

Sunway Construction Group Berhad

TP: RM1.60 (-19.2%)

A Slow 3Q19

Last Traded: RM1.98

SELL

Ooi Beng Hooi

Tel: +603-2167 9612

benghooi@ta.com.my

www.taonline.com.my

Results Review

- SUNCON's 9M19 net profit of RM97.7mn came in below expectations, accounting for 68.8% and 68.9% of our and consensus full-year estimates. The variance was mainly due to slower-than-expected progress of works. Majority of existing jobs are still in initial stages while LRT3 package was delayed due to cost optimisation by the client.
- For 9M19, both the overall revenue and net profit declined by 21.3% and 9.5% to RM1282.8mn and RM97.7mn respectively as construction division reported lower top line (-22.9%) and PATAMI (-6.6%). Meanwhile, precast division sank into minor loss of RM0.3mn from a PATAMI of RM3.0mn recorded in 9M18, mainly dragged by old projects with slim margins.
- QoQ, while the overall revenue was 8.5% lower at RM402.6mn, the lowest quarterly revenue since 4Q16, 3Q19 net profit was marginally higher by 0.9% at RM33.5mn, thanks to lower taxation (-69.2%). The precast division returned to a minor loss of RM0.3mn at PATAMI level.

Impact

- Following the weaker-than-expected results, we make adjustment to revenue recognition and margin assumptions for various projects. All in, earnings forecasts for FY19/FY20/FY21 were cut by 8.0%/6.4%/0.1% respectively.

Outlook

- Its outstanding order book eased slightly from RM5.8bn a quarter ago to RM5.6bn, translating into 2.5x FY18 revenue. This could provide earnings visibility to the group for the next 2 to 3 years.
- For 9M19, the group has secured RM1.7bn of new jobs, versus our order book replenishment assumption of RM2.0bn for FY19. Active tender outstanding is estimated at RM7.4bn.
- To grow its business, the group is actively exploring opportunities in overseas markets. It now targets to secure overseas projects in Myanmar and India by IH20 after tender exercises for these projects have been delayed by project owners.

Valuation

- Maintain **SELL** on the stock with a lower target price of **RM1.60**, from RM1.71 previously, based on 14x CY20 earnings.

Share Information

Bloomberg Code	SCGB MK
Bursa	SUNCON
Stock Code	5263
Listing	Main Market
Share Cap (mn)	1,289.4
Market Cap (RMmn)	2552.9
52-wk Hi/Lo (RM)	2.20/1.30
12-mth Avg Daily Vol ('000 shrs)	745.6
Estimated Free Float (%)	20.1
Beta	1.23

Major Shareholders (%)

Sunholdings	- 54.56
Sungei Way Corp Sdn Bhd	- 10.08
Employee Provident Fund	- 8.38

Forecast Revision

	FY19	FY20
Forecast Revision (%)	(8.0)	(6.4)
Net profit (RMmn)	130.6	148.2
Consensus	141.6	160.6
TA's / Consensus (%)	92.2	92.3
Previous Rating	Sell (Maintained)	

Financial Indicators

	FY19	FY20
Net Debt / Equity (%)	net cash	net cash
CFPS (sen)	15.1	(0.8)
Price / CFPS (x)	13.1	(237.5)
ROA (%)	7.2	7.5
NTA/Share (RM)	47.8	51.3
Price/NTA (x)	4.1	3.9

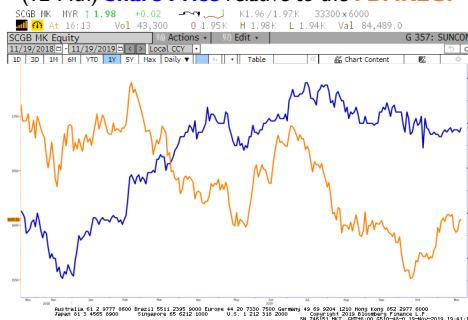
Scorecard

	% of FY	
vs. TA	68.8	Below
vs. Consensus	68.9	Below

Share Performance (%)

Price Change	SUNCON	FBM KLCI
1 mth	4.8	2.2
3 mth	(3.4)	0.2
6 mth	4.2	(0.0)
12 mth	23.0	(6.2)

(12-Mth) Share Price relative to the FBMKLCI



Source: Bloomberg

Table 1: Earnings Summary (RMmn)

FYE Dec (RMmn)	2017	2018	2019F	2020F	2021F
Revenue	2,076.3	2,256.8	1,840.0	2,299.0	1,950.0
Gross profit	428.6	444.7	184.0	229.9	195.0
EBITDA	196.9	214.6	195.7	225.2	209.6
EBITDA margin (%)	9.5	9.5	10.6	9.8	10.7
EBIT	159.1	174.6	154.9	171.6	141.5
PBT	168.7	183.1	165.3	187.6	158.1
PAT	132.3	144.7	130.6	148.2	124.9
Core net profit	132.3	144.7	130.6	148.2	124.9
Core EPS (sen)	10.2	11.2	10.1	11.5	9.7
PER (x)	19.4	17.7	19.6	17.3	20.5
Gross dividend (sen)	7.0	7.0	8.0	8.0	6.0
Dividend yield (%)	3.5	3.5	4.0	4.0	3.0
ROE (%)	25.5	25.5	21.6	23.1	18.2

Table 2: 3QFY19 Results Analysis (RMmn)

FYE Dec	3Q18	2Q19	3Q19	QoQ (%)	YoY (%)	9MFY18	9MFY19	YoY(%)
Revenue	557.3	440.2	402.6	(8.5)	(27.8)	1630.8	1282.8	(21.3)
- Construction	524.1	406.3	365.1	(10.1)	(30.3)	1527.8	1178.4	(22.9)
- Precast	33.3	33.9	37.5	10.7	12.7	103.1	104.4	1.3
Operating profit	44.9	37.6	34.4	(8.6)	(23.5)	130.0	110.2	(15.2)
Finance income	3.9	7.2	5.1	(28.6)	31.8	12.5	16.5	31.6
Finance costs	(2.0)	(3.6)	(3.9)	9.7	100.1	(7.0)	(9.8)	41.0
Profit before taxation	46.8	41.2	35.6	(13.7)	(24.1)	135.6	116.9	(13.8)
- Construction	48.8	41.1	35.4	(14.1)	(27.5)	131.7	116.6	(11.5)
- Precast	(2.0)	0.1	0.2	300.0	(110.4)	3.9	0.3	(91.8)
Income tax expense	(10.4)	(8.2)	(2.5)	(69.2)	(75.5)	(27.5)	(19.3)	(30.1)
Non-controlling interests	0.1	(0.2)	(0.5)	115.0	(620.5)	0.1	(0.1)	(168.3)
Net profit	36.4	33.2	33.5	0.9	(8.0)	107.9	97.7	(9.5)
- Construction	38.2	33.1	33.8	2.0	(11.5)	104.9	98.0	(6.6)
- Precast	(1.8)	0.1	(0.3)	(577.4)	(83.3)	3.0	(0.3)	(110.1)
Core net profit	36.4	33.2	33.5	0.9	(8.0)	107.9	97.7	(9.5)
Reported EPS (sen)	2.8	2.6	2.6	1.2	(7.8)	8.4	7.6	(9.4)
Core EPS (sen)	2.8	2.6	2.6	1.2	(7.8)	8.4	7.6	(9.4)
Dividend (sen)	0.0	3.5	0.0	(100.0)	na	3.5	3.5	0.0
Margin (%):				% pts	% pts			% pts
- Operating	8.1	8.5	8.5	(0.0)	0.5	8.0	8.6	0.6
- Construction	8.9	9.1	9.2	0.1	0.3	8.2	9.2	0.9
- Precast	(5.6)	2.3	2.2	(0.1)	7.8	3.9	1.8	(2.1)
- PBT	8.4	9.4	8.8	(0.5)	0.4	8.3	9.1	0.8
- PAT	6.5	7.5	8.2	0.7	1.7	6.6	7.6	1.0
- Effective tax rate	22.1	20.0	7.1	(12.8)	(15.0)	20.3	16.5	(3.8)

Table 3: Ongoing projects

Project	Contract Value (RMmn)	Outstanding Amount (RMmn)
Infrastructure		2,165
MRT Package V201 + S201	1,213	205
LRT 3 Package GS07-08	2,178	1,817
Piling works	128	30
Piling works – Y19	99	56
Sentul West Station (MEP)	57	57
Buildings		1,340
Putrajaya Parcel F	1,610	34
PPA1M Kota Bharu	582	107
Nippon Express	70	17
TNB Campus	781	739
Petronas Leadership Center	310	307
Oxley Tower	68	68
IOI Mall (MEP)	68	68
Internal		1,792
Sunway Medical Centre Phase 4	512	401
Sunway Serene – Serviced Residence	449	281
Velo 2	352	312
3C4	100	83
Sunway GEOLake	223	118
Sunway Carnival Ext	286	234
Sunway Medical Centre (Seberang Jaya)	180	154
BB Solar	8	8
Big Box Hotel	100	87
Parcel CP2 (piling)	119	114
Singapore		321
Precast	331	201
Precast – new order 2019	120	120
Grand Total @ September 2019	9,942	5,619

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.

Disclaimer

The information in this report has been obtained from sources believed to be reliable. Its accuracy and/ or completeness is not guaranteed and opinions are subject to change without notice. This report is for information only and not to be construed as a solicitation for contracts. We accept no liability for any direct or indirect loss arising from the use of this document. We, our associates, directors, employees may have an interest in the securities and/or companies mentioned herein.

As of Wednesday, November 20, 2019, the analyst, Ooi Beng Hooi, who prepared this report, has interest in the following securities covered in this report:
(a) nil

Kaladher Govindan – Head of Research

TA SECURITIES HOLDINGS BERHAD (14948-M)

A Participating Organisation of Bursa Malaysia Securities Berhad

Menara TA One | 22 Jalan P. Ramlee | 50250 Kuala Lumpur | Malaysia | Tel: 603 – 2072 1277 | Fax: 603 – 2032 5048
www.ta.com.my