

21 November 2017

Sunway Construction Group

Below Street's Expectations

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SUNCON's 9M17 CNP of RM102.0m is within our, but below consensus, full-year expectation, at 70%/68%. A 3.0 sen dividend declared, as expected. No changes to FY17-18E CNP. Maintain MARKET PERFORM with an unchanged SoP-driven Target Price of RM2.29.

Within our, below consensus, expectation. Its 9M17 CNP of RM102.0m came in at 70%/68% of our and consensus' full-year estimates. It is within our but below consensus' expectation. We believe the shortfall in consensus estimates could be due to the weaker-than-expected performance from its pre-cast division owing to timing issues. A 3.0 sen dividend was declared, inline with our full-year expectation of 4.0 sen.

Results highlight. 9M17 CNP grew 8%, YoY, driven by:(i) revenue growth of 7%, (ii) lower effective tax of 19% (-2ppt), and (iii) improvement in pre-tax margin to 9% (+1ppt). Construction revenue growth of 17% provides a safe cushion for the fall in precast revenue (-41%). The improvement in pre-tax margins was attributable to better billings progress from its on-going projects, i.e. MRT2, Parcel F, Putrajaya, ISKL and etc. **QoQ, 3Q17 CNP** only saw marginal growth of 2%, despite 18% growth in revenue due to: (i) higher effective tax of 20% (+6ppt), and ii) weaker pre-tax margins of 9% (-1ppt) due to some minor write offs. On segmental basis, pre-tax profit for its construction division grew by 12%, while precast division saw a decline of 63%. The sharp decline in its precast division's performance was due to low billings as its clients were unable to take delivery of their precast products due to their slow construction work progress in Singapore.

Outlook. SUNCON's outstanding order-book now stands at RM6.8b providing earnings visibility for the next 2-3 years. Going forward, we believe that SUNCON might look to focus on its on-going projects and more selective in their future jobs selections, which command better margins.

No changes to earnings. Post results, there are no changes to our FY17-18E earnings estimates.

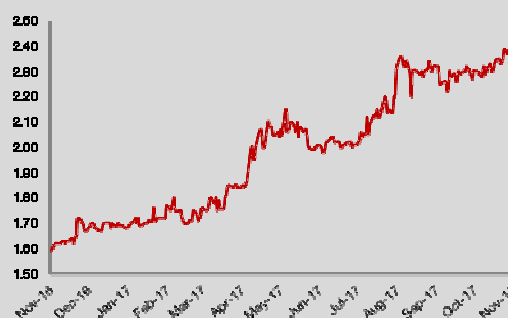
Maintain MARKET PERFORM. We reiterate our MARKET PERFORM call on SUNCON with an unchanged SoP-driven Target Price of RM2.29, backed by massive outstanding order-book of RM6.8b coupled with the potential recovery in its precast division where billings are expected in FY18. Our TP of RM2.29 implies FY18E PER of 17.1x, trading close to big-cap peers' average of 18.0-20.0x.

Risks to our call include: (i) higher-than-expected margins/order-book replenishment, and (ii) higher government spending on infrastructure and affordable housing projects.

MARKET PERFORM ↔

Price : **RM2.40**
Target Price : **RM2.29** ↔

Share Price Performance



KLCI	1,718.36
YTD KLCI chg	4.7%
YTD stock price chg	41.2%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	SCGB MK Equity
Market Cap (RM m)	3,101.4
Issued shares	1,292.2
52-week range (H)	2.44
52-week range (L)	1.58
3-mth avg daily vol:	1,812,936
Free Float	32%
Beta	0.5

Major Shareholders

Sunway Holdings Sdn Bhd	54.4%
Sungei Wang Corp Sdn Bhd	10.1%
True Paragon Sdn Bhd	3.9%

Summary Earnings Table

FYE Dec (RM m)	2016A	2017E	2018E
Turnover	1,788.8	2,339.0	2,997.6
EBIT	149.6	185.3	220.7
PBT	153.7	193.7	230.9
Net Profit (NP)	123.5	145.2	173.1
Core net profit	117.7	145.2	173.1
Consensus (NP)	n.a.	149.8	191.2
Earnings Revision	n.a.	0.0%	0.0%
Basic EPS	9.1	11.2	13.4
EPS growth (%)	-3%	18%	19%
DPS (sen)	5.0	4.0	4.7
Basic PER (x)	26.4	21.4	17.9
BVPS (RM)	0.38	0.45	0.54
Net Gearing (x)	n.c.	n.c.	n.c.
Dividend Yield (%)	2.1%	1.7%	2.0%

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Results Highlight								
FYE Dec (RM'm)	3Q17	2Q17	QoQ	3Q16	YoY	9M17	9M16	YoY
Turnover	491.4	417.2	18%	381.1	29%	1,328.1	1,235.7	7%
EBIT	42.4	38.7	10%	40.7	4%	122.5	115.1	6%
Interest inc/(exp)	0.7	1.0	-37%	0.8	-22%	3.8	4.2	-9%
Associates	0.0	0.0	n.a.	0.0	n.a.	0.0	-0.7	-100%
Exceptional items	0.0	2.9	-100%	-0.9	-100%	2.9	-2.0	-248%
Forex gain/(loss)	0.0	0.1	-100%	-0.2	-100%	0.8	-0.6	-229%
Pretax profit	43.1	42.8	1%	40.4	7%	130.0	116.0	12%
Taxation	-8.6	-6.1	42%	-9.1	-6%	-24.2	-24.4	-1%
Deferred tax	0.0	0.0	n.a.	0.0	n.a.	0.0	0.0	n.a.
Profit after tax	34.5	36.7	-6%	31.3	10%	105.8	91.6	15%
Minority interest	-0.1	-0.1	66%	-0.1	-26%	-0.2	-0.2	-16%
PATAMI	34.4	36.6	-6%	31.1	10%	105.7	91.5	16%
Core PATAMI	34.4	33.6	2%	32.2	7%	102.0	94.0	8%
EBIT margin	9%	9%		11%		9%	9%	
Pretax margin	9%	10%		11%		10%	9%	
CNP margin	7%	8%		8%		8%	8%	
EPS (sen)	2.6	2.8		2.4		8.2	7.1	
Core EPS(sen)	2.6	2.6		2.5		7.9	7.3	
BV/share (RM)	0.4	0.4		0.4		0.4	0.4	
Net gearing (x)	-0.6	-0.7		-0.7		-0.6	-0.7	
Effective tax	20%	14%		23%		19%	21%	

Source: Company, Kenanga Research

Segmental Breakdown								
Turnover Segmentation	3Q17	2Q17	QoQ	3Q16	YoY	9M17	9M16	YoY
Construction	471.8	387.1	22%	301.3	57%	1,209.7	1,035.6	17%
Pre-cast	19.6	30.1	-35%	79.8	-75%	118.5	200.1	-41%
Total	491.4	417.2	18%	381.1	29%	1,328.1	1,235.7	7%
Construction	40.7	36.4	12%	27.9	46%	105.5	75.2	40%
Pre-cast	2.4	6.3	-63%	12.5	-81%	24.5	40.9	-40%
Total	43.1	42.8	1%	40.4	7%	130.0	116.0	12%
Pre-tax margins								
Construction	9%	9%		9%		9%	7%	
Pre-cast	12%	21%		16%		21%	20%	

Source: Company, Kenanga Research

Sum-of-parts valuation	
16x FY18E PER on existing business (RM m)	2769.6
50% of FY18E cash pile (RM m)	192.8
Fair Value (RM m)	2962.4
Shares Outstanding (m)	1292.9
Target Price (RM)	2.29
Implied FY18E PER (x)	17.1

Source: Kenanga Research

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Peer Comparison

CORE COVERAGE																
NAME	Price	Mkt Cap	PER (x)			Est. Div. Yld.	Est. ROE	P/BV	Net Profit (RMm)			1 YrFwd NP Growth	2 YrFwd NP Growth	Target Price	Rating	YTD (%)
	(RM)	(RMm)	Actual	1 YrFwd	2 YrFwd	(%)	(%)	(x)	Actual	1 YrFwd	2 YrFwd	(%)	(%)	(RM)		
EVERSENDAI CORP BHD	0.86	668	-4.7	11.3	10.4	2%	6%	0.7	-140.3	58.9	70.0	-142%	19%	0.75	Underperform	48.7
GAMUDA BHD	4.70	11539	19.0	17.9	15.0	3%	10%	1.5	700.6	741.7	885.4	6%	19%	5.45	Market Perform	-1.7
IJM CORP BHD	3.07	11139	20.6	19.0	16.9	2%	6%	1.1	539.1	585.8	656.1	9%	12%	3.48	Outperform	-4.1
KIMLUN CORP BHD	2.38	761	9.0	10.4	9.4	2%	12%	1.2	81.9	70.7	78.3	-14%	11%	2.27	Market Perform	14.4
MUHIBBAH ENGINEERING (M) BHD	2.80	1345	16.6	14.3	13.7	2%	11%	1.5	87.7	101.5	106.2	16%	5%	2.94	Market Perform	25.6
HOCK SENG LEE BERHAD	1.47	808	14.3	16.3	11.8	1%	7%	1.1	56.5	49.4	69	-13%	40%	1.40	Market Perform	-8.1
WCT HOLDINGS BHD	1.67	2349	32.7	18.8	16.5	0%	5%	1.0	84.8	149	169.4	76%	14%	1.83	Market Perform	-2.9
MITRAJAYA HOLDINGS BHD	0.79	610	7.2	10.1	7.1	3%	12%	1.0	97.3	70.3	98.3	-28%	40%	0.94	Outperform	-29.8
SUNWAY CONSTRUCTION GROUP	2.40	3101	26.4	21.4	17.9	2%	25%	5.4	117.7	145.2	173.1	23%	19%	2.29	Market Perform	41.2
KERJAYA PROSPEK GROUP BHD	3.90	2198	22.0	17.4	14.9	1%	15%	2.7	100	126.7	148.1	27%	17%	3.30	Underperform	79.7
GEORGE KENT (MALAYSIA) BHD	3.23	1819	18.0	14.4	12.9	2%	26%	3.8	101.3	126.1	141	24%	12%	3.65	Outperform	59.4
<i>Average</i>			16.5	15.6	13.3											
NOT RATED/ON OUR RADAR																
NAME	Price	Mkt Cap	PER (x)			Est. Div. Yld.	Est. ROE	P/BV	Net Profit (RMm)			1 YrFwd NP Growth	2 YrFwd NP Growth	Target Price	Rating	YTD (%)
	(RM)	(RMm)	Actual	1 YrFwd	2 YrFwd	(%)	(%)	(x)	Actual	1 YrFwd	2 YrFwd	(%)	(%)	(RM)		
MUDAJAYA	1.05	621	-2.1	14.7	10.7	n.a.	n.a.	n.a.	-264.9	38.5	52.9	-115%	37%	n.a.	Not Rated	15.4
PROTASCO	1.10	467	9.0	7.9	7.7	5%	15%	1.2	51.8	58.5	60.1	13%	3%	1.52	Trading Buy	-2.7
PINTARAS JAYA	3.90	644	35.9	15.1	12.6	5%	12%	1.9	17.8	42.2	50.6	137%	20%	4.2	Trading Buy	10.8
GABUNGAN AQRS	1.93	844	33.3	20.3	9.7	1%	12%	2.4	22.6	37.2	77.9	65%	109%	1.6	Not Rated	113.3
GADANG HOLDINGS	1.14	751	3.9	4.3	4.1	2%	27%	1.2	94.2	86.8	90.8	-8%	5%	2.44	Not Rated	8.6
AZRB	1.08	574	19.2	9.1	7.2	n.a.	15%	1.4	27.2	57.4	73	111%	27%	1.35	Trading Buy	70.1
TRC SYNERGY	0.72	346	11.6	10.5	13.2	3%	8%	0.8	29.9	32.9	26.3	10%	-20%	n.a.	Not Rated	89.5
BINA PURI	0.35	93	83.5	5.6	5.6	n.a.	n.a.	n.a.	1	14.9	14.9	1390%	0%	n.a.	Not Rated	-19.5
PESONA	0.51	351	16.5	9.4	6.8	5%	22%	2.1	20	35.3	48.5	77%	37%	0.49	Take Profit	-16.5
JAKS	1.47	724	0.9	10.4	7.5	0%	12%	1.2	736	61.9	85.4	-92%	38%	1.54	Not Rated	44.1
<i>Average</i>			21.2	10.7	8.5											

Source: Bloomberg, Kenanga Research

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Stock Ratings are defined as follows:**Stock Recommendations**

OUTPERFORM : A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM : A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM : A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT : A particular sector's Expected Total Return is MORE than 10%
NEUTRAL : A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT : A particular sector's Expected Total Return is LESS than -5%

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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