

Sunway Construction Group (SCGB MK)

Slower growth into 2019

Maintain HOLD

Having secured the MYR781m contract for the development of the TNB HQ Campus (Phase II), SCG remains on track to achieve its MYR1.5b replenishment target for FY19E. Its orderbook of MYR6b as of YTD-Feb 2019 should provide near-term earnings visibility. However, significant precast recovery would only be seen in 2020. We adjust our FY19E/FY20E earnings downwards by 2%-4% after lowering our margin assumptions for precast. Our TP of MYR1.70 pegged to 14x FY19 PER (-1 SD) is unchanged.

MYR1.5b job win target for FY19E in check

Having secured the TNB HQ Campus (Phase II) contract worth MYR781m in Feb 2019, we believe SCG is well on track to hit its MYR1.5b job win target for FY19E. The remainder of its MYR1.5b target could potentially come from internal projects such as a hospital in Kota Damansara and a property project in Wangsa Maju. Externally, SCG has also begun making forays into Myanmar and is targeting to secure its first project in 2019, which could potentially be a property/hospital job. SCG will likely partner a local player in a JV, of which SCG will hold the minority stake.

No precast recovery yet

We understand that earnings for the precast division have yet to recover in 4Q18 and will likely remain weak into FY19E. To recall, the current projects being recognized are yielding low margins due to the higher steel bar price locked in and lower pricing from stiff competition. The projects secured in FY18E which have better margins are only expected to significantly contribute in FY20E. As such, we expect the precast division to only show marginal improvements in FY19E.

Growth to taper in FY19E

We do not foresee any surprises in the upcoming 4Q18 results, with SCG expected to report flattish QoQ earnings within the range of MYR36m-MYR40m. This should bring its full-year earnings close to our FY18 estimate of MYR148m. In FY19E, earnings will continue to be supported by construction as precast will remain weak. We lower our FY19E/FY20E net profit by 4%/2% after revising down our EBIT margins for the precast division by 10ppts/8ppts respectively, taking into account the slower-than-expected recovery at its precast division.

FYE Dec (MYR m)	FY16A	FY17A	FY18E	FY19E	FY20E
Revenue	1,789	2,076	2,363	2,670	2,680
EBITDA	188	202	225	234	233
Core net profit	124	138	148	153	151
Core EPS (sen)	9.6	10.7	11.4	11.8	11.7
Core EPS growth (%)	(2.9)	11.6	7.2	3.6	(1.2)
Net DPS (sen)	5.0	7.0	4.0	4.1	4.1
Core P/E (x)	17.8	23.5	14.5	14.0	14.2
P/BV (x)	4.5	5.9	3.3	2.9	2.5
Net dividend yield (%)	2.9	2.8	2.4	2.5	2.5
ROAE (%)	26.2	26.3	24.6	21.9	18.9
ROAA (%)	8.2	7.9	8.0	7.9	7.2
EV/EBITDA (x)	9.9	14.3	7.6	6.8	6.4
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Consensus net profit	-	-	146	154	162
MKE vs. Consensus (%)	-	-	1.1	(0.8)	(6.6)

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HOLD

Share Price	MYR 1.66
12m Price Target	MYR 1.70 (+2%)
Previous Price Target	MYR 1.70

Company Description

Sunway Construction Group offers integrated construction services and has precast concrete business in Singapore.

Statistics

52w high/low (MYR)	2.46/1.31
3m avg turnover (USDm)	0.3
Free float (%)	26.6
Issued shares (m)	1,293
Market capitalisation	MYR2.1B USD526M

Major shareholders:

Sunway Bhd.	54.4%
Active Equity Sdn. Bhd.	10.1%
Employees Provident Fund	7.5%

Price Performance



	-1M	-3M	-12M
Absolute (%)	5	3	(32)
Relative to index (%)	5	4	(26)

Source: FactSet

Other Updates

Secures TNB HQ Campus project worth MYR781m

SCG was awarded the contract for the Project Platinum main buildings works which form part of the TNB HQ Campus Development (Phase II) for a total contract sum of MYR781m. The job scope includes the proposed construction of four office towers, one convention centre, one Interactive Centre for Electricity, child care facility and others. The project is expected to complete within 26 months and assuming a pretax profit margin of 8%, we forecast a net profit contribution of MYR47.5m (3.7sen EPS) into FY21.

KVLRT 3 work package value still up in the air

With KVLRT 3's total cost being scaled down by 47% to MYR16.6b, we are still awaiting an official announcement on the quantum of cut to SCG's KVLRT 3 package worth MYR2.2b. We gather that works on the viaducts are still on-going, however no work progress has been made on the stations, which we understand are undergoing a review for their design and specifications. We have already imputed a 15% cut to SCG's KVLRT 3 value of MYR2.2b as well as taken into account a potentially extended deadline in our forecast.

Sunway Construction: Outstanding orderbook of MYR6b as of YTD-Feb 2019

YTD -Feb 2019	Contract value (MYR m)	Outstanding (MYR m)
Infrastructure		
KVMRT 2, V201 (Sg Buloh-Persiaran Dagang)	1,213	459
LRT 3 : Package GS07-08	2,178	1,969
Others	87	3
Piling Works* (incl. SUKE CA1 package)	128	99
Building		
Putrajaya Parcel F	1,610	170
PPA1M Project in Kota Bahru	582	180
Warehouse in Shah Alam	70	48
GDC (Plant 2)*	14	14
Others	487	21
Internal		
Sunway Velocity Medical Centre	185	32
Sunway Medical Centre 4 (2 towers)	512	439
Sunway Iskandar - Emerald Residences	175	15
Sunway Iskandar - Retail Complex	170	74
Sunway Property - Kelana Jaya Condo	449	339
Sunway Carnival 2 Extension - PDP contract *	286	256
SunGeo Lake 44 storey residential tower *	223	177
SMC Seberang Jaya*	180	167
Velocity Ecodeck*	11	10
M&E Works*	30	11
Sunway Velocity Two*	352	352
Sunway Velocity 3C4*	100	99
Precast		
Precast new-order 2018*	331	53
	229	233
TNB HQ Campus [#]	781	781
Total	10,383	6,001

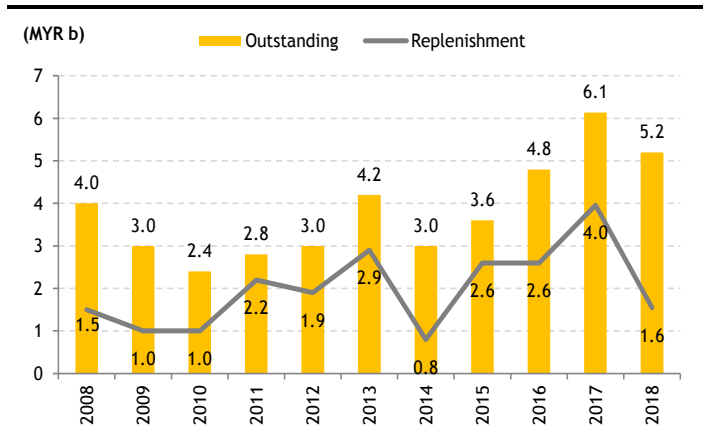
*Secured in 2018; [#]Secured in 2019

Source: Company

Orderbook wildcard?

With the lack of new major infra projects in sight, SCG has stated its intention to participate in the development of large scale solar photovoltaic plants (LSS). An article in 'The Edge Markets' dated 15 Feb 2019 (<https://bit.ly/2TPSyIB>) states that the government has opened up tenders for up to MYR2b of projects under the LSS3 which could present an orderbook wildcard for SCG in 2019. The tenders will be open for six months until Aug 2019 with awards expected by year-end.

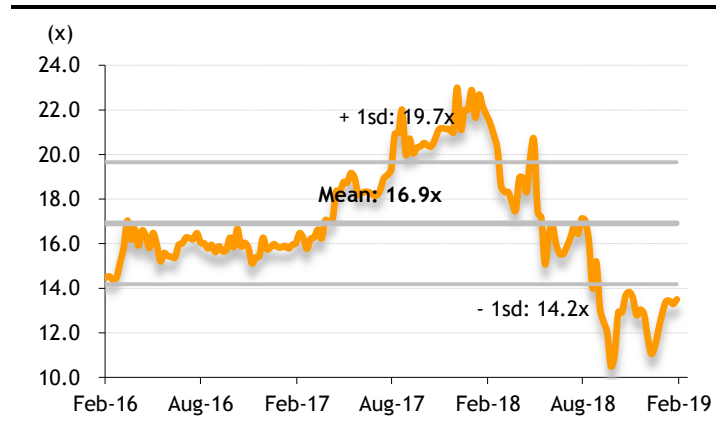
Outstanding orderbook 2018



*Including precast

Source: Company data, Maybank Kim Eng

Forward PER Chart



Source: Company data, Maybank Kim Eng

Risk statement

There are several risk factors for our earnings estimates, price target and rating for SCG. Slower-than-expected work progress at major construction projects may affect timing of earnings recognition. The review of major infrastructure projects by the new government could also delay implementation of new projects affecting future orderbook replenishment. At the precast segment, any significant increase in steel prices and stiffer competition could also affect project margins.

FYE 31 Dec	FY16A	FY17A	FY18E	FY19E	FY20E
Key Metrics					
P/E (reported) (x)	16.5	19.3	14.5	14.0	14.2
Core P/E (x)	17.8	23.5	14.5	14.0	14.2
P/BV (x)	4.5	5.9	3.3	2.9	2.5
P/NTA (x)	4.5	5.9	3.3	2.9	2.5
Net dividend yield (%)	2.9	2.8	2.4	2.5	2.5
FCF yield (%)	3.1	0.4	6.7	7.7	6.7
EV/EBITDA (x)	9.9	14.3	7.6	6.8	6.4
EV/EBIT (x)	12.5	17.6	9.1	8.2	7.9
INCOME STATEMENT (MYR m)					
Revenue	1,788.8	2,076.3	2,363.1	2,669.5	2,680.4
Gross profit	379.0	428.6	451.2	462.8	456.5
EBITDA	188.3	202.4	224.9	234.4	232.7
Depreciation	(39.1)	(37.8)	(39.0)	(39.5)	(43.0)
EBIT	149.2	164.6	186.0	194.9	189.7
Net interest income / (exp)	4.4	7.4	8.1	5.5	7.8
Associates & JV	0.0	2.2	0.0	0.0	0.0
Exceptionals	0.0	0.0	0.0	0.0	0.0
Pretax profit	153.7	174.2	194.0	200.4	197.5
Income tax	(30.0)	(36.2)	(46.2)	(47.3)	(46.3)
Minorities	(0.1)	(0.1)	0.0	0.0	0.0
Reported net profit	123.5	137.8	147.8	153.1	151.2
Core net profit	123.5	137.8	147.8	153.1	151.2
BALANCE SHEET (MYR m)					
Cash & Short Term Investments	465.8	487.2	579.8	691.5	782.4
Accounts receivable	938.4	1,195.3	1,028.5	1,143.0	1,147.1
Inventory	24.0	24.4	21.0	24.2	24.4
Property, Plant & Equip (net)	138.4	149.8	158.1	172.0	182.6
Intangible assets	2.3	2.2	2.2	2.2	2.2
Investment in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other assets	28.5	28.2	28.2	28.2	28.2
Total assets	1,597.3	1,887.2	1,817.8	2,061.1	2,166.8
ST interest bearing debt	136.5	134.7	134.7	134.7	134.7
Accounts payable	955.0	1,185.1	1,019.6	1,163.4	1,170.8
LT interest bearing debt	0.0	0.0	0.0	0.0	0.0
Other liabilities	12.0	13.0	13.0	13.0	13.0
Total Liabilities	1,103.5	1,332.3	1,166.9	1,310.7	1,318.1
Shareholders Equity	493.0	553.7	649.8	749.3	847.6
Minority Interest	0.8	1.1	1.1	1.1	1.1
Total shareholder equity	493.8	554.8	650.9	750.4	848.7
Total liabilities and equity	1,597.3	1,887.2	1,817.8	2,061.1	2,166.8
CASH FLOW (MYR m)					
Pretax profit	153.7	174.2	194.0	200.4	197.5
Depreciation & amortisation	39.1	37.8	39.0	39.5	43.0
Adj net interest (income)/exp	4.4	7.4	8.1	5.5	7.8
Change in working capital	(58.7)	(112.0)	4.8	26.1	3.1
Cash taxes paid	(26.5)	(37.1)	(46.2)	(47.3)	(46.3)
Other operating cash flow	(26.4)	(7.4)	(8.1)	(5.5)	(7.8)
Cash flow from operations	85.6	62.8	191.6	218.7	197.4
Capex	(17.0)	(48.4)	(47.3)	(53.4)	(53.6)
Free cash flow	68.7	14.4	144.3	165.3	143.8
Dividends paid	(84.0)	(71.1)	(51.7)	(53.6)	(52.9)
Change in Debt	(0.3)	(1.9)	0.0	0.0	0.0
Other invest/financing cash flow	91.7	89.6	0.0	0.0	0.0
Net cash flow	76.0	31.0	92.6	111.7	90.8

FYE 31 Dec	FY16A	FY17A	FY18E	FY19E	FY20E
Key Ratios					
Growth ratios (%)					
Revenue growth	(6.7)	16.1	13.8	13.0	0.4
EBITDA growth	5.7	7.5	11.1	4.2	(0.7)
EBIT growth	9.5	10.3	12.9	4.8	(2.6)
Pretax growth	9.2	13.4	11.4	3.3	(1.4)
Reported net profit growth	(2.9)	11.6	7.2	3.6	(1.2)
Core net profit growth	(2.9)	11.6	7.2	3.6	(1.2)
Profitability ratios (%)					
EBITDA margin	10.5	9.7	9.5	8.8	8.7
EBIT margin	8.3	7.9	7.9	7.3	7.1
Pretax profit margin	8.6	8.4	8.2	7.5	7.4
Payout ratio	52.3	65.6	35.0	35.0	35.0
DuPont analysis					
Net profit margin (%)	6.9	6.6	6.3	5.7	5.6
Revenue/Assets (x)	1.1	1.1	1.3	1.3	1.2
Assets/Equity (x)	3.2	3.4	2.8	2.8	2.6
ROAE (%)	26.2	26.3	24.6	21.9	18.9
ROAA (%)	8.2	7.9	8.0	7.9	7.2
Liquidity & Efficiency					
Cash conversion cycle	(51.6)	(43.5)	(33.9)	(28.0)	(31.2)
Days receivable outstanding	166.6	185.0	169.4	146.4	153.8
Days inventory outstanding	5.3	5.3	4.3	3.7	3.9
Days payables outstanding	223.5	233.8	207.6	178.1	188.9
Dividend cover (x)	1.9	1.5	2.9	2.9	2.9
Current ratio (x)	1.3	1.3	1.4	1.4	1.5
Leverage & Expense Analysis					
Asset/Liability (x)	1.4	1.4	1.6	1.6	1.6
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Net gearing (%) (excl. perps)	net cash	net cash	net cash	net cash	net cash
Net interest cover (x)	na	na	na	na	na
Debt/EBITDA (x)	0.7	0.7	0.6	0.6	0.6
Capex/revenue (%)	0.9	2.3	2.0	2.0	2.0
Net debt/ (net cash)	(329.3)	(352.6)	(445.1)	(556.9)	(647.7)

Source: Company; Maybank

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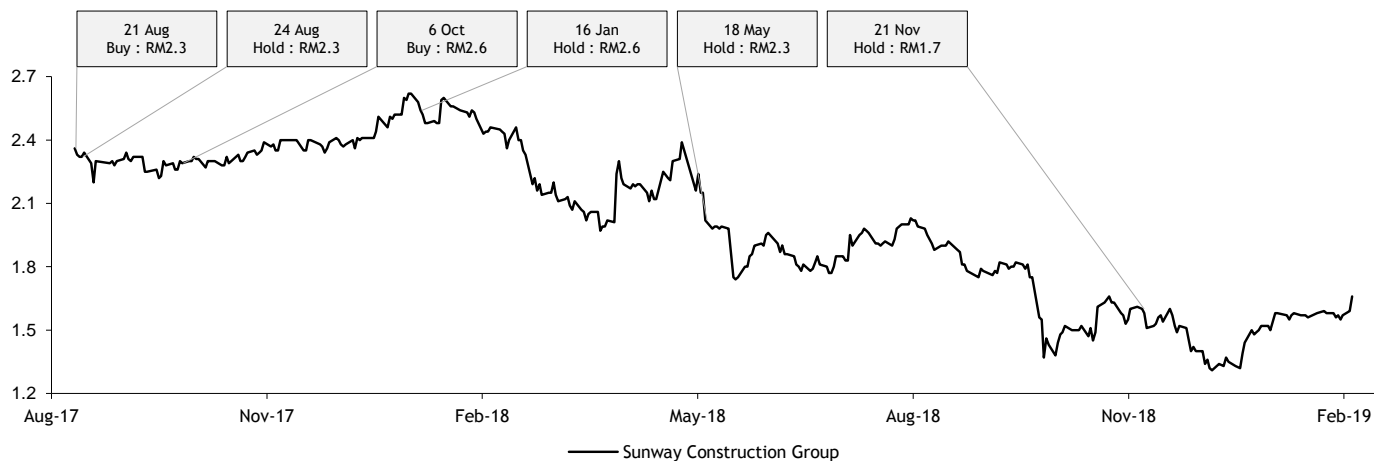
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