



Outthink. Outperform.

Stronger earnings, but still short

Sunway Construction's (Suncon) 1H18 result was below market and our expectations. 1H18 core net profit grew by 14% yoy to RM69m driven by higher construction earnings, partially offset by weaker precast earnings. We cut our FY18E earnings by 6%, imputing lower precast earnings due to the weak 1H18 results and slower-than-expected pickup in business activities. Overall, Suncon's earnings visibility remains good - its order book of RM5.8bn is equivalent to 2.7x FY17 revenue. Maintain BUY with an unchanged TP of RM2.45 based on a 10% discount to RNAV.

1H18 core net profit grew by 14%, a tad below expectations

Suncon's 1H18 revenue jumped by 28% yoy to RM1.1bn, driven by higher construction segment revenue (+36% yoy) due to higher work progress at key projects sites. However, 1H18 precast revenue fell by -29% yoy following the completion of several projects in the prior quarters. Suncon's 1H18 core net profit of RM69m (+14% yoy) accounted for 40%-41% of street and our full year earnings estimates, which was below expectations. The earnings miss was mainly due to weaker than expected precast concrete earnings. Suncon declared a 3.5 sen DPS in 1H18 (1H17: 3 sen).

Core net profit up by 5% qoq

Sequentially, 2Q18 revenue was up 3% qoq to RM544m on the back of higher revenue from construction segment (+4% qoq) which more than offset weaker precast revenue (-12% qoq). The higher 2Q18 revenue translated to a higher EBITDA of RM52m (+3% qoq) and higher core net profit of RM35m (+5% qoq).

Large orderbook provide good earnings visibility

Suncon has won RM312m worth of new contracts in 2Q18 / RM854m in 1H18. Its outstanding order book of RM5.8bn is equivalent to 2.7x FY17 revenue, providing good earnings visibility. We maintain our new order book target of RM1.5bn in FY18.

Cutting FY18E earnings, maintain BUY

We cut our FY18E earnings by 6% to reflect the weak 1H18 precast concrete earnings and soft immediate market outlook. Nonetheless, we maintain our BUY call with an unchanged TP of RM2.45, based on a 10% discount to RNAV. We believe that Suncon is in a good position to weather the expected slowdown in the construction sector given its large orderbook and high net cash of RM457m or RM0.35/share.

Earnings & Valuation Summary

FYE 31 Dec	2016	2017	2018E	2019E	2020E
Revenue (RMm)	1,788.8	2,076.3	2,347.8	2,766.0	2,820.3
EBITDA (RMm)	184.1	200.0	241.5	276.2	282.8
Pretax profit (RMm)	153.7	174.2	212.2	246.3	254.1
Net profit (RMm)	123.5	137.8	161.1	187.0	193.0
EPS (sen)	9.6	10.7	12.5	14.5	14.9
PER (x)	21.1	18.9	16.2	14.0	13.5
Core net profit (RMm)	119.0	135.4	161.1	187.0	193.0
Core EPS (sen)	9.2	10.5	12.5	14.5	14.9
Core EPS growth (%)	(12.7)	13.9	19.0	16.1	3.2
Core PER (x)	22.0	19.3	16.2	14.0	13.5
Net DPS (sen)	5.0	7.0	7.0	7.0	8.0
Dividend Yield (%)	2.5	3.5	3.5	3.5	4.0
EV/EBITDA (x)	12.4	11.3	9.2	7.9	7.1
Chg in EPS (%)			(6.3)	(0.2)	(0.1)
Affin/Consensus (x)			1.0	1.0	1.0

Source: Company, Affin Hwang forecasts, Bloomberg
Affin Hwang Investment Bank Bhd (14389-U)

Results Note

Sunway Construction

SCGB MK
Sector: Construction

RM2.02 @ 16 August 2018

BUY (maintain)

Upside 21%

Price Target: RM2.45

Previous Target: RM2.45



Price Performance

	1M	3M	12M
Absolute	9.2%	-6.0%	-8.2%
Rel to KLCI	6.1%	-1.8%	-8.4%

Stock Data

Issued shares (m)	1,292.2
Mkt cap (RMm)/(US\$m)	2610.3/636.2
Avg daily vol - 6mth (m)	1.5
52-wk range (RM)	1.72-2.64
Est free float	27.4%
BV per share (RM)	0.44
P/BV (x)	4.6
Net cash/ (debt) (RMm) (2Q18)	457.1
ROE (2018E)	30.3%
Derivatives	Nil
Shariah Compliant	Yes

Key Shareholder

Sunway Bhd	54.4%
Sungei Way Corp	10.1%
EPF	7.3%
ASB	2.2%

Source: Affin Hwang, Bloomberg

Loong Chee Wei CFA
(603) 2146 7548
cheewei.loong@affinhwang.com

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Key risks

Key downside risks are: (i) delays in the implementation of public infrastructure projects due to the new government's plan to review major projects; and (ii) cost overruns due to high steel bar prices.

Fig 1: Results comparison

FYE 31 Dec (RMm)	2Q FY17	1Q FY18	2Q FY18	QoQ % chg	YoY % chg	1H17	1H18	% yoy	Comment
Revenue	417.2	529.2	544.3	2.8	30.4	836.8	1,073.5	28.3	Higher construction revenue (+36% yoy) was partly offset by lower precast concrete revenue (-29% yoy) in 1H18.
Op costs	(373.1)	(479.2)	(492.7)	2.8	32.0	(746.1)	(971.8)	30.3	Higher steel cost.
EBITDA	44.1	50.1	51.6	3.1	17.1	90.7	101.7	12.1	Slower EBITDA growth due to stronger cost increase compared to revenue growth.
<i>EBITDA margin (%)</i>	<i>10.6</i>	<i>9.5</i>	<i>9.5</i>	<i>0.0ppt</i>	<i>(1.1ppt)</i>	<i>10.8</i>	<i>9.5</i>	<i>(1.4ppt)</i>	
Depn and amort	(9.1)	(9.7)	(10.2)	5.4	11.9	(18.3)	(19.9)	9.1	
EBIT	34.9	40.4	41.4	2.5	18.4	72.4	81.7	12.9	
Interest income	2.3	3.8	4.9	27.8	109.9	5.5	8.6	57.2	Higher net cash.
Interest expense	(1.3)	(2.8)	(1.7)	(40.1)	33.7	(2.3)	(4.5)	93.0	
Associates	0.0	0.0	0.0	NA	NA	0.0	0.0	NA	
Forex gain (losses)	0.1	(0.3)	(0.1)	(64.7)	n.m	0.8	(0.5)	NA	
Exceptional items	5.8	2.7	0.8	(72.2)	(87.0)	8.9	3.5	(60.8)	Arbitration gain for the past completed project in Trinidad & Tobago and gain on sale of equipment.
Pretax profit	41.9	43.7	45.2	3.3	7.8	85.2	88.9	4.3	Below expectations. Contraction in precast concrete PBT (-74% yoy) was partly offset by higher construction PBT (+32% yoy).
Core pretax	36.0	41.3	44.5	7.8	23.8	75.6	85.9	13.6	
Tax	(6.1)	(7.9)	(9.3)	17.9	53.0	(15.6)	(17.2)	10.2	
<i>Tax rate (%)</i>	<i>14.5</i>	<i>18.0</i>	<i>20.6</i>	<i>2.5ppt</i>	<i>6.1ppt</i>	<i>18.3</i>	<i>19.3</i>	<i>1.0ppt</i>	
Minority interests	0.1	0.0	(0.0)	n.m	n.m	0.1	0.0	(92.3)	
Net profit	35.9	35.9	35.9	0.0	(0.1)	69.7	71.7	2.9	Below expectations.
Core net profit	30.0	33.5	35.2	5.2	17.5	60.1	68.7	14.4	Excluding one-off items.
EPS (sen)	2.8	2.8	2.8	0.4	0.0	5.4	5.6	3.0	

Source: Company, Affin Hwang estimates

Fig 2: Segmental PBT breakdown

Segment	1Q17	2Q17	3Q17	4Q17	1Q18	2Q18	% qoq	% yoy	1H17	1H18	% yoy
Construction	28.4	34.7	42.4	41.2	40.1	42.9	6.9	23.5	63.1	83.0	31.6
Precast concrete	15.8	6.3	2.8	2.6	3.6	2.3	(36.5)	(64.2)	22.1	5.8	(73.6)
Total	44.2	41.1	45.2	43.7	43.7	45.2	3.3	10.0	85.2	88.9	4.3

Source: Company, Affin Hwang estimates

Fig 3: Segmental PBT margin

FYE 31 Dec (%)	1Q17	2Q17	3Q17	4Q17	1Q18	2Q18	ppt qoq	ppt yoy	1H17	1H18	ppt yoy
Construction	8.1	9.0	9.0	5.7	8.2	8.4	0.2	(0.6)	8.6	8.3	(0.3)
Precast concrete	23.0	21.0	14.3	9.8	9.6	7.0	(2.7)	(14.1)	22.4	8.4	(14.0)
Total	10.5	9.8	9.2	5.8	8.3	8.3	0.0	(1.5)	10.2	8.3	(1.9)

Source: Company, Affin Hwang estimates

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Fig 4: RNAV and target price

Segments	Stake (%)	New RNAV (RMm)
Construction @ PE 16x avg earnings of RM158m	100	2,528
Pre-cast concrete @ PE 16x avg earnings of RM40m	100	640
Net cash/(debt)		353
RNAV		3,521
No. of shares (m shrs)		1,293
RNAV/share (RM)		2.72
Target price at 10% discount to RNAV/share		2.45

Source: Affin Hwang estimates

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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 Affin Hwang Investment Bank Berhad (14389-U)
 A Participating Organisation of Bursa Malaysia Securities Berhad

22nd Floor, Menara Boustead,
 69, Jalan Raja Chulan,
 50200 Kuala Lumpur, Malaysia.

T : + 603 2142 3700
 F : + 603 2146 7630
 research@affinhwang.com

www.affinhwang.com