

Sunway Construction Group (SCGB MK) : HOLD

Mkt. Cap: US\$636m | 3m Avg. Daily Val: US\$0.60m

Last Traded Price (16 Aug 2018): RM2.02

Price Target 12-mth: RM2.04 (1% upside) (Prev RM2.18)

Analyst

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Precast margins to impact earnings

- 2Q18 results below expectations
- Construction compensated for poor precast earnings which will only improve in 2H19
- Cutting earnings to account for lower new orders and margins for precast
- Maintain HOLD given premium valuations vs larger caps

Forecasts and Valuation

FY Dec (RMm)	2017A	2018F	2019F	2020F
Revenue	2,076	2,644	2,881	2,821
EBITDA	205	230	257	250
Pre-tax Profit	174	181	202	207
Net Profit	138	145	162	166
Net Pft (Pre Ex.)	138	145	162	166
Net Pft Gth (Pre-ex) (%)	11.6	5.1	11.7	2.4
EPS (sen)	10.7	11.2	12.5	12.8
EPS Pre Ex. (sen)	10.7	11.2	12.5	12.8
EPS Gth Pre Ex (%)	12	5	12	2
Diluted EPS (sen)	10.7	11.2	12.5	12.8
Net DPS (sen)	5.50	5.60	6.25	6.40
BV Per Share (sen)	42.8	48.4	54.7	61.1
PE (X)	19.0	18.0	16.1	15.8
PE Pre Ex. (X)	19.0	18.0	16.1	15.8
P/Cash Flow (X)	41.9	13.5	12.5	12.8
EV/EBITDA (X)	11.0	9.6	8.4	8.4
Net Div Yield (%)	2.7	2.8	3.1	3.2
P/Book Value (X)	4.7	4.2	3.7	3.3
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	26.3	24.6	24.3	22.1

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

Company Guide



Summary of our point of view, and highlights the relevant data points, which are actively tracked

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What's New

Below expectations. SCG reported a 2Q18 net profit of RM36m (-2% y-o-y, +0.1% q-o-q), bringing 1H18 net profit to RM72m (+3% y-o-y). This was on the back of a 28% y-o-y increase in 1H18 revenue to RM1,074m. The results were below our forecast and consensus estimate. A first interim dividend of 3.5 sen was proposed.

Higher construction progress in 2Q. Construction revenue for 2Q18 jumped 32% y-o-y to RM512m due to higher progress of work for building and civil jobs in the central region. 2Q18 construction pretax margin was 8.4% vs 2Q17's 9.2% and 1Q18's 8.1% which is within the expected range for its ongoing jobs. Its outstanding construction orderbook as at 30 June 2018 stood at RM5.6bn.

Precast margins continue to be a drag. For 2Q18, its precast division's pretax profit fell 64% y-o-y to just RM2m but revenue rose 8% to RM33m. On a sequential basis, 2Q18 precast profit slid 37% to RM2m. Hence, 2Q18 margins were a meagre 7% vs 2Q17's 21% and 1Q18's 10%. Margins for the quarter were impacted by higher steel bar prices which constitutes 30% of its total cost. We now only expect improvement in its precast business in 2H19. The outstanding precast orderbook as at 30 June 2018 stood at RM183m, sufficient for about a year of revenue visibility.

New order guidance intact. SCG is maintaining its new order guidance of RM1.5bn for FY18F. This is after an exceptional year in FY17 where it clinched RM4bn in new orders. YTD wins have reached RM854m, coming from three internal projects (Sunway Medical Centre in Seberang Jaya, Sunway

Flash Note

Carnival 2 Extension in Seberang Prai and SunGeo Lake at Sunway South Quay), some piling jobs and also precast orders. SCG will still be targeting internal hospital jobs and other private sector/government mixed-development jobs.

ICPH expansion. The Hong Leong-SCG JV has won the bid for the lease of land for the development of the Integrated Construction Prefabrication Hub (ICPH). The land is located at Pulau Punggol Barat and the lease term is 30 years from July 2018. The total consideration for the land is S\$26m while including the construction cost for the ICPH is S\$80m. The expected annual production capacity is 100,000 cubic metres. We have accounted for the additional S\$40m (SCG's portion) in our forecasts. We foresee no impact on its dividend payout and the additional capex over three years will be more than adequately financed by its strong balance sheet with a net cash of RM457m (as at 30 June 2018).

Cutting earnings and TP. We cut our FY18/19/20F earnings by 9%/9%/8% to RM145m, RM162m and RM166m respectively. This is to factor in i) lower new order replenishment for precast of RM100m-150m for FY18-20F vs RM180-200m previously; ii) lower precast margins of 10-15% for FY18-20F vs 18-20% previously, and iii) the fact these negatives are balanced off by higher construction margins of 8% for FY18-20F vs sub-7% previously. We also lower our SOP-derived TP to RM2.04 (vs RM2.18 previously) to account for lower margins and lower sustainable orderbook for its precast division. Our HOLD rating remains intact.

Quarterly / Interim Income Statement (RMm)

FY Dec	2Q2017	1Q2018	2Q2018	% chg yoy	% chg qoq
Revenue	417	529	544	30.4	2.8
Cost of Goods Sold	0.0	0.0	0.0	N/A	N/A
Gross Profit	417	529	544	30.4	2.8
Other Oper. (Exp)/Inc	(376)	(486)	(502)	33.8	3.2
Operating Profit	41.7	42.7	42.0	0.7	(1.7)
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	1.04	0.97	3.16	202.4	226.5
Exceptional Gain/(Loss)	0.0	0.0	0.0	nm	nm
Pre-tax Profit	42.8	43.7	45.2	5.6	3.3
Tax	(6.1)	(7.9)	(9.3)	53.0	17.9
Minority Interest	0.0	0.03	0.0	61.5	(92.2)
Net Profit	36.7	35.9	35.9	(2.2)	0.1
Net profit bef Except.	36.7	35.9	35.9	(2.2)	0.1
EBITDA	41.7	42.7	42.0	0.7	(1.7)
Margins (%)					
Gross Margins	100.0	100.0	100.0		
Opg Profit Margins	10.0	8.1	7.7		
Net Profit Margins	8.8	6.8	6.6		

Source of all data: Company, AllianceDBS

Target Price & Ratings History



S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	28 Aug 17	2.29	2.60	HOLD
2:	15 Sep 17	2.32	2.60	HOLD
3:	06 Oct 17	2.29	2.60	HOLD
4:	19 Oct 17	2.30	2.60	HOLD
5:	21 Nov 17	2.40	2.60	HOLD
6:	17 Jan 18	2.52	2.60	HOLD
7:	27 Feb 18	2.40	2.60	HOLD
8:	09 Apr 18	2.01	2.60	BUY
9:	14 May 18	2.16	2.18	HOLD
10:	18 May 18	2.02	2.18	HOLD

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

Source: AllianceDBS

Analyst: Tjen San CHONG

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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 i.e. > -10% over the next 12 months)

SELL (negative total return of > -20% over the next 3 months, with identifiable catalysts within this time frame)

Share price appreciation + dividends

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Sources for all charts and tables are AllianceDBS unless otherwise specified.

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