

Headline	SunCon's 1Q progress billings delayed but results still in line		
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SunCon's 1Q progress billings delayed but results still in line

► Recommendation: Buy

TARGET Price: RM2.24
by Affin Hwang Investment Bank Bhd (May 17)

SUNWAY Construction Group Bhd's (SunCon) 1Q19 results were weak, but we expect a stronger 2H19 and deem the results to be in line. The review of major infrastructure projects by the government to reduce costs led to slower progress billings. Net profit fell 13% YoY to RM31m in 1Q19.

SunCon saw good orderbook replenishment with RM1b new contracts clinched in 1Q19 and is on track to meet its RM1.5b target in 2019. We maintain our EPS forecasts on expectations of an acceleration in progress billings in 2H19. It remains our top mid-cap construction 'Buy' with a new, higher TP of RM2.24, based on a 10% discount to 2020E RNAV.

Weak 1Q19 but expect stronger 2H19. SunCon's net profit of RM31m in 1Q19 comprised only 20%-21% of market consensus and our 2019E forecasts of RM145m-RM153m. Slow progress billings and completion of several projects in the previous year led to revenue declining 17% YoY and 30% QoQ to RM440m in 1Q19.

There were slower progress bil-

► SUNWAY CONSTRUCTION GROUP BHD				
FYE DEC 31	2018A	2019E	2020E	2021E
REVENUE (RM mil)	2,256.8	2,404.6	2,318.4	2,342.9
NET PROFIT (RM mil)	144.7	153.2	159.6	167.0
EPS (sen)	11.2	11.9	12.4	12.9
PER (x)	17.3	16.4	15.7	15.0

lings for the Klang Valley Mass Rapid Transit Line 2 (MRT2) and Light Rail Transit Line 3 (LRT3). Core net profit fell 17% YoY and 45% QoQ to RM28m in 1Q19 on the back of lower revenue while 4Q18 earnings were boosted by profits from the finalisation of accounts for three completed projects, which did not recur.

Construction margins sturdy, weak precast concrete earnings. Construction PBT was flat YoY but declined 20% QoQ to RM40m in 1Q19. Construction PBT margin improved to 9.9% in 1Q19 compared to 8.2% in 1Q18 and 8.5% in 4Q18. Precast concrete PBT was RM0.1m, turning around from a loss of RM2.9m in 4Q18 on lower steel bar costs. But earnings were lower than PBT of RM3.6m in 1Q18 due to lower margins for current projects.

Good orderbook replenishment.

SunCon clinched RM1b worth of new contracts, including the RM781m Tenaga Nasional Bhd's headquarters campus development. It is on track to meet its 2019 RM1.5b new contract target, which we have assumed in our earnings forecasts.

SunCon has also submitted tenders worth RM7.4b including road/railway projects in India, piling projects in Singapore and hospitals for the Sunway Group.

Top mid-cap construction 'Buy'. SunCon is a potential beneficiary of projects to be revived such as the MRT3, Penang LRT and East Coast Rail Link. We raise our 2020E RNAV/share estimate to RM2.49 from RM2.24 previously to reflect a higher construction PER of 16x (14x previously) and higher net cash at end-1Q19. Based on the same 10% discount to RNAV, we raise our TP to RM2.24 from RM2. Maintain 'Buy'.