THE MALAYSIAN RESERVE - 20 AUGUST 2018
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(PR VALUE: 2,276)

SUNWAY CONSTRUCTION GROUP BHD				
FYE DEC	2017A	2018F	2019F	2020F
REVENUE (RM mil)	2,076	2,644	2,881	2,821
NET PROFIT (RM mil)	138	145	162	166
EPS (sen)	10.7	11.2	12.5	12.8
PE (x)	19.0	18.0	16.1	15.8

Sunway Construction's precast margins to impact earnings

Recommendation: Hold

TARGET Price: **RM2.04**
by Alliance Investment Bank Bhd (Aug 17)

Highlights

SUNWAY Construction Group Bhd (SCG) reported a 2Q18 net profit of RM36m (-2% YoY, +0.1% QoQ), bringing 1H18 net profit to RM72m (+3% YoY). This was on the back of a 28% YoY increase in 1H18 revenue to RM1.07b. The results were below our forecast and consensus estimates. A first interim dividend of 3.5 sen was proposed.

Higher construction progress in 2Q. Construction revenue for 2Q18 jumped 32% YoY to RM512m due to higher progress of work for building and civil jobs in the central region. Its 2Q18 construction pretax margin was 8.4% versus 2Q17's 9.2% and 1Q18's 8.1%, which is within the expected range for its ongoing jobs. Its outstanding construction orderbook as at June 30, 2018, stood at RM5.6b.

Precast margins continue to be a drag. For 2Q18, its precast division's pretax profit fell 64% YoY to just RM2m, but revenue rose 8% to RM33m. On a sequential basis, 2Q18 precast profit slid 37% to RM2m. Hence, 2Q18 margins were a meagre 7% versus 2Q17's 21% and 1Q18's 10%.

Margins for the quarter were impacted by higher steel bar prices, which constituted 30% of its total cost. We now only expect improvement in its precast business in 2H19. The outstanding precast orderbook as at June 30, 2018, stood at RM183m, sufficient for about a year of revenue visibility.

New order guidance intact. SCG is maintaining its new order guidance of RM1.5b for FY18F. YTD wins have reached RM854m, coming from three internal projects (Sunway Medical Centre in Seberang Jaya, Sunway Carnival 2 Extension in Seberang Prai and SunGeo Lake at Sunway South Quay), some piling jobs and also precast orders. SCG will still be targeting internal hospital jobs and other private sector/government mixed-development jobs.

Cutting earnings and TP. We cut our FY18/19/20F earnings by 9%/9%/8% to RM145m, RM162m and RM166m respectively. This is to factor in: i) lower new order replenishment for precast of RM100m-RM150m for FY18-FY20F versus RM180-RM200m previously; ii) lower precast margins of 10%-15% for FY18-FY20F versus 18%-20% previously; and iii) the fact these negatives are balanced off by higher construction margins of 8% for FY18-20F vs sub-7% previously.

We also lower our SOP-derived target price to RM2.04 (versus RM2.18 previously) to account for lower margins and lower sustainable orderbook for its precast division. Our 'Hold' rating remains intact.