

Sunway Construction Group Berhad

TP: RM1.99 (-1.5%)

Precast Division Remains Lacklustre

Last Traded: RM2.02

SELL

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Results Review

- Suncon's IH18 net profit of RM71.7mn accounted for 43.6% and 42.6% of ours and consensus full-year estimates. We deem the results to be in line as we expect a stronger 2H18, underpinned by anticipated acceleration of construction activity at MRT2 work package V201 and LRT3 work package GS07-08.
- A first interim dividend of 3.5sen/share was declared, versus 3.0sen/share declared in the corresponding quarter last year.
- YoY, IH18 net profit was relatively flat at RM71.7mn despite a 28.3% surge in the top line to RM1,073.5mn. Higher revenue was largely due to higher contribution from Putrajaya Parcel F building project, MRT2 work package V201, as well as LRT3 work package SG07-08. However, weaker operating margins were reported by both construction (-0.5% pts to 7.9%) and precast (-14.0% pts to 8.4%) segments. Precast margin was negatively affected by higher rebar prices.
- QoQ, net profit was unchanged at RM35.9mn as revenue increased marginally by 2.8% to RM544.3mn. Precast operating margin deteriorated further from 9.6% to 6.9%, affected by progress delay experienced by its main contractors for 2 projects.
- Its net cash position was almost unchanged at RM457.1mn. (35.4sen/share).

Impact

- Maintain FY18 to FY20 earnings forecasts.

Outlook

- YTD, the group has secured RM854mn of new jobs. Its outstanding order book stood eased from RM6.3bn a quarter ago to RM5.8bn. The group targets to secure RM1.5bn of new jobs in 2018, versus our assumption of RM1.8bn for 2018.

Valuation

- In line with the improved sentiment on the construction sector, as evidenced by a 13.4% rebound of KL Construction Index from a low of 194.36 points recorded on 12 July 2018, to close at 220.31 yesterday, we raise the target PE multiple for SUNCON from 12x to 14x. We maintain **SELL** on SUNCON but raise the target price from RM1.71 to **RM1.99**, based on 14x CY19 earnings.

Share Information

Bloomberg Code	SCGB MK
Bursa	SUNCON
Stock Code	5263
Listing	Main Market
Share Cap (mn)	1,292.2
Market Cap (RMmn)	2610.33692
52-wk Hi/Lo (RM)	2.64/2.02
12-mth Avg Daily Vol ('000 shrs)	1645.1
Estimated Free Float (%)	23.3
Beta	1.0

Major Shareholders (%)

Sunholdings	- 54.44
Sungei Way Corp Sdn Bhd	- 10.06
Employee Provident Fund	- 7.25

Forecast Revision

	FY18	FY19
Forecast Revision (%)	-	-
Net profit (RMmn)	164.5	183.8
Consensus	168.5	186.6
TA's / Consensus (%)	97.6	98.5
Previous Rating	Sell (Maintained)	

Financial Indicators

	FY18	FY19
Net Debt / Equity (%)	net cash	net cash
CFPS (sen)	12.9	(2.1)
Price / CFPS (x)	15.6	(96.9)
ROA (%)	8.3	8.6
NTA/Share (RM)	47.5	52.8
Price/NTA (x)	4.2	3.8

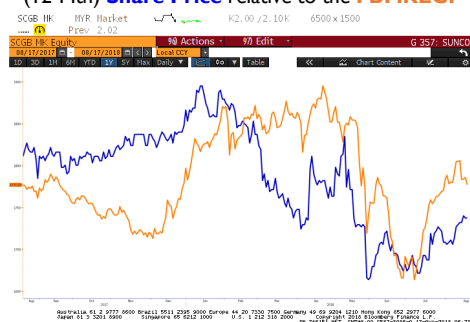
Scorecard

	% of FY	
vs. TA	43.6	Within
vs. Consensus	42.6	Within

Share Performance (%)

Price Change	SUNCON	FBM KLCI
1 mth	10.4	2.3
3 mth	(6.0)	(4.2)
6 mth	(17.9)	(3.3)
12 mth	(12.2)	0.1

(12-Mth) Share Price relative to the FBMKLCI



Source: Bloomberg

Table 1: Earnings Summary (RMmn)

FYE Dec (RMmn)	2016	2017	2018F	2019F	2020F
Revenue	1,788.8	2,076.3	2,680.0	2,984.7	2,840.0
Gross profit	379.0	428.6	562.8	626.8	596.4
EBITDA	188.3	202.4	239.5	254.7	244.7
EBITDA margin (%)	10.5	9.7	8.9	8.5	8.6
EBIT	149.2	164.6	197.4	217.4	206.3
PBT	153.7	174.2	207.9	232.6	220.8
PAT	123.5	137.8	164.5	183.8	174.4
Core net profit	123.5	137.8	164.5	183.8	174.4
Core EPS (sen)	9.6	10.7	12.7	14.2	13.5
PER (x)	21.1	18.9	15.9	14.2	15.0
Gross dividend (sen)	5.0	7.0	8.0	9.0	9.0
Dividend yield (%)	2.5	3.5	4.0	4.5	4.5
ROE (%)	26.2	26.3	28.2	28.3	24.5

Table 2: 2QFY18 Results Analysis (RMmn)

FYE Dec	2Q17	1Q18	2Q18	QoQ (%)	YoY (%)	6MFY17	6MFY18	YoY (%)
Revenue	417.2	529.2	544.3	2.8	30.4	836.8	1073.5	28.3
- Construction	387.1	492.1	511.6	4.0	32.2	737.9	1003.7	36.0
- Precast	30.1	37.1	32.6	(12.1)	8.4	98.9	69.8	(29.4)
Operating profit	41.7	42.7	42.0	(1.7)	0.7	83.8	84.7	1.2
Finance income	2.3	3.8	4.9	27.8	109.9	5.5	8.6	57.2
Finance costs	(1.3)	(2.8)	(1.7)	(40.1)	33.7	(2.3)	(4.5)	93.0
Profit before taxation	42.8	43.7	45.2	3.3	5.6	86.9	88.9	2.2
- Construction	36.4	40.1	42.9	6.9	17.7	64.8	83.0	28.1
- Precast	6.3	3.6	2.3	(36.5)	(64.2)	22.1	5.8	(73.6)
Income tax expense	(6.1)	(7.9)	(9.3)	17.9	53.0	(15.6)	(17.2)	10.2
Non-controlling interests	(0.1)	(0.0)	0.0	(177.8)	(132.3)	(0.1)	(0.0)	(92.3)
Net profit	36.8	35.9	35.9	0.0	(2.5)	71.4	71.7	0.4
- Construction	32.0	32.7	34.2	4.6	6.9	53.6	66.9	24.9
- Precast	4.7	3.1	1.7	(47.3)	(64.6)	17.8	4.8	(73.0)
Core net profit	36.8	35.9	35.9	0.0	(2.5)	71.4	71.7	0.4
Reported EPS (sen)	2.8	2.8	2.8	0.4	(2.1)	5.5	5.6	0.5
Core EPS (sen)	2.8	2.8	2.8	0.4	(2.1)	5.5	5.6	0.5
Dividend (sen)	3.0	0.0	3.5	na	16.7	3.0	3.5	16.7
Margin (%):				% pts	% pts			% pts
- Operating	10.0	8.1	7.7	(0.4)	(2.3)	10.0	7.9	(2.1)
- Construction	9.1	8.0	7.8	(0.2)	(1.4)	8.4	7.9	(0.5)
- Precast	21.0	9.6	6.9	(2.7)	(14.1)	22.4	8.4	(14.0)
- PBT	10.3	8.3	8.3	0.0	(2.0)	10.4	8.3	(2.1)
- PAT	8.8	6.8	6.6	(0.2)	(2.2)	8.5	6.7	(1.9)
- Effective tax rate	14.2	18.0	20.6	2.5	6.4	17.9	19.3	1.4

Table 3: Ongoing projects

Project	Contract Value (RMmn)	Outstanding Amount (RMmn)
Infrastructure		2,787
MRT Package V201 + S201	1,213	587
MRT Package V201 – Advance Works	53	7
SUKE & DASH – Bore Piling	34	11
BBCC	88	42
LRT 3 Package GS07-08	2,178	2,067
Piling works	75	74
Buildings		1,087
Putrajaya Parcel F	1,610	421
KLCC (NEC + Package 2 & 2a)	646	43
HUKM (MEP works)	66	26
International School of KL	268	36
Gas District Cooling (Plant 1)	152	50
PPA IM project in Kota Bharu	582	420
Warehouse in Shah Alam	70	68
M&E works	10	10
Velocity Ecodeck	11	11
Internal		1,729
Sunway Velocity Medical Centre	185	95
Sunway Medical Centre Phase 4 (2 towers)	512	456
Sunway Iskandar – Emerald Residences	175	12
Sunway Iskandar –Big Box	170	130
Sunway Serene – Serviced Residence	449	357
Sunway GEOLake	223	210
Sunway Carnival Ext	286	277
Sunway Medical Centre (Seberang Jaya)	180	180
Others	14	12
Singapore		183
Precast	330	128
Precast – new order 2018	55	55
	9,633	5,786

Source: Company, TA Research

Stock Recommendation Guideline

- BUY** : Total return within the next 12 months exceeds required rate of return by 5%-point.
HOLD : Total return within the next 12 months exceeds required rate of return by between 0-5%-point.
SELL : Total return is lower than the required rate of return.
Not Rated: The company is not under coverage. The report is for information only.

Total Return is defined as expected share price appreciation plus gross dividend over the next 12 months. Gross dividend is excluded from total return if dividend discount model valuation is used to avoid double counting.

Required Rate of Return of 7% is defined as the yield for one-year Malaysian government treasury plus assumed equity risk premium.

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As of Friday, August 17, 2018, the analyst, Ooi Beng Hooi, who prepared this report, has interest in the following securities covered in this report:
(a) nil

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