

18 May 2018 | 3MFY18 Results Review

Sunway Construction Group Berhad

Improvement from Projects and HDB BTO Launches

Maintain BUY
Unchanged Target Price : RM2.67


INVESTMENT HIGHLIGHTS

- **Results inline**
- **Pre-cast segment still in the dark...**
- **...but earnings projection remains intact**
- **Nonetheless, we maintain our TP of RM2.67 per share**

Results slightly below the line. 3MFY18 earnings of RM35.8m (+3.0%YoY) in-line with our expectation but lagged the Street's. Its net profit accounted for 23.0% and 19.1% of ours and consensus' full-year forecasts respectively. SCGB's 3MFY18's total revenue of RM529.8bn (+26.2%YoY) came in stronger as a result of better than expected construction revenue of RM492.1bn (+40.3%YoY) influenced by improvement in higher progress billings rate for International School of Kuala Lumpur and Parcel F Putrajaya. Our expectation deviated from the Street's as we have predicted a slightly higher progress billings schedule for SCGB's project.

Precast segment still in the dark... Although Housing Development Board of Singapore is still launching units, we fear that the construction of those units might face slight delay due to insipid property market across the Causeway. It was reported in ChannelNews Asia that HDB resale value declined to 0.8% in 1QFY18. However, HDB launched 4,381 flats under the Build-to-Order scheme in February. Hopefully, this would translate into higher sales for SCGB precast segment. Additionally, steel bar prices increased hence impacting overall cost diverging from tender prices. As a result, the PBT of precast segment registered a dismal RM3.6m (-77.2%) with its PBT margin compressed to merely 9.7% (-13.3ppts).

...but earnings projection remains intact. Despite that, we reiterate our earnings projection on the account of sturdy orderbook of RM6.1bn. So far, SCGB has clinched RM542m worth of projects for the year which is 36.1% of its FYE18 orderbook replenishment target of RM1.5bn.

Recommendation. We maintain our TP of RM2.67 implying +20.8% upside per share based on sum-of-parts methodology. We surmised that construction companies will face headwinds but only temporarily pending announcements on big ticket projects i.e. HSR and MRT Circle Line. 

RETURN STATS	
Price (17 May 2018)	RM2.14
Target Price	RM2.67
Expected Share Price Return	+19.8%
Expected Dividend Yield	+1.0%
Expected Total Return	+20.8%

STOCK INFO	
KLCI	1854.4
Bursa / Bloomberg	5263/ SCGB MK
Board / Sector	Main / Construction
Syariah Compliant	No
Issued shares (mil)	1292
Par Value (RM)	1.00
Market cap. (RM'm)	2972
Price over NA	5.48
52-wk price Range	RM1.56– RM2.41
Beta (against KLCI)	0.532x
3-mth Avg Daily Vol	1.71m
3-mth Avg Daily Value	RM3.76m
Major Shareholders (%)	
Sunholdings	54.4
Sungei Way	10.1
True Paragon	3.9
EPF	3.6

INVESTMENT STATISTICS

FYE Dec	FY14	FY15	FY16	FY17	FY18F	FY19F
Revenue (RM'm)	1,662.2	1,854.1	1,788.8	2076.2	2,387.6	2,626.4
EBIT (RM'm)	202.4	335.6	149.5	164.6	189.3	208.2
Pre-tax Profit (RM'm)	151.1	256.2	153.6	174.1	200.2	220.2
Normalised PATAMI (RM'm)	111.1	216.6	123.5	137.8	158.5	174.3
EPS (sen)	10.1	18.1	9.6	10.6	12.2	13.4
EPS growth (%)	-26.6	78.9	-35.9	27.0	15.0	10.0
PER(x)	21.3	11.9	22.5	20.3	17.6	16.0
Net Dividend (sen)	2.5	5.0	1.8	1.8	2.1	2.3
Net Dividend Yield (%)	1.2	3.5	1.0	1.0	1.0	1.1

Source: Bloomberg, MIDF

VALUATION

Segments	Basis	Value (RM'm)	Per share (RM)
Building and Civil Infrastructure	DCF@8.0% WACC	3,288	2.54
Precast Concrete	DCF@8.0% WACC	500	0.39
Total SOP		3,788.4	2.93
Net debt		-330	-0.26
Total Net SOP			2.67
Enlarged share capital (mil)			1,293

Source: Bloomberg, MIDF

DAILY PRICE CHART

Updated: 18 May 2018



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Source: Bloomberg, MIDFR

3MFY18 Results

	1Q18	4Q17	1Q17	YoY Chg	QoQ Chg	3MFY18	3MFY17	YoY Chg
Revenue	529.2	748.1	419.5	26%	-29%	529.2	419.5	26%
Operating Expenses	-491.0	-715.6	-380.1	29%	-31%	-491.0	-380.1	29%
Other income	4.5	5.1	2.6	73%	-12%	4.5	2.6	73%
Interest income	3.7	5.3	3.20	16%	-30%	3.7	3.20	16%
Finance cost	-2.80	-1.7	-1.1	155%	65%	-2.80	-1.1	155%
Operating profit	42.7	38.4	42.0	2%	11%	43.7	42.0	4%
Pre-tax profit	43.7	44.1	44.1	-1%	-1%	35.8	44.1	-19%
Taxation	-7.8	-12.0	-9.5	-18%	-35%	-7.8	-9.5	-18%
PATAMI	35.8	31.8	34.6	3%	13%	35.8	34.6	3%
EPS (sen)	2.8	2.4	2.7	3%	15%	2.8	2.7	3%
	1Q18	4Q17	1Q17	Pts (+/-)	Pts (+/-)	3MFY18	3MFY17	Pts
Operating margin	8%	5%	10.0%	-0.02	0.03	8.3%	10.0%	-1.8%
Pre-tax margin	8%	6%	10.5%	-0.02	0.02	6.8%	10.5%	-3.7%
PATAMI margin	7%	4%	8.2%	-0.01	0.03	6.8%	8.2%	-1.5%
Effective tax rate	-1%	-2%	-2.3%	0.01	0.00	-1.5%	-2.3%	0.8%
Revenue	1Q18	4Q17	1Q17	YoY Chg	QoQ Chg	3MFY18	3MFY17	YoY Chg
Construction	492.0	721.7	350.7	40%	-32%	492.0	350.7	40.3%
Pre Cast Concrete	37.1	26.5	68.7	-46%	40%	37.1	68.7	-46.0%
TOTAL	529.2	748.2	419.5	26%	-29%	529.2	419.5	26%
PBT	1Q18	4Q17	1Q17	YoY Chg	QoQ Chg	3MFY18	3MFY17	YoY Chg
Construction	40.1	41.1	21.5	86.5%	-2%	40.1	21.5	87%
Pre Cast Concrete	3.5	3.1	13.10	-73.3%	13%	3.5	13.10	-73%
TOTAL	43.7	44.2	34.6	26%	-1%	43.7	34.6	26%
PBT Margin	1Q18	4Q17	1Q17	Pts (+/-)	Pts (+/-)	3MFY18	3MFY17	Pts (+/-)
Construction	8%	6%	6.1%	0.02	-0.98	8.2%	6.1%	2.0%
Pre Cast Concrete	9%	12%	19.1%	-0.10	-1.02	9.4%	19.1%	-9.6%

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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.