

Improved FY19 earnings seen for CIMB Thai Bank

CIMB Group Holdings Bhd (April 19, RM5.07)

Upgrade to outperform with an unchanged target price (TP) of RM6.10. CIMB Thai Bank Pcl's three months of financial year 2019 (3MFY19) earnings exceeded our expectations accounting for 41% of our full-year estimates, attributed to lower-than-expected impairment allowances. Asset quality improved in tandem with the lower impairments. We made no revision to CIMB Group's earnings pending the release of its results next month as generally CIMB Thai's contribution is minimal. We upgrade our call for the group as valuations are undemanding.

Year-on-year (y-o-y), 3MFY19 core net profit (CNP) of 325 million baht (RM42.2 million) improved 92% mainly attributed to falling impairment allowances (-17%) to 971 million baht and gains on sale of non-performing loans (NPL) of 169 million baht. Top line declined by 2%, dragged by falling fee-based income (-26%) to 507 million baht despite a +4% uptick in fund-based income to 2.71 billion baht. Fund-based income improvement was supported by higher loans (+16%) despite net interest margin (NIM) shedding 105 basis points (bps) to 3.8% due to higher funding costs. Operating expenditure saw an uptick of six percentage points, in line with the bank's transitional expenses. Asset quality improved as gross impaired loans (GIL) fell 90bps to 4.3% with credit costs falling 51bps to 1.7% (versus estimate of more than 2% due to higher provisioning

CIMB Group Holdings Bhd

FYE DEC (RM MIL)	2018A	2019E	2020E
Net interest income	9,634	9,946	10,187
Islamic banking inc	2,610	2,661	2,825
Non-interest income	4,046	4,352	4,069
Total income	16,291	16,959	17,081
PBT	7,201	6,392	6,319
Net profit (NP)	5,584	4,682	4,628
Consensus NP		4,978	5,390
EPS (sen)	59.7	48.4	46.3
EPS growth (%)	18.2	-18.9	-4.3
DPS (sen)	25.0	22.5	21.5
BV/Share (RM)	5.51	5.86	6.09
NTA/share (RM)	4.5	4.7	4.9
ROE (%)	11.2	8.7	7.9
PER (x)	8.5	10.4	10.9
Price/NTA (x)	1.1	1.1	1.0
Price/Book (x)	0.9	0.9	0.8
Dividend yield (%)	5.0	4.5	4.3

Source: Kenanga Research

in preparation of Financial Reporting Standard (FRS) 9.

Quarter-on-quarter (q-o-q), CNP of 325 million baht rebounded from negative territory, due to falling impairment allowances (-39%) and gains from NPL sales. Top line fell (-3%) to 3.21 billion baht as both fund-based and fee-based incomes fell 3% and 1%, respectively. The weak fund-based income was dragged by falling NIMs (54bps) to 3.8% with slower loans (+2%), for the third consecutive period despite the accommodative interest rates. Asset quality continued to be stable with GIL stable at 4.3% and credit

charge falling 120bps to 1.7%. The higher base of 2.9% before was due to provisioning in preparation of FRS9 in 2020.

Maintain higher credit charge for earnings for financial year 2019 (FY19E). We maintain our view of uptick in credit charge due to the new guidelines from the Bank of Thailand (BOT) (FRS9 provisioning). Double-digit loan growth was a surprise but was due to a lower base as the first quarter (1Q) is generally a weak quarter. Loans will likely moderate (from small and medium enterprises [SMEs] and corporates); but expected to be driven by con-

sumer demand (as interest rates are still accommodative despite the 25bps hike to 1.75% in December 2018). We also expect downside pressure on NIM due to competitive lending ahead. We maintain our view of improved FY19 earnings ahead at 790 million baht based on these assumptions: (i) loan growth of less than (<) 6%, (ii) NIM <4%, (iii) credit costs at 230bps, (iv) CIR at 57%, and (v) tax rate at <22%.

There is no change to our forecasts for the group, as historically CIMB Thai's contribution to the group is minimal (<7%). FY18 pre-profit contribution was at 6%. The group's 3MFY19 results are expected at the end of the month, thus FY19E earnings of RM4.7 billion are maintained for now, based on the following assumptions: (i) loan growth of approximately -5.5% (ii) NIM compression at 10bps and (iii) credit charge of 45bps.

Our TP of RM6.10 is based on a target price-to-book value of one time, implying a 0.5 standard deviation level below its five-year mean to reflect the ongoing challenges and volatility ahead. As valuations are undemanding with potential total returns more than 10%, we upgrade the group to "outperform".

Downside risks to our call are: (i) higher-than-expected margin squeeze, (ii) lower-than-expected loan and deposit growth, (iii) worse-than-expected deterioration in asset quality, (iv) further slowdown in capital market activities, and (v) adverse currency fluctuations. — Kenanga Research, April 19

Sunway Construction Group seen banking on overseas jobs

Sunway Construction Group Bhd (April 19, RM2)

Maintain hold with an unchanged target price (TP) of RM1.81. We met up with the management of Sunway Construction Group (SunCon) recently with these key takeaways.

SunCon is planning to bid for the third cycle of the large-scale solar (LSS3) scheme jobs (RM2 billion) as engineering, procurement, construction and commissioning (EPCC) contractor via a joint venture (JV) with foreign partners that have the required experience and technical expertise. Total capacity for LSS3 is 500mw and the quota offered to each developer is 100mw. There is no limitation on job sizes that SunCon can bid for. The tender closes in August 2019 and an outcome is expected by February 2020.

SunCon is actively looking for hospital job opportunities given that as much as RM29 billion has been budgeted by the government in 2019 for new hospitals. Although we expect robust job flows from Sarawak in the near term; we understand that the company is cautiously evaluating tender opportunities in the state given potential low construction margin caused by overly competitive bidding.

Given the slowdown in the domestic construction industry, SunCon is actively exploring regional opportunities, particularly in India and the Asean region. We understand the company is bidding for a highway construction contract in India worth RM900 million. Separately, SunCon has entered into a memorandum of understanding (MoU) with Myanmar conglomerate Capital Diamond Star Group (CDSG). It is evaluating internal projects undertaken by CDSG and its member companies in which the CDSG-SunCon JV will be on a 65:35 basis. SunCon is also actively looking for piling jobs in Singapore and we understand there is undersupply for piling capacity in the country.

SunCon management has reiterated its financial year 2019 (FY19) order book replenishment target of RM1.5 billion, of which RM967 million has been achieved year to date. It does not expect any more contracts from its parent company in FY19 and hence the balance to its replenishment target is expected to come from overseas contracts, piling jobs and precast orders from Singapore. Outstanding order book stands at RM6.2 billion, translating into a healthy level of 2.7 times cover of FY18 revenue.

The unchanged TP of RM1.81 is based on an unchanged 16.5 times price earnings (PE) multiple tagged to FY19 earnings. While we like SunCon as a well-managed contractor, we reckon that valuations are fair at current levels. — HLIB Research, April 19

Gamuda may use Splash proceeds for PTMP job

Gamuda Bhd (April 19, RM3.08)

Upgrade to hold with a revised target price (TP) of RM3.22. The National Physical Planning Council (NPPC) has approved the reclamation of three islands (Penang South Reclamation Scheme) south of Penang Island. The project was approved with 18 conditions.

The three islands will have a combined area of 17 sq km, comprising Island A (9.3 sq km), Island B (4.45 sq km) and Island C (3.23 sq km).

The reclaimed land, which will belong to the Penang government, will be auctioned off to finance the Penang Transport Master Plan (PTMP). It is estimated that the land bank is expected to generate more than RM70 billion for Penang to fund the PTMP and economic development in the state.

Separately, another component of the PTMP — Pan Island Link 1 (PIL1) — was approved last week by the Department of Environment with 56 conditions. The construction of PIL1 is targeted to start by the middle of 2020.

Gamuda Bhd

FYE JULY (RM MIL)	2017	2018	2019F	2020F	2021F
Revenue	3,211.4	4,227.1	3,999.1	4,453.7	4,358.3
COGS	(2,681.3)	(3,715.7)	(3,179.3)	(3,540.7)	(3,464.8)
Gross profit	530.1	511.4	819.8	913.0	893.4
Ebitda	830.1	880.1	939.3	954.0	925.1
Dep. & Amort.	(147.9)	(176.2)	(301.8)	(270.0)	(244.5)
Ebit	682.3	703.9	637.5	684.0	680.6
Finance cost	(104.3)	(96.1)	(156.1)	(160.1)	(163.6)
JV	137.8	223.7	253.0	284.0	266.0
Associates	208.7	205.2	100.0	100.0	100.0
PBT	826.0	729.3	834.4	907.9	883.0
Adjusted PBT	924.5	1036.6	834.4	907.9	883.0
Tax	(169.8)	(164.9)	(146.9)	(161.6)	(156.6)
MI	54.1	50.5	59.5	60.0	60.5
Reported net profit	602.1	513.9	628.1	686.4	665.9
Core net profit	700.5	818.3	628.1	686.4	665.9

Source: TA Securities

Meanwhile, the Komtar-Bayan Lepas light rail transit (LRT) line is awaiting conditional approval by the transport ministry and is likely to be obtained soon. The construction of the LRT line is expected to start next year.

Another hurdle to be cleared to get the project off the ground is sourcing of a bridging loan. As it requires time to reclaim the land and get it ready to be monetised, a bridging loan is required to kick-start the PIL1 and the LRT line.

We understand that both the Project Delivery Partner — SRS Consortium, in which Gamuda has a 60% stake — and the state government will come out with their own portions of the funding. This is to enable both the PIL1 and the LRT line to start concurrently.

Gamuda is expected to receive the first tranche payment of RM760 million soon, from the disposal of water concession Syarikat Pengeluar Air Sungai Selangor Sdn Bhd (Splash), with the remaining RM260 million to be paid in instalments over nine years. We believe the bulk of the sale proceeds would be reserved to fund the PTMP project. Besides, Gamuda is in discussion with the federal government on the proposed disposal of four highways — Damansara-Puchong Highway (LDP), Sistem Penyuraian Trafik KL Barat (Sprint), Shah Alam Expressway (Kesas) and Stormwater Management and Road Tunnel. If successful, this could raise additional funding for the PTMP, if required. — TA Securities, April 19