SunCon order book seen on track

Sunway Construction Group Bhd (Aug 25, RM2.34)

Downgrade to underperform from market perform with an unchanged target price of RM2: Sunway Construction Group Bhd's (SunCon) first half of financial year 2017 (1HFY17) core net profit (CNP) of RM67.6 million was within our but below consensus expectations, accounting for 47% and 44% of respective full-year estimates. A single-tier interim dividend of three sen was proposed, compared with our full-year estimate of four sen. We believe there is potential upside to its dividends as SunCon has paid out higher than its minimum payout policy of 35% in the past and we are looking to upgrade our forecast post clarification with management.

Its 1HFY17 CNP registered a year-on-year growth of 9% on a 2% decline in revenue, mainly due to a higher construction profit before tax (PBT) margin from 6% to 9%, which drove its construction PBT up by 37%.

Its second quarter of FY17 CNP was flattish (-1%) quarter-on-quarter, despite its construction division registering growth rates for revenue and pre-tax profits of 10% and 28% respectively, dragged down by its precast division which saw its revenue and PBT down by 56% and 60%.

For FY17, we believe SunCon is on track to meet the order book replenishment target of RM2 billion, as it has already secured RM600 million worth of jobs year-to-date. We also expect SunCon to at least bag a package of light rail transit 3 civil works. Its current outstanding order book stands at RM4.3 billion, providing earnings visibility for the next two to three years.

However, we downgrade the stock to "underperform", as its share price had rallied by 38% since the beginning of the year to steep valuation levels of FY18 price-earnings ratio (PER) of 18.2 times versus big-cap peers' average of 18 times to 20 times or the FBM KLCI's average FY18 PER of 15.6 times. However, we shall relook at upgrading the stock should there be any fresh catalysts or share price retracements as we remain confident of the group's prospects.

Risks to our call include: i) lower-than-expected margin/order book replenishment; ii) delays in construction works; and iii) cuts or delays in government spending on infrastructure and affordable housing projects. — *Kenanga Research, Aug 25*

Sunway Construction Group Bhd

FYE DEC (RM MIL)	2016A	2017E	2018E
Turnover	1,788.8	2,339.0	2,414.3
Ebit	149.6	185.3	185.7
PBT	153.7	193.7	195.9
Net profit (NP)	123.5	145.2	146.9
Core NP	117.7	145.2	146.9
Consensus (CNP)	na	154.4	169.2
Basic EPS (sen)	9.1	11.2	11.4
EPS growth (%)	-3	18	1
NDPS (sen)	5.0	3.9	4.0
Basic PER (x)	22.7	18.4	18.2
BV/Share (RM)	0.38	0.45	0.53
Net gearing (x)	nc	nc	nc
Dividend yield (%)	2.4	1.9	1.9

Source: Kenanga Research