

21 February 2020

Sunway Construction Group

Steady Performance Ahead

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FY19 CNP of RM129.3m met expectations, accounting for 105%/98% of our/consensus numbers. Forward earnings will be underpinned by outstanding order-book of RM5.2b, following contract wins of RM1.8b last year. We are upgrading our call to OUTPERFORM with TP of RM2.15 (based on P/E of 16.5x on FY20 earnings) (from RM1.45 previously).

Within expectations. FY19 CNP of RM129.3m (-10.5% YoY) accounted for 105%/98% of our/consensus estimates with top-line declining 21.6% YoY to RM1.8b. Overall earnings fell as the Group's performance was dragged by lower net profit contribution of RM125.9m (-12.1% YoY) from the construction division. Meanwhile, the precast concrete segment contributed net profit of RM3.4m in FY19 (up from RM1.1m in FY18). It declared DPS of 3.5 sen, taking full-year DPS to 7.0 sen.

Results' highlight. 4QFY19 CNP came in at RM31.6m (-5.6% QoQ/-13.3% YoY) on the back of turnover of RM485.9m (+20.7% QoQ/-22.4% YoY). In terms of segmental breakdown, in the final quarter: (i) the construction division posted net profit of RM28.0m (-17.2% QoQ/-27.1% YoY); and (ii) the precast concrete business contributed net profit of RM3.7m, turning around from net losses of RM0.3m in 3QFY19 and RM1.9m in 4QFY18.

On the margin front, pretax profit margin stood at 8.6% in 4QFY19 (versus 9.7% in 3QFY19 and 8.4% in 4QFY18) for the construction division, bringing full-year margin to 9.6% (from 8.6% the year before). Precast concrete division's pretax profit margin also rose, to 1.8% in FY19 from 0.7% in FY18. As of end-Dec last year, the Group is in a net cash position of RM407m (or 32.0 sen per share).

Strong earnings visibility ahead. SUNCON secured new contracts totalling RM1.8b in FY19 (versus RM1.6b in FY18). This has lifted outstanding order-book to RM5.2b as of end-Dec 2019, which will underpin forward earnings and represents 3.2 times last year's construction revenue. The Group is targeting an order-book replenishment of RM2b in FY20 (which is also our new contract wins assumption). We have revised up our net profit forecast to RM169m (+7.6%) for FY20 and RM176m (new) for FY21 after assuming slightly stronger margins and better contributions from the precast concrete segment.

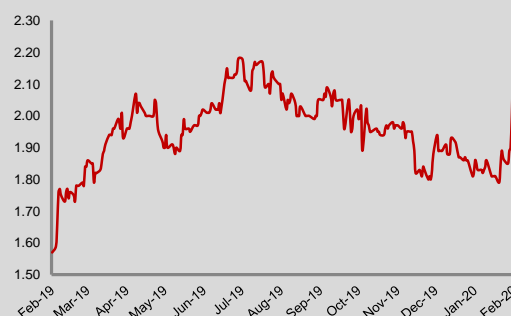
Upgrading call and TP. Applying a higher P/E multiple of 16.5x (which is pegged at +1SD above its 3-year mean) on a stronger earnings base, we have upped our target price from RM1.45 to RM2.15. With potential total returns of 13.3%, we also upgrade our call on SUNCON to **OUTPERFORM**.

Risks to our call include: (i) lower-than-expected margins/order-book replenishment, and (ii) delays in construction progress.

OUTPERFORM

Price : **RM1.96**
Target Price : **RM2.15** 

Share Price Performance



KLCI	1,534.98
YTD KLCI chg	-3.4%
YTD stock price chg	2.6%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	SCGB MK EQUITY
Market Cap (RM m)	2,527.1
Shares Outstanding	1,289.4
52-week range (H)	2.20
52-week range (L)	1.68
3-mth avg daily vol:	579,942
Free Float	20%
Beta	1.3

Major Shareholders

Sunway Holdings Sdn Bhd	54.6%
Sungei Way Corp Sdn Bhd	10.1%
Employees Provident Fund Board	8.5%

Summary Earnings Table

FYE Dec (RM m)	2019A	2020E	2021E
Turnover	1,768.7	2527	2624
EBIT	145.4	157	166
PBT	157.4	219	228
Net Profit	129.3	169	176
Core PATAMI	129.3	169	176
Consensus (NP)	N.A.	160	164
PBT Revision	N.A.	+7.6%	N.A.
Core EPS (sen)	10.0	13.0	13.5
Core EPS growth (%)	-7	23%	4%
NDPS (sen)	7.0	7.2	7.4
NTA per Share (RM)	0.5	0.6	0.6
Price to NTA (x)	4.1	3.4	3.1
PER (x)	19.7	15.1	14.5
Debt-to-Equity ratio (x)	0.4	0.2	0.0
Return on Asset (%)	7%	7%	7%
Return on Equity (%)	21%	23%	21%
Net Div. Yield (%)	3.6%	3.6%	3.8%

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Results Highlight								
FYE Dec (RM'm)	4Q19	3Q19	QoQ	4Q18	YoY	FY19	FY18	YoY
Turnover	485.9	402.6	20.7%	626.0	-22.4%	1,768.7	2,256.8	-21.6%
EBIT	35.2	34.4	2.4%	45.9	-23.3%	145.4	175.9	-17.3%
Interest inc/(exp)	5.3	1.2	344.1%	1.2	324.0%	12.0	6.8	75.4%
Pretax profit	40.5	35.6	13.8%	47.2	-14.1%	157.4	182.7	-13.9%
Taxation	(7.8)	(2.5)	207.6%	(10.4)	-25.2%	(27.1)	(38.0)	-28.7%
Profit after tax	32.7	33.1	-1.1%	36.8	-11.0%	130.3	144.8	-10.0%
Minority interest	(1.1)	0.5	n.m.	(0.3)	313.2%	(1.0)	(0.3)	196.8%
PATAMI	31.6	33.5	-5.6%	36.5	-13.3%	129.3	144.4	-10.5%
Core PATAMI	31.6	33.5	-5.6%	36.5	-13.3%	129.3	144.4	-10.5%
DPS (sen)	3.5	0.0		3.5		7.0	7.0	
EBIT margin	7.3%	8.5%		7.3%		8.2%	7.8%	
Pretax margin	8.3%	8.8%		7.5%		8.9%	8.1%	
EPS (sen)	2.5	2.6		2.8		10.0	11.2	
Core EPS(sen)	2.5	2.6		2.8		10.0	11.2	
Effective tax	19.3%	7.1%		22.1%		17.2%	20.8%	

Source: Company, Kenanga Research

Segmental Breakdown								
FYE Dec (RM'm)	4Q19	3Q19	QoQ	4Q18	YoY	FY19	FY18	YoY
Revenue								
Construction	440.5	365.1	20.7%	595.4	-26.0%	1,618.9	2,123.2	-23.7%
Precast Concrete	45.4	37.5	21.2%	30.6	48.4%	149.8	133.7	12.1%
Total	485.9	402.6	20.7%	626.0	-22.4%	1,768.7	2,256.8	-21.6%
Pretax Profit								
Construction [^]	38.1	35.4	7.5%	50.1	-24.0%	154.6	181.8	-14.9%
Precast Concrete [^]	2.4	0.2	1118.0%	(2.9)	n.m.	2.8	1.0	184.7%
Total	40.5	35.6	13.8%	47.2	-14.1%	157.4	182.7	-13.9%
Net Profit								
Construction	28.0	33.8	-17.2%	38.4	-27.1%	125.9	143.3	-12.1%
Precast Concrete	3.7	(0.3)	n.m.	(1.9)	n.m.	3.4	1.1	199.1%
Total	31.6	33.5	-5.6%	36.5	-13.3%	129.3	144.4	-10.5%
Pretax Profit Margin								
Construction	8.6%	9.7%		8.4%		9.6%	8.6%	
Precast Concrete	5.4%	0.5%		n.m.		1.8%	0.7%	
Total	8.3%	8.8%		7.5%		8.9%	8.1%	

[^] Incl share of assoc and JVs results

Source: Company, Kenanga Research

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Peer Comparison

Name	Last Price (RM)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)	Net Div Yld (%)	Target Price (RM)	Rating
					1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.			
STOCKS UNDER COVERAGE																	
GAMUDA BHD	4.04	10,049.4	Y	07/2020	33.5%	9.7%	-25.2%	-19.3%	12.4	16.6	20.5	1.2	1.2	7.3%	3.0%	4.70	OP
GEORGE KENT (MALAYSIA) BHD	0.905	482.8	Y	01/2020	-22.2%	10.1%	-43.0%	18.0%	6.4	11.3	9.6	1.0	1.0	9.0%	4.4%	0.970	MP
HOCK SENG LEE BERHAD	1.31	719.9	Y	12/2019	18.7%	15.6%	23.0%	18.0%	13.4	10.9	9.2	0.9	0.9	8.2%	1.8%	1.40	MP
IJM CORP BHD	2.22	8,057.4	Y	03/2020	15.0%	4.9%	-20.5%	20.1%	19.3	24.3	20.2	0.8	0.8	3.3%	1.6%	2.35	MP
KERJAYA PROSPEK GROUP BHD	1.27	1,564.2	Y	12/2019	28.3%	-4.4%	11.5%	1.9%	11.4	10.2	10.0	1.6	1.4	14.9%	2.3%	1.50	OP
KIMLUN CORP BHD	1.10	373.8	Y	12/2019	6.0%	-5.2%	-1.2%	2.5%	5.8	5.9	5.8	0.6	0.5	9.0%	3.9%	1.65	OP
MITRAJAYA HOLDINGS BHD	0.270	238.2	Y	12/2019	-32.5%	-7.8%	-288.2%	-80.7%	5.4	N.A.	N.A.	0.3	0.3	-11.3%	0.0%	0.110	UP
MUHIBBAH ENGINEERING (M) BHD	1.83	884.7	Y	12/2019	9.9%	-3.4%	-21.4%	28.5%	6.1	7.7	6.0	0.8	0.7	9.8%	2.8%	2.35	OP
SUNWAY CONSTRUCTION GROUP BHD	1.96	2,527.1	Y	12/2019	42.9%	3.9%	30.4%	4.0%	19.7	15.1	14.5	4.1	3.4	23%	3.6%	2.15	OP
WCT HOLDINGS BHD	0.750	1,055.1	Y	12/2019	6.4%	14.1%	-13.8%	19.3%	8.3	9.6	8.0	0.3	0.3	3.4%	0.0%	0.815	UP
Simple Average					5.7%	6.1%	-39.1%	3.6%	10.7	13.0	11.7	1.2	1.1	7.3%	2.3%		
CONSENSUS ESTIMATES																	
AHMAD ZAKI RESOURCES BERHAD	0.350	208.8	Y	06/2020	N.A.	N.A.	N.A.	N.A.	14.2	N.A.	N.A.	0.4	N.A.	N.A.	N.A.	N.A.	SELL
BINA PURI HOLDINGS BHD	0.080	30.5	Y	06/2020	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	0.1	N.A.	N.A.	N.A.	N.A.	SELL
GABUNGAN AQRS BHD	1.10	542.8	Y	12/2019	-0.1%	50.4%	-12.9%	45.1%	8.9	10.2	0.0	1.0	1.2	11.3%	4.1%	1.62	BUY
GADANG HOLDINGS BHD	0.635	462.3	Y	05/2020	3.8%	0.1%	33.9%	14.2%	10.5	7.8	0.0	0.5	0.6	7.6%	1.3%	0.687	NEUTRAL
JAKS RESOURCES BHD	1.53	996.2	Y	12/2019	80.6%	-50.3%	683.9%	-42.4%	64.9	8.3	0.0	1.0	1.0	15.0%	0.0%	1.10	NEUTRAL
MUDAJAYA GROUP BHD	0.490	289.0	N	12/2019	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	2.0	N.A.	N.A.	N.A.	N.A.	SELL
PINTARAS JAYA BHD	2.96	491.0	Y	06/2020	30.9%	6.8%	100.2%	5.4%	18.8	9.4	0.1	1.5	1.5	15.2%	7.0%	3.84	NEUTRAL
PESONA METRO HOLDINGS	0.210	145.9	Y	12/2019	12.1%	2.9%	165.4%	6.8%	17.7	6.7	0.0	0.8	N.A.	11.7%	4.8%	0.290	BUY
PROTASCO BHD	0.375	181.9	Y	12/2019	-8.8%	3.2%	463.0%	14.1%	N.A.	17.5	0.0	0.5	0.6	3.2%	3.5%	0.315	NEUTRAL
TRC SYNERGY BHD	0.415	199.4	Y	12/2019	11.2%	13.4%	27.1%	16.6%	9.6	7.5	0.0	0.5	N.A.	8.8%	4.3%	0.500	NEUTRAL

Source: Bloomberg, Kenanga Research

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Stock Ratings are defined as follows:**Stock Recommendations**

OUTPERFORM	: A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM	: A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM	: A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT	: A particular sector's Expected Total Return is MORE than 10%
NEUTRAL	: A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT	: A particular sector's Expected Total Return is LESS than -5%

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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