

17 May 2019

Sunway Construction Group

Slower Than Expected

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1Q19 CNP of RM29.1m makes up 20%/19% of our/consensus full-year expectations. We deem the performance as below our expectation, due to slower-than-expected progressive billings, mainly stemming from LRT3 and MRT2, as both projects' costs have yet to be finalised. No dividends proposed as expected. Reduced FY19E CNP by 15%, while keeping FY20E unchanged. Maintain UP with an unchanged SoP-driven TP of RM1.40.

Below expectations. 1Q19 CNP of RM29.1m makes up 20%/19% of our/consensus full-year expectations. We deem the performance to be below expectations, due to slower-than-expected progressive billings mainly stemming from LRT3 and MRT2, as both projects' costs have yet to be finalised. No dividends proposed, as expected.

Results highlight. 1Q19 CNP decreased by 15%, YoY dragged by lower revenue (-17%). The decrease in revenue stemmed from both the construction (-17%), and pre-cast (-11%) divisions, due to: (i) construction performance bogged down by slower work progress from LRT3 and MRT2, (ii) pre-cast division affected by timing as bulk of its jobs secured previously will only commence on a later date which we presume to be in 2H19, and (iii) higher effective tax of 21% (+3ppt). **QoQ**, 1Q19 CNP fell 17% due to similar reasons above, except that this time around, its pre-cast division registered pre-tax profit of RM0.1m vis-à-vis pre-tax loss of RM2.9m in 4Q18, attributable to a pick-up in work orders coupled with lower rebar costs.

Outlook. We remain unexcited with the near-term prospects in the construction sector, despite the revival of ECRL, re-tendering of KVDT, and potential infrastructure works from Bandar Malaysia as we believe that the awarding of these projects would only take place earliest by 4Q19/1Q20. However, we believe strong players like SUNCON can weather through these challenging times given their strong parentage (SUNWAY) support and competitiveness to secure huge jobs from the private sector and achieve both our and management's RM1.5b replenishment target for the year. Its outstanding order-book of RM5.7b provides 2.5 years of visibility.

Earnings review. Post results, we lowered our FY19E CNP by 15% to RM122.9m, as we rescheduled our progress recognition for LRT3 and MRT2 to a later date, while keeping our FY20E earnings intact as we believe that work progress would pick up pace by then.

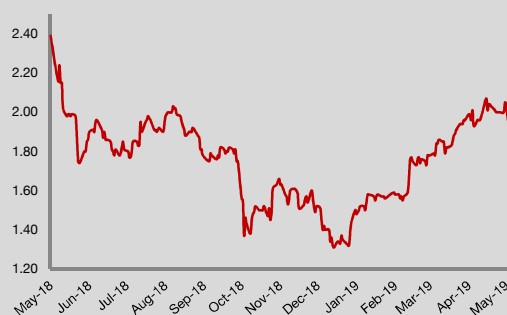
Maintain UNDERPERFORM. We reiterate our UNDERPERFORM call on SUNCON with an unchanged SoP-driven Target Price of RM1.40 which we ascribed an 11.0x PER to its FY20E Core EPS. However, our SoP-driven TP of RM1.40 which includes cash implies FY20 PER of 12.1x, which is higher than our universe's ascribed valuation range of 6-11.0x for the sector, and close to KLCON's 10-year average of 13.3x.

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

UNDERPERFORM ↔

Price : **RM1.94**
Target Price : **RM1.40** ↔

Share Price Performance



KLCI	1,599.19
YTD KLCI chg	-5.4%
YTD stock price chg	45.9%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	SCGB MK Equity
Market Cap (RM m)	2,507.0
Shares Outstanding	1,292.2
52-week range (H)	2.16
52-week range (L)	1.30
3-mth avg daily vol:	1,176,906
Free Float	27%
Beta	1.3

Major Shareholders

Sunway Holdings Sdn Bhd	54.4%
Sungei Way Corp Sdn Bhd	10.1%
Employees Provident Fund Board	8.4%

Summary Earnings Table

FYE Dec (RM m)	2018A	2019E	2020E
Turnover	2257	2119	2583
EBIT	175	125	161
PBT	183	164	201
Net Profit	145	123	150
Core PATAMI	140	123	150
Consensus (NP)	n.a.	150	158
Earnings Revision	n.a.	-15%	0%
Core EPS (sen)	10.8	9.5	11.6
Core EPS growth (%)	4%	-12%	22%
NDPS (sen)	7.0	5.5	6.9
NTA per Share (RM)	0.5	0.5	0.6
Price to NTA (x)	4.1	3.8	3.5
PER (x)	18.0	20.5	16.8
Debt-to-Equity ratio (x)	0.2	0.2	0.2
Return on Asset (%)	7%	6%	6%
Return on Equity (%)	24%	19%	21%
Net Div. Yield (%)	3.6%	2.8%	3.6%

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Results Highlight

	1Q19	4Q18	QoQ	1Q18	YoY
FYE Dec (RM'm)					
Turnover	440.0	626.0	-30%	529.2	-17%
EBIT	36.3	44.3	-18%	41.2	-12%
Interest inc/(exp)	1.9	1.5	31%	1.0	100%
Associates/JV	0.0	0.0	n.m.	0.0	n.m.
Exceptional items	2.0	0.5	300%	1.8	11%
Forex gain/(loss)	-0.1	1.0	-110%	-0.3	-67%
Pretax profit	40.1	47.3	-15%	43.7	-8%
Taxation	-8.5	-10.4	-19%	-7.9	8%
Deferred tax	0.0	0.0	n.m.	0.0	n.m.
Profit after tax	31.6	36.8	-14%	35.8	-12%
Minority interest	-0.6	-0.1	408%	0.0	n.m.
PATAMI	31.0	36.7	-16%	35.8	-13%
Core PATAMI	29.1	35.2	-17%	34.3	-15%
DPS (sen)	0.0	3.5		0.0	
EBIT margin	8%	7%		8%	
Pretax margin	9%	8%		8%	
NP margin	9%	8%		8%	
CNP margin	7%	6%		6%	
EPS (sen)	2.4	2.8		2.8	
Core EPS(sen)	2.3	2.7		2.7	
BV/share (RM)	0.5	0.5		0.5	
Net gearing (x)	-0.7	-0.6		-0.8	
Effective tax	21%	22%		18%	

Source: Company, Kenanga Research

Segmental Breakdown

	1Q19	4Q18	QoQ	1Q18	YoY
External Revenue					
Construction	407.0	595.4	-32%	492.1	-17%
Pre-cast	33.0	30.6	8%	37.1	-11%
Pre-tax Segmentation					
Construction	40.1	50.2	-20%	40.1	0%
Pre-cast	0.1	-2.9	n.m.	3.6	-98%
Pre-tax margins					
Construction	10%	8%		8%	
Pre-cast	0%	-9%		10%	

Source: Company, Kenanga Research

Sum-of-parts valuation

SoP	Valuation/Discount	Value (RM'm)
FY20E Earnings	11.0	1653.4
FY20E cash pile (RM m)	55%	178.6
Fair Value (RM m)		1832.0
Shares Outstanding (m)		1297.9
Target Price (RM)		1.40
Implied FY20E PER (x)		12.1

Source: Kenanga Research

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Peer Comparison

Name	Last Price (RM)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)	Net Div Yld (%)	Target Price (RM)	Rating
					1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.			
STOCKS UNDER COVERAGE																	
EVERSENDAI CORP BHD	0.425	331.9	Y	12/2019	-7.3%	-3.2%	-10.9%	-2.1%	5.3	5.9	6.0	0.3	0.3	5.6%	0.0%	0.490	MP
GAMUDA BHD	3.20	7,900.0	Y	07/2019	-20.8%	0.3%	-27.7%	1.3%	9.7	13.3	13.2	1.0	1.0	7.7%	3.7%	2.85	UP
GEORGE KENT (MALAYSIA) BHD	1.09	587.1	Y	01/2020	14.4%	-0.3%	4.9%	33.1%	7.8	7.4	5.6	1.3	1.1	16.0%	4.5%	1.15	UP
HOCK SENG LEE BERHAD	1.41	774.8	Y	12/2019	18.7%	15.6%	31.6%	10.3%	14.4	11.0	9.9	1.0	0.9	8.8%	1.8%	1.40	MP
IJM CORP BHD	2.04	7,397.0	Y	03/2019	9.6%	5.1%	-10.9%	26.7%	18.0	20.2	16.0	0.8	0.8	3.8%	2.5%	1.80	UP
KERJAYA PROSPEK GROUP BHD	1.23	1,517.2	Y	12/2019	28.3%	-4.4%	11.5%	1.9%	11.0	9.9	9.7	1.6	1.4	14.9%	2.4%	1.20	UP
KIMLUN CORP BHD	1.36	451.3	Y	12/2019	6.0%	-5.2%	-1.2%	2.5%	7.1	7.2	7.0	0.7	0.6	9.0%	2.7%	1.35	MP
MITRAJAYA HOLDINGS BHD	0.375	333.6	Y	12/2019	-4.7%	-7.3%	1.8%	-8.4%	10.0	9.9	10.8	0.4	0.4	4.0%	4.0%	0.245	UP
MUHIBBAH ENGINEERING (M) BHD	2.70	1,301.4	Y	12/2019	-5.8%	3.8%	-2.5%	4.7%	8.0	8.2	7.9	1.2	1.0	14.8%	2.6%	3.20	OP
SUNWAY CONSTRUCTION GROUP BHD	1.94	2,507.0	Y	12/2019	-6.1%	21.9%	-12.2%	22.3%	18.0	20.5	16.8	4.1	3.8	19.4%	2.8%	1.40	UP
WCT HOLDINGS BHD	0.970	1,340.0	Y	12/2019	16.5%	4.2%	15.0%	4.7%	10.7	9.3	8.9	0.4	0.4	4.5%	0.0%	0.850	UP
Simple Average					4.4%	2.8%	-0.1%	8.8%	10.9	11.2	10.2	1.2	1.1	9.9%	2.5%		
CONSENSUS ESTIMATES																	
AHMAD ZAKI RESOURCES BERHAD	0.415	248.2	Y	12/2019	N.A.	N.A.	N.A.	N.A.	16.9	N.A.	N.A.	0.5	N.A.	N.A.	N.A.	N.A.	SELL
BINA PURI HOLDINGS BHD	0.185	70.5	Y	06/2019	N.A.	N.A.	N.A.	N.A.	135.6	N.A.	N.A.	0.3	N.A.	N.A.	N.A.	N.A.	SELL
GABUNGAN AQRS BHD	1.32	651.1	Y	12/2019	40.8%	21.7%	40.8%	21.4%	10.6	7.6	0.0	1.4	1.4	16.4%	4.3%	1.78	BUY
GADANG HOLDINGS BHD	0.830	549.2	Y	05/2019	11.8%	13.1%	-33.0%	15.9%	5.7	8.5	0.0	0.7	N.A.	8.8%	3.0%	0.890	NEUTRAL
JAKS RESOURCES BHD	0.730	426.8	Y	12/2019	74.4%	-48.7%	655.6%	-21.2%	28.2	3.7	0.0	0.5	0.5	12.6%	0.0%	0.875	BUY
MUDAJAYA GROUP BHD	0.290	171.1	Y	12/2019	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	0.6	N.A.	N.A.	N.A.	N.A.	SELL
PINTARAS JAYA BHD	2.50	414.7	Y	06/2019	99.1%	9.6%	65.9%	16.7%	26.7	16.1	0.1	1.3	1.3	8.2%	8.1%	2.38	NEUTRAL
PESONA METRO HOLDINGS	0.235	163.3	Y	12/2019	35.2%	-1.5%	215.1%	-7.7%	19.8	6.3	0.0	0.9	N.A.	14.0%	6.4%	0.270	BUY
PROTASCO BHD	0.255	124.2	Y	12/2019	0.0%	7.9%	369.2%	31.2%	N.A.	9.4	0.0	0.4	0.4	3.6%	5.5%	0.185	SELL
TRC SYNERGY BHD	0.680	326.7	Y	12/2019	18.3%	16.0%	67.3%	24.4%	15.7	9.4	0.0	0.8	0.8	8.2%	3.5%	0.780	BUY

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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