21 November 2018 | 9MFY18 Results Review

Sunway Construction Group Berhad
Rationalizing risks at hand

***Maintain* BUY**
***Revised* Target Price (TP): RM1.78**
(*from* RM1.95)

INVESTMENT HIGHLIGHTS

- **Results slightly behind expectations**
- **Better progress billings steered improvement**
- **Precast PBT turned red, due to expanded cost**
- **Earnings adjusted to fine-tune bottom line assumptions**
- **We maintain BUY with revised TP of RM1.78 (from RM1.95)**

Results slightly below the line. 3QFY18 earnings of RM36.4m (+8.0%yoy) lagged ours and the Street's expectation. Cumulatively, the net profit in 9MFY18 accounted for 68.2% and 68.9% of ours and consensus' full-year forecasts respectively. However, the silver lining was that SCGB's 3QFY18's total revenue of RM557.3m (+13.4%yoy) came in stronger as a result of better contribution from the construction segment at the tune of RM524.1m.

Better progress billings steered the improvement. Construction revenue advanced by +11.1%yoy, due to higher progress billings rate and better margin fetched under the civil division. This was below our expectation as we had previously estimated higher margin for SCGB's projects. Notably, it is worth mentioning that margin ratio (of PBT) improved by +0.9ppts yoy to 9.3%, owing to the final stage completion of construction projects.

Contribution from Pre-cast segment seemed improving, but profitability turned red, recording PBT loss of –RM1.9m. While the segmental contributions have been stable at +RM30m in the previous three quarters, YTD margin was weighed down by continued margin compression.

Short-term pressure on ASP is likely. Despite the better revenue recognition from existing sales order, the pressure on ASP continued to linger due to intense competitive landscape. Notwithstanding this, the pre-cast segment is expected to contribute positively, driven by its replenishment ability and expectation of better margin drawn from the new orders clinched. Relatively, the strategic location of its pre-cast factories in Johor and Singapore will allow it to capitalize on shorter distances to its key clients' premises, which will lend support to better cost structure. As of 3QFY18, the segment's current outstanding sales order stands was at RM226.0m.

RETURN STATS	
Price (19 Nov 2018)	RM1.61
Target Price	RM1.78
Expected Share Price Return	+10.3%
Expected Dividend Yield	+1.5%
Expected Total Return	**+11.8%**

STOCK INFO	
KLCI	1,710.7
Bursa / Bloomberg	5263 / SCGB MK
Board / Sector	MM/Construction
Syariah Compliant	Yes
Issued shares (mil)	1,292.3
Market cap. (RM'm)	2,080.5
Price over NA	3.66x
52-wk price Range	RM1.3 – RM2.6
Beta (against KLCI)	1.25x
3-mth Avg Daily Vol	1.10m
3-mth Avg Daily Value	RM1.88m
Major Shareholders (%)	
Sunholdings	54.4
Sungei Way Cort	10.1
EPF	7.4

Construction activities to remain resilient. In 3QFY18, the segment accounted 94% of the group's total revenue. Cumulatively, the 9MFY18 revenue grew by +22.8yoy to RM1.63b. The revenue recognized was in line with our expectation, accounting for 78.5% our yearly segmental estimates. We attribute the group's better performance to finalization of account for projects completed in the quarter. Per recent announcement, the group's outstanding order book currently stands at RM5.2b, implying 2.5x of revenue cover. The figure was arrived subsequent to its RM1.3b worth of project wins in FY18, which was in line with the management's replenishment target of RM1.5b.

We are mindful of the potential impact from significant cost revision of mega infrastructure projects namely LRT3 (-47.0%) and MRT2 (-23.0%). The impact to sub-contractors is still uncertain as the final outcome will lie on the decision arrived between main-contractor and sub-contractors on the projects' scopes and schedules, to name a few. Notwithstanding this, the group's short-term prospect seems healthy, on the back of its stable order book of RM5.2b. We recall that average order book figure over the past five years stood at RM4.3b. In the light of uncertain business environment, we consider the group's outstanding orders as sizeable, providing firm underlying base to short and medium term income.

Earnings revision. We adjust our earnings lower by –9.6% and –12.3% for FY18 and FY19 respectively, on the account of lower margin assumption. The uncertainties over MRT2 and LRT3 work packages still remain, pending further clarity from management. We should highlight that our FY19 assumptions provide a base case estimates, predicated on the current work progression.

Recommendation. All things considered, we maintain our **BUY** call with adjusted **TP** of **RM1.78** pegging its **FY19 EPS** to **PE** of **15x.** 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.

INVESTMENT STATISTICS

FYE Dec	FY14	FY15	FY16	FY17	FY18F	FY19F
Revenue (RM'm)	1,662.2	1,854.1	1,788.8	2,076.2	2,387.6	2,507.0
EBIT (RM'm)	202.4	335.6	149.5	164.6	189.3	198.7
Pre-tax Profit (RM'm)	151.1	256.2	153.6	174.1	167.1	178.0
Core PATANCI (RM'm)	111.1	216.2	123.5	137.8	143.3	152.9
EPS (sen)	10.1	18.1	9.6	10.6	11.1	11.8
EPS growth (%)	(26.6)	78.9	(35.9)	27.0	4.6	6.8
PER (x)	15.9	8.9	16.8	15.2	14.5	13.6
Net Dividend (sen)	2.5	5.0	1.8	1.8	2.1	2.3
Net Dividend Yield (%)	1.6	3.1	1.1	1.1	1.3	1.4

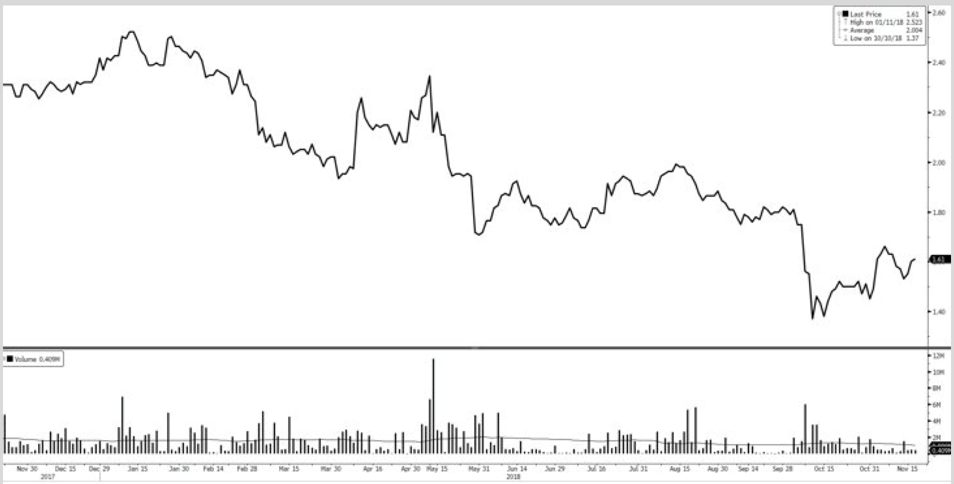
Source: Bloomberg, MIDFR

9MFY18 RESULTS SUMMARY

FYE Dec (RM'm)	Quarterly results					Cumulative results		
	3QFY18	**3QFY17**	**2QFY18**	**YoY (%)**	**QoQ (%)**	**9MFY18**	**9MFY17**	**YoY (%)**
Revenue	557.3	491.4	544.3	13.4%	2.4%	1,630.8	1,328.1	22.8%
Operating Expenses	(515.9)	(453.8)	(507.1)	-13.7%	-1.7%	(1,514.1)	(1,216.2)	-24.5%
Other income	3.4	4.0	4.9	-16.0%	-30.5%	12.8	11.6	10.2%
EBIT	**44.8**	**41.5**	**42.0**	**7.8%**	**6.6%**	**129.5**	**123.6**	**4.8%**
Interest income	3.9	2.6	4.9	48.1%	-20.1%	12.5	8.1	54.3%
Finance cost	(1.7)	(2.0)	(1.7)	11.7%	-2.1%	(6.3)	(4.3)	-45.3%
Pre-tax profit	46.9	42.2	45.2	11.2%	3.9%	135.8	127.4	6.6%
Taxation	(10.4)	(8.6)	(9.3)	-21.3%	-12.2%	(27.6)	(24.2)	-14.1%
PAT	36.5	33.6	35.9	8.6%	1.7%	108.2	103.2	4.8%
NCI	(0.1)	**0.1**	(0.0)	-181.5%	-319.0%	(0.1)	0.2	-144.1%
PATANCI	**36.4**	**33.7**	**35.9**	**8.0%**	**1.6%**	**108.1**	**103.4**	4.6%
Diluted EPS (sen)	2.8	2.6	2.8	8.0%	1.4%	8.4	8.0	4.6%
	3QFY18	**3QFY17**	**2QFY18**	***+/(-) ppts***		**9MFY18**	**9MFY17**	***+/(-) ppts***
Operating Margin	8.0%	8.5%	7.7%	-0.4	0.3	7.9%	9.3%	-1.4
Pre-tax margin	8.4%	8.6%	8.3%	-0.2	0.1	8.3%	9.6%	-1.3
PATANCI margin	6.5%	6.9%	6.6%	-0.3	-0.1	6.6%	7.8%	-1.2
Effective tax rate	-22.2%	-20.4%	-20.6%	-1.9	-1.6	-20.3%	-19.0%	-1.3

Source: MIDFR, Bursa Malaysia

DAILY PRICE CHART



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Source: Bloomberg

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STOCK RECOMMENDATIONS	
BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to *rise* 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 *fall* 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.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.