

26 February 2019 | 12MFY18 Results Review

Sunway Construction Group Berhad

Precast segment still in the red

Downgrade to NEUTRAL
(from BUY)

Adjusted Target Price (TP): RM1.81
(from RM1.78)

INVESTMENT HIGHLIGHTS

- Results within expectations, accounting for 100.1% of our estimate
- 4QFY18 contribution was lower on-year in construction segment, while PBT ratio seen improving
- Precast segment still in the red
- We make no changes to earnings estimates
- We downgrade to NEUTRAL with adjusted TP of RM1.81

Results within expectation. 12MFY18 earnings of RM144.7m (+9.4%yoy) are within our expectation but lagged consensus estimate at 100.1% and 90.2% of full-year forecasts respectively.

4QFY18 contribution was lower on-year in construction segment. In 4QFY18, construction revenue fell -17.5%yoy to RM595.3m due to lower construction works recognized. This was attributable to the completion of Putrajaya Parcel F project, which the group expect to hand over in 1QFY19. During the same period, construction's margin ratio (of PBT) improved by +3.1ppts(yoy) to 8.4%, owing to finalisation of project's account.

Precast segment in the red. Quarterly revenue improved by +16.3%yoy, as the group ramped up output for on-going jobs. However, its margin remained negative at -9.4%, taking the hit from declining ASP and elevated fixed costs/unit output. Notably, it recorded PBT of -RM2.9m in 4QFY18, a direct opposite to RM3.0m logged last year.


Results for full year is relatively better. The group posted higher overall revenue in FY18 at RM2.3b (+8.7%yoy), owing to better work completion. While precast recorded a decline by -7.7% in revenue, +9.9% higher revenue from construction was evidently positive to moderate the impact. During the year, we noted that progress billings were largely made up of civil works, comprising the on-going KVMRT and LRT 3 jobs.

No change to earnings estimates. Given that results were within our expectation, we make no changes to our assumptions. Its total unbilled job stands at circa RM6.0bn, which equates to an admirable 2.6x cover to FY18 revenue, and will likely sustain earnings until FY21.

RETURN STATS	
Price (25 Feb 2019)	RM1.73
Target Price	RM1.81
Expected Share Price Return	+4.6%
Expected Dividend Yield	+2.0%
Expected Total Return	+6.6%

STOCK INFO	
KLCI	1,724.6
Bursa / Bloomberg	5263 / SCGB MK
Board / Sector	MM/Construction
Syariah Compliant	Yes
Issued shares (mil)	1,292.3
Market cap. (RM'm)	2,235.6
Price over NA	3.98x
52-wk price Range	RM1.3 – RM2.5
Beta (against KLCI)	1.38x
3-mth Avg Daily Vol	0.87m
3-mth Avg Daily Value	RM1.37m
Major Shareholders (%)	
Sunholdings	54.4
Sungei Way Cort	10.1
EPF	8.3

7sen/share dividend declared. The group declared a second interim single-tier dividend of 3.5sen per ordinary shares for the financial year ended 31 December 2018. The entire amount of RM45,228,610 is expected to be paid on 17 April 2019. Altogether, the group has announced 7sen/share dividend for FYE18 which was 60% of FY18 EPS. The amount exceeded our earlier expectation of 2.1sen/share. Altogether, this will bring dividend yield of 4.2% to investors.

Recommendation. We opine that SunCon's job replenishment capability is well supported by its parent company (Sunway Berhad). We think the benefit of internal job flows is extensive, as we incorporate the uncertainties on near term public sector jobs. Having a net cash position is evidently positive, providing support to clinch and operate new projects. Moreover, the group's healthy financial position and large order backlog should bode well to its future value accretion. On that note, we think that SunCon's prospect is positive. We adjusted our **TP** higher to **RM1.81** pegging its FY20 EPS to PE of 15x. The share price has rallied by +30% since the beginning of this year, which we believe reflective of the group's strong fundamentals. Recent recovery in share price prompts us to downgrade our rating from BUY to **NEUTRAL**. 

INVESTMENT STATISTICS

FYE Dec	FY16	FY17	FY18	FY19F	FY20F
Revenue (RM'm)	1,788.8	2,076.2	2,256.8	2,507.0	2,335.1
EBIT (RM'm)	149.5	164.6	174.6	198.7	209.5
Pre-tax Profit (RM'm)	153.6	174.1	183.1	178.0	191.5
Normalised PATAMI (RM'm)	123.5	137.8	144.7	152.9	156.5
EPS (sen)	9.6	10.6	11.2	11.8	12.1
EPS growth (%)	(35.9)	10.4	5.6	5.7	2.3
PER (x)	17.3	15.7	14.8	14.0	13.7
Net Dividend (sen)	1.8	1.8	7.0	2.3	3.3
Net Dividend Yield (%)	1.1	1.1	4.2	1.4	2.0

Source: Bloomberg, MIDFR

12MFY18 RESULTS SUMMARY

FYE Dec (RM'm)	4Q18	4Q17	3Q18	YoY Chg	QoQ Chg	12M18	12M17	YoY Chg
Revenue	626.02	748.17	557.32	-16.3%	12.3%	2,256.8	2,076.3	8.7%
Operating Expenses	-588.81	-717.75	-515.92	-18.0%	14.1%	-2,102.9	-1,933.9	8.7%
Other Income	7.9	5.1	3.4	53.8%	132.5%	20.7	16.7	23.5%
EBIT	45.06	35.52	44.78	26.9%	0.6%	174.59	159.11	9.7%
Interest Income	3.51	5.36	3.88	-34.4%	-9.4%	16.0	13.5	19.0%
Finance cost	-2.04	-1.78	-1.73	14.7%	17.9%	-8.3	-6.1	36.4%
Share of Results of JV	0.73	2.15	0.00	-66.0%	NA	0.7	2.2	-66.0%
Pre-tax Profit	47.27	41.25	46.93	14.6%	0.7%	183.1	168.7	8.5%
Taxation	-10.4	-12.0	-10.4	-13.3%	0.1%	-38.0	-36.2	5.0%
PAT	36.83	29.21	36.50	26.1%	0.9%	145.03	132.43	9.5%
NCI	0.26	0.32	0.09	-20.4%	192.0%	0.3	0.1	147.4%
PATANCI	36.57	28.89	36.41	26.6%	0.4%	144.69	132.30	9.4%
Diluted EPS	2.8	2.2	2.8	26.3%	0.4%	11.2	10.2	9.4%
	4Q18	4Q17	3Q18	+/- ppts	+/- ppts	12M18	12M17	+/- ppts
Operating margin	7.2%	4.7%	8.0%	2.5	-0.8	7.7%	7.7%	0.1
Pre-tax margin	7.6%	5.5%	8.4%	2.0	-0.9	8.1%	8.1%	0.0
PATANCI margin	5.8%	3.9%	6.5%	2.0	-0.7	6.4%	6.4%	0.0
Effective tax rate	-22.1%	-29.2%	-22.2%	7.1	0.1	-20.8%	-21.5%	0.7

Source: MIDFR, Bursa Malaysia

DAILY PRICE CHART



Source: Bloomberg

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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <-10% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.