

HLIB Research

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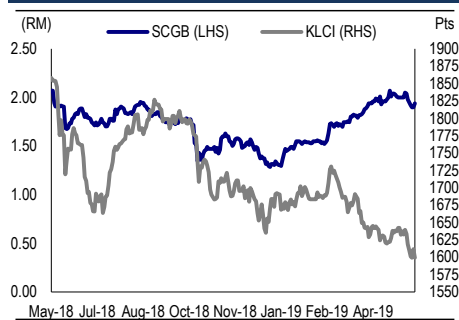
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HOLD (Maintain)

Target Price:	RM1.76
Previously:	RM1.81
Current Price:	RM1.94

Capital upside	-9.3%
Dividend yield	3.3%
Expected total return	-6.0%

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

Share price


Historical return (%)	1M	3M	12M
Absolute	-1.0	23.6	-9.8
Relative	0.9	30.5	4.9

Stock information

Bloomberg ticker	SCGB MK
Bursa code	5263
Issued shares (m)	1,292
Market capitalisation (RM m)	2,507
3-mth average volume ('000)	1,203
SC Shariah compliant	Yes

Major shareholders

Sunway Berhad	64.5%
EPF	8.4%

Earnings summary

FYE (Dec)	FY18	FY19f	FY20f
PATMI - core (RM m)	145	138	150
EPS - core (sen)	11.2	10.7	11.6
P/E (x)	17.3	18.2	16.8

Sunway Construction Group

Slower start

SunCon reported 1QFY19 earnings of RM29m (-21% QoQ, -19% YoY) which were below our expectations and consensus. This was mainly due to delay in both LRT3 and MRT2 work packages. We understand that review for Suncon's MRT2 packages has been completed and magnitude of reduction of works is estimated to be RM60m which has been reflected in the outstanding orderbook. SunCon's construction orderbook (ex. precast) of RM5.4bn implies a healthy cover of 2.6x on FY18 construction revenue. Cut FY19-20 earnings by 1-3%. TP lowered from RM1.81 to RM1.76 (16.5x FY19 earnings).

Below expectations. SunCon reported 1QFY19 results with revenue of RM440.0m (-30% QoQ, -17% YoY) and core earnings of RM29.1m (-21% QoQ, -19% YoY). The latter made up 20% of our full year forecast (consensus: 19%) which is below expectations. No dividend was declared for the quarter.

Decline for construction. The construction segment recorded a -17% and -5% YoY decline in revenue and PBT respectively. This was because of substantial completion of project Parcel F, Putrajaya and delay in both LRT3 and MRT2 work packages due to review of station works. We understand that the review for Suncon's MRT2 packages has been completed and magnitude of reduction of works is estimated to be at RM60m which has been reflected in the outstanding orderbook. SunCon's construction orderbook (ex. precast) of RM5.4bn implies a healthy cover of 2.6x on FY18 construction revenue.

Exploring foreign ground. Given the slowdown in the domestic construction industry, SunCon is actively exploring for regional opportunities particularly in India and ASEAN. We understand the company is currently bidding for a highway construction contract in India worth RM900m. Separately, Suncon has entered into a MoU with Myanmar conglomerate CDSG. It is evaluating internal projects undertaken by CDSG and its member companies in which, the CDSG-Suncon JV will be on a 65:35 basis. Suncon is also actively looking for piling jobs in Singapore and we understand that there is under-supply for piling capacity in the country at the moment.

Recovery signs for precast. The precast segment saw a -11% YoY decline in revenue and a steeper -97% fall in PBT. This was because the precast projects in Singapore were secured at a time when the industry was very competitive. Nonetheless there are recovery signs as the precast segment turned profitable this quarter after 2 consecutive previous quarters of losses. We expect performance of this segment to normalize starting from 2H19 as contribution from newly secured projects takes time to kick in.

Forecast. In view of the lower than expected results, we cut FY19-20 earnings by 3% and 1% respectively after factoring in adjustment of progress billings and reduction of MRT2 packages value.

Maintain HOLD, TP: RM1.76. Following the earnings cut, our TP is lowered from RM1.81 to RM1.76 which is still tagged to 16.5x FY19 earnings. While we like SunCon as a well-managed contractor, we reckon that valuations are fair at current levels.

Financial Forecast

All items in (RM m) unless otherwise stated

Balance Sheet

FYE Dec (RM m)	FY17	FY18	FY19f	FY20f	FY21f
Cash	487	485	575	652	734
Receivables	1,106	917	986	1,009	1,002
Inventories	24	30	25	25	25
PPE	150	163	142	119	94
Others	120	160	160	160	160
Assets	1,887	1,754	1,887	1,964	2,014
Debits	135	114	126	128	127
Payables	1,036	874	938	954	944
Others	162	175	175	175	175
Liabilities	1,332	1,162	1,239	1,257	1,246
Shareholder's equity	554	591	646	706	767
Minority interest	1	1	1	1	1
Equity	555	593	648	708	768
Cash Flow Statement					
FYE Dec (RM m)	FY17	FY18	FY19f	FY20f	FY21f
Profit before taxation	174	183	177	192	194
Depreciation & amortisation	38	40	41	43	45
Changes in working capital	(178)	21	1	(8)	(2)
Share of JV profits	(2)	(1)	-	-	-
Taxation	(36)	(38)	(39)	(42)	(43)
Others	68	(16)	(0)	(0)	-
Operating cash flow	63	189	181	185	195
Net capex	(28)	(50)	(20)	(20)	(20)
Others	63	(25)	-	-	-
Investing cash flow	35	(74)	(20)	(20)	(20)
Changes in borrowings	(2)	(21)	13	2	(1)
Issuance of shares	-	-	-	-	-
Dividends paid	(90)	(90)	(83)	(90)	(91)
Others	18	(7)	-	-	-
Financing cash flow	(74)	(118)	(70)	(88)	(92)
Net cash flow	24	(3)	90	77	82
Forex	(2)	1	-	-	-
Others	0	-	-	-	-
Beginning cash	466	487	485	575	652
Ending cash	487	485	575	652	734

Income Statement

FYE Dec (RM m)	FY17	FY18	FY19f	FY20f	FY21f
Revenue	2,076	2,257	2,248	2,302	2,285
EBITDA	202	215	208	225	229
EBIT	165	175	167	182	184
Net finance income/ (cost)	7	8	11	10	10
Associates & JV	2	1	-	-	-
Profit before tax	174	183	177	192	194
Tax	(36)	(38)	(39)	(42)	(43)
Net profit	138	145	138	150	151
Minority interest	(0)	(0)	(0)	(0)	(0)
Core earnings	138	145	138	150	151
Exceptional items	-	-	-	-	-
Reported earnings	138	145	138	150	151

Valuation & Ratios

FYE Dec (RM m)	FY17	FY18	FY19f	FY20f	FY21f
Core EPS (sen)	10.7	11.2	10.7	11.6	11.7
P/E (x)	18.2	17.3	18.2	16.8	16.6
EV/EBITDA (x)	9.4	8.8	9.1	8.4	8.3
DPS (sen)	7.0	7.0	6.4	6.9	7.0
Dividend yield	3.6%	3.6%	3.3%	3.6%	3.6%
BVPS (RM)	0.43	0.46	0.50	0.55	0.59
P/B (x)	4.5	4.2	3.9	3.6	3.3
EBITDA margin	9.7%	9.5%	9.2%	9.8%	10.0%
EBIT margin	7.9%	7.7%	7.4%	7.9%	8.0%
PBT margin	8.4%	8.1%	7.9%	8.4%	8.5%
Net margin	6.6%	6.4%	6.1%	6.5%	6.6%
ROE	26.3%	25.3%	22.3%	22.1%	20.5%
ROA	7.9%	7.9%	7.6%	7.8%	7.6%
Net gearing	CASH	CASH	CASH	CASH	CASH

Assumptions

FYE Dec (RM m)	FY17	FY18	FY19f	FY20f	FY21f
Construction	3,587	1,324	1,500	2,000	2,000
Precast	158	229	150	200	200
Total new job wins	3,745	1,553	1,650	2,200	2,200

Figure #1 **Quarterly results comparison**

FYE Dec (RM m)	1QFY18	4QFY18	1QFY19	QoQ (%)	YoY (%)
Revenue	529.2	626.0	440.0	(29.7)	(16.9)
EBIT	42.7	45.1	36.2	(19.6)	(15.2)
Finance income	3.8	3.5	4.2	20.3	11.3
Finance cost	(2.8)	(2.0)	(2.3)	12.5	(18.9)
Share of JVs and associates	-	0.7	-	NM	NM
PBT	43.7	47.3	38.2	(19.3)	(12.7)
PAT	35.8	36.8	29.7	(19.4)	(17.2)
Core PATMI	35.9	36.6	29.1	(20.6)	(19.0)
Reported PATMI	35.9	36.6	31.0	(15.2)	(13.5)
Core EPS (sen)	2.8	2.8	2.2	(20.6)	(19.0)
EBIT margin (%)	8.1	7.2	8.2		
PBT margin (%)	8.3	7.6	8.7		
PATMI margin (%)	6.8	5.8	6.6		

Company

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BUY	Expected absolute return of +10% or more over the next 12 months.
HOLD	Expected absolute return of -10% to +10% 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 in a change from the previous rating.
NOT RATED	Stock is not or no longer within regular coverage.

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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.

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