENGINEERING (M) BHD	2.38	1,150.4	Y	12/2019	-5.8%	3.8%	-2.5%	4.7%	7.1	7.3	6.9	1.0	0.9	13.4%	3.0%	3.20	OP
SUNWAY CONSTRUCTION GROUP BHD	1.98	2,552.9	Y	12/2019	-6.1%	27.1%	-12.2%	27.7%	18.4	20.9	16.4	4.2	3.9	19.4%	2.8%	1.45	UP
WCT HOLDINGS BHD	0.885	1,247.8	Y	12/2019	6.4%	14.1%	-13.8%	19.3%	9.7	11.3	9.5	0.4	0.4	3.4%	0.0%	0.815	UP
Simple Average					4.4%	3.3%	-11.9%	31.5%	11.2	21.3	13.3	1.2	1.2	9.3%	2.2%	4.4%	
CONSENSUS ESTIMATES																	
AHMAD ZAKI RESOURCES BERHAD	0.390	233.3	Y	12/2019	N.A.	N.A.	N.A.	N.A.	15.9	N.A.	N.A.	0.5	N.A.	N.A.	N.A.	N.A.	SELL
BINA PURI HOLDINGS BHD	0.125	47.7	Y	06/2019	N.A.	N.A.	N.A.	N.A.	91.6	N.A.	N.A.	0.2	N.A.	N.A.	N.A.	N.A.	SELL
GABUNGAN AQRS BHD	1.26	621.7	Y	12/2019	2.4%	50.7%	2.3%	43.5%	10.2	9.9	0.0	1.2	1.3	12.0%	3.6%	1.76	BUY
GADANG HOLDINGS BHD	0.745	542.4	Y	05/2020	1.9%	9.9%	30.0%	10.7%	12.3	9.5	0.0	0.7	0.7	7.5%	1.7%	0.710	NEUTRAL
JAKS RESOURCES BHD	1.37	881.1	Y	12/2019	90.0%	-47.0%	644.8%	-21.2%	57.4	7.7	0.0	0.9	0.9	13.5%	0.0%	0.875	BUY
MUDAJAYA GROUP BHD	0.335	197.6	Y	12/2019	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	1.4	N.A.	N.A.	N.A.	N.A.	SELL
PINTARAS JAYA BHD	3.22	534.1	Y	06/2020	11.9%	2.8%	60.3%	2.9%	20.5	12.8	0.1	1.7	1.6	12.7%	5.9%	3.82	NEUTRAL
PESONA METRO HOLDINGS	0.225	156.4	Y	12/2019	12.1%	9.5%	166.6%	13.6%	18.9	7.1	0.0	0.8	N.A.	11.7%	4.4%	0.310	BUY
PROTASCO BHD	0.275	133.4	Y	12/2019	-6.3%	0.9%	394.3%	22.1%	N.A.	10.9	0.0	0.4	0.4	3.8%	4.4%	0.270	NEUTRAL
TRC SYNERGY BHD	0.465	223.4	Y	12/2019	11.2%	13.4%	27.1%	16.6%	10.7	8.4	0.0	0.5	N.A.	6.3%	3.9%	0.600	BUY

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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