

Sunway Construction Group Berhad

(5263 | SCGB MK) Main | Construction

Maintain BUY

Slower construction activities

KEY INVESTMENT HIGHLIGHTS

- **SunCon booked lower revenue at RM485.94 (-22.4%yoy) in 4QFY19**
- **Slower construction activities**
- **Precast segment has shown an improvement**
- **7sen/share dividend declared**
- **Maintain BUY call with unchanged TP of RM2.21**

SunCon booked lower revenue in 4QFY19 at RM485.94 (-22.4%yoy) on the back of lower contribution from construction division. Cumulatively for FY19, the quantum shrank -21.6%yoy to RM1.8b. As for the group's PATANCI, it registered RM31.64m (-13.5%yoy) in 4QFY19, registering cumulative earnings of RM129.3m (-10.6%) in FY19. Nonetheless, this constitutes 101.1% and 109.9% of our and consensus full year estimates, in line with our expectation but slightly ahead of consensus.

Slower construction activities. SunCon's construction segment, which contributed 90.7% of total revenue during the quarter, reported revenue growth of -26.0yoy to RM440.5m in 4QFY19. This decline was due to the majority of existing projects which are at its initial stages. Likewise, on yearly basis, the segmental revenue posted a decline of -23.7%yoy to RM1.62b. However, forward earnings visibility is secured by the group's outstanding order book totaling RM5.2b. Moreover, it is also notable that SunCon secured a total of RM1.8 billion new contracts amid challenging environment in FY19.

Precast segment has shown an improvement as it recorded higher revenue higher by +47.9%yoy to RM45.4m in 4QFY19 attributed to (1) present order book, and (2) old projects with slimmer margins were completed. At pre-tax level, this segment managed to reverse its loss from last year by recording RM2.5m PBT (+>100%yoy) in 4QFY19 from -RM2.9m LBT in 4QFY18. On the back of secured new order book, we anticipated better contribution from precast segment in 1HFY20.

Unchanged Target Price: RM2.21

RETURN STATISTICS

Price @ 20 th Feb 2020 (RM)	RM 1.96
Expected share price return (%)	+12.76
Expected dividend yield (%)	+1.68
Expected total return (%)	+14.44

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	7.10	10.86
3 months	2.62	3.78
12 months	11.36	25.24


KEY STATISTICS

FBM KLCI	1534.98
Syariah compliant	Yes
Issue shares (m)	1292.9
Estimated free float (%)	19.9
Market Capitalisation (RM'm)	2527.14
52-wk price range	RM1.68 - RM2.20
Beta vs FBM KLCI (x)	1.3
Monthly velocity (%)	6.8
Monthly volatility (%)	16.1
3-mth average daily volume (m)	0.6
3-mth average daily value (RM'm)	1.10
Top Shareholders (%)	
SUNHOLDINGS	54.56
Sungei Way Corp Sdn Bhd	10.08
Employees Provident Fund Board	8.54

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7sen/share dividend declared. The group declared a second interim single-tier dividend of 3.5sen per ordinary shares for the financial year ended 31 December 2019. The entire amount of RM45,127,569 is expected to be paid on 8 April 2020. Altogether, the group has announced 7sen/share dividend for FY19.

Earnings impact. We made no adjustments to FY20F earnings as the results were in line with our expectation.

Recommendation. We maintain our BUY call with unchanged TP of RM2.21 pegging its FY20F EPS to PE of 18x (+1std of 1-year average). The higher multiple is reflective of the broad-based improvement in industry sentiment, following the resumption of ECRL and continuation in Bandar Malaysia project as well as potential return of other big infrastructure projects. 

INVESTMENT STATISTICS

FYE December	FY16	FY17	FY18	FY19	FY20F	FY21F
Revenue (RM'm)	1788.8	2076.2	2256.8	1768.7	2371.8	2362.89
EBIT (RM'm)	149.5	164.6	174.6	141.0	212.5	194.30
Pre-tax Profit (RM'm)	153.6	174.1	183.1	157.4	194.5	198.58
Normalised PATAMI (RM'm)	123.5	137.8	144.7	129.3	158.9	160.86
EPS (sen)	9.6	10.6	11.2	10.0	12.3	12.47
EPS growth (%)	-35.9	10.4	5.6	-10.5	24.2	1.23
PER (x)	20.6	18.7	17.7	19.6	16.7	15.72
Net Dividend (sen)	1.8	1.8	7.0	7.0	3.3	6.32
Net Dividend Yield (%)	0.9	0.9	3.5	3.6	1.7	3.22

Source: Company, MIDFR

4QFY19 RESULTS REVIEW

FYE Dec (RM'm)	4Q19	4Q18	3Q19	YoY Chg	QoQ Chg	12M19	12M18	YoY Chg
Revenue	485.94	626.02	402.58	-22.4%	20.7%	1,768.7	2,256.8	-21.6%
Operating Expenses	-463.71	-588.81	-371.50	-21.2%	24.8%	-1,647.8	-2,102.3	-21.6%
Other Income	8.6	7.9	3.3	9.6%	161.3%	20.1	20.7	-2.6%
EBIT	30.83	45.06	34.38	-31.6%	-10.3%	141.02	175.19	-19.5%
Interest Income	8.66	3.51	5.11	146.5%	69.4%	25.2	16.0	56.9%
Finance cost	-3.40	-2.04	-3.93	66.6%	-13.5%	-13.2	-9.2	43.2%
Share of Results of JV	0.10	0.73	0.00	NA	NA	0.1	0.7	-86.5%
Pre-tax Profit	40.51	47.27	35.56	-14.3%	13.9%	157.4	182.7	-13.9%
Taxation	-7.8	-10.4	-2.5	-25.2%	207.6%	-27.1	-38.0	-28.7%
PAT	32.70	36.83	33.02	-11.2%	-1.0%	130.33	144.77	-10.0%
NCI	1.06	0.26	-0.46	313.2%	-331.9%	1.0	0.3	196.8%
PATANCI	31.64	36.57	33.48	-13.5%	-5.5%	129.32	144.69	-10.6%
Diluted EPS	2.5	2.8	2.6	-13.4%	-5.8%	10.0	11.2	-10.5%
	4Q19	4Q18	3Q19	+/- ppts	+/- ppts	12M19	12M18	+/- ppts
Operating margin	6.3%	7.2%	8.5%	-0.9	-2.2	8.0%	7.8%	0.2
Pre-tax margin	8.3%	7.6%	8.8%	0.8	-0.5	8.9%	8.1%	0.8
PATANCI margin	6.5%	5.8%	8.3%	0.7	-1.8	7.3%	6.4%	0.9
Effective tax rate	-19.3%	-22.1%	-7.1%	2.8	-12.1	-17.2%	-20.8%	3.6

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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.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.