

COMPANY RESULTS

Sunway Construction (SCGB MK)

2Q19: Within Expectations, Expect Strong Recovery In 2H19

SunCon's 1H19 net profit was in line, coming in at 40% of our full-year estimate. Core net profit declined 11% yoy, owing to lower billings of the LRT3 compounded by current precast deliveries yielding lower margins. However, we expect stronger earnings in 2H19, underpinned by accelerated billings of its outstanding orderbook backlog which will gradually phase into advanced stages and a gradual recovery in the precast segment in 4Q19. Maintain HOLD. Target price: RM2.07. Entry price: RM1.90.

2019 RESULTS

Year to 31 Dec (RMm)	2Q19	1Q19	qoq % chg	yoy % chg	1H19	yoy % chg
Revenue	440.2	440.0	0.0	(19.1)	880.2	(18.0)
Construction	406.3	407.0	(0.2)	(20.6)	813.3	(19.0)
Precast Concrete	33.9	33.0	2.7	3.8	66.9	(4.2)
EBIT	37.6	38.2	(1.5)	(10.8)	75.8	(10.8)
Construction	36.9	37.9	(2.7)	(8.0)	74.7	(5.8)
Precast Concrete	0.8	0.3	135.5	(65.0)	1.1	(81.1)
Pre-tax Profit	41.2	40.1	2.7	(8.6)	81.3	(8.3)
PATMI	33.2	31.0	7.0	(7.2)	64.2	(10.3)
Core PATMI	30.4	27.9	8.8	(13.4)	61.1	(10.6)

Margins	%	%	+/-ppt	+/-ppt	%	+/-ppt
Construction	9.1	9.3	(0.2)	1.2	9.2	1.3
Precast Concrete	2.3	1.0	1.3	(4.5)	1.6	(6.7)
PBT	9.4	9.1	0.2	1.1	9.2	1.0
PATMI	7.5	7.0	0.5	1.0	7.3	0.6

Source: Sunway Construction, UOB Kay Hian

RESULTS

• **2Q19: Within expectations.** Sunway Construction (SunCon) reported a 2Q19 core net profit of RM30m (+9% qoq, -13% yoy) on revenue of RM440m (+0% qoq, -19% yoy). 1H19 core net profit was within expectations, coming in at 40% and 42% of our and consensus full-year estimates respectively. Its 1H19 core net profit declined 11% yoy due to completion of the Parcel F project in 1Q19 and lower billings recognition on the LRT3 due to cost optimisation for station works coupled with current precast deliveries yielding lower margins. However, we expect earnings to pick up in the coming quarters on the back of accelerated billings of its outstanding orderbook backlog of RM5.8b as billings will phase into advanced stages in 2H19 and with the gradual improvement in its precast business from 4Q19 onwards.

KEY FINANCIALS

Year to 31 Dec (RMm)	2017	2018	2019F	2020F	2021F
Net turnover	2,076	2,257	1,979	2,221	2,555
EBITDA	147	214	221	247	263
Operating profit	110	175	179	201	215
Net profit (rep./act.)	100	145	152	173	187
Net profit (adj.)	100	145	152	173	187
EPS (sen)	7.8	11.2	11.8	13.4	14.4
PE (x)	26.0	18.0	17.1	15.1	14.0
P/B (x)	4.8	4.4	3.8	3.3	2.8
EV/EBITDA (x)	15.2	10.5	10.1	9.1	8.5
Dividend yield (%)	1.8	1.9	2.0	2.3	2.5
Net margin (%)	4.8	6.4	7.7	7.8	7.3
Net debt/(cash) to equity (%)	(64.9)	(46.5)	(52.4)	(57.8)	(62.6)
ROE (%)	19.4	25.6	23.8	23.2	21.7
Consensus net profit	-	-	147	163	165
UOBKH/Consensus (x)	-	-	1.03	1.07	1.13

Source: Sunway Construction, Bloomberg, UOB Kay Hian

HOLD

(Maintained)

Share Price	RM2.02
Target Price	RM2.07
Upside	+2.4%

COMPANY DESCRIPTION

A leading construction company in Malaysia

STOCK DATA

GICS sector	Industrials
Bloomberg ticker	SCGB MK
Shares issued (m)	1,289.4
Market cap (RMm)	2,604.5
Market cap (US\$m)	623.3
3-mth avg daily t'over (US\$m)	0.3

Price Performance (%)

52-week high/low RM2.18/RM1.31

1mth	3mth	6mth	1yr	YTD
(3.8)	6.3	21.7	1.5	51.9

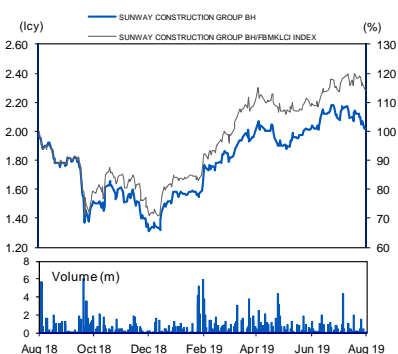
Major Shareholders

Sunway Bhd 54.4%

FY19 NAV/Share (RM) 0.53

FY19 Net Cash/Share (RM) 0.28

PRICE CHART



Source: Bloomberg

ANALYST(S)

Farhan Ridzwan
+603 2147 1989
research@uobkayhian.com

• **Construction division – Sustained margins.** SunCon's construction arm reported a 2Q19 EBIT of RM37m (-3% qoq, -8% yoy) on 2Q19 revenue of RM406m (-0% qoq, -21% yoy). The weaker qoq EBIT was caused by the delay of the LRT3's construction due to cost optimisation of station works. Meanwhile, construction margins have been relatively stable at the 9% level.

• **Precast division – Weak performance to persists till 4Q19.** The company continued to report weak precast earnings in 2Q19 (2Q19 EBIT of RM0.8m; -65% yoy) which was largely negated by a low realised ASP/m³ in the period due to competitive pricing in the Singapore market and this was compounded by low margins (high steel prices that led to negative cost-push effects). Meanwhile, margins have shown marginal improvements in 2Q19, inching up by 1.3ppt to 2.3%.

STOCK IMPACT

• **Strong diversified outstanding orderbook.** SunCon's outstanding orderbook backlog of RM5.8b provides earnings visibility for its construction arm for the next 3-4 years. Ytd, the company has secured new contracts worth RM1.5b from various construction and precast contracts. For the remainder of 2019, SunCon is hopeful of securing another contract from Myanmar via its recent tie-up with Capital Construction Ltd. The formed JV will allow SunCon to jointly develop major infrastructure and construction projects in Yangon and Mandalay, and it expects other new construction jobs to flow in year 2020 onwards, such as hospitals and office buildings.

• **LRT3 progress to-date.** SunCon is actively engaging the turnkey contractor (MRCB: George Kent) to finalise the design and scope of works for the six stations under its work package (expect contract value to drop), with margins to remain unchanged. Based on our estimates, for every RM200m reduction in costs, we expect SunCon's 2019-21 earnings to fall 1-2%. SunCon is hopeful for the review to be finalised soon while construction works are expected to go into full swing from late-19 onwards and the projects to be completed by 2024.

• **Precast division performance to gradually improve.** The sluggish performance in 2018 was due to weaker margins on high steel bar prices and stiff competition. The company expects 9M19's performance to be unexciting as precast projects secured earlier have low ASPs and margins due to high steel prices, resulting in a negative cost push effect. SunCon expects earnings to gradually improve from 4Q19, underpinned by: a) better ASP; b) stable margins on easing steel prices; and c) stronger demand for precast products for public-housing projects in Singapore. SunCon recognises precast revenue upon delivery of projects to customers while incurring costs during precast.

• **ICPH to commence operations by mid-21.** The integrated construction prefabrication hub (ICPH) in Singapore has an annual capacity of 100,000m³ and is expected to begin operations by mid-21, supplying precast products like prefabricated bathroom units (PBU) and prefabricated volumetric construction (PPVC) products primarily for Housing Development Board (HDB) flats in Singapore. The 51:49 JV (HL Building Materials Pte Ltd: SunCon) is expected to contribute positively from mid-21 with an estimated bottom-line of >\$5m annually (on JV level based on 50% utilisation rate). In addition, ICPH's precast products yield better margins (~>10%) than Johor precast products (annual capacity of 150,000m³).

EARNINGS REVISION/RISK

• No changes to earnings forecasts.

VALUATION/RECOMMENDATION

• **Maintain HOLD and target price of RM2.07.** Our target price valuation is based on 14x 2020F net profit and net cash position as of Mar 19. We ascribe a higher-than-peer PE multiple in view of SunCon's solid fundamentals and earnings visibility underpinned by the new contracts secured, its ability to clinch a balanced mix of external and internal construction projects and a strong balance sheet (net cash). The JV with its partner in Myanmar will enable SunCon to meet its annual orderbook replenishment target to sustain earnings visibility in the long term. Entry price is RM1.90.

TARGET PRICE

		(RMm)	Value (RMm)	Remarks
Net profit 2020F	A	173		
Net interest (income)/expense after tax	B	-11		
Net profit less net interest income	C=A-B	162	2,268	14x PE
Net cash (as of Mar 19)	D	405	405	
Total SOP value	E=C+D		2,673	
Share base	F		1,292	
				Implied PE (x)
TP (RM)	E/F	2.07	15.4	
TP (RM) (ex-cash)	C/F	1.82	14.0	

Source: UOB Kay Hian

OUTSTANDING ORDERBOOK AS OF JUN 19

	(RMm)
LRT3	1,882
MRT2	243
Tenaga HQ Campus*	756
Petronas Learning Centre*	310
Others	387
Total External (A)	3,578
Sunway Medical Centre – Phase 4	417
Sunway Serene	294
Sunway Carnival (Extension)	241
Big Box Hotel, Medini*	93
Others	866
Total Internal (B)	1,911
Precast (C)	294
Total (A+B+C)	5,783

*New contracts secured in 2019

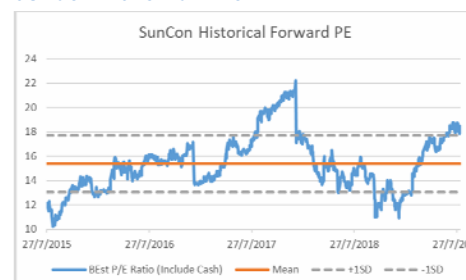
Source: UOB Kay Hian

ORDERBOOK REPLENISHMENT

(RMm)	2019F	2020F	2021F
Construction	1,500	1,500	1,500
Precast	100	100	100

Source: UOB Kay Hian

SUNCON HISTORICAL FORWARD PE



Source: UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (RMm)	2018	2019F	2020F	2021F
Net turnover	2,257	1,979	2,221	2,555
EBITDA	214	221	247	263
Deprec. & amort.	39	42	45	47
EBIT	175	179	201	215
Total other non-operating income	0	0	0	0
Associate contributions	1	1	1	1
Net interest income/(expense)	8	11	14	17
Pre-tax profit	183	191	216	234
Tax	(38)	(38)	(43)	(47)
Minorities	0	0	0	0
Net profit	145	152	173	187
Net profit (adj.)	145	152	173	187

CASH FLOW

Year to 31 Dec (RMm)	2018	2019F	2020F	2021F
Operating	189	195	218	234
Pre-tax profit	183	191	216	234
Tax	(37)	(38)	(43)	(47)
Deprec. & amort.	39	42	45	47
Working capital changes	0	0	0	0
Other operating cashflows	4	0	0	0
Investing	(74)	(55)	(55)	(55)
Capex (growth)	(56)	(55)	(55)	(55)
Investments	25	0	0	0
Proceeds from sale of assets	1	0	0	0
Others	(44)	0	0	0
Financing	(118)	(53)	(61)	(65)
Dividend payments	(97)	(53)	(61)	(65)
Issue of shares	0	0	0	0
Proceeds from borrowings	0	0	0	0
Loan repayment	0	0	0	0
Others/interest paid	(21)	0	0	0
Net cash inflow (outflow)	(3)	87	103	114
Beginning cash & cash equivalent	487	485	571	674
Changes due to forex impact	1	0	0	0
Ending cash & cash equivalent	485	571	674	788

BALANCE SHEET

Year to 31 Dec (RMm)	2018	2019F	2020F	2021F
Other LT assets	215	228	238	245
Cash/ST investment	485	571	674	788
Other current assets	1,112	1,112	1,112	1,112
Total assets	1,812	1,912	2,024	2,146
ST debt	114	114	114	114
Other current liabilities	1,009	1,009	1,009	1,009
LT debt	96	96	96	96
Other LT liabilities	1	1	1	1
Shareholders' equity	591	690	803	924
Minority interest	1	1	1	1
Total liabilities & equity	1,812	1,912	2,024	2,146

KEY METRICS

Year to 31 Dec (%)	2018	2019F	2020F	2021F
Profitability				
EBITDA margin	9.5	11.2	11.1	10.3
Pre-tax margin	8.1	9.6	9.7	9.1
Net margin	6.4	7.7	7.8	7.3
ROA	7.9	8.2	8.8	9.0
ROE	25.6	23.8	23.2	21.7
Growth				
Turnover	8.7	(12.3)	12.2	15.0
EBITDA	45.3	3.3	11.6	6.5
Pre-tax profit	34.2	4.1	13.6	8.0
Net profit	44.9	4.9	13.6	8.0
Net profit (adj.)	44.9	4.9	13.6	8.0
EPS	44.8	4.9	13.6	8.0
Leverage				
Debt to total capital	26.2	23.3	20.7	18.5
Debt to equity	35.5	30.4	26.2	22.7
Net debt/(cash) to equity	(46.5)	(52.4)	(57.8)	(62.6)