

Sunway Construction Group (SCGB MK)

3Q18: Below expectations

Maintain HOLD

3Q18 results fell short, dragged by the weaker precast segment. Our FY18E-FY20E earnings are lowered by 10%-18% after i) adjusting for KVLRT 3 progress billing, ii) lower job win target for FY19E/FY20E and iii) weaker margins at the precast division. Our TP is lowered to MYR1.70 (rounded) pegged to a lower PER of 14x (-1SD) vs. 15x previously, to FY19E earnings.

Precast continues to drag

3Q18 net profit of MYR36m (+8% YoY, +2% QoQ) brought 9M18 net profit to MYR108m (+5% YoY), meeting just 66%/69% of ours/consensus full-year forecasts. The earnings in 3Q18 continue to be dragged by the precast segment which reported a loss of MYR2m at the operating level (compared to an EBIT of MYR1.5m in 3Q17). This was largely due to the impact of higher steel bar cost coupled with lower selling prices from stiffer competition. Steel content makes up ~40% of precast cost.

Construction still the growth driver

YoY, construction continues to see growth, reporting an EBIT of MYR47m in 3Q18 (+17% YoY, +18% QoQ). This is in-line with the topline growth supported by higher works recognition mainly from the KVMRT 2, Parcel F project in Putrajaya and contributions from the Sunway Carnival Mall Extension and Sunway Medical Centre work packages. Having secured e.MYR1.35b of new jobs (incl. precast) YTD 2018, SCG's internal job win target of MYR1.5b for FY18 remains intact.

KVLRT 3 to continue implementation but ...

With the KVLRT 3's total cost being cut by 47% to MYR16.6b, we do expect SCG's KVLRT 3 package to be scaled down as well, potentially by reviewing the designs of the 6 stations. In our forecast, we now assume a 15% cut to SCG's KVLRT 3 contract value of MYR2.2b, taking into account as well a potentially extended construction deadline. Our construction job win assumptions for FY19E/FY20E are also revised downwards by 25% to MYR1.5b p.a.. We also lower our margin assumptions for precast to factor in the higher steel bar prices. Subsequently, our FY18E/FY19E/FY20E earnings are revised downwards by 10%/18%/16% respectively.

FYE Dec (MYR m)	FY16A	FY17A	FY18E	FY19E	FY20E
Revenue	1,789	2,076	2,363	2,670	2,820
EBITDA	188	202	225	242	236
Core net profit	124	138	148	160	155
Core EPS (sen)	9.6	10.7	11.4	12.4	12.0
Core EPS growth (%)	(2.9)	11.6	7.1	8.5	(3.5)
Net DPS (sen)	5.0	7.0	4.0	4.3	4.2
Core P/E (x)	17.8	23.5	14.1	13.0	13.5
P/BV (x)	4.5	5.9	3.2	2.8	2.4
Net dividend yield (%)	2.9	2.8	2.5	2.7	2.6
ROAE (%)	26.2	26.3	24.5	22.8	19.2
ROAA (%)	8.2	7.9	8.0	8.3	7.2
EV/EBITDA (x)	9.9	14.3	7.3	6.3	6.0
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Consensus net profit	-	-	150	174	176
MKE vs. Consensus (%)	-	-	(1.6)	(8.1)	(12.2)

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HOLD

Share Price	MYR 1.61
12m Price Target	MYR 1.70 (+6%)
Previous Price Target	MYR 2.30

Company Description

Sunway Construction Group offers integrated construction services and has precast concrete business in Singapore.

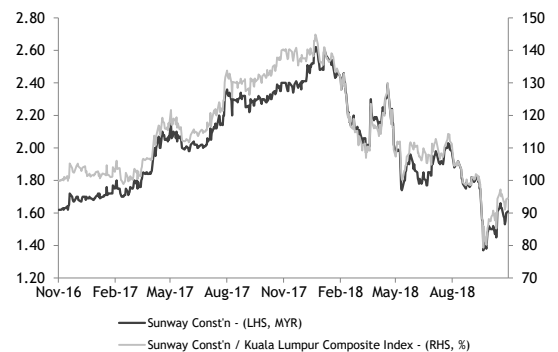
Statistics

52w high/low (MYR)	2.62/1.37
3m avg turnover (USDm)	0.4
Free float (%)	26.8
Issued shares (m)	1,293
Market capitalisation	MYR2.1B USD497M

Major shareholders:

Sunway Bhd.	54.4%
Active Equity Sdn. Bhd.	10.1%
Employees Provident Fund	7.4%

Price Performance



	-1M	-3M	-12M
Absolute (%)	6	(19)	(33)
Relative to index (%)	7	(15)	(33)

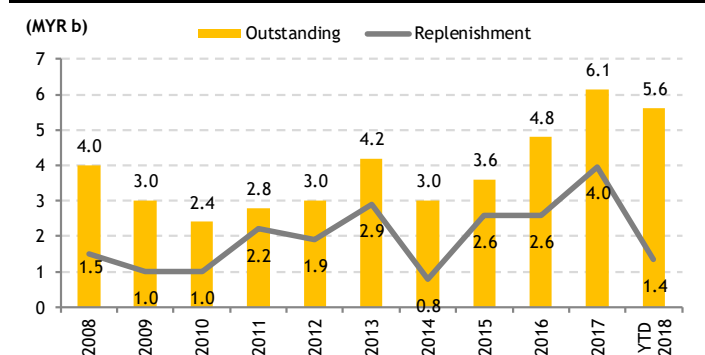
Source: FactSet

Results summary table

	Quarterly results					Cumulative		
	3Q18	3Q17	% YoY	2Q18	% QoQ	9M18	9M17	% YoY
FY Dec (RM m)								
Turnover	557.3	491.4	13.4	544.3	2.4	1,630.8	1,328.1	22.8
EBIT	44.8	41.5	7.8	42.0	6.6	129.5	123.6	4.8
Net interest	2.1	0.7	226.8	3.2	(32.0)	6.3	3.8	64.4
Pre-tax profits	46.9	42.2	11.2	45.2	3.9	135.8	127.4	6.6
Tax	(10.4)	(8.6)	21.3	(9.3)	12.2	(27.6)	(24.2)	14.1
Minority Interests	(0.1)	0.1	NM	(0.0)	NM	(0.1)	0.2	NM
Net profit	36.4	33.7	8.0	35.9	1.6	108.1	103.4	4.6
	3Q18	3Q17	+/- ppt	2Q18	+/- ppt	9M18	9M17	+/- ppt
<i>EBIT margin (%)</i>	8.0	8.5	(0.4)	7.7	0.3	7.9	9.3	(1.4)
<i>Pretax margin (%)</i>	8.4	8.6	(0.2)	8.3	0.1	8.3	9.6	(1.3)
<i>Tax rate (%)</i>	22.2	20.4	1.9	20.6	1.6	20.3	19.0	1.3
Revenue	3Q18	3Q17	% YoY	2Q18	% QoQ	9M18	9M17	% YoY
Construction	524.1	471.8	11.1	511.6	2.4	1,527.8	1,209.7	26.3
Precast concrete	33.3	19.6	69.9	32.6	1.9	103.1	118.5	(13.0)
Total	557.3	491.4	13.4	544.3	2.4	1,630.8	1,328.1	22.8
EBIT								
Construction	46.7	40.1	16.5	39.7	17.5	125.6	101.7	23.5
Precast concrete	(1.9)	1.5	NM	2.3	NM	3.9	21.9	(82.0)
Total	44.8	41.5	7.8	42.0	6.6	129.5	123.6	4.8
EBIT margin (%)	3Q18	3Q17	+/- ppt	2Q18	+/- ppt	9M18	9M17	+/- ppt
Construction	8.9	8.5	0.4	7.8	1.1	8.2	8.4	(0.2)
Precast concrete	(5.7)	7.5	(13.3)	6.9	(12.7)	3.8	18.4	(14.6)
Total	8.0	8.5	(0.4)	7.7	0.3	7.9	9.3	(1.4)

Source: Maybank Kim Eng, Company

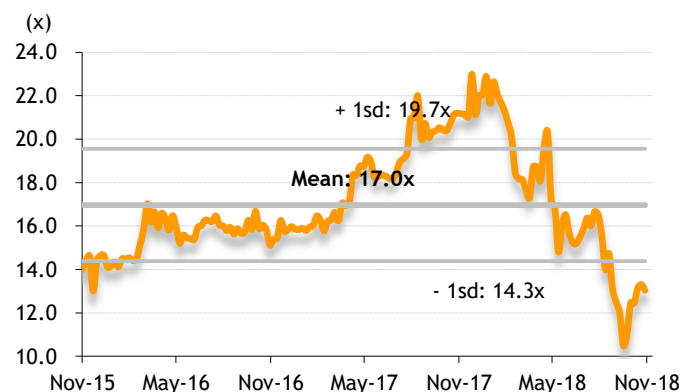
Outstanding orderbook YTD 2018



*Including precast

Source: Company data, Maybank Kim Eng

Forward PER Chart



Source: Company data, Maybank Kim Eng

Sunway Construction: Outstanding orderbook of MYR5.6b as of YTD Nov-2018

YTD Nov-2018	Contract value (MYR m)	Outstanding (MYR m)
Infrastructure		
KVMRT 2, V201 (Sg Buloh-Persiaran Dagang)	1,213	527
BBC (Bore Piling)	88	12
LRT 3 : Package GS07-08	2,178	2,021
Others	87	14
Piling Works* (incl. SUKE CA1 package)	128	117
Building		
Putrajaya Parcel F	1,610	287
KLCC (NEC + Package 2 & 2a)	646	82
PPA1M Project in Kota Bahru	582	208
Warehouse in Shah Alam	70	68
GDC (Plant 2)*	14	14
Others	487	39
Internal		
Sunway Velocity Medical Centre	185	67
Sunway Medical Centre 4 (2 towers)	512	449
Sunway Iskandar - Emerald Residences	175	6
Sunway Iskandar - Retail Complex	170	114
Sunway Property - Kelana Jaya Condo	449	351
Sunway Carnival 2 Extension - PDP contract *	286	261
SunGeo Lake 44 storey residential tower *	223	190
SMC Seberang Jaya*	180	176
Velocity Ecodeck*	11	11
M&E Works*	30	20
Sunway Velocity Two*	352	352
Precast		
Precast new-order 2018*	330	98
	130	128
TOTAL	10,136	5,612

*Secured in 2018

Source: Company

Risk statement

There are several risk factors for our earnings estimates, price target and rating for SCG. Slower-than-expected work progress at major construction projects may affect timing of earnings recognition. The review of major infrastructure projects by the new government could also delay implementation of new projects affecting future orderbook replenishment.

FYE 31 Dec	FY16A	FY17A	FY18E	FY19E	FY20E
Key Metrics					
P/E (reported) (x)	16.5	19.3	14.1	13.0	13.5
Core P/E (x)	17.8	23.5	14.1	13.0	13.5
P/BV (x)	4.5	5.9	3.2	2.8	2.4
P/NTA (x)	4.5	5.9	3.2	2.8	2.4
Net dividend yield (%)	2.9	2.8	2.5	2.7	2.6
FCF yield (%)	3.1	0.4	6.9	8.2	7.7
EV/EBITDA (x)	9.9	14.3	7.3	6.3	6.0
EV/EBIT (x)	12.5	17.6	8.8	7.5	7.3
INCOME STATEMENT (MYR m)					
Revenue	1,788.8	2,076.3	2,363.1	2,669.5	2,820.4
Gross profit	379.0	428.6	450.9	470.2	457.2
EBITDA	188.3	202.4	224.7	241.8	235.8
Depreciation	(39.1)	(37.8)	(39.0)	(39.5)	(43.0)
EBIT	149.2	164.6	185.7	202.2	192.8
Net interest income / (exp)	4.4	7.4	8.1	5.5	7.8
Associates & JV	0.0	2.2	0.0	0.0	0.0
Exceptionals	0.0	0.0	0.0	0.0	0.0
Pretax profit	153.7	174.2	193.8	207.8	200.6
Income tax	(30.0)	(36.2)	(46.2)	(47.5)	(46.0)
Minorities	(0.1)	(0.1)	0.0	0.0	0.0
Reported net profit	123.5	137.8	147.6	160.3	154.6
Core net profit	123.5	137.8	147.6	160.3	154.6
BALANCE SHEET (MYR m)					
Cash & Short Term Investments	465.8	487.2	579.8	693.6	799.8
Accounts receivable	938.4	1,195.3	1,028.5	1,143.0	1,199.4
Inventory	24.0	24.4	21.0	24.1	25.9
Property, Plant & Equip (net)	138.4	149.8	158.1	172.0	185.4
Intangible assets	2.3	2.2	2.2	2.2	2.2
Investment in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other assets	28.5	28.2	28.2	28.2	28.2
Total assets	1,597.3	1,887.2	1,817.8	2,063.1	2,240.9
ST interest bearing debt	136.5	134.7	134.7	134.7	134.7
Accounts payable	955.0	1,185.1	1,019.7	1,160.9	1,238.1
LT interest bearing debt	0.0	0.0	0.0	0.0	0.0
Other liabilities	12.0	13.0	13.0	13.0	13.0
Total Liabilities	1,103.5	1,332.3	1,167.0	1,308.2	1,385.4
Shareholders Equity	493.0	553.7	649.7	753.9	854.4
Minority Interest	0.8	1.1	1.1	1.1	1.1
Total shareholder equity	493.8	554.8	650.8	755.0	855.5
Total liabilities and equity	1,597.3	1,887.2	1,817.8	2,063.1	2,240.9
CASH FLOW (MYR m)					
Pretax profit	153.7	174.2	193.8	207.8	200.6
Depreciation & amortisation	39.1	37.8	39.0	39.5	43.0
Adj net interest (income)/exp	4.4	7.4	8.1	5.5	7.8
Change in working capital	(58.7)	(112.0)	4.9	23.6	19.0
Cash taxes paid	(26.5)	(37.1)	(46.2)	(47.5)	(46.0)
Other operating cash flow	(26.4)	(7.4)	(8.1)	(5.5)	(7.8)
Cash flow from operations	85.6	62.8	191.5	223.3	216.7
Capex	(17.0)	(48.4)	(47.3)	(53.4)	(56.4)
Free cash flow	68.7	14.4	144.2	170.0	160.3
Dividends paid	(84.0)	(71.1)	(51.7)	(56.1)	(54.1)
Change in Debt	(0.3)	(1.9)	0.0	0.0	0.0
Other invest/financing cash flow	91.7	89.6	0.0	0.0	0.0
Net cash flow	76.0	31.0	92.5	113.9	106.1

FYE 31 Dec	FY16A	FY17A	FY18E	FY19E	FY20E
Key Ratios					
Growth ratios (%)					
Revenue growth	(6.7)	16.1	13.8	13.0	5.7
EBITDA growth	5.7	7.5	11.0	7.6	(2.5)
EBIT growth	9.5	10.3	12.8	8.9	(4.7)
Pretax growth	9.2	13.4	11.3	7.2	(3.4)
Reported net profit growth	(2.9)	11.6	7.1	8.5	(3.5)
Core net profit growth	(2.9)	11.6	7.1	8.5	(3.5)
Profitability ratios (%)					
EBITDA margin	10.5	9.7	9.5	9.1	8.4
EBIT margin	8.3	7.9	7.9	7.6	6.8
Pretax profit margin	8.6	8.4	8.2	7.8	7.1
Payout ratio	52.3	65.6	35.0	35.0	35.0
DuPont analysis					
Net profit margin (%)	6.9	6.6	6.2	6.0	5.5
Revenue/Assets (x)	1.1	1.1	1.3	1.3	1.3
Assets/Equity (x)	3.2	3.4	2.8	2.7	2.6
ROAE (%)	26.2	26.3	24.5	22.8	19.2
ROAA (%)	8.2	7.9	8.0	8.3	7.2
Liquidity & Efficiency					
Cash conversion cycle	(51.6)	(43.5)	(33.9)	(28.4)	(29.4)
Days receivable outstanding	166.6	185.0	169.4	146.4	149.5
Days inventory outstanding	5.3	5.3	4.3	3.7	3.8
Days payables outstanding	223.5	233.8	207.5	178.5	182.7
Dividend cover (x)	1.9	1.5	2.9	2.9	2.9
Current ratio (x)	1.3	1.3	1.4	1.4	1.5
Leverage & Expense Analysis					
Asset/Liability (x)	1.4	1.4	1.6	1.6	1.6
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Net gearing (%) (excl. perps)	net cash	net cash	net cash	net cash	net cash
Net interest cover (x)	na	na	na	na	na
Debt/EBITDA (x)	0.7	0.7	0.6	0.6	0.6
Capex/revenue (%)	0.9	2.3	2.0	2.0	2.0
Net debt/ (net cash)	(329.3)	(352.6)	(445.1)	(559.0)	(665.1)

Source: Company; Maybank

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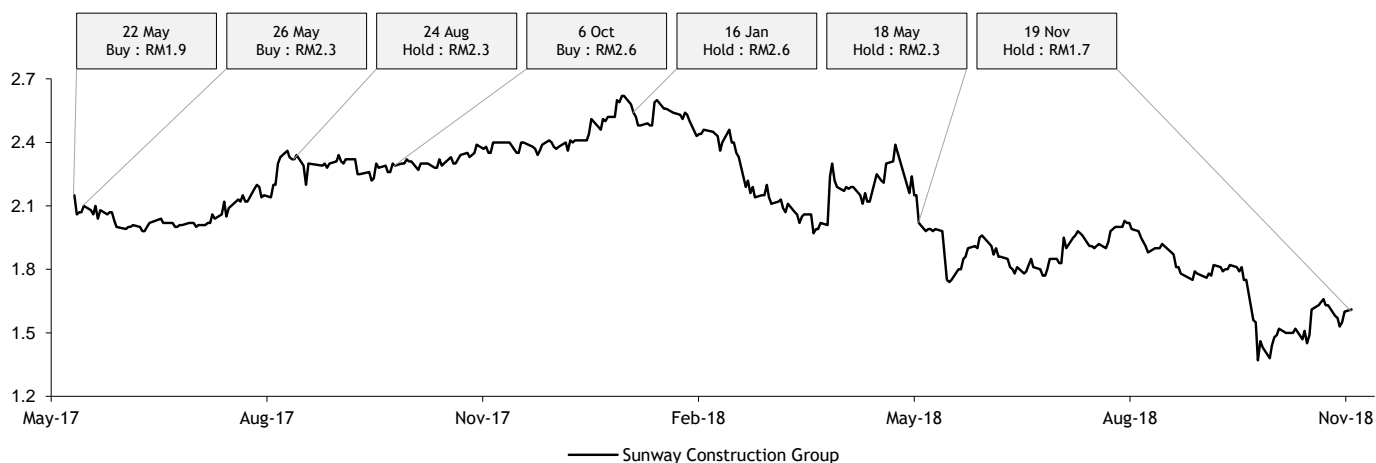
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