

HLIB Research

PP 9484/12/2012 (031413)

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BUY (Maintain)

Target Price: RM1.86
Previously: RM2.25
Current Price: RM1.48

Capital upside	25.7%
Dividend yield	4.3%
Expected total return	29.9%

Sector coverage: Construction

Company description: SunCon is involved in construction and precast products.

Share price


Historical return (%)	1M	3M	12M
Absolute	-16.9	-19.1	-35.7
Relative	-13.8	-19.3	-35.3

Stock information

Bloomberg ticker	SCGB MK
Bursa code	5263
Issued shares (m)	1,292
Market capitalisation (RM m)	1,913
3-mth average volume ('000)	1,313
SC Shariah compliant	Yes

Major shareholders

Sunway Berhad	64.5%
EPF	7.4%

Earnings summary

FYE (Dec)	FY17	FY18f	FY19f
PATMI - core (RM m)	138	135	146
EPS - core (sen)	10.7	10.4	11.3
P/E (x)	13.9	14.2	13.1

Sunway Construction Group

Surviving in challenging times

SunCon has yet to receive any notification from MRT Corp regarding details of any reduction in work scope and works have been ongoing as usual. We understand that reduction of the project is mainly on scaling down of station works and thus the impact of downsizing of the project is expected to be minimal to SunCon. We expect the precast segment PBT margin to normalize back to 10-15% starting from 2H19 due to recovery of product pricing. Management has reiterated its FY18 orderbook replenishment target of RM1.5bn in which RM854m has been achieved YTD. Maintain forecast and BUY with lower TP of RM1.86 (from RM2.25) as we opine that upcycle PE of 20x is no longer justifiable during the current industry downturn. As such, our new TP is pegged to 16.5x FY19 earnings which is -1SD below 2 years historical average.

We met up with the management of SunCon recently with the following key takeaways:

MRT2. Recent announcement of scaling down of above-ground portion of MRT2 and retender of underground portion had dealt a blow to construction sector. However, SunCon has yet to receive any notification from MRT Corp regarding details of any reduction in work scope and works have been ongoing as usual. We understand that reduction of the project is mainly on scaling down of station works. Since the contract value of 3 stations works in SunCon's work package is just RM212m out of total work package value of RM1.2bn, the impact of downsizing of the project is expected to be minimal. Overall progress of the contract is at 63% as at end of September 2018.

Precast. Precast segment PBT margin dropped significantly as the precast projects in Singapore were secured at a time when the industry was very competitive. Competitive pressure has come down and the product pricing has recovered but we only expect the segment PBT margin to normalize back to 10-15% starting from 2H19 as contribution from newly secured projects takes time to kick in.

Exploring foreign ground. Given the slowdown of domestic construction industry, SunCon is actively exploring for regional opportunities particularly in India and ASEAN region. The company will collaborate with foreign partners in contracts bidding to take advantage of local expertise.

Orderbook. Management has reiterated its FY18 orderbook replenishment target of RM1.5bn of which RM854m has been achieved YTD. It has tendered for (i) TNB campus building contract (RM700-800m) which currently, they are working on the piling works and (ii) Dayabumi redevelopment project (RM700-800m) which may be awarded in phases. They are also tendering for contracts worth RM400-500m from its parent-co. Outstanding orderbook as at end of 2Q18 stands at RM5.8bn, translating into healthy level of 3x cover of FY17 construction revenue.

Forecast. Maintained as the meeting yielded no major surprises.

Maintain BUY, TP: RM1.86. Maintain BUY with lower TP of RM1.86 (from RM2.25) as we opine that upcycle PE of 20x no longer justifiable during current industry downturn. As such, our new TP is pegged to 16.5x FY19 earnings which is -1SD below its 2 year historical average. Although the new PE target may still seem too high relative to its peers (10-12x for large cap players and 7-9x for small-mid cap players), the valuation is much reasonable if we take into account its net cash of RM0.35/share which implies an ex-cash PE target of 13.5x. We opine that SunCon deserves a premium valuation due to (i) healthy balance sheet; (ii) pure construction play and (iii) strong support from parent co which enable it to ride through current down cycle.

Financial Forecast

All items in (RM m) unless otherwise stated

Balance Sheet

FYE Dec (RM m)	FY16	FY17	FY18f	FY19f	FY20f
Cash	466	487	573	651	733
Receivables	764	1,106	950	966	1,013
Inventories	24	24	24	24	25
PPE	138	150	137	118	96
Others	205	120	120	120	120
Assets	1,597	1,887	1,804	1,879	1,987
Debits	137	135	138	140	146
Payables	872	1,036	895	910	948
Others	95	162	162	162	162
Liabilities	1,104	1,332	1,195	1,212	1,255
Shareholder's equity	493	554	608	666	730
Minority interest	1	1	1	1	1
Equity	494	555	609	667	732

Cash Flow Statement

FYE Dec (RM m)	FY16	FY17	FY18f	FY19f	FY20f
Profit before taxation	135	174	173	187	206
Depreciation & amortisation	39	38	37	40	42
Changes in working capital	(14)	(178)	16	(2)	(10)
Share of JV profits	-	(2)	-	-	-
Taxation	(30)	(36)	(38)	(41)	(45)
Others	(44)	68	(0)	(0)	(0)
Operating cash flow	86	63	189	183	193
Net capex	(5)	(28)	(25)	(20)	(20)
Others	78	63	-	-	-
Investing cash flow	73	35	(25)	(20)	(20)
Changes in borrowings	(0)	(2)	3	2	6
Issuance of shares	-	-	-	-	-
Dividends paid	(65)	(90)	(81)	(87)	(96)
Others	(19)	18	-	-	-
Financing cash flow	(84)	(74)	(78)	(85)	(91)
Net cash flow	74	24	86	78	82
Forex	2	(2)	-	-	-
Others	(78)	0	-	-	-
Beginning cash	468	466	487	573	651
Ending cash	466	487	573	651	733

Income Statement

FYE Dec (RM m)	FY16	FY17	FY18f	FY19f	FY20f
Revenue	1,789	2,076	2,166	2,205	2,311
EBITDA	169	202	203	219	241
EBIT	130	165	166	180	199
Net finance income/ (cost)	4	7	7	7	7
Associates & JV	-	2	-	-	-
Profit before tax	135	174	173	187	206
Tax	(30)	(36)	(38)	(41)	(45)
Net profit	105	138	135	146	161
Minority interest	(0)	(0)	(0)	(0)	(0)
Core earnings	105	138	135	146	161
Exceptional items	19	-	-	-	-
Reported earnings	124	138	135	146	161

Valuation & Ratios

FYE Dec (RM m)	FY16	FY17	FY18f	FY19f	FY20f
Core EPS (sen)	8.1	10.7	10.4	11.3	12.4
P/E (x)	18.3	13.9	14.2	13.1	11.9
EV/EBITDA (x)	8.6	7.2	7.2	6.7	6.0
DPS (sen)	5.0	7.0	6.3	6.8	7.5
Dividend yield	3.4%	4.7%	4.2%	4.6%	5.0%
BVPS (RM)	0.38	0.43	0.47	0.52	0.56
P/B (x)	3.9	3.5	3.1	2.9	2.6
EBITDA margin	9.5%	9.7%	9.4%	9.9%	10.4%
EBIT margin	7.3%	7.9%	7.7%	8.1%	8.6%
PBT margin	7.5%	8.4%	8.0%	8.5%	8.9%
Net margin	5.8%	6.6%	6.2%	6.6%	7.0%
ROE	22.2%	26.3%	23.2%	22.9%	23.0%
ROA	7.0%	7.9%	7.3%	7.9%	8.3%
Net gearing	CASH	CASH	CASH	CASH	CASH

Assumptions

FYE Dec (RM m)	FY16	FY17	FY18f	FY19f	FY20f
Construction	2,541	3,587	1,500	2,000	2,000
Precast	115	158	120	150	200
Total new job wins	2,656	3,745	1,620	2,150	2,200

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Stock rating definitions

BUY	Expected absolute return of +10% or more over the next 12 months.
HOLD	Expected absolute return of -10% to +15% over the next 12 months.
SELL	Expected absolute return of -10% or less over the next 12 months.
UNDER REVIEW	Rating on the stock is temporarily under review which may or may not result to a change from the previous rating.
NOT RATED	Stock is not or no longer within regular coverage.

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OVERWEIGHT	Sector expected to outperform the market over the next 12 months.
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