



Outthink. Outperform.

## Results Note

# Sunway Construction

SCGB MK  
Sector: Construction

RM2.46 @ 26 February 2018

HOLD (maintain)

Upside 0%

Price Target: RM2.45

Previous Target: RM2.45



## Price Performance

	1M	3M	12M
Absolute	-5.4%	+2.5%	+40.6%
Rel to KLCI	-5.7%	-5.4%	+28.3%

## Stock Data

Issued shares (m)	1,292.2
Mkt cap (RMm)/(US\$m)	3,178.9/813.9
Avg daily vol - 6mth (m)	1.7
52-wk range (RM)	1.7-2.64
Est free float	24.6%
BV per share (RM)	0.43
P/BV (x)	5.7
Net cash/ (debt) (RMm) (4Q17)	352.6
ROE (2018E)	29.5%
Derivatives	Nil
Shariah Compliant	Yes

## Key Shareholder

Sunway Bhd	54.4%
Sungei Way Corp	10.1%
True Paragon Sdn Bhd	3.9%

Source: Affin Hwang, Bloomberg

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## Within expectations

Sunway Construction's (Suncon) 2017 result was within market and our expectations. Net profit rose 12% yoy to RM138m, mainly driven by higher construction earnings while precast concrete earnings declined. Its high order book of RM6.1bn and our expectation of RM2bn worth of new contracts will support core EPS growth of 31% yoy in 2018E. Maintain HOLD with 12M TP of 2.45.

### In line with expectations

2017 net profit of RM138m was in line with consensus forecast of RM137m and our estimate of RM144m. Revenue jumped 16% yoy to RM2.08bn in 2017, driven by higher construction revenue (+29% yoy), which was partly offset by lower precast concrete revenue (-50% yoy). Construction revenue growth was driven by higher work progress for its Parcel F, Putrajaya, and KVMRT V201 (Sg Buloh to Persiaran Dagang) projects and additional revenue from the finalisation of the completed KVMRT V4 package (Seksyen 16 to Semantan Portal). The completion of several projects and the delay in commencement of a project in Singapore led to the lower precast concrete revenue.

### Construction was key earnings driver

PBT grew 13% yoy, driven by higher construction PBT (+54% yoy) but was held back by lower precast concrete PBT (-53% yoy). As a result, construction PBT contribution increased to 84% of group PBT in 2017 from 62% of group PBT in FY16.

### Strong order book replenishment

Suncon achieved a record-high new contract procurement of RM4bn in 2017, replenishing its order book to RM6.1bn at end-2017. It is targeting new contracts of RM1.5-2.0bn in 2018. The largest project tender currently is for the KL-Singapore High Speed Rail Project Delivery Partner role for the Malaysian portion through the IJM Corp-Jalanan Rejang-Maltimur Resources-Suncon consortium. Suncon has clinched RM456m worth of new contracts YTD in 2018 from related companies in the Sunway group.

### Maintain HOLD

We reiterate our HOLD call with unchanged TP of RM2.45, based on 10% discount to RNAV. Suncon declared a 4 sen interim DPS, bringing total DPS to 7 sen in FY17. Dividend payout ratio rose to 66% in 2017 from 52% in 2016, supported by high net cash of RM353m or RM0.27/share.

### Earnings & Valuation Summary

FYE 31 Dec	2016	2017	2018E	2019E	2020E
Revenue (RMm)	1,788.8	2,076.3	2,542.8	2,984.9	3,020.7
EBITDA (RMm)	184.1	200.0	268.7	298.5	299.4
Pretax profit (RMm)	153.7	174.2	233.4	262.8	263.6
Net profit (RMm)	123.5	137.8	177.3	199.6	200.2
EPS (sen)	9.6	10.7	13.7	15.4	15.5
PER (x)	25.8	23.1	17.9	15.9	15.9
Core net profit (RMm)	119.0	135.4	177.3	199.6	200.2
Core EPS (sen)	9.2	10.5	13.7	15.4	15.5
Core EPS growth (%)	(12.7)	13.9	30.9	12.6	0.3
Core PER (x)	26.7	23.5	17.9	15.9	15.9
Net DPS (sen)	5.0	7.0	7.0	7.0	8.0
Dividend Yield (%)	2.0	2.8	2.8	2.8	3.3
EV/EBITDA (x)	15.5	14.1	11.9	9.1	10.3
Chg in EPS (%)			(1.3)	(0.5)	New
Affin/Consensus (x)			0.9	1.0	NA

Source: Company, Affin Hwang forecasts, Bloomberg

**Key risks**

Key downside risks are delays in implementation of public infrastructure projects and cost overruns. Key upside risk is higher-than-expected new contract awards in the current infrastructure boom.

**Fig 1: Results comparison**

FYE 31 Dec (RMm)	4Q17	% qoq	% yoy	2017	% yoy	4Q17 Comment
<b>Revenue</b>	<b>748.2</b>	<b>52.3</b>	<b>35.3</b>	<b>2,076.3</b>	<b>16.1</b>	Higher construction revenue (+29% yoy) partly offset by lower precast concrete revenue (-50% yoy) in FY17
Op costs	(700.6)	60.1	35.8	(1,876.3)	16.9	Higher steel cost at price increase to RM2,600/t from RM2,000/t.
<b>EBITDA</b>	<b>47.6</b>	<b>(11.7)</b>	<b>27.6</b>	<b>200.0</b>	<b>8.6</b>	Slower EBITDA growth due to stronger cost increase compared to revenue growth.
<i>EBITDA margin (%)</i>	<i>6.4</i>	<i>(4.6ppt)</i>	<i>(0.4ppt)</i>	<i>9.6</i>	<i>(0.7ppt)</i>	
Depn and amort	(9.8)	1.5	2.3	(37.8)	(3.3)	
<b>EBIT</b>	<b>37.8</b>	<b>(14.5)</b>	<b>36.3</b>	<b>162.2</b>	<b>11.8</b>	
Interest income	5.4	104.6	150.4	13.5	32.9	
Interest expense	(1.8)	(9.3)	15.4	(6.1)	0.5	
Associates	2.2	NA	NA	2.2	NA	
Forex gain (losses)	(0.7)	(1,622.2)	(368.6)	0.1	NA	
Exceptional items	1.4	NA	(85.0)	2.3	(49.5)	Arbitration gain for a completed Indian highway project and reversal of impairment on receivables.
<b>Pretax profit</b>	<b>44.2</b>	<b>2.6</b>	<b>17.3</b>	<b>174.2</b>	<b>13.3</b>	Within expectations. Contraction in precast concrete PBT (-53% yoy) partly offset the higher construction PBT (+54% yoy).
<b>Core pretax</b>	<b>43.5</b>	<b>(3.0)</b>	<b>53.7</b>	<b>171.8</b>	<b>15.2</b>	
Tax	(12.0)	40.2	113.1	(36.2)	20.6	
<i>Tax rate (%)</i>	<i>28.7</i>	<i>8.7ppt</i>	<i>13.6ppt</i>	<i>21.1</i>	<i>1.5ppt</i>	
Minority interests	(0.3)	(400.0)	(556.3)	(0.1)	10.4	
<b>Net profit</b>	<b>31.8</b>	<b>(8.0)</b>	<b>(0.8)</b>	<b>137.8</b>	<b>11.6</b>	Within expectations.
<b>Core net profit</b>	<b>31.1</b>	<b>(14.4)</b>	<b>37.0</b>	<b>135.4</b>	<b>13.8</b>	Excluding one-off items.
EPS (sen)	2.5	(8.2)	(0.8)	10.7	11.6	

Source: Company, Affin Hwang estimates

**Fig 2: Segmental PBT breakdown**

FYE 31 Dec (RMm)	4Q16	1Q17	2Q17	3Q17	4Q17	% qoq	% yoy	2016	2017	% yoy
Construction	20.3	28.4	36.4	40.7	41.2	1.1	102.8	95.4	146.7	53.7
Precast concrete	17.3	15.8	6.3	2.8	2.6	(7.3)	(85.1)	58.2	27.5	(52.8)
<b>Total</b>	<b>37.6</b>	<b>44.2</b>	<b>42.8</b>	<b>43.5</b>	<b>43.7</b>	<b>0.6</b>	<b>16.2</b>	<b>153.7</b>	<b>174.2</b>	<b>13.3</b>

Source: Company, Affin Hwang estimates

**Fig 3: Segmental PBT margin**

FYE 31 Dec (%)	4Q16	1Q17	2Q17	3Q17	4Q17	ppt qoq	ppt yoy	2016	2017	ppt yoy
Construction	4.4	8.1	9.4	8.6	5.7	(2.9)	1.4	6.4	7.6	1.2
Precast concrete	20.0	23.0	21.0	14.3	9.8	(4.5)	(10.2)	20.3	19.0	(1.3)
<b>Total</b>	<b>6.8</b>	<b>10.5</b>	<b>10.3</b>	<b>8.9</b>	<b>5.8</b>	<b>(3.0)</b>	<b>(1.0)</b>	<b>8.6</b>	<b>8.4</b>	<b>(0.2)</b>

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
<b>RNAV</b>		<b>3,521</b>
No. of shares (m shrs)		1,293
<b>RNAV/share (RM)</b>		<b>2.72</b>
<b>Target price at 10% discount to RNAV/share</b>		<b>2.45</b>

*Source: Company, Affin Hwang*

**Equity Rating Structure and Definitions**

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ETotal return is expected to exceed +10% over a 12-month period

FTotal return is expected to be between -5% and +10% over a 12-month period

STotal return is expected to be below -5% over a 12-month period

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*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.*

CIIndustry, as defined by the analyst's coverage universe, is expected to outperform the KLCI benchmark over the next 12 months

MIIndustry, as defined by the analyst's coverage universe, is expected to perform inline with the KLCI benchmark over the next 12 months

UIIndustry, 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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