

HLIB Research

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HOLD (from Buy)

Target Price: RM1.81
Previously: RM1.81
Current Price: RM1.73

Capital upside 4.6%

Dividend yield 4.0%

Expected total return 8.7%

Sector coverage: Construction

Company description: SunCon is involved in construction and precast products.

Share price


Historical return (%)	1M	3M	12M
Absolute	9.5	14.6	-27.9
Relative	8.0	12.7	-22.2

Stock information

Bloomberg ticker	SCGB MK
Bursa code	5263
Issued shares (m)	1,292
Market capitalisation (RM m)	2,236
3-mth average volume ('000)	879
SC Shariah compliant	Yes

Major shareholders

Sunway Berhad	64.5%
EPF	8.3%

Earnings summary

	FY18	FY19f	FY20f
FYE (Dec)			
PATMI - core (RM m)	145	142	152
EPS - core (sen)	11.2	11.0	11.7
P/E (x)	15.4	15.7	14.7

Sunway Construction Group

Ending within expectations

SunCon's FY18 earnings of RM145m (+6% YoY) were within both ours and consensus expectations. YTD core PATAMI increased due to higher progress of work in construction segment, partially offset by lower contribution from precast segment due to low margin jobs secured earlier from stiff competition. Competitive pressure in Singapore precast industry has come down and the product pricing has recovered but we only expect the segment PBT margin to normalize back to 10-15% starting from 2H19 as contribution from newly secured projects takes time to kick in. Outstanding order book of RM6.0bn translates into 2.7x cover ratio and going forward we expect more jobs from parent-co Sunway. Maintain forecast but downgrade rating from Buy to HOLD given limited share price upside which has appreciated 31% YTD.

Within expectations. SunCon reported 4QFY18 results with revenue of RM626.0m (+12% QoQ, -16% YoY) and core earnings of RM36.6m (+0.4% QoQ, +18% YoY). This brings FY18 core earnings to RM144.7m, increasing by 6% YoY. The core earnings accounted for 99% of our full year forecast (consensus: 99%), within expectations. Declared 2nd interim dividend of 3.5 cents (FY18: 7.0 cents).

QoQ. Core PATAMI remained flattish as higher revenue from construction segment was offset by lower margin in precast segment.

YoY. Core PATAMI increased by 7% as higher contribution from construction segment was partially offset by lower contribution from precast segment

YTD. Core PATAMI increased by 6% due to higher progress of work in construction segment, partially offset by lower contribution from precast segment due to low margin jobs secured earlier from stiff competition.

MRT2. MRT2 contract package (RM1.2bn) for Suncon will progress as planned with some reduction to stations works. Since the contract value of 3 stations works in SunCon's work package is just RM212m out of total work package value of RM1.2bn, the impact of downsizing of the project is expected to be minimal.

Precast. Precast segment PBT margin dropped significantly as the precast projects in Singapore were secured at a time when the industry was very competitive. Competitive pressure has come down and the product pricing has recovered but we only expect the segment PBT margin to normalize back to 10-15% starting from 2H19 as contribution from newly secured projects takes time to kick in.

Orderbook. SunCon's latest outstanding orderbook stands at c.RM6.0bn, translating into healthy level of 2.7x cover of FY18 revenue. Management maintains its orderbook target of RM1.5bn for FY19, of which RM781m has been achieved YTD. Going forward, we expect more jobs to come from its parent co Sunway (BUY, TP: RM2.18) due to reduction in government spending on public infrastructure projects and continue slowdown of property market which results in less building jobs.

Forecast. Maintained.

Downgrade to HOLD, TP: RM1.81. Share price of SunCon has performed relatively well, increasing by 31% YTD, validating it as our top pick. While we like SunCon as a well managed contractor, the narrowed upside at current share price prompts us to downgrade our rating from Buy to HOLD at an unchanged TP of RM1.81 (16.5x PE on FY19 earnings).

Figure #1 Quarterly results comparison

FYE Dec (RM m)	4QFY17	3QFY18	4QFY18	QoQ (%)	YoY (%)	FY17	FY18	YoY (%)
Revenue	748.2	557.3	626.0	12.3	(16.3)	2,076.3	2,256.8	8.7
EBIT	37.6	44.8	45.1	0.6	19.9	162.9	174.6	7.2
Finance income	5.4	3.9	3.5	(9.4)	(34.4)	13.5	16.0	19.0
Finance cost	(1.8)	(1.7)	(2.0)	17.9	14.7	(6.1)	(8.3)	36.4
PBT	43.3	46.9	47.3	0.7	9.1	172.5	183.1	6.1
PAT	31.3	36.5	36.8	0.9	17.7	136.2	145.0	6.5
Core PATMI	31.0	36.4	36.6	0.4	18.1	136.1	144.7	6.3
Reported PATMI	31.0	36.4	36.6	0.4	18.1	136.1	144.7	6.3
Core EPS (sen)	2.4	2.8	2.8	0.4	18.1	10.5	11.2	6.3
EBIT margin (%)	5.0	8.0	7.2			7.8	7.7	
PBT margin (%)	5.8	8.4	7.6			8.3	8.1	
PATMI margin (%)	4.1	6.5	5.8			6.6	6.4	

Bursa, HLIB Research

Figure #2 Financial forecast summary

FYE Dec (RM m)	FY16	FY17	FY18	FY19f	FY20f
Revenue	1,788.8	2,076.3	2,256.8	2,154.8	2,186.4
EBITDA	169.4	202.4	214.6	214.7	229.2
EBIT	130.3	164.6	174.6	175.0	187.5
PBT	134.8	174.2	183.1	182.4	194.8
PAT	104.7	138.0	145.0	142.2	151.9
PATMI – Core	104.6	137.8	144.7	142.1	151.8
PATMI – Reported	123.5	137.8	144.7	142.1	151.8
% change YoY – Core PATMI	-9%	32%	5%	-2%	7%
HLIB/ Consensus (%) – Core PATMI	NA	NA	NA	-8%	-6%
Core EPS (sen)	8.1	10.7	11.2	11.0	11.7
P/E (x)	21.4	16.2	15.4	15.7	14.7
EV/EBITDA (x)	10.5	8.8	8.7	8.3	7.8
DPS (sen)	5.0	7.0	7.0	6.6	7.0
Yield (%)	3%	4%	4%	4%	4%
BVPS (RM/share)	0.4	0.4	0.5	0.5	0.6
P/B (x)	4.5	4.0	3.8	3.4	3.1
ROE (%)	22%	26%	24%	22%	22%
Net Gearing (%)	CASH	CASH	CASH	CASH	CASH

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Stock rating definitions

BUY	Expected absolute return of +10% or more over the next 12 months.
HOLD	Expected absolute return of -10% to +15% over the next 12 months.
SELL	Expected absolute return of -10% or less over the next 12 months.
UNDER REVIEW	Rating on the stock is temporarily under review which may or may not result to a change from the previous rating.
NOT RATED	Stock is not or no longer within regular coverage.

Sector rating definitions

OVERWEIGHT	Sector expected to outperform the market over the next 12 months.
NEUTRAL	Sector expected to perform in-line with the market over the next 12 months.
UNDERWEIGHT	Sector expected to underperform the market over the next 12 months.