



Sunway Construction Group (SCGB MK) : BUY

Mkt. Cap: US\$614m | 3m Avg. Daily Val: US\$0.20m

Last Traded Price (19 Nov 2019): RM1.98

Price Target 12-mth: RM2.70 (36% upside) (Prev RM2.70)

Analyst

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Positioning for earnings recovery in FY20F

- 3Q19 below expectations due to LRT 3
- A slow quarter for construction but margins improved
- YTD wins of RM1.7bn; 2020 outlook looks promising
- BUY with SOP-derived TP of RM2.70

Forecasts and Valuation

FY Dec (RMm)	2018A	2019F	2020F	2021F
Revenue	2,257	2,202	2,415	2,556
EBITDA	218	216	250	273
Pre-tax Profit	183	171	202	222
Net Profit	145	137	161	178
Net Pft (Pre Ex.)	145	137	161	178
Net Pft Gth (Pre-ex) (%)	5.0	(5.4)	17.9	10.0
EPS (sen)	11.2	10.6	12.5	13.7
EPS Pre Ex. (sen)	11.2	10.6	12.5	13.7
EPS Gth Pre Ex (%)	5	(5)	18	10
Diluted EPS (sen)	11.2	10.6	12.5	13.7
Net DPS (sen)	7.50	5.30	6.24	6.87
BV Per Share (sen)	45.7	51.0	57.3	64.1
PE (X)	17.7	18.7	15.9	14.4
PE Pre Ex. (X)	17.7	18.7	15.9	14.4
P/Cash Flow (X)	13.5	11.6	12.5	11.2
EV/EBITDA (X)	10.5	10.2	8.6	7.7
Net Div Yield (%)	3.8	2.7	3.2	3.5
P/Book Value (X)	4.3	3.9	3.5	3.1
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	25.3	21.9	23.1	22.6

Source of all data on this page: Company, AllianceDBS, Bloomberg Finance L.P.

What's New

Below expectations. Sunway Construction Group Berhad (SCGB) reported a 3Q19 net profit of RM33m (-8% y-o-y, +1% q-o-q), bringing 9M19 net profit to RM98m (-9% y-o-y). This was on the back of a 21% y-o-y decline in 9M19 revenue to RM1.3bn. In spite of expectations of a better 4Q19 as its precast division is expected to do better, we deem the results to be below our and consensus expectations due to slower revenue recognition largely for its LRT 3 project.

A slow quarter for construction but margins improved.

Construction revenue for 3Q19 slipped by 30% y-o-y to RM365m, as most of its new projects are still in the initial stages while its LRT 3 project is still undergoing cost-optimisation measures. Nonetheless, 3Q19 construction pretax margin improved to 9.7% vs. 3Q18's 9.3%. Its outstanding construction orderbook as at 30 September 2019 stood at RM5.3bn.

Precast division back in the black and will improve further in 4Q19.

For 3Q19, its precast division was slightly profitable at RM0.2m (vs. 3Q18 pretax loss of RM1.9m). This is largely expected and we expect better profit generation in 4Q19 and normalisation of profit in FY20F. 3Q19 revenue increased 13% y-o-y RM38m. Most of its lower yielding jobs have been completed. The outstanding precast orderbook as at 30 September stood at RM321m, sufficient for more than two years of revenue visibility.



Outlook

YTD wins inching up – likely to hit at RM2bn. YTD wins until 30 September 2019 are now marginally higher at RM1.7bn vs. RM1.54bn (as at 30 June 2019). The incremental wins have come from a few jobs that don't meet the Bursa Malaysia disclosure requirements. These are largely for Gas District Cooling Plant for IOI mall, MRT underground MEP works and some precast projects in Singapore. SCG will likely end FY19F with RM2bn new wins where there are still two internal jobs which could be awarded in December 2019. One is for the Big Box Office in Iskandar and the other is the Sunway International School. The outlook moving into FY20F looks even more promising with more assured orders from its parent company.

Fine-tuning earnings. We trim our FY19F earnings by 5% but raise our FY20-21F earnings by 2% each per annum to factor in slower recognition for its LRT 3 project. We now expect works for this project to pick up more significantly in FY20F.

Valuation and Recommendation

BUY rating and TP maintained. We maintain our BUY rating and SOP-derived TP to RM2.70/share. We expect the market to continue assigning a premium to SCGB for its impeccable execution and strong balance sheet. Despite its seemingly higher valuations, we expect this premium to potentially widen as the construction cycle turns more positive in 2020. Purer play contractors like SCGB should trade at a premium to the more diversified players.

Flash Note

Quarterly Income Statement (RMm)

FY Dec	3Q2018	2Q2019	3Q2019	% chg yoy	% chg qoq
Revenue	557	440	403	(27.8)	(8.5)
Cost of Goods Sold	0.0	0.0	0.0	N/A	N/A
Gross Profit	557	440	403	(27.8)	(8.5)
Other Oper. (Exp)/Inc	(513)	(403)	(368)	(28.2)	(8.5)
Operating Profit	44.8	37.6	34.4	(23.2)	(8.6)
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	nm	nm
Associates & JV Inc	0.0	0.0	0.0	nm	nm
Net Interest (Exp)/Inc	2.15	3.58	1.19	(44.8)	(66.9)
Exceptional Gain/(Loss)	0.0	0.0	0.0	nm	nm
Pre-tax Profit	46.9	41.2	35.6	(24.2)	(13.7)
Tax	(10.4)	(8.2)	(2.5)	(75.7)	(69.2)
Minority Interest	(0.1)	0.21	0.46	nm	115.0
Net Profit	36.4	33.2	33.5	(8.0)	0.9
Net profit bef Except.	36.4	33.2	33.5	(8.0)	0.9
EBITDA	44.8	37.6	34.4	(23.2)	(8.6)
Margins (%)					
Opg Profit Margins	8.0	8.5	8.5		
Net Profit Margins	6.5	7.5	8.3		

Source of all data: Company, AllianceDBS

Target Price & Ratings History



S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	21 Nov 18	1.60	1.66	HOLD
2:	04 Jan 19	1.44	1.66	HOLD
3:	20 Feb 19	1.76	1.66	HOLD
4:	26 Feb 19	1.76	1.66	HOLD
5:	19 Mar 19	1.85	1.66	HOLD
6:	15 Apr 19	1.96	1.66	HOLD
7:	06 May 19	2.00	1.66	HOLD
8:	17 May 19	1.90	1.91	HOLD
9:	27 Jun 19	2.04	1.91	HOLD
10:	08 Jul 19	2.12	2.70	BUY
11:	25 Jul 19	2.17	2.70	BUY
12:	20 Aug 19	2.05	2.70	BUY
13:	15 Nov 19	1.97	2.70	BUY

Note: Share price and Target price are adjusted for corporate actions.

Source: AllianceDBS

Analyst: Tjen San CHONG

DISCLOSURE

Stock rating definitions

STRONG BUY	-	> 20% total return over the next 3 months, with identifiable share price catalysts within this time frame
BUY	-	> 15% total return over the next 12 months for small caps, >10% for large caps
HOLD	-	-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps
FULLY VALUED	-	negative total return > -10% over the next 12 months
SELL	-	negative total return of > -20% over the next 3 months, with identifiable catalysts within this time frame

Commonly used abbreviations

Adex = advertising expenditure	EPS = earnings per share	PBT = profit before tax
bn = billion	EV = enterprise value	P/B = price / book ratio
BV = book value	FCF = free cash flow	P/E = price / earnings ratio
CF = cash flow	FV = fair value	PEG = P/E ratio to growth ratio
CAGR = compounded annual growth rate	FY = financial year	q-o-q = quarter-on-quarter
Capex = capital expenditure	m = million	RM = Ringgit
CY = calendar year	M-o-m = month-on-month	ROA = return on assets
Div yld = dividend yield	NAV = net assets value	ROE = return on equity
DCF = discounted cash flow	NM = not meaningful	TP = target price
DDM = dividend discount model	NTA = net tangible assets	trn = trillion
DPS = dividend per share	NR = not rated	WACC = weighted average cost of capital
EBIT = earnings before interest & tax	p.a. = per annum	y-o-y = year-on-year
EBITDA = EBIT before depreciation and amortisation	PAT = profit after tax	YTD = year-to-date

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