



AmInvestment Bank

SUNWAY CONSTRUCTION

(SCGB MK EQUITY, SCOG.KL)

25 Aug 2017

Company report

AmInvestment Bank

www.amesecurities.com.my

03-2036 2250

Rationale for report: Company results

HOLD

(Maintained)

Price RM2.32
Fair Value RM2.01
52-week High/Low RM2.41/RM1.56

Key Changes

Fair value ⇄
EPS ⇄

YE to Dec	FY16	FY17F	FY18F	FY19F
Revenue (RM mil)	1,788.8	1,935.8	2,403.9	2,577.4
Core net profit (RM mil)	123.5	138.9	172.9	189.3
FD Core EPS (sen)	9.6	10.7	13.4	14.6
FD Core EPS growth (%)	(2.9)	12.5	24.5	9.5
Consensus Net Profit (RM mil)	-	154.4	169.2	172.6
DPS (sen)	6.5	7.0	8.0	9.0
PE (x)	24.3	21.6	17.3	15.8
EV/EBITDA (x)	14.3	12.6	9.9	8.8
Div yield (%)	3.2	3.5	4.0	4.5
ROE (%)	26.2	26.3	28.2	26.5
Net Gearing (%)	nm	nm	nm	nm

Stock and Financial Data

Shares Outstanding (million)	1,292.9
Market Cap (RMmil)	2,999.5
Book Value (RM/share)	0.38
P/BV (x)	6.1
ROE (%)	26.2
Net Gearing (%)	-
Major Shareholders	Sunway Holdings (54.4%) Sungei Way Corp (10.0%) True Paragon (3.9%)
Free Float	347.7
Avg Daily Value (RMmil)	3.0

Price performance	3mth	6mth	12mth
Absolute (%)	12.1	32.6	41.5
Relative (%)	11.8	26.8	34.0

Investment Highlights

- We maintain our HOLD call, forecasts and FV of RM2.01 for Sunway Construction (SunCon) based on 15x FY18F EPS, in line with our benchmark forward PE of 14-16x for large-cap listed construction companies.
- SunCon 1HFY17 net profit came in within expectations at 51% and 46% of our and consensus full-year forecasts respectively.
- 2QFY17 PBT rose 12% YoY to RM43mil from RM38mil, while 1HFY17 PBT increased 15% YoY to RM87mil. The higher profits were mainly driven by improved construction margins in its overall projects. Additionally, there was a reversal of doubtful debt recognised in 2QFY17.
- These were partially offset by weaker performance from the precast segment largely due to slow offtakes from key customers (which are only expected to pick up from FY18F). Nonetheless, precast margins stabilised. The precast margins were hurt by one-off costs related to the closure of the Tampines plant previously.
- We continue to like SunCon for: 1) its strong outstanding order book of RM4.3bil (including RM1bil worth secured YTD), which will keep it busy for the next 2-3 years; 2) its strong prospects for new job wins underpinned by various mega infrastructure projects, particularly the rail-related ones, in the market; and 3) its proven track record with various blue-chip clients in the market.

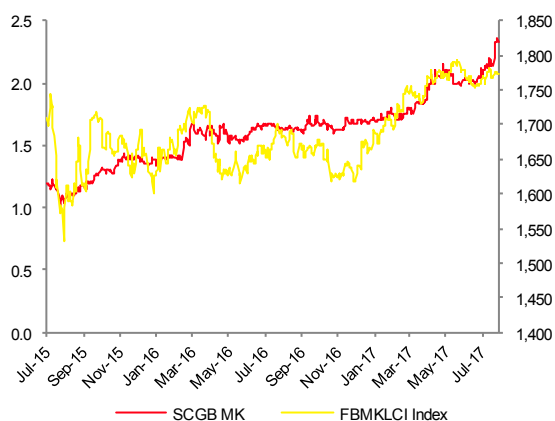


EXHIBIT 1: RESULT SUMMARY

YE Dec (RMmil)	FY17 1Q	FY17 2Q	QoQ Chg	FY16 6M	FY17 6M	YoY Chg
Net Revenue	419.5	417.2	(1%)	854.6	836.8	(2%)
Construction	350.7	387.1	10%	734.3	737.9	0%
Precast	68.8	30.1	(56%)	120.3	98.9	(18%)
Interest Income/ (Expense)	2.1	1.0	(51%)	2.6	3.2	19%
PBT	44.2	42.8	(3%)	75.6	86.9	15%
Construction	28.4	36.4	28%	47.2	64.8	37%
Precast	15.8	6.3	(60%)	28.4	22.1	(22%)
Taxation	(9.5)	(6.1)	36%	(15.3)	(15.6)	(2%)
Minority Interest	(0.0)	(0.1)	(400%)	0.0	(0.1)	(273%)
Net profit	34.7	36.8	6%	60.3	71.4	18%
Basic/Diluted EPS (sen)	2.7	2.8	(6%)	4.7	5.5	18%
Pretax margin	11%	10%	(3%)	9%	10%	17%
Effective tax rate	22%	14%	(34%)	20%	18%	(11%)

Source: AmlInvestment Bank Bhd, Company

EXHIBIT 2: FINANCIAL DATA

Income Statement (RMmil, YE 31 Dec)	FY15	FY16	FY17F	FY18F	FY19F
Revenue	1,916.9	1,788.8	1,935.8	2,403.9	2,577.4
EBITDA	175.6	186.4	207.1	255.0	276.1
Depreciation/Amortisation	(39.3)	(37.1)	(37.2)	(42.2)	(47.2)
Operating income (EBIT)	136.3	149.2	169.9	212.8	228.9
Other income & associates	-	-	-	-	-
Net interest	4.5	4.4	13.0	14.9	20.4
Exceptional items	-	-	-	-	-
Pretax profit	140.8	153.7	183.0	227.7	249.3
Taxation	(13.0)	(30.0)	(43.9)	(54.6)	(59.8)
Minorities/pref dividends	(0.6)	(0.1)	(0.1)	(0.2)	(0.2)
Net profit	127.2	123.5	138.9	172.9	189.3
Core net profit	127.2	123.5	138.9	172.9	189.3
Balance Sheet (RMmil, YE 31 Dec)	FY15	FY16	FY17F	FY18F	FY19F
Fixed assets	162.5	140.7	153.5	161.3	164.1
Intangible assets	3.6	3.6	3.6	3.6	3.6
Other long-term assets	14.0	10.8	10.8	10.8	10.8
Total non-current assets	180.2	155.1	167.9	175.7	178.5
Cash & equivalent	390.5	465.8	522.2	616.5	712.6
Stock	-	-	-	-	-
Trade debtors	626.5	763.9	763.9	763.9	763.9
Other current assets	200.2	212.5	212.5	212.5	212.5
Total current assets	1,217.2	1,442.2	1,498.6	1,592.9	1,689.1
Trade creditors	795.6	955.0	955.0	955.0	955.0
Short-term borrowings	136.8	136.5	136.5	136.5	136.5
Other current liabilities	9.3	11.4	11.4	11.4	11.4
Total current liabilities	941.7	1,102.9	1,102.9	1,102.9	1,102.9
Long-term borrowings	-	-	-	-	-
Other long-term liabilities	4.1	0.6	0.6	0.6	0.6
Total long-term liabilities	4.1	0.6	0.6	0.6	0.6
Shareholders' funds	451.0	493.0	562.1	664.0	762.8
Minority interests	0.6	0.8	0.9	1.1	1.2
BV/share (RM)	0.35	0.38	0.43	0.51	0.59
Cash Flow (RMmil, YE 31 Dec)	FY15	FY16	FY17F	FY18F	FY19F
Pretax profit	140.8	153.7	183.0	227.7	249.3
Depreciation/Amortisation	39.3	37.1	37.2	42.2	47.2
Net change in working capital	-	(58.7)	-	-	-
Others	(4.5)	(46.5)	(56.9)	(69.6)	(80.3)
Cash flow from operations	175.6	85.6	163.2	200.4	216.3
Capital expenditure	-	(19.0)	(50.0)	(50.0)	(50.0)
Net investments & sale of fixed assets	-	2.1	-	-	-
Others	-	89.6	19.1	21.0	26.5
Cash flow from investing	-	72.7	(30.9)	(29.0)	(23.5)
Debt raised/(repaid)	-	(0.3)	-	-	-
Equity raised/(repaid)	-	-	-	-	-
Dividends paid	-	(84.0)	(69.8)	(71.0)	(90.6)
Others	-	-	(6.1)	(6.1)	(6.1)
Cash flow from financing	-	(84.4)	(75.9)	(77.1)	(96.6)
Net cash flow	175.6	73.9	56.5	94.3	96.2
Net cash/(debt) b/f	-	-	60.7	117.2	211.4
Net cash/(debt) c/f	175.6	60.7	117.2	211.4	307.6
Key Ratios (YE 31 Dec)	FY15	FY16	FY17F	FY18F	FY19F
Revenue growth (%)	-	(6.7)	8.2	24.2	7.2
EBITDA growth (%)	-	6.2	11.1	23.1	8.3
Pretax margin (%)	7.3	8.6	9.5	9.5	9.7
Net profit margin (%)	6.6	6.9	7.2	7.2	7.3
Interest cover (x)	nm	nm	nm	nm	nm
Effective tax rate (%)	9.2	19.5	24.0	24.0	24.0
Dividend payout (%)	-	68.0	40.0	50.0	50.0
Debtors turnover (days)	119	156	144	116	108
Stock turnover (days)	-	-	-	-	-
Creditors turnover (days)	195	254	217	178	173

Source: Company, AmlInvestment Bank Bhd estimates

EXHIBIT 3: PB BAND CHART

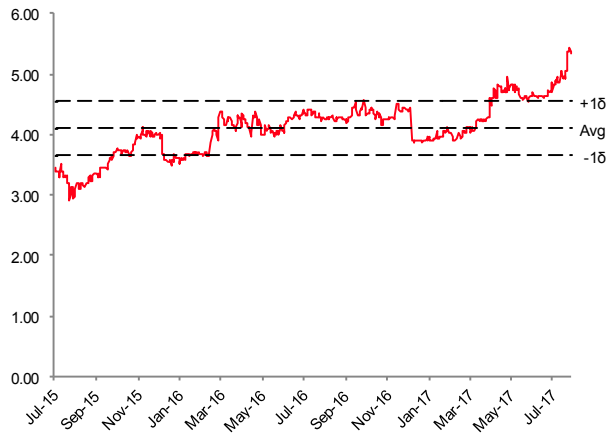
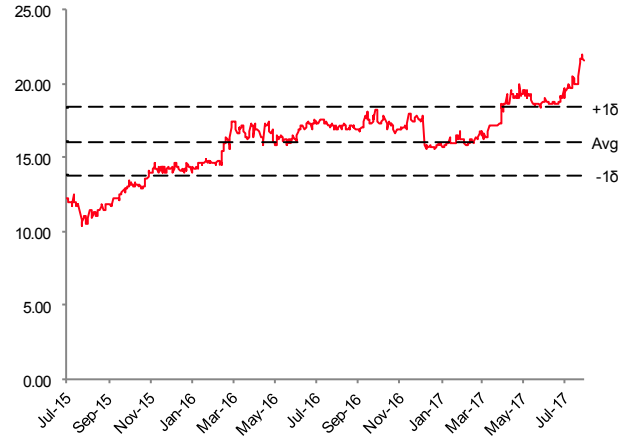


EXHIBIT 4: PE BAND CHART



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