

Outthink. Outperform.

Ramping up

Sunway Construction's (Suncon) 1Q16 net profit of RM29m (-16% YoY) was below market and our expectations. This is because some existing construction projects are at the tail end and new projects worth RM2bn secured year to date have not started contributing significantly to earnings. We maintain our earnings forecasts as we expect the ramping up of works on new projects to lift earnings in 2H16. Suncon remains our top BUY in the construction sector with RM1.98 target price, based on 10% discount to RNAV.

Lower earnings

Suncon reported net profit of RM29m, accounting for 20-21% of full-year consensus forecast of RM140m and our estimate of RM143m. We expect the acceleration in progress billings for new construction contracts secured and higher delivery volume for precast concrete products to lift earnings in 2H16. Revenue fell 14% YoY and 10% QoQ in 1Q16 due to lower billings for both its construction and precast concrete divisions. Net profit declined 16% YoY due to lower EBIT (-17% YoY) normalisation of tax rate at 22.6% in 1Q16 vs 13.2% in 1Q15.

Record order book

Construction revenue fell 11% YoY and QoQ in 1Q16 as revenue contribution for some ongoing projects are tapering down while some new projects have not kicked off. But construction pre-tax profit (PBT) jumped 48% YoY and 178% QoQ due to the absence of provision for loss-making projects and improvement in PBT margin to 7% in 1Q16 vs 4.2% in 1Q15 and 2.3% in 4Q15. Its outstanding order book has increased RM2bn to a new record high of RM5bn currently (2.6x FY15 revenue) from RM3.7bn as at end-2015, improving earnings visibility.

Slow start for precast concrete

Precast concrete revenue fell 33% YoY and 4% QoQ in 1Q16 due to lower delivery volume but is expected to accelerate in 2H16. Precast concrete PBT fell 48% YoY and 43% QoQ due to normalization of PBT margin to 22.8% in 1Q15 vs 29.3% in 1Q15 and 38.1% in 4Q15.

Top sector BUY

We believe Suncon's current ex-cash 2016E PER of 11x is attractive compared to its peer average of 18x. Maintain BUY. 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)	15.8	15.6	13.8	11.7	10.5
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)	14.6	14.5	13.8	11.7	10.5
Net DPS (sen)	0.0	4.0	5.5	6.5	7.0
Dividend Yield (%)	0.0	2.6	3.6	4.2	4.6
EV/EBITDA (x)	10.6	8.8	7.7	5.8	4.7
Chg in EPS (%)			0.0	0.0	0.0
Affin/Consensus (x)			1.0	1.1	1.1

Source: Company, Affin Hwang forecasts, Bloomberg

Affin Hwang Investment Bank Bhd (14389-U)
(Formerly known as HwangDBS Investment Bank Bhd)

Results Note

Sunway Construction

SCGB MK
Sector: Construction

RM1.53 @ 26 May 2016

BUY (maintain)

Upside 24%

Price Target: RM1.98

Previous Target: RM1.98



Price Performance

	1M	3M	12M
Absolute	-2.5%	+9.3%	N/A
Rel to KLCI	+1.1%	+11.5%	N/A

Stock Data

Issued shares (m)	1,292.9
Mkt cap (RMm)/(US\$m)	1978.1/485.7
Avg daily vol - 6mth (m)	3.2
52-wk range (RM)	0.98-1.72
Est free float	37.9%
BV per share (RM)	0.35
P/BV (x)	4.39
Net cash/ (debt) (RMm) (1Q16)	297.9
ROE (2016F)	29.1%
Derivatives	Nil
Shariah Compliant	Yes

Key Shareholder

Sunway Bhd	54.4%
Sungei Way Corp	7.0%
Norges Bank	1.8%
Amanah Mutual Bh	1.0%

Source: Affin Hwang, Bloomberg

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Fig 1: Result comparison

FYE 31 Dec (RMm)	1Q16	% QoQ	% YoY	1Q16 Comment
Revenue	424.4	(9.8)	(14.5)	Lower construction and precast concrete revenue as new projects have not contributed significantly while some ongoing projects are at the tail end.
Op costs	(379.9)	(10.8)	(14.5)	
EBITDA	44.5	0.0	(14.2)	
<i>EBITDA margin (%)</i>	10.5	1.0 ppt	0.0 ppt	Higher construction margin but lower precast concrete margin (normalization).
Depn and amort	(9.8)	(26.1)	(1.0)	
EBIT	34.6	11.2	(17.3)	
Interest income	2.8	20.1	91.1	
Interest expense	(0.7)	33.3	(32.2)	
Associates	0.0	0.0	0.0	
Forex gain (losses)	0.2	NA	NA	
Exceptional items	0.5	NA	NA	
Pretax profit	37.5	27.6	(5.3)	Higher QoQ due to higher construction earnings but partly offset by lower precast concrete earnings. But slightly lower YoY as the drop in precast concrete earnings was not sufficiently offset by higher construction earnings.
Core pretax	36.8	11.5	(13.1)	
Tax	(8.5)	774.6	61.8	
<i>Tax rate (%)</i>	22.6	19.3 ppt	9.4 ppt	
Minority interests	(0.0)	(98.3)	0.0	
Net profit	29.0	5.9	(15.5)	Below expectation. But we expect better 2H16.
Core net profit	28.3	(8.7)	(23.7)	
EPS (sen)	2.3	(0.9)	(15.4)	

Source: Company

Fig 2: Segmental PBT breakdown

FYE 31 Dec (RMm)	1Q15	2Q15	3Q15	4Q15	1Q16	% QoQ	% YoY
Construction	17.6	27.3	9.6	9.4	26.0	177.9	48.0
Precast concrete	22.0	14.3	20.6	20.0	11.5	(42.5)	(47.7)
Total	39.6	41.6	30.1	29.4	37.5	27.6	(5.3)

Source: Company

Fig 3: Segmental PBT breakdown

FYE 31 Dec (%)	1Q15	2Q15	3Q15	4Q15	1Q16	ppt QoQ	ppt YoY
Construction	4.2	6.3	2.4	2.2	7.0	4.7	2.8
Precast concrete	29.4	20.8	36.5	38.1	22.8	(15.3)	(6.6)
Total	8.0	8.3	6.7	6.3	8.8	2.6	0.9

Source: Company

Net cash remains high

Net cash remains high at RM0.23/share, which should support a high dividend payout. We believe net yield of 3.6% in FY16E is attractive.



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Fig 4: Order book as at 30 April 2015

Project	Contract value (RMm)	Outstanding value (RMm)
Infrastructure		
MRT Package V4 (Sec 17 to Semantan)	1,173	43
MRT Package V201 (Sg Buloh - Persiaran Dagang)	1,213	1,213
	2,386	1,256
Johor		
Coastal Highway Southern Link	170	66
	170	66
Others		
Putrajaya Parcel F	1,610	1,450
KLCC (NEC, Package 2 & 2a)	646	414
Others	92	33
	2,348	1,897
Internal		
Sunway Velocity 2 Mall & Link Bridge	370	92
Sunway Velocity Hotel & Office	93	69
Sunway Velocity Medical Centre	200	159
Sunway Geo Retail Shops & Flexi Suites	153	59
Sunway Medical Centre Phase 3 (Sub & Superstructure)	167	96
Sunway Medical Centre Phase 4 (2 Towers)	380	380
Sunway Iskandar - Citrine Swc Apt (Sub & Superstructure)	213	106
Sunway Geo Retail Shops & Flexi Suites Phase 2	244	207
Sunway Lenang Phase 1A	96	30
Sunway Iskandar - Emerald Residences	175	133
Others	124	51
	2215	1382
Singapore		
Precast	844	416
Grand total	7,963	5,017

Source: Company

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Fig 5: New contracts secured year-to-date

Project	Contract value (RMm)
MRT Package V201 (Sg Buloh to Persiaran Dagang)	1,213
Velocity Link Bridge	20
MRT Spurline (piling)	12
Casa Kiara 3 (piling)	19
Sunway Medical Centre Phase 4 (2 Towers)	380
Sunway Velocity Medical Centre	200
Sunway Velocity Hotel & Office	93
Precast concrete in Singapore	58
Total	1,995

Source: Company

Fig 6: 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)		254
RNAV		2,844
No. of shares (m shrs)		1,293
RNAV/share (RM)		2.20
Target price at 10% discount to RNAV/share		1.98

Source: Company, Affin Hwang

Equity Rating Structure and Definitions

BUY	Total return is expected to exceed +10% over a 12-month period
HOLD	Total return is expected to be between -5% and +10% over a 12-month period
SELL	Total return is expected to be below -5% over a 12-month period
NOT RATED	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.

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