

# SunCon's earnings to remain on sound footing as it ramps up activities for large-scale projects

## ► Recommendation: Buy

TARGET Price: RM2.21  
by MIDF Research (Aug 20)

SUNWAY Construction Group Bhd's (SunCon) revenue was lower by 19.1% YoY in 2QFY19, at RM440.2m in comparison to last year's. Cumulatively, the quantum dipped 18% YoY to RM880.2m in 6MFY19.

In terms of PATANCI, the group posted RM33.2m in 2QFY19, registering cumulative earnings of RM64.2m in 6MFY19. Accordingly, this constitutes 42% and 49.4% of our and consensus' full-year estimates. While it could be perceived as coming in below our expectation (based on common convention), we believe the result was broadly in-line given the re-timing issues of certain high-value projects in 1HFY19.

**Construction contributed 92.3% of revenue in 2QFY19.** During the quarter, the segment posted a decline of 20.6% YoY in revenue compared to the same period last year. The deviation was a result of lower revenue from Parcel F project in Putrajaya which has already approached completion. Based on our estimates, the remaining unbilled job of the Parcel F project will be fully booked by this year.

► SUNWAY CONSTRUCTION GROUP BHD				
FYEDEC	FY17	FY18	FY19F	FY20F
REVENUE (RM mil)	2,076.2	2,256.8	2,507.0	2,371.8
NORMALISED PATAMI (RM mil)	137.8	144.7	152.9	158.9
EPS (sen)	10.6	11.2	11.8	12.3
PER (x)	19.1	18.0	17.1	16.4

**Contribution from pre-cast was insignificant in 2QFY19.** Despite its +3.7% YoY higher quarterly revenue of RM33.9m, PBT in 2QFY19 was only breakeven with subdued margin of 0.1%. The result was uninspiring, given the low-price impact from previous jobs secured when competition was intense.

**Replenishment stood strong, with RM1.5b target already met.** SunCon's replenishment rate has been laudable, despite a broad-based slowdown in the local construction scene. Consequently, we expect its earnings to remain in sound footing as it ramps up activities for large scale projects. SunCon currently sits on RM5.8b worth of unbilled jobs, giving it 2.6x FY18 revenue visibility down the road.

**Dividends.** SunCon has proposed

its first interim dividend 3.5 sen per share for the FY19, implying 70% payout.

**Earnings revision.** We make no changes to earnings, in view that the results were large expected.

**Recommendation.** All things considered, we maintain our 'Buy' call with unchanged TP of RM2.21 pegging its FY20F EPS to PE of 18x (+1STD of one-year average). The higher multiple is reflective of the improved sector wide sentiment for construction, following the return of the East Coast Rail Link and continuation in the Bandar Malaysia projects, as well as the strength of SunCon replenishment capability. All in, we are encouraged by the: 1) group's healthy financial position; and 2) large order backlog which should bode well with its future value accretion.