

Sunway Construction Group

A Maiden Win for 2019

By **Adrian Ng** | adrian.ng@kenanga.com.my

We are positive on the RM781.3m contract from TENAGA as the construction timeline is shorter than expected, albeit it being within our order-book replenishment assumptions of RM1.5b. We raised our FY19E earnings by 8% after factoring in the shorter execution timeline. Maintain **UNDERPERFORM** with a higher SoP-driven Target Price of RM1.40 (previously, RM1.30).

Bags TNB HQ Campus (Phase 2). Yesterday, SUNCON announced that they have won a construction job from Tenaga Nasional Bhd (TENAGA) worth RM781.3m. The scope of work includes the proposed construction of four office towers, one convention centre, one interactive centre for electricity, child care facility and other facilities to house TENAGA's employees. The construction work for the campus is expected to be completed within 26 months upon commencement, shorter compared to typical high-rise jobs, which easily takes up to 36 months. We believe that the shorter construction timeline is solely on superstructure works as the substructure works for the campus could be completed prior to this award.

Positive surprise on timeline. This is SUNCON's first contract win for the year and one of the largest to date. While the contract award of RM781.3m came in within our and management's replenishment target of RM1.5b for FY19, the construction timeline for this particular came in as a surprise to us as it is 10 months shorter compared to our assumptions of 36 months. Assuming pre-tax margin of 8%, this particular contract would contribute c.RM21.6m to its bottom-line per annum.

Outlook of the sector 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. For its upcoming 4Q18 result that is set to be released on 25th February 2019, we expect SUNCON to register a performance that falls within our expectations.

Earnings tweak. Following this contract win, we raised our FY19E CNP by 8%, as we have factored in the shorter execution timeline for this project.

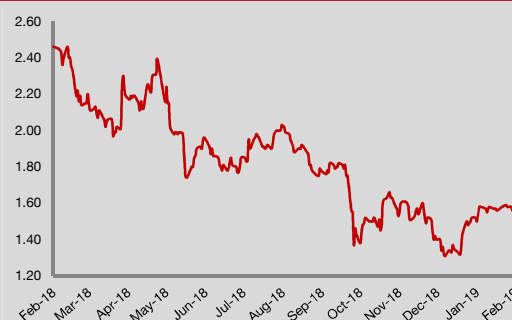
Maintain UNDERPERFORM. Nonetheless, we maintain our UNDERPERFORM rating due to the strong performance of its share price, which has registered a year-to-date gain of 24.8%. Following the revision in earnings, we also raised our SoP-driven Target Price higher to RM1.40 (previously, RM1.30). We ascribed 11.0x FY19E PER which is the highest valuation range within our stock coverage universe range of 6-11x.

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 : RM1.66
Target Price : RM1.40 ↑

Share Price Performance



KLCI	1,706.56
YTD KLCI chg	0.9%
YTD stock price chg	24.8%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	SCGB MK Equity
Market Cap (RM m)	2,145.1
Shares Outstanding	1,292.2
52-week range (H)	2.48
52-week range (L)	1.30
3-mth avg daily vol:	709,763
Free Float	27%
Beta	1.3

Major Shareholders

Sunway Holdings SdnBhd	54.4%
Sungei Way Corp SdnBhd	10.1%
Employee Provident Fund	8.1%

Summary Earnings Table

FYE Dec (RM m)	2017A	2018E	2019E
Turnover	2076	2318	2527
EBIT	165	194	219
PBT	174	185	194
Net Profit	138	139	145
Core PATAMI	134	139	145
Consensus (NP)	n.a.	148	157
Earnings Revision	n.a.	0%	8%
Core EPS (sen)	10.3	10.7	11.2
Core EPS growth (%)	14%	4%	4%
NDPS (sen)	7.0	7.0	6.5
NTA per Share (RM)	0.4	0.5	0.5
Price to NTA (x)	3.9	3.6	3.2
PER (x)	16.1	15.5	14.8
Debt-to-Equity ratio (x)	0.2	0.2	0.2
Return on Asset (%)	7%	6%	6%
Return on Equity (%)	25%	23%	22%
Net Div. Yield (%)	4.2%	4.2%	3.9%

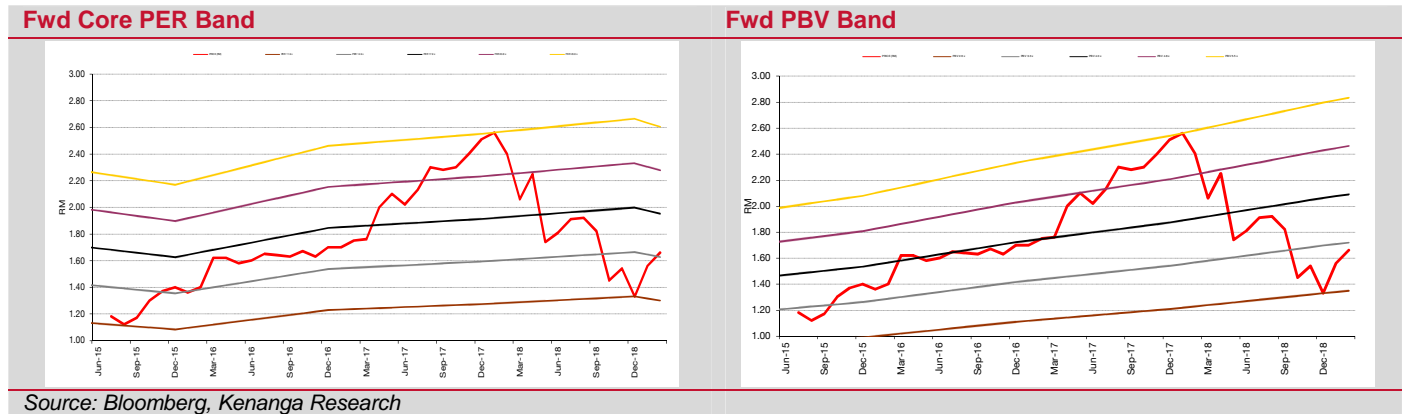
20 February 2019

Income Statement						Financial Data & Ratios					
FY Dec (RM'm)	2015A	2016A	2017A	2018E	2019E	FY Dec (RM'm)	2015A	2016A	2017A	2018E	2019E
Revenue	1917	1789	2076	2318	2527	Growth (%)					
EBITDA	177	188	202	234	256	Revenue	2%	-7%	16%	12%	9%
Depreciation	-42	-39	-38	-40	-37	EBITDA	113%	106%	108%	116%	109%
EBIT	135	149	165	194	219	EBIT	20%	10%	10%	18%	13%
Interest Expense	3	4	5	5	5	Pre-tax Income	1%	9%	13%	6%	4%
Associates/JV	0	0	0	0	0	Net Income	-22%	-3%	12%	1%	4%
Exceptional Items	9	6	4	0	0	Core Net Income	-22%	-7%	14%	4%	4%
PBT	141	154	174	185	194	Profitability (%)					
Taxation	-13	-30	-36	-46	-48	EBITDA Margin	9%	11%	10%	10%	10%
MI/Perps	-1	0	0	0	0	EBIT Margin	7%	8%	8%	8%	9%
Net Profit	127	124	138	139	145	PBT Margin	7%	9%	8%	8%	8%
Core Net Profit	127	118	134	139	145	Net Margin	7%	7%	7%	6%	6%
						Core Net Margin	7%	7%	6%	6%	6%
						Effective Tax Rate	-9%	-20%	-21%	-25%	-25%
						ROE	28%	25%	25%	23%	22%
						ROA	9%	7%	7%	6%	6%
						DuPont Analysis					
						Net margin (%)	7%	7%	7%	6%	6%
						Assets Turnover (x)	1.4	1.1	1.1	1.1	1.1
						Leverage Factor (x)	3.1	3.2	3.4	3.6	3.4
						ROE (%)	28%	25%	25%	23%	22%
						Leverage					
						Debt/Asset (x)	0.1	0.1	0.1	0.1	0.1
						Debt/Equity (x)	0.3	0.3	0.2	0.2	0.2
						Net Debt/(Cash)	-253.6	-329.3	-352.6	-430.3	-418.2
						Net Debt/Equity (x)	-0.6	-0.7	-0.6	-0.7	-0.6
						Valuations					
						Core EPS (sen)	9.8	9.1	10.3	10.7	11.2
						FD Core EPS (sen)	9.8	9.1	10.3	10.7	11.2
						NDPS (sen)	5.4	6.5	7.0	7.0	6.5
						BV/share (RM)	0.35	0.38	0.43	0.46	0.51
						Core PER (x)	16.9	18.3	16.1	15.5	14.8
						FD Core PER (x)	16.9	18.3	16.1	15.5	14.8
						Net Div. Yield (%)	3.2%	3.9%	4.2%	4.2%	3.9%
						PBV (x)	4.78	4.37	3.89	3.58	3.25
						EV/EBITDA (x)	9.73	9.17	8.52	7.36	6.75

Source: Kenanga Research

Sum-of-parts valuation		
SoP	Valuation/Discount	Value (RM'm)
FY19E Earnings	11.0	1596.4
FY19E cash pile (RM m)	50%	209.1
Fair Value (RM m)		1805.5
Shares Outstanding (m)		1297.9
Target Price (RM)		1.40
Implied FY19E PER (x)		12.5

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 DivYld(%)	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	0.595	464.7	Y	12/2018	-7.7%	-6.4%	-13.0%	-6.1%	6.8	7.8	8.3	0.7	0.4	6.9%	0.0%	0.505	UP
GAMUDA BHD	2.90	7,157.4	Y	07/2019	-20.8%	0.3%	-27.7%	1.2%	8.7	12.1	11.9	0.9	0.9	7.7%	4.1%	3.05	OP
GEORGE KENT (MALAYSIA) BHD	1.15	620.2	Y	01/2019	-24.1%	5.3%	-45.1%	9.7%	4.7	8.6	7.9	1.4	1.2	15.0%	4.3%	0.845	MP
HOCK SENG LEE BERHAD	1.47	807.8	Y	12/2018	18.0%	18.6%	31.3%	17.7%	17.4	13.2	11.2	1.1	1.0	8.1%	1.5%	1.30	UP
IJM CORP BHD	1.90	6,890.0	Y	03/2019	10.1%	4.7%	9.8%	9.8%	16.8	15.3	13.9	0.7	0.7	4.7%	2.6%	1.85	MP
KERJAYA PROSPEK GROUP BHD	1.29	1,593.3	Y	12/2018	32.9%	7.9%	16.9%	6.1%	12.9	11.0	10.4	2.0	1.8	16.8%	2.4%	1.20	MP
KIMLUN CORP BHD	1.20	398.2	Y	12/2018	-3.8%	5.8%	-24.5%	1.3%	5.6	7.4	7.4	0.6	0.6	8.4%	3.4%	1.15	MP
MITRAJAYA HOLDINGS BHD	0.315	278.8	Y	12/2018	-28.0%	-1.7%	-46.6%	10.9%	4.0	7.5	6.7	0.4	0.4	5.2%	4.8%	0.290	MP
MUHIBBAH ENGINEERING (M) BHD	2.95	1,421.1	Y	12/2018	-24.4%	5.7%	28.2%	6.7%	11.5	9.0	8.4	1.4	1.3	14.8%	2.4%	3.20	OP
SUNWAY CONSTRUCTION GROUP BH	1.66	2,145.1	Y	12/2018	11.6%	9.0%	3.7%	4.4%	16.1	15.5	14.8	3.9	3.6	23.4%	4.2%	1.40	UP
WCT HOLDINGS BHD	0.860	1,187.3	Y	12/2018	9.6%	30.7%	6.7%	20.5%	10.6	9.9	8.2	0.4	0.4	3.8%	0.0%	0.850	OP
Simple Average					-2.4%	7.3%	-5.5%	7.5%	10.5	10.7	9.9	1.2	1.1	10.5%	2.7%		
CONSENSUS ESTIMATES																	
AHMAD ZAKI RESOURCES BERHAD	0.415	248.2	Y	12/2018	N.A.	N.A.	N.A.	N.A.	8.5	N.A.	N.A.	0.9	N.A.	N.A.	N.A.	N.A.	SELL
BINA PURI HOLDINGS BHD	0.200	76.2	Y	12/2018	N.A.	N.A.	N.A.	N.A.	24.6	N.A.	N.A.	0.3	N.A.	N.A.	N.A.	N.A.	SELL
GABUNGAN AQRS BHD	1.09	520.6	Y	12/2018	57.9%	23.7%	37.8%	30.9%	10.8	7.9	0.0	1.0	1.3	16.6%	3.7%	1.74	BUY
GADANG HOLDINGS BHD	0.615	407.0	Y	05/2019	3.7%	11.9%	-19.8%	6.5%	4.2	5.2	0.0	0.6	N.A.	5.9%	4.1%	0.685	BUY
JAKS RESOURCES BHD	0.555	324.5	Y	12/2018	8.7%	45.7%	-76.7%	194.7%	2.6	11.0	0.0	0.4	0.4	4.4%	0.0%	0.775	BUY
MUDAJAYA GROUP BHD	0.355	209.4	Y	12/2018	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	1.9	N.A.	N.A.	N.A.	N.A.	SELL
PINTARAS JAYA BHD	2.25	373.2	Y	06/2019	115.0%	1.5%	91.4%	1.7%	24.0	12.6	0.1	1.1	1.2	9.1%	9.0%	2.43	NEUTRAL
PESONA METRO HOLDINGS	0.235	163.3	Y	12/2018	22.8%	16.5%	-11.3%	52.9%	8.5	9.6	0.0	0.9	N.A.	10.3%	6.4%	0.280	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	0.580	278.7	Y	12/2018	4.6%	19.4%	-30.3%	39.9%	9.2	13.2	0.0	0.7	0.6	5.1%	3.4%	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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KENANGA INVESTMENT BANK BERHAD (15678-H)

Level 12, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia
Telephone: (603) 2172 0880 Website: www.kenanga.com.my E-mail: research@kenanga.com.my



Chan Ken Yew
Head of Research