SunCon's prospects better on sector's improved sentiment

Sunway Construction Group Bhd (July 1, RM2.10)

Upgrade to buy with a higher target price (TP) of RM2.21: Sunway Construction Group Bhd (SunCon) announced last Friday that its fully-owned subsidiaries, Sunway Construction Sdn Bhd (SCSB) and Sunway Engineering Sdn Bhd (SESB), have accepted a letter of award, letter of intent and letter of appointment in respect of projects for Petronas Management Training Bhd, Sunway South Quay Sdn Bhd, and Ssangyong Engineering & Construction Co for a total value of RM496.8 million.

Total new projects secured this year amounted to RM1.5 billion in value. We noted that the latest outstanding order book stands at about RM5.4 billion as of May 2019. By adding the value of the latest job wins of RM496.8 million, we estimate that SunCon's unbilled jobs to be around RM5.7 billion as of June 2019. Accordingly, this amount equates to 2.5 times of financial year 2018 (FY18) revenue.

The earliest job commencement will be in July 2019, comprising jobs awarded by Sunway South Quay and Ssangyong Engineering & Construction. Notably, the highest value job is for the construction and completion of Petronas Leadership Centre in Bangi, Selangor, valued at about RM310 million, or 62.3% of the newly awarded contracts. For the duration of the contracts, we anticipate earnings contribution of between RM24.8 million and RM39.7 million (assuming 5-8% margin). Based on straight-line estimates, we expect the contributions to intensify in FY20 at around RM14 million to RM22 million.

Sunway Construction Group Bhd

FYE DEC (RM MIL)	2017	2018	2019F	2020F
Revenue	2,076.2	2,256.8	2,507.0	2,371.8
Ebit	164.6	174.6	198.7	212.5
Pre-tax profit	174.1	183.1	178.0	194.5
Normalised Patmi	137.8	144.7	152.9	158.9
EPS (sen)	10.6	11.2	11.8	12.3
EPS growth (%)	10.4	5.6	5.7	3.9
PER (x)	19.0	18.0	17.0	16.3
Net dividend (sen)	1.8	7.0	2.3	3.3
Net dividend yield (%)	0.9	3.5	1.1	1.6

Sources: Bloomberg, MIDF Research

The new order book wins are broadly in line with our expectations. While we leave our FY19 estimates unchanged, we believe a slight adjustment of +2% to our FY20 number is warranted, to better reflect the marginal rise in order book value. SunCon is eyeing some overseas jobs comprising road projects in India and mixed developments in Myanmar. Assuming the current tender validity is extended, any related job awards will likely be announced by year end. However, we noted that SunCon management remained conservative with its FY19 order book target that was left unchanged at RM1.5 billion.

SunCon has secured RM1.5 billion worth of new jobs in FY19, a strong testament to its replenishment capability. Its ability to clinch sizeable jobs in the light of a challenging market is laudable. In line with the higher forward earnings, we raised our TP to RM2.21, after pegging our FY20 earnings per share to a higher price-to-earnings ratio of 18 times (+1 standard deviation of one-year average). The higher multiple is reflective of the improved sector-wide sentiment for construction, following the continuation of the East Coast Rail Link and Bandar Malaysia projects, as well as the strength of SunCon's replenishment capability. Moreover, we upgrade our recommendation to "buy" as the expected total return has exceeded 10%. — *MIDF Research, July 1*

SCGM aims to ... sales to fill ca...

SCGM Bhd (July 1, 84.5 sen)

Maintain underperform ... target price (TP) of 69 s... came away from SCGM B... alyst briefing last Friday wit... that it is going to take anot... to six months for the com... turn around as it faces vari... cups amid heightening cost... and its ability to reach opt... pacity utilisation levels in t... term. Share price weakness... ly persist until signs of tur... prevail. The TP is based on ... financial year 2020 (FY20) e... per share of 4.6 sen.

The group has been un... gin pressure for 10 straight ... since the third quarter (3Q)... as rising operating costs h... paced sales growth. The gr... registered unprecedented ... the gross level in the mos... 4QFY19. Resin, which ma... least 60-70% of total operati... saw a 9% year-on-year (y-... Fixed costs such as depre... upkeep, utilities and labour,... 22% y-o-y following commer... of the new Kulai plant. Re... costs that are related to adm... tive, selling and marketing e... rose 2% y-o-y.

We understand that the ... lai plant, which accommod... million kg extrusion capa... year, was four months beh... initial opening timeline. Du...

SCGM Bhd

FYE APRIL (RM MIL)	201...
Revenue	207...
Gross profit	39...
Pre-tax profit	19...
Core net profit	16...
EPS (sen)	8...
PER (x)	10...
DPS (sen)	6...
Dividend yield (%)	7...

Sources: Company, PublicInvest Rese...

Imminent cessation of Indonesian ops seen positiv...

Unisem (M) Bhd (July 1, RM2.52)

Maintain sell with a target price (TP) of RM2.15: Unisem (M) Bhd announced that PT Unisem, its indirect subsidiary, will be shutting down its

Unisem (M) Bhd

FYE DEC (RM MIL)	2017	2018	2019F	2020F	2021F
Revenue	1,465.7	1,351.3	1,316.5	1,407.6	1,482.7
Ebitda	346.5	274.0	288.9	328.1	360.4
Dep. & amortisation	(167.5)	(164.3)	(199.7)	(206.2)	(212.7)