



SUNWAY CONSTRUCTION

(SCGB MK EQUITY, SCOG.KL)

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Company report

Joshua Ng

ng-chin-yuing@ambankgroup.com

03-2036 2293

FY18 net profit grows 9% YoY

UNDERWEIGHT

(Maintained)

Rationale for report: Company results

Price	RM1.73
Fair Value	RM1.11
52-week High/Low	RM2.46/RM1.30

Key Changes

Fair value	⬇️
EPS	⬇️

YE to Dec	FY18	FY19F	FY20F	FY21F
Revenue (RM mil)	2,256.8	2,176.8	2,164.0	2,149.6
Core net profit (RM mil)	144.7	143.0	149.6	152.1
FD Core EPS (sen)	11.2	11.1	11.6	11.8
FD Core EPS growth (%)	9.4	(1.1)	4.6	1.6
Consensus Net Profit (RM mil)	-	156.5	161.9	-
DPS (sen)	7.0	7.0	7.0	7.0
PE (x)	15.5	15.6	14.9	14.7
EV/EBITDA (x)	8.7	8.8	8.3	8.0
Div yield (%)	4.0	4.0	4.0	4.0
ROE (%)	25.5	23.7	23.6	22.7
Net Gearing (%)	nm	nm	nm	nm

Stock and Financial Data

Shares Outstanding (million)	1,292.9
Market Cap (RMmil)	2,236.7
Book Value (RM/share)	0.46
P/BV (x)	3.8
ROE (%)	25.5
Net Gearing (%)	-

Major Shareholders	Sunway Bhd & Cheah family (65.1%) EPF (7.5%)
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Free Float	27.4
Avg Daily Value (RMmil)	1.4

Price performance	3mth	6mth	12mth
Absolute (%)	14.6	(8.0)	(27.9)
Relative (%)	12.7	(3.5)	(22.2)



Investment Highlights

- We cut our FY19–20F net profit forecasts by 13% and 17% respectively, reduced our FV by 13% to RM1.11 (from RM1.27) and maintain our UNDERWEIGHT call. Our new FV is based on 10x revised FY19 EPS, in line with our benchmark forward P/E of 10x for large- and mid-cap construction stocks.
- Sunway Construction's FY18 net profit came in within our forecast and market expectations. Its FY18 net profit grew 9% YoY driven by higher construction profits (arising from the Parcel F building job in Putrajaya, Package V201 of MRT2 and International School of Kuala Lumpur building contract in Ampang), partially offset by lower precast profits (due to the completion of several projects coupled with higher rebar prices).
- Sunway Construction reiterated its guidance for order book replenishment in FY19F of RM1.5bil (including new pre-cast product orders). So far in FY19F, it has secured a sizeable building job, i.e. Tenaga HQ campus worth RM781mil. In FY18, its construction job wins and new pre-cast product orders stood at RM1.32bil and RM229mil respectively.
- The earnings downgrade is to reflect slower progress billings for the LRT3 project, coupled with the reduction in our assumption for construction job wins to RM1.3bil annually in FY19–21F (from RM1.5bil) to bring ourselves more in line with the company's guidance. Our forecasts also assume new pre-cast product orders of RM200mil annually in FY19-21F.
- At present, Sunway Construction's outstanding construction and pre-cast product order books stand at RM5.7bil (Exhibit 2) and RM286mil respectively.
- We hold the view that the current slowdown in the local construction industry sector is no ordinary sector cyclical downturn, but a secular change to the sector's fundamentals, triggered by: (1) a major cutback in public infrastructure spending over the medium term as the government adheres to fiscal prudence; and (2) the permanent reduction in overall margins for players in the absence of high-margin directly-negotiated government jobs, as the government observes higher standards of transparency and accountability in public procurement.

- We believe Sunway Construction is mitigated by its proven ability to compete under an open bidding system, coupled with the availability of building jobs from its parent and sister companies under the Sunway group. However, valuations are unattractive at 15–16x forward earnings on muted sector prospects.

EXHIBIT 1: RESULTS SUMMARY

YE Dec (RM mil)	FY18 1Q	FY18 2Q	FY18 3Q	FY18 4Q	QoQ Chg	FY17 12M	FY18 12M	YoY Chg
Turnover	529.2	544.3	557.3	626.0	12%	2,076.3	2,256.8	9%
Construction	492.1	511.6	524.1	595.4	14%	1,931.4	2,123.2	10%
Precast concrete	37.1	32.6	33.3	30.6	-8%	144.9	133.7	-8%
EBIT	42.7	42.0	44.8	45.1	1%	159.1	174.6	10%
Construction	39.2	39.7	46.7	47.9	3%	131.7	173.5	32%
Precast concrete	3.6	2.3	(1.9)	(2.8)	49%	27.4	1.1	-96%
Net inc/(exp)	1.0	3.2	2.1	2.2	3%	9.5	8.5	-11%
Associates	0.0	0.0	0.0	0.0	nm	0.0	0.0	nm
EI	0.0	0.0	0.0	0.0	nm	0.0	0.0	nm
Pre-tax profit	43.7	45.2	46.9	47.3	1%	168.7	183.1	9%
Taxation	(7.9)	(9.3)	(10.4)	(10.4)	0%	(36.2)	(38.0)	5%
Minority interest	0.0	(0.0)	(0.1)	(0.3)	nm	(0.1)	(0.3)	nm
Net profit	35.9	35.9	36.4	36.6	0%	132.3	144.7	9%
EPS (sen)	2.8	2.8	2.8	2.8	0%	10.2	11.2	9%
EBIT margin	8%	8%	8%	7%	(1%)	8%	8%	0%
Pre-tax margin	8%	8%	8%	8%	(1%)	8%	8%	(0%)
Effective tax rate	18%	21%	22%	22%	(0%)	21%	21%	(1%)

Source: Company, AmInvestment Bank Bhd

*Before restatement

EXHIBIT 2: OUTSTANDING ORDER BOOK

Project	Outstanding	Value (RMmil)
GS07 & GS08, LRT3		1,969
Internal building jobs		1,971
Sunway Medical Centre (SMC) 4	439	
Sunway Serene	339	
Sunway Velocity Two	352	
Carnival Mall extension	256	
Sunway GeoLake	177	
SMC Seberang Jaya	167	
Big Box, Iskandar	74	
3C4	99	
Others	68	
TNB HQ campus, KL		781
V201, MRT2		459
Parcel F, Putrajaya		170
PPA1M, Kota Bharu		180
Nippon Express		48
Others		137
Total		5,715

Source: Company, AmInvestment Bank Bhd

EXHIBIT 3: PB BAND CHART

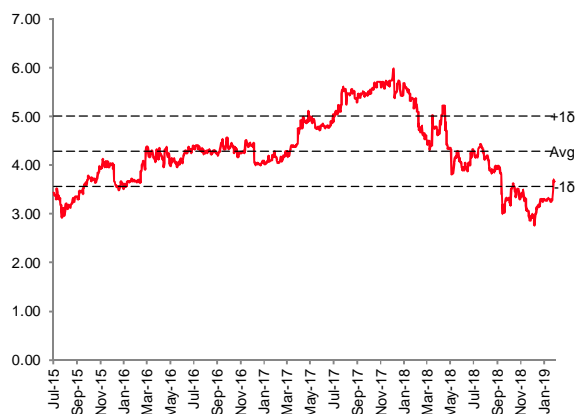


EXHIBIT 4: PE BAND CHART



EXHIBIT 5: FINANCIAL DATA

Income Statement (RMmil, YE 31 Dec)	FY17	FY18	FY19F	FY20F	FY21F
Revenue	2,076.3	2,256.8	2,176.8	2,164.0	2,149.6
EBITDA	196.9	214.6	215.4	229.3	237.7
Depreciation/Amortisation	(37.8)	(40.0)	(47.2)	(52.2)	(57.2)
Operating income (EBIT)	159.1	174.6	168.2	177.1	180.4
Other income & associates	2.2	0.7	-	-	-
Net interest	7.4	7.7	10.7	10.1	9.8
Exceptional items	-	-	-	-	-
Pretax profit	168.7	183.1	179.0	187.2	190.3
Taxation	(36.2)	(38.0)	(35.8)	(37.4)	(38.1)
Minorities/pref dividends	(0.1)	(0.3)	(0.1)	(0.1)	(0.1)
Net profit	132.3	144.7	143.0	149.6	152.1
Core net profit	132.3	144.7	143.0	149.6	152.1
Balance Sheet (RMmil, YE 31 Dec)	FY17	FY18	FY19F	FY20F	FY21F
Fixed assets	152.1	163.7	216.5	264.3	307.1
Intangible assets	3.6	3.6	3.6	3.6	3.6
Other long-term assets	2.6	48.0	48.0	48.0	48.0
Total non-current assets	158.3	215.3	268.1	315.9	358.7
Cash & equivalent	487.2	484.9	458.9	444.5	437.6
Stock	-	-	-	-	-
Trade debtors	1,184.4	1,059.5	1,059.5	1,059.5	1,059.5
Other current assets	46.4	52.8	52.8	52.8	52.8
Total current assets	1,718.0	1,597.2	1,571.2	1,556.8	1,549.9
Trade creditors	1,185.1	994.8	994.8	994.8	994.8
Short-term borrowings	134.7	113.6	113.6	113.6	113.6
Other current liabilities	5.2	14.1	14.1	14.1	14.1
Total current liabilities	1,324.9	1,122.6	1,122.6	1,122.6	1,122.6
Long-term borrowings	-	-	-	-	-
Other long-term liabilities	7.0	0.6	0.6	0.6	0.6
Total long-term liabilities	7.0	0.6	0.6	0.6	0.6
Shareholders' funds	542.9	591.1	617.8	651.0	686.7
Minority interests	1.1	1.4	1.6	1.7	1.9
BV/share (RM)	0.42	0.46	0.48	0.50	0.53
Cash Flow (RMmil, YE 31 Dec)	FY17	FY18	FY19F	FY20F	FY21F
Pretax profit	168.7	183.1	179.0	187.2	190.3
Depreciation/Amortisation	37.8	40.0	47.2	52.2	57.2
Net change in working capital	(112.1)	(10.5)	-	-	-
Others	(208.7)	(22.7)	(46.5)	(47.6)	(47.9)
Cash flow from operations	(114.4)	189.8	179.6	191.8	199.6
Capital expenditure	(54.7)	(100.3)	(100.0)	(100.0)	(100.0)
Net investments & sale of fixed assets	6.2	1.4	-	-	-
Others	83.3	25.1	-	-	-
Cash flow from investing	34.9	(73.8)	(100.0)	(100.0)	(100.0)
Debt raised/(repaid)	-	(21.1)	-	-	-
Equity raised/(repaid)	-	-	-	-	-
Dividends paid	(68.5)	(96.9)	(116.4)	(116.4)	(116.4)
Others	(5.5)	-	10.7	10.1	9.8
Cash flow from financing	(73.9)	(118.0)	(105.6)	(106.2)	(106.5)
Net cash flow	(153.5)	(2.0)	(26.0)	(14.4)	(6.9)
Net cash/(debt) b/f	465.3	487.6	488.4	462.4	448.0
Net cash/(debt) c/f	310.4	485.6	462.4	448.0	441.1
Key Ratios (YE 31 Dec)	FY17	FY18	FY19F	FY20F	FY21F
Revenue growth (%)	16.1	8.7	(3.5)	(0.6)	(0.7)
EBITDA growth (%)	16.2	9.0	0.4	6.4	3.7
Pretax margin (%)	8.1	8.1	8.2	8.7	8.9
Net profit margin (%)	6.4	6.4	6.6	6.9	7.1
Interest cover (x)	nm	nm	nm	nm	nm
Effective tax rate (%)	21.5	20.8	20.0	20.0	20.0
Dividend payout (%)	40.0	50.0	50.0	50.0	50.0
Debtors turnover (days)	208	171	178	179	180
Stock turnover (days)	-	-	-	-	-
Creditors turnover (days)	250	198	214	216	218

Source: Company, AmInvestment Bank Bhd estimates

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