

Sunway Construction Group (SCGB MK)

2Q19: Below expectations

Maintain HOLD

2Q19 net profit missed ours/consensus estimates due to a lower-than-expected contribution from the construction arm. We revise our net profit downwards by 2%-7% for FY19E-FY21E after adjusting for slower KVLRT 3 progress and lower margins at precast. Our TP is subsequently lowered by 3% to MYR1.90 (from MYR1.96). SCG remains a HOLD based on our revised TP, and supported by its decent earnings visibility from its outstanding orderbook of MYR5.8b (end-Jun 2019).

Construction earnings dragged by KVLRT 3 delays

2Q19 net profit of MYR33m (-7% YoY, +7% QoQ) brought 1H19 net profit to MYR64m (-10% YoY), meeting just 45%/44% of ours/consensus full-year forecasts. The shortfall in 2Q19 came from construction, where revenue fell 21% YoY (flat QoQ) due to completion of work on the Parcel F project and delays at its KVLRT 3 package as a result of the on-going cost optimisation. However, EBIT for the segment fell by a lesser 8% YoY (-3% QoQ) in 2Q19, cushioned by the improvement in EBIT margins (+1.3ppts YoY, -0.2ppts QoQ). Having secured MYR1.5b of construction works YTD FY19E, additional jobs for the remainder of FY19E could come from a Myanmar project and other building jobs. We have already imputed MYR1.8b of new construction jobs in FY19E within our forecast.

No significant recovery at precast

The precast segment continued to report a weak EBIT of only MYR0.8m (-67% YoY, +136% QoQ) from its low margin yielding contracts. As highlighted, contracts secured in FY18 which have better margins will only contribute in FY20E onwards. We have imputed MYR100m of new precast jobs in FY19E, of which SCG has already secured MYR60m YTD.

Lower earnings forecast

Our FY19E/FY20E/FY21E net profits are revised down by 7%/3%/2% respectively after imputing for: i) slower progress billing at its KVLRT 3 package; and ii) lowering our EBIT precast margin by 1ppts for FY19E-FY21E for each year. As a result, our TP is lowered to MYR1.90 (from MYR1.96) pegged to an unchanged 16.5x FY20E PER (4Y mean).

FYE Dec (MYR m)	FY17A	FY18A	FY19E	FY20E	FY21E
Revenue	2,076	2,257	2,208	2,399	2,251
EBITDA	197	215	208	228	221
Core net profit	132	145	134	149	145
Core EPS (sen)	10.2	11.2	10.4	11.5	11.2
Core EPS growth (%)	7.2	9.4	(7.5)	11.3	(2.6)
Net DPS (sen)	7.0	7.0	3.6	4.0	3.9
Core P/E (x)	24.5	11.9	19.5	17.5	18.0
P/BV (x)	6.0	2.9	3.8	3.4	3.0
Net dividend yield (%)	2.8	5.3	1.8	2.0	1.9
ROAE (%)	25.5	25.5	21.1	20.5	17.7
ROAA (%)	7.8	8.1	7.4	7.7	7.1
EV/EBITDA (x)	14.7	6.3	10.8	9.4	9.3
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Consensus net profit	-	-	148	159	167
MKE vs. Consensus (%)	-	-	(9.5)	(6.4)	(13.1)

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HOLD

Share Price	MYR 2.02
12m Price Target	MYR 1.90 (-6%)
Previous Price Target	MYR 1.96

Company Description

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

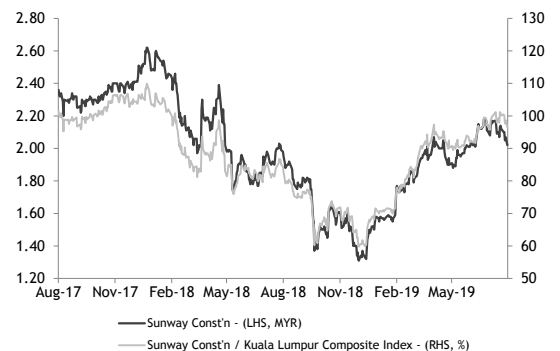
Statistics

52w high/low (MYR)	2.18/1.31
3m avg turnover (USDm)	0.3
Free float (%)	25.7
Issued shares (m)	1,293
Market capitalisation	MYR2.6B
	USD625M

Major shareholders:

Sunway Bhd.	54.4%
Active Equity Sdn. Bhd.	10.1%
Employees Provident Fund	8.4%

Price Performance



	-1M	-3M	-12M
Absolute (%)	(4)	6	2
Relative to index (%)	(0)	7	13

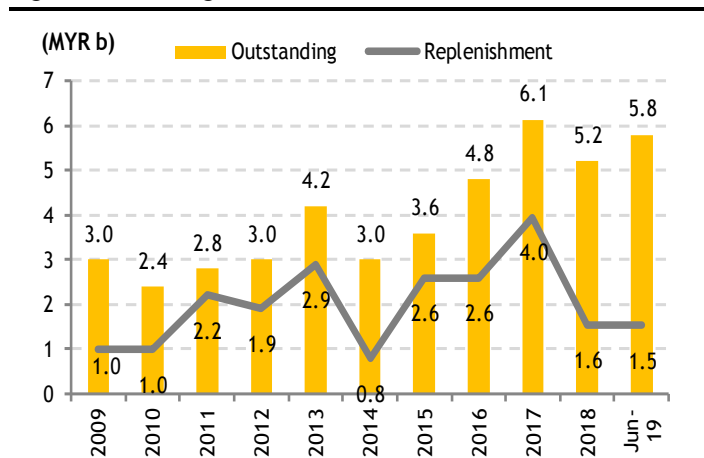
Source: FactSet

Fig 1: Results summary table

FY Dec (MYR m)	Quarterly results					Cumulative		
	2Q19	2Q18	% YoY	1Q19	% QoQ	1H19	1H18	% YoY
Turnover	440.2	544.3	(19.1)	440.0	0.0	880.2	1,073.5	(18.0)
EBIT	37.6	42.2	(10.8)	38.2	(1.5)	75.8	85.0	(10.8)
Net interest	3.6	2.9	22.4	1.9	85.3	5.5	3.7	50.5
Pre-tax profits	41.2	45.1	(8.6)	40.1	2.7	81.3	88.7	(8.3)
Tax	(8.2)	(9.3)	(11.4)	(8.5)	(3.1)	(16.7)	(17.2)	(2.6)
Minority Interests	0.2	(0.0)	NM	(0.6)	NM	(0.4)	0.0	NM
Net profit	33.2	35.8	(7.2)	31.0	7.0	64.2	71.5	(10.3)
	2Q19	2Q18	+/- ppt	1Q19	+/- ppt	1H19	1H18	+/- ppt
EBIT margin (%)	8.5	7.7	0.8	8.7	(0.1)	8.6	7.9	0.7
Pretax margin (%)	9.4	8.3	1.1	9.1	0.2	9.2	8.3	1.0
Tax rate (%)	20.0	20.6	(0.6)	21.2	(1.2)	20.6	19.4	1.2
Revenue	2Q19	2Q18	% YoY	1Q19	% QoQ	1H19	1H18	% YoY
Construction	406.3	511.6	(20.6)	407.0	(0.2)	813.3	1,003.7	(19.0)
Precast concrete	33.9	32.6	3.8	33.0	2.7	66.9	69.8	(4.2)
Total	440.2	544.3	(19.1)	440.0	0.0	880.2	1,073.5	(18.0)
EBIT	2Q19	2Q18	+/- ppt	1Q19	+/- ppt	1H19	1H18	+/- ppt
Construction	36.9	39.8	(7.5)	37.9	(2.7)	74.7	79.1	(5.6)
Precast concrete	0.8	2.3	(66.7)	0.3	135.5	1.1	5.9	(81.5)
Total	37.6	42.2	(10.8)	38.2	(1.5)	75.8	85.0	(10.8)
EBIT margin (%)	2Q19	2Q18	+/- ppt	1Q19	+/- ppt	1H19	1H18	+/- ppt
Construction	9.1	7.8	1.3	9.3	(0.2)	9.2	7.9	1.3
Precast concrete	2.3	7.1	(4.8)	1.0	1.3	1.6	8.5	(6.8)
Total	8.5	7.7	0.8	8.7	(0.1)	8.6	7.9	0.7

Source: Company, Maybank Kim Eng

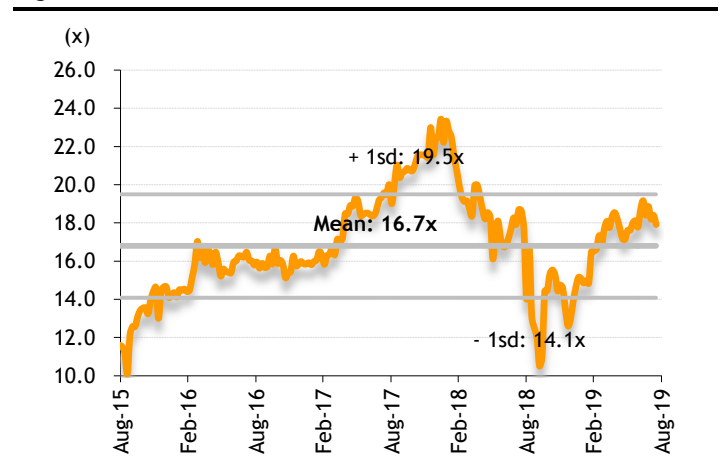
Fig 2: Outstanding orderbook as of end-Jun 2019



*Including precast

Source: Company data, Maybank Kim Eng

Fig 3: Forward PER Chart



Source: Company data, Maybank Kim Eng

Fig 4: Sunway Construction: Outstanding orderbook of MYR5.8b as of end-Jun 2019

YTD-Jun 2019	Contract value (MYR m)	Outstanding (MYR m)
Infrastructure		
KVMRT 2, V201 (Sg Buloh-Persiaran Dagang)	1,213	243
LRT 3 : Package GS07-08	2,178	1,882
Piling Works	128	47
Piling Works [#]	99	88
Building		
Putrajaya Parcel F	1,610	50
PPA1M Project in Kota Bahru	582	105
Warehouse in Shah Alam	70	30
TNB HQ Campus [#]	781	756
Petronas Learning Centre [#]	310	310
Oxley Tower [#]	68	68
Internal		
Sunway Medical Centre 4 (2 towers)	512	417
Sunway Iskandar - Emerald Residences	175	7
Sunway Iskandar - Retail Complex	170	9
Sunway Property - Kelana Jaya Condo	449	294
Sunway Carnival 2 Extension - PDP contract	286	241
SunGeo Lake 44 storey residential tower	223	142
SMC Seberang Jaya	180	159
Velocity Ecodeck	11	9
M&E Works	27	4
Sunway Velocity Two	352	328
Sunway Velocity 3C4	100	88
BigBox Hotel [#]	100	93
Parcel CP2 [#]	119	119
Precast		
Precast new-order 2019 [#]	60	60
Total	10,134	5,783

[#]Secured in 2019

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. At the precast segment, any significant increase in steel prices and stiffer competition could also affect project margins.

FYE 31 Dec	FY17A	FY18A	FY19E	FY20E	FY21E
Key Metrics					
P/E (reported) (x)	20.2	17.4	19.5	17.5	18.0
Core P/E (x)	24.5	11.9	19.5	17.5	18.0
P/BV (x)	6.0	2.9	3.8	3.4	3.0
P/NTA (x)	6.0	2.9	3.9	3.4	3.0
Net dividend yield (%)	2.8	5.3	1.8	2.0	1.9
FCF yield (%)	0.4	7.8	1.7	5.4	5.4
EV/EBITDA (x)	14.7	6.3	10.8	9.4	9.3
EV/EBIT (x)	18.2	7.7	13.4	11.5	11.6
INCOME STATEMENT (MYR m)					
Revenue	2,076.3	2,256.8	2,207.7	2,398.9	2,250.9
Gross profit	428.6	441.2	413.2	416.6	419.1
EBITDA	196.9	214.6	208.0	228.3	221.3
Depreciation	(37.8)	(40.0)	(40.8)	(41.6)	(43.2)
EBIT	159.1	174.6	167.2	186.6	178.1
Net interest income / (exp)	7.4	7.7	8.7	8.6	11.7
Associates & JV	2.2	0.7	0.0	0.0	0.0
Exceptionals	0.0	0.0	0.0	0.0	0.0
Pretax profit	168.7	183.1	175.9	195.2	189.8
Income tax	(36.2)	(38.0)	(42.0)	(46.2)	(44.7)
Minorities	(0.1)	(0.3)	0.0	0.0	0.0
Reported net profit	132.3	144.7	133.9	149.0	145.2
Core net profit	132.3	144.7	133.9	149.0	145.2
BALANCE SHEET (MYR m)					
Cash & Short Term Investments	487.2	484.9	483.5	571.8	662.5
Accounts receivable	1,118.3	1,000.2	1,087.5	1,176.8	1,108.2
Inventory	24.4	30.0	29.5	32.6	30.1
Property, Plant & Equip (net)	149.8	163.2	166.6	172.9	174.7
Intangible assets	2.2	0.5	0.5	0.5	0.5
Investment in Associates & JVs	0.0	44.7	44.7	44.7	44.7
Other assets	28.2	31.0	31.0	31.0	31.0
Total assets	1,810.2	1,754.5	1,843.3	2,030.3	2,051.8
ST interest bearing debt	134.7	113.6	113.6	113.6	113.6
Accounts payable	1,118.9	936.0	937.8	1,027.9	955.0
LT interest bearing debt	0.0	0.0	0.0	0.0	0.0
Other liabilities	13.0	112.0	112.0	112.0	112.0
Total Liabilities	1,266.2	1,162.0	1,163.7	1,253.8	1,181.0
Shareholders Equity	542.9	591.1	678.1	775.0	869.3
Minority Interest	1.1	1.4	1.4	1.4	1.4
Total shareholder equity	544.0	592.5	679.6	776.4	870.8
Total liabilities and equity	1,810.2	1,754.5	1,843.3	2,030.3	2,051.8
CASH FLOW (MYR m)					
Pretax profit	168.7	183.1	175.9	195.2	189.8
Depreciation & amortisation	37.8	40.0	40.8	41.6	43.2
Adj net interest (income)/exp	7.4	7.7	8.7	8.6	11.7
Change in working capital	(112.0)	(10.4)	(85.1)	(2.2)	(1.8)
Cash taxes paid	(37.1)	(37.4)	(42.0)	(46.2)	(44.7)
Other operating cash flow	(1.8)	6.2	(8.7)	(8.6)	(11.7)
Cash flow from operations	62.8	189.2	89.6	188.4	186.6
Capex	(48.4)	(54.8)	(44.2)	(48.0)	(45.0)
Free cash flow	14.4	134.4	45.5	140.4	141.6
Dividends paid	(71.1)	(96.9)	(46.9)	(52.2)	(50.8)
Change in Debt	(1.9)	(21.1)	0.0	0.0	0.0
Other invest/financing cash flow	89.6	(18.1)	0.0	0.0	0.0
Net cash flow	31.0	(1.7)	(1.4)	88.3	90.8

FYE 31 Dec	FY17A	FY18A	FY19E	FY20E	FY21E
Key Ratios					
Growth ratios (%)					
Revenue growth	16.1	8.7	(2.2)	8.7	(6.2)
EBITDA growth	4.6	9.0	(3.0)	9.7	(3.0)
EBIT growth	6.6	9.7	(4.2)	11.6	(4.6)
Pretax growth	9.7	8.5	(3.9)	11.0	(2.8)
Reported net profit growth	7.1	9.4	(7.5)	11.3	(2.6)
Core net profit growth	7.1	9.4	(7.5)	11.3	(2.6)
Profitability ratios (%)					
EBITDA margin	9.5	9.5	9.4	9.5	9.8
EBIT margin	7.7	7.7	7.6	7.8	7.9
Pretax profit margin	8.1	8.1	8.0	8.1	8.4
Payout ratio	68.4	62.5	35.0	35.0	35.0
DuPont analysis					
Net profit margin (%)	6.4	6.4	6.1	6.2	6.4
Revenue/Assets (x)	1.1	1.3	1.2	1.2	1.1
Assets/Equity (x)	3.3	3.0	2.7	2.6	2.4
ROAE (%)	25.5	25.5	21.1	20.5	17.7
ROAA (%)	7.8	8.1	7.4	7.7	7.1
Liquidity & Efficiency					
Cash conversion cycle	(43.0)	(29.4)	(11.8)	(2.9)	(6.0)
Days receivable outstanding	178.3	169.0	170.2	169.9	182.7
Days inventory outstanding	5.3	5.4	6.0	5.6	6.2
Days payables outstanding	226.6	203.7	188.0	178.5	194.8
Dividend cover (x)	1.5	1.6	2.9	2.9	2.9
Current ratio (x)	1.3	1.5	1.5	1.6	1.7
Leverage & Expense Analysis					
Asset/Liability (x)	1.4	1.5	1.6	1.6	1.7
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	0.5	0.5	0.5	0.5
Capex/revenue (%)	2.3	2.4	2.0	2.0	2.0
Net debt/ (net cash)	(352.6)	(371.2)	(369.9)	(458.1)	(548.9)

Source: Company; Maybank

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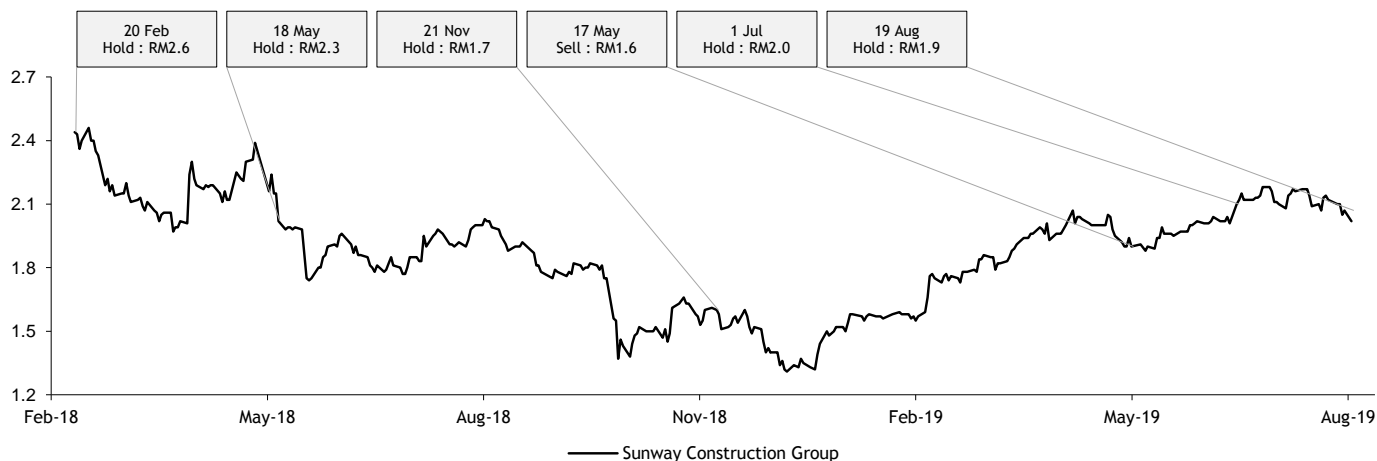
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