

HLIB Research

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Yip Kah Ming
kmyip@hlib.hongleong.com.my

(603) 2083 1723

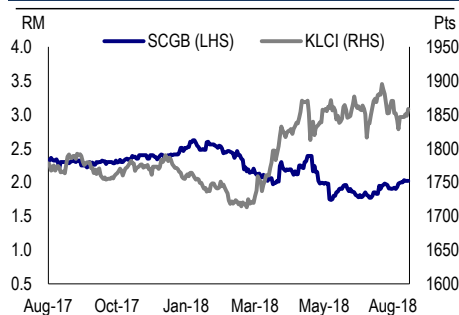
BUY (Maintain)

Target Price:	RM2.25
Previously:	RM2.37
Current Price:	RM2.02

Capital upside	11.4%
Dividend yield	3.1%
Expected total return	14.5%

Sector coverage: Construction

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

Share price


Historical return (%)	1M	3M	12M
Absolute	10.4	-6.0	-12.2
Relative	7.9	-2.0	-12.2

Stock information

Bloomberg ticker	SCGB MK
Bursa code	5263
Issued shares (m)	1,292
Market capitalisation (RM m)	2,610
3-mth average volume ('000)	1,345
SC Shariah compliant	Yes

Major shareholders

Sunholdings	54.4%
Sungei Way Corp SB	10.1%
EPF	7.3%

Earnings summary

FYE (Dec)	FY17	FY18f	FY19f
PATMI - core (RM m)	138	135	146
EPS - core (sen)	10.7	10.4	11.3
P/E (x)	18.9	19.4	17.9

Sunway Construction Group

LRT3 cost review casualty

SunCon's 1HFY18 earnings of RM72m (+2% YoY) were within 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 that affected by higher steel prices. SunCon is negatively affected by scaling down of LRT3 as the 6 stations design and size for their LRT3 package (RM2.1bn) are under review and the work will not proceed as anticipated until the designs are confirmed. Outstanding order book of RM5.8bn translates into 3x cover ratio and going forward we expect more jobs from parent-co Sunway. Cut FY18-20 earnings by 12-13% after taking into account slow revenue recognition for LRT3. Maintain BUY with lower TP of RM2.25 based on 20x FY19 earnings.

Within expectations. SunCon reported 2QFY18 results with revenue of RM544.3m (+3% QoQ, +30% YoY) and core earnings of RM35.9m (flat QoQ, -3% YoY). This brings 1HFY18 core earnings to RM71.7m, increasing by 2% YoY. The core earnings accounted for 47% of our full year forecast (consensus: 43%), inline with HLIB but below consensus estimates. 3.5 cents interim dividend was declared.

YoY. Core PATAMI decreased by 3% mainly due to lower margin in precast segment caused by higher steel prices and higher tax rates, partially offset by higher progress of work in construction segment.

QoQ. Core PATAMI remain flat as higher contribution from construction segment is offset by lower contribution from precast segment

YTD. Core PATAMI increased by 2% due to higher progress of work in construction segment, partially offset by lower contribution from precast segment that affected by higher steel prices.

LRT3. LRT3 project size has been scaled down and the timeline to complete has been extended from 2020 to 2024. SunCon is negatively affected as the 6 stations design and size for their LRT3 package (RM2.1bn) are under review and the work will not proceed as anticipated until the designs are confirmed. Moreover, the extension of completion timeline further delays the revenue recognition into later periods.

Parent-co comes to rescue. SunCon's outstanding order book stands at RM5.8bn, translating into healthy level of 3x cover of FY17 construction revenue. Management maintains its order book target of RM1.5bn for FY18, of which RM854m has been achieved YTD. Going forward, we expect more jobs to come from its parent co Sunway (BUY, TP: RM2.30) due to reduction in government spending on public infrastructure projects and continue slowdown of property market which results in less building jobs.

Forecast. Although the results were inline, we cut FY18-20 earnings by 12.0%, 13.3% and 12.7% respectively after taking into account slower revenue recognition for LRT3 due to ongoing project review and longer completion timeline.

Maintain BUY, TP: RM2.25. Maintain BUY rating with lower TP of RM2.25 (from RM2.37) following earnings cut and roll forward of valuation horizon from FY18 to FY19. Our TP is based on 20x FY19 earnings. Despite the macro contract flow uncertainty, we continue to like SunCon as a well-managed contractor with a healthy balance sheet (net cash: RM0.35/share).

Figure #1 **Quarterly results comparison**

FYE Dec (RM m)	2QFY17	1QFY18	2QFY18	QoQ (%)	YoY (%)	1HFY17	1HFY18	YoY (%)
Revenue	417.2	529.2	544.3	2.8	30.4	836.8	1,073.5	28.3
EBIT	41.7	42.7	42.0	(1.7)	0.7	82.9	84.7	2.2
Finance income	2.3	3.8	4.9	27.8	109.9	5.5	8.6	57.2
Finance cost	(1.3)	(2.8)	(1.7)	(40.1)	33.7	(2.3)	(4.5)	93.0
PBT	42.8	43.7	45.2	3.3	5.6	86.1	88.9	3.3
PAT	36.7	35.8	35.9	0.2	(2.2)	70.5	71.7	1.7
Core PATMI	36.8	35.9	35.9	0.0	(2.5)	70.6	71.7	1.6
Reported PATMI	36.8	35.9	35.9	0.0	(2.5)	70.6	71.7	1.6
Core EPS (sen)	2.8	2.8	2.8			5.5	5.5	1.6
EBIT margin (%)	10.0	8.1	7.7			9.9	7.9	
PBT margin (%)	10.3	8.3	8.3			10.3	8.3	
PATMI margin (%)	8.8	6.8	6.6			8.4	6.7	

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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	573	651	733
Receivables	764	1,106	950	966	1,013
Inventories	24	24	24	24	25
PPE	138	150	137	118	96
Others	205	120	120	120	120
Assets	1,597	1,887	1,804	1,879	1,987
Debts	137	135	138	140	146
Payables	872	1,036	895	910	948
Others	95	162	162	162	162
Liabilities	1,104	1,332	1,195	1,212	1,255
Shareholder's equity	493	554	608	666	730
Minority interest	1	1	1	1	1
Equity	494	555	609	667	732

Cash Flow Statement

FYE Dec (RM m)	FY16	FY17	FY18f	FY19f	FY20f
Profit before taxation	135	174	173	187	206
Depreciation & amortisation	39	38	37	40	42
Changes in working capital	(14)	(178)	16	(2)	(10)
Share of JV profits	-	(2)	-	-	-
Taxation	(30)	(36)	(38)	(41)	(45)
Others	(44)	68	(0)	(0)	(0)
Operating cash flow	86	63	189	183	193
Net capex	(5)	(28)	(25)	(20)	(20)
Others	78	63	-	-	-
Investing cash flow	73	35	(25)	(20)	(20)
Changes in borrowings	(0)	(2)	3	2	6
Issuance of shares	-	-	-	-	-
Dividends paid	(65)	(90)	(81)	(87)	(96)
Others	(19)	18	-	-	-
Financing cash flow	(84)	(74)	(78)	(85)	(91)
Net cash flow	74	24	86	78	82
Forex	2	(2)	-	-	-
Others	(78)	0	-	-	-
Beginning cash	468	466	487	573	651
Ending cash	466	487	573	651	733

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	203	219	241
EBIT	130	165	166	180	199
Net finance income/ (cost)	4	7	7	7	7
Associates & JV	-	2	-	-	-
Profit before tax	135	174	173	187	206
Tax	(30)	(36)	(38)	(41)	(45)
Net profit	105	138	135	146	161
Minority interest	(0)	(0)	(0)	(0)	(0)
Core earnings	105	138	135	146	161
Exceptional items	19	-	-	-	-
Reported earnings	124	138	135	146	161

Valuation & Ratios

FYE Dec (RM m)	FY16	FY17	FY18f	FY19f	FY20f
Core EPS (sen)	8.1	10.7	10.4	11.3	12.4
P/E (x)	25.0	18.9	19.4	17.9	16.2
EV/EBITDA (x)	12.7	10.7	10.6	9.8	8.9
DPS (sen)	5.0	7.0	6.3	6.8	7.5
Dividend yield	2.5%	3.5%	3.1%	3.3%	3.7%
BVPS (RM)	0.38	0.43	0.47	0.52	0.56
P/B (x)	5.3	4.7	4.3	3.9	3.6
EBITDA margin	9.5%	9.7%	9.4%	9.9%	10.4%
EBIT margin	7.3%	7.9%	7.7%	8.1%	8.6%
PBT margin	7.5%	8.4%	8.0%	8.5%	8.9%
Net margin	5.8%	6.6%	6.2%	6.6%	7.0%
ROE	22.2%	26.3%	23.2%	22.9%	23.0%
ROA	7.0%	7.9%	7.3%	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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Hong Leong Investment Bank Berhad (10209-W)

Level 28, Menara Hong Leong,
No. 6, Jalan Damanlela,
Bukit Damansara,
50490 Kuala Lumpur
Tel: (603) 2083 1800
Fax: (603) 2083 1766

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.