

HLIB Research
PP 9484/12/2012 (031413)

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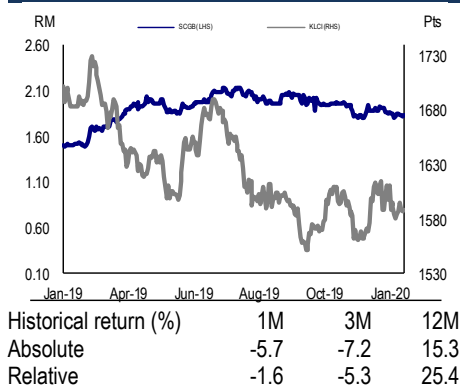
BUY (Maintain)

Target Price: RM2.30
Previously: RM2.30
Current Price: RM1.81

Capital upside 27.1%
Dividend yield 3.9%
Expected total return 31.0%

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

Share price



Stock information

Bloomberg ticker	SCGB MK
Bursa code	5263
Issued shares (m)	1,289
Market capitalisation (RM m)	2,334
3-mth average volume ('000)	361
SC Shariah compliant	Yes

Major shareholders

Sunway Berhad	64.5%
EPF	8.4%

Earnings summary

FYE (Dec)	FY18	FY19f	FY20f
PATMI - core (RM m)	145	130	150
EPS - core (sen)	11.2	10.0	11.5
P/E (x)	16.1	18.1	15.7

Sunway Construction Group

Prospects intact

Management is targeting RM2bn worth of jobs in FY20 excluding potential contract wins from the upcoming ECRL tenders, wins from PTMP as well as foreign job awards. Precast segmental PBT margin should normalize back to 10% in FY20. SunCon has recently submitted a tender for an Indian highway worth RM500m. LRT3 project is currently 30% completed on an overall basis. Maintain forecast and BUY with unchanged TP of RM2.30, based on an unchanged 20x PE multiple tagged to FY20 earnings.

We recently met up with SunCon's management (represented by its CFO) with the following key takeaways:

Conservative replenishment target. Management is targeting to secure RM2bn worth of jobs in FY20. These jobs do not include potential contract wins from the upcoming ECRL tenders, PTMP and foreign jobs. Given SunCon's sizable outstanding tenderbook of RM7.4b (as of Sept-19) and buoyed by a backdrop of recovering job flows, we reckon there is upside potential in FY20. Recall that the company has consistently exceeded replenishment targets over the past 3 years.

Balanced mix. For FY20, SunCon is pencilling in RM800m worth of jobs to be awarded by its parent-co. This translates to c.40% of job wins from parent-co for FY20 (FY19: c.17%). For external building jobs, management is expecting RM500m worth of awards this year to be contributed by superstructure works for Putrajaya TOD (piling was done by SunCon) as well as tender for construction of KLCC retail podium (car park was constructed by SunCon). On its geotechnical side, the group aims to win RM300m worth of jobs as the outlook for piling in Singapore looks positive on the back of infra project rollouts compounded by a shortage of piling capacity. The remaining RM400m will be from solar related jobs and precast.

Precast. Segmental PBT margin should normalize back to 10% in FY20 as contribution from old low margin jobs taper off.

Infrastructure works. SunCon will be participating in the upcoming ECRL tenders as well as PTMP. The Bayan Lepas LRT (BLLRT) is expected to be rolled out soon given that the state government has secured federal guarantee for the issuance of RM10b sukuk meant to fund the BLLRT which will reportedly cost RM8.5b. Some have suggested that post-signing of the PDP agreement, awards for the railway project may proceed in June-2020. As for the ECRL, we understand from management so far things have been quiet. However, expectations are for tender awards by 1Q20.

Foreign jobs. As a result of a domestic construction slowdown post GE14, Suncon has been actively exploring regional opportunities in the past year. In Myanmar, SunCon previously entered into MoU with Myanmar conglomerate CDSG in which internal projects will be undertaken by CDSG and SunCon JV. A budget readjustment resulted changes in designs delaying awards last year but moving forward, an award should materialise. SunCon, has recently submitted a tender for an Indian highway worth RM500m after repeated extensions by the authorities. We understand the funding model enables SunCon to undertake no traffic volume risk.

Existing jobs. Existing orderbook amount to RM5.2b translating into decent level of 2.3x cover based on FY18 revenue. LRT3 project is progressing and will accelerate in FY20. We gather that project is currently 30% completed.

Forecast. Maintained as the meeting yielded no major surprises.

Maintain BUY, TP: RM2.30. Maintain BUY with unchanged TP of RM2.30, based on an unchanged 20x PE multiple tagged to FY20 earnings. We like SunCon due to (i) strong balance sheet (ii) positive earnings trajectory and (iii) strong support from parent-co.

Financial Forecast

All items in (RM m) unless otherwise stated

Balance Sheet

FYE Dec (RM m)	FY17	FY18	FY19f	FY20f	FY21f
Cash	487	485	557	635	719
Receivables	1,106	917	933	1,006	1,008
Inventories	24	30	23	25	25
PPE	150	163	142	119	94
Others	120	160	160	160	160
Assets	1,887	1,754	1,814	1,944	2,005
Debts	135	114	119	128	128
Payables	1,036	874	888	951	950
Others	162	175	175	175	175
Liabilities	1,332	1,162	1,183	1,253	1,252
Shareholder's equity	554	591	630	690	752
Minority interest	1	1	1	1	1
Equity	555	593	632	691	753

Cash Flow Statement

FYE Dec (RM m)	FY17	FY18	FY19f	FY20f	FY21f
Profit before taxation	174	183	167	192	195
Depreciation & amortisation	38	40	41	43	45
Changes in working capital	(178)	21	5	(12)	(3)
Share of JV profits	(2)	(1)	-	-	-
Taxation	(36)	(38)	(37)	(42)	(43)
Others	68	(16)	-	-	-
Operating cash flow	63	189	177	181	195
Net capex	(28)	(50)	(20)	(20)	(20)
Others	63	(25)	-	-	-
Investing cash flow	35	(74)	(20)	(20)	(20)
Changes in borrowings	(2)	(21)	6	8	(0)
Issuance of shares	-	-	-	-	-
Dividends paid	(90)	(90)	(91)	(90)	(90)
Others	18	(7)	-	-	-
Financing cash flow	(74)	(118)	(85)	(82)	(91)
Net cash flow	24	(3)	72	79	84
Forex	(2)	1	-	-	-
Others	0	-	-	-	-
Beginning cash	466	487	485	557	635
Ending cash	487	485	557	635	719

Income Statement

FYE Dec (RM m)	FY17	FY18	FY19f	FY20f	FY21f
Revenue	2,076	2,257	2,128	2,294	2,299
EBITDA	202	215	197	225	230
EBIT	165	175	156	181	185
Net finance income/ (cost)	7	8	11	10	10
Associates & JV	2	1	-	-	-
Profit before tax	174	183	167	192	195
Tax	(36)	(38)	(37)	(42)	(43)
Net profit	138	145	130	150	152
Minority interest	(0)	(0)	(0)	(0)	(0)
Core earnings	138	145	130	149	152
Exceptional items	-	-	-	-	-
Reported earnings	138	145	130	149	152

Valuation & Ratios

FYE Dec (RM m)	FY17	FY18	FY19f	FY20f	FY21f
Core EPS (sen)	10.7	11.2	10.0	11.5	11.8
P/E (x)	17.0	16.2	18.1	15.7	15.4
EV/EBITDA (x)	8.6	8.1	8.8	7.7	7.5
DPS (sen)	7.0	7.0	7.0	7.0	7.0
Dividend yield	3.9%	3.9%	3.9%	3.9%	3.9%
BVPS (RM)	0.43	0.46	0.49	0.53	0.58
P/B (x)	4.2	4.0	3.7	3.4	3.1
EBITDA margin	9.7%	9.5%	9.3%	9.8%	10.0%
EBIT margin	7.9%	7.7%	7.3%	7.9%	8.1%
PBT margin	8.4%	8.1%	7.8%	8.4%	8.5%
Net margin	6.6%	6.4%	6.1%	6.5%	6.6%
ROE	26.3%	25.3%	21.2%	22.6%	21.1%
ROA	7.9%	7.9%	6.3%	6.0%	5.7%
Net gearing	CASH	CASH	CASH	CASH	CASH

Assumptions

FYE Dec (RM m)	FY17	FY18	FY19f	FY20f	FY21f
Construction	3,587	1,324	1,600	2,000	2,000
Precast	158	229	150	200	200
Total new job wins	3,745	1,553	1,750	2,200	2,200

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Published & printed by:

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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.

Sector rating definitions

OVERWEIGHT	Sector expected to outperform the market over the next 12 months.
NEUTRAL	Sector expected to perform in-line with the market over the next 12 months.
UNDERWEIGHT	Sector expected to underperform the market over the next 12 months.