

Outthink. Outperform.

## Transition stage

Sunway Construction's (Suncon) 1H16 result was below market and our expectations. But we expect a stronger 2H16 result as record new contracts secured of RM2.4bn start to contribute to earnings. Net profit fell 16% yoy to RM60m in 1H16 mainly due to lower revenue (-14% yoy). Its strong net cash backing of RM0.24/share led to Suncon declaring a DPS of 2.5 sen. We reiterate our BUY call with lifted RM2.03 target price, based on 10% discount to RNAV.

### Lower earnings

Suncon's 1H16 net profit of RM60m comprised 38-43% of full-year consensus forecast of RM139m and our estimate of RM143m. We expect the acceleration in progress billings for new construction contracts secured worth RM2.4bn and higher delivery volume for precast concrete products to lift earnings in 2H16. Revenue fell 14% yoy in 1H16 due to lower billings for both its construction and precast concrete divisions. Net profit declined 16% yoy due to lower EBIT (-27% yoy) normalisation of tax rate at 20.2% in 1H16 vs 11.1% in 1H15. Core net profit fell 36% yoy.

### Record order book

Construction revenue fell 14% yoy in 1H16 as revenue contribution for some ongoing projects are tapering down while some new projects such as MRT Line 2 V201 package has not started to contribute to earnings. But construction PBT increased 5% yoy due to the absence of provision for loss-making projects and improvement in PBT margin to 6.4% in 1H16 vs 5.3% in 1H15. Its outstanding order book has increased RM2.4bn to a new record high of RM4.9bn currently (2.6x FY15 revenue) from RM3.7bn as at end-2015, improving earnings visibility.

### Slow start for precast concrete

Precast concrete revenue fell 17% yoy in 1H16 due to lower delivery volume but is expected to accelerate in 2H16. Precast concrete PBT fell 22% yoy on lower PBT margin to 19% in 1H16 vs 20.3% in 1H15.

### Top sector BUY

We believe Suncon's current ex-cash 2016E PER of 12x is attractive compared to its peer average of 18x. Maintain BUY. We raise our target price by 3% to RM2.03 to reflect the higher net cash. Key risks are public infrastructure project implementation delays and cost overruns.

### Earnings & Valuation Summary

FYE 31 Dec	2014	2015	2016E	2017E	2018E
Revenue (RMm)	1,880.7	1,916.9	1,765.4	2,276.2	2,185.2
EBITDA (RMm)	172.3	187.3	207.1	254.2	282.9
Pretax profit (RMm)	151.3	140.8	170.9	218.2	248.4
Net profit (RMm)	124.8	127.2	143.0	169.6	188.2
EPS (sen)	9.7	9.8	11.1	13.1	14.6
PER (x)	17.0	16.7	14.8	12.5	11.3
Core net profit (RMm)	135.3	136.2	143.0	169.6	188.2
Core EPS (sen)	10.5	10.5	11.1	13.1	14.6
Core EPS growth (%)	31.9	0.7	5.0	18.6	10.9
Core PER (x)	15.7	15.6	14.8	12.5	11.3
Net DPS (sen)	0.0	4.0	5.5	6.5	7.0
Dividend Yield (%)	0.0	2.4	3.4	4.0	4.3
EV/EBITDA (x)	11.4	9.6	8.4	6.3	5.2
Chg in EPS (%)			0.0	0.0	0.0
Affin/Consensus (x)			1.0	1.1	1.1

Source: Company, Affin Hwang forecasts, Bloomberg

## Results Note

# Sunway Construction

SCGB MK  
Sector: Construction

RM1.64 @ 25 Aug 2016

BUY (maintain)

Upside 24%

Price Target: RM2.03

Previous Target: RM1.98



### Price Performance

	1M	3M	12M
Absolute	-2.4%	+6.5%	+57.7%
Rel to KLCI	-3.1%	+3.4%	+46.8%

### Stock Data

Issued shares (m)	1,292.9
Mkt cap (RMm)/(US\$m)	2120.4/527.4
Avg daily vol - 6mth (m)	3.2
52-wk range (RM)	0.98-1.72
Est free float	34.8%
BV per share (RM)	0.35
P/BV (x)	4.70
Net cash/ (debt) (RMm) (2Q16)	315.5
ROE (2016F)	29.4%
Derivatives	Nil
Shariah Compliant	No

### Key Shareholder

Sunway Bhd	54.4%
Sungei Way Corp	10.1%
Norges Bank	1.8%
Amanah Mutual Bh	1.1%

Source: Affin Hwang, Bloomberg

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Fig 1: Result comparison

FYE 31 Dec (RMm)	2Q16	% QoQ	% YoY	2H16	% YoY	Comment
<b>Revenue</b>	<b>430.3</b>	<b>1.4</b>	<b>(14.0)</b>	<b>854.6</b>	<b>(14.2)</b>	Lower construction and precast concrete revenue as new projects have not contributed significantly while some ongoing projects are at the tail end.
Op costs	(387.6)	2.0	(13.2)	(773.2)	(13.3)	
<b>EBITDA</b>	<b>42.7</b>	<b>(4.0)</b>	<b>(20.2)</b>	<b>81.4</b>	<b>(22.2)</b>	
<i>EBITDA margin (%)</i>	9.9	-0.6ppt	-0.8ppt	9.5	-1.0ppt	Higher construction margin but lower precast concrete margin (normalization).
Depn and amort	(9.7)	(1.8)	2.2	(19.5)	0.6	
<b>EBIT</b>	<b>33.0</b>	<b>(4.6)</b>	<b>(25.1)</b>	<b>61.9</b>	<b>(27.4)</b>	
Interest income	1.9	(33.8)	24.2	4.7	(61.8)	
Interest expense	(1.4)	92.7	19.3	(2.1)	(5.3)	
Associates	0.0	0.0	0.0	0.0	0.0	
Forex gain (losses)	(0.7)	NA	NA	(0.4)	NA	
Exceptional items	5.2	NA	NA	11.5	NA	Mainly from the write-back of impairment for its Middle East associate.
<b>Pretax profit</b>	<b>38.1</b>	<b>1.6</b>	<b>(8.4)</b>	<b>75.6</b>	<b>(6.9)</b>	1H16: Higher yoy due to higher construction earnings but partly offset by lower precast concrete earnings. 2Q16: Higher precast concrete earnings offset the lower construction earnings.
<b>Core pretax</b>	<b>33.6</b>	<b>(8.7)</b>	<b>(24.4)</b>	<b>64.6</b>	<b>(24.9)</b>	
Tax	(6.8)	(19.6)	79.1	(15.3)	69.1	
<i>Tax rate (%)</i>	17.9	-4.7ppt	8.7ppt	20.2	9.1ppt	
Minority interests	(0.0)	164.7	NA	(0.0)	164.7	
<b>Net profit</b>	<b>31.3</b>	<b>7.7</b>	<b>(17.3)</b>	<b>60.3</b>	<b>(16.4)</b>	Below expectation. But expect better 2H16.
<b>Core net profit</b>	<b>26.7</b>	<b>(5.6)</b>	<b>(34.2)</b>	<b>49.3</b>	<b>(36.0)</b>	
EPS (sen)	2.4	7.6	(17.1)	4.7	(16.3)	

Source: Company

Fig 2: Segmental PBT breakdown

FYE 31 Dec (RMm)	2Q15	3Q15	4Q15	1Q16	2Q16	% QoQ	% YoY	1H16	2H16	% YoY
Construction	431.4	394.0	417.6	373.8	360.5	(3.6)	(16.4)	1,429.7	51.4	(96.4)
Precast concrete	68.8	56.3	52.6	50.5	69.8	38.1	1.4	335.7	35.8	(89.3)
<b>Total</b>	<b>500.2</b>	<b>450.3</b>	<b>470.3</b>	<b>424.4</b>	<b>430.3</b>	<b>1.4</b>	<b>(14.0)</b>	<b>1,765.4</b>	<b>87.2</b>	<b>(95.1)</b>

Source: Company

Fig 3: Segmental PBT breakdown

FYE 31 Dec (%)	2Q15	3Q15	4Q15	1Q16	2Q16	ppt QoQ	ppt YoY	1H16	2H16	ppt YoY
Construction	6.3	2.4	2.2	7.0	5.9	(1.1)	(0.4)	5.3	6.4	1.2
Precast concrete	20.8	36.5	38.1	22.8	24.2	1.4	3.4	25.3	23.6	(1.7)
<b>Total</b>	<b>8.3</b>	<b>6.7</b>	<b>6.3</b>	<b>8.8</b>	<b>8.9</b>	<b>0.0</b>	<b>0.5</b>	<b>8.2</b>	<b>8.8</b>	<b>0.7</b>

Source: Company

Fig 4: RNAV and target price

Segments	Stake (%)	RNAV (RMm)
Construction @ PE 14x avg earnings of RM120m	100	1,680
Pre-cast concrete @ PE 14x avg earnings of RM65m	100	910
Net cash/(debt)		332
<b>RNAV</b>		<b>2,922</b>
No. of shares (m shrs)		1,293
<b>RNAV/share (RM)</b>		<b>2.26</b>
<b>Target price at 10% discount to RNAV/share</b>		<b>2.03</b>

Source: Company, Affin Hwang

**Equity Rating Structure and Definitions**


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<b>BUY</b>	Total return is expected to exceed +10% over a 12-month period
<b>HOLD</b>	Total return is expected to be between -5% and +10% over a 12-month period
<b>SELL</b>	Total return is expected to be below -5% over a 12-month period
<b>NOT RATED</b>	Affin Hwang Investment Bank Berhad does not provide research coverage or rating for this company. Report is intended as information only and not as a recommendation

*The total expected return is defined as the percentage upside/downside to our target price plus the net dividend yield over the next 12 months.*

<b>OVERWEIGHT</b>	Industry, as defined by the analyst's coverage universe, is expected to outperform the KLCI benchmark over the next 12 months
<b>NEUTRAL</b>	Industry, as defined by the analyst's coverage universe, is expected to perform inline with the KLCI benchmark over the next 12 months
<b>UNDERWEIGHT</b>	Industry, as defined by the analyst's coverage universe is expected to under-perform the KLCI benchmark over the next 12 months

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