



Company report

SUNWAY CONSTRUCTION

(SCGB MK EQUITY, SCOG.KL)

18 Sep 2018

Bracing for a lull period in local construction sector

UNDERWEIGHT

(Downgraded)

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Rationale for report: Company update

Price	RM1.79
Fair Value	RM1.53
52-week High/Low	RM2.64/RM1.69

Key Changes

Fair value	⬇️
EPS	⬇️

YE to Dec	FY17	FY18F	FY19F	FY20F
Revenue (RM mil)	2,076.3	2,736.8	2,403.8	2,855.7
Core net profit (RM mil)	137.8	149.1	164.3	179.2
FD Core EPS (sen)	10.7	11.5	12.7	13.9
FD Core EPS growth (%)	31.7	8.2	10.2	9.1
Consensus Net Profit (RM mil)	-	160.2	180.0	185.3
DPS (sen)	7.0	8.0	9.0	9.0
PE (x)	16.8	15.5	14.1	12.9
EV/EBITDA (x)	9.7	8.7	7.8	7.1
Div yield (%)	3.9	4.4	5.0	5.0
ROE (%)	26.3	25.9	26.4	26.4
Net Gearing (%)	nm	nm	nm	nm

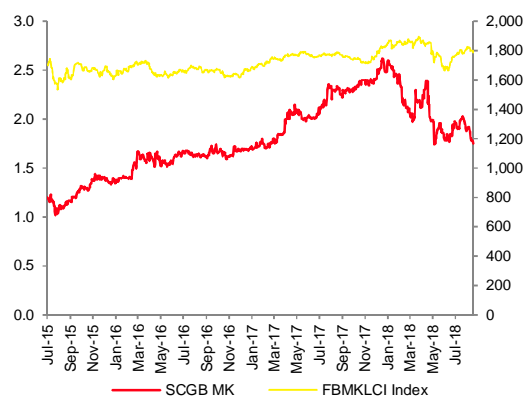
Stock and Financial Data

Shares Outstanding (million)	1,292.9
Market Cap (RMmil)	2,314.3
Book Value (RM/share)	0.43
P/BV (x)	4.2
ROE (%)	26.3
Net Gearing (%)	-

Major Shareholders	Sunway Holdings (54.4%) Sungei Way Corp (10.0%) True Paragon (3.9%)
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Free Float	347.7
Avg Daily Value (RMmil)	2.1

Price performance	3mth	6mth	12mth
Absolute (%)	(8.2)	(16.7)	(22.5)
Relative (%)	(9.7)	(13.4)	(22.8)



Investment Highlights

- We cut our FY18-20F earnings forecasts by 25%, 30% and 25% respectively, reduce our FV by 24% to RM1.53 (from RM2.00) and downgrade our call to UNDERWEIGHT from HOLD. Our new FV is based on 12x revised FY19 EPS, in line with our benchmark forward PE of 10-12x for mid-cap listed construction companies.
- We came away from a recent visit to the company feeling cautious on its outlook. We lower our assumption for job wins in FY18-20F to RM1.5bil annually (from RM2bil) to bring ourselves in line with the company's latest construction order book replenishment target of only RM1.5bil in FY18F.
- So far in FY18F, Sunway Construction has secured new jobs worth a total of RM854mil while its outstanding construction order book now stands at RM5.6bil (Exhibit 1). Currently, it is eyeing a third-party superstructure job (It stands a very good chance by virtue of it being the piling contractor for the project) as well as parent Sunway Bhd's various new hospital and shopping mall projects.
- We also lower our projected construction billings in FY18-20F from Sunway Construction's LRT3 packages, i.e. Sections GS07 and GS08 (Outstanding value at RM2.1bil at present). We understand that works on the six stations under Sunway Construction's packages have not progressed as Prasarana embarks on initiatives to downsize those stations. In addition, Prasarana is in favour of carrying out the project on a normal pace, vs. on an expedited basis previously as the latter incurs various escalation costs (such as overtime expenses).
- In anticipation of a lull period ahead for the local construction sector, we understand that a team from Sunway Construction recently visited India to "rekindle the past relationships" with some of its former construction JV partners in India. Sunway Construction sees opportunities in infrastructure projects in India such as highway, metro as well as high-speed rail.

- We remain cautious on the outlook for the local construction sector. As the government scales back on public projects, local contractors will be competing for a shrinking pool of new jobs in the market. Severe undercutting among the players will result in razor-thin margins for the successful bidders. On the other hand, the introduction of a more transparent public procurement system under the new administration should weed out rent-seekers, paving the way toward healthier competition within the local construction sector.
- We believe Sunway Construction is mitigated by its substantial order backlog that should keep it busy over the next 1-2 years, coupled with its proven ability to compete under an open bidding system. However, valuations are unattractive at 13-16x forward earnings on muted sector prospects.

EXHIBIT 1: OUTSTANDING ORDER BOOK

Project	Outstanding	Value (RMmil)
GS07 & GS08, LRT3		2,067
Internal building jobs		1,729
Sunway Medical Centre (SMC) 4	456	
Sunway Serene	357	
Carnival Mall extension	277	
Sunway GeoLake	210	
SMC Seberang Jaya	180	
Big Box, Iskandar	130	
Others	119	
V201, MRT2		587
Parcel F, Putrajaya		421
PPA1M, Kota Bharu		420
Others		378
Total		5,602

Source: Company, AmInvestment Bank Bhd

EXHIBIT 2: PB BAND CHART

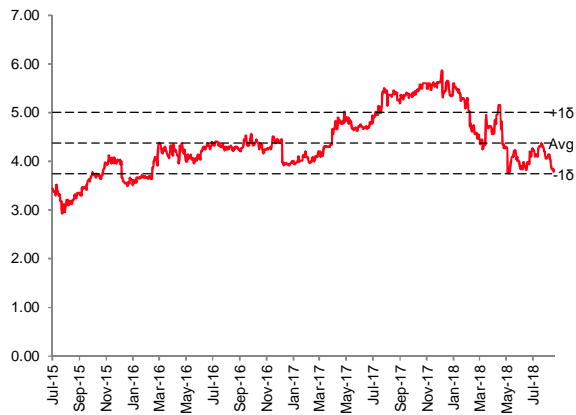


EXHIBIT 3: PE BAND CHART

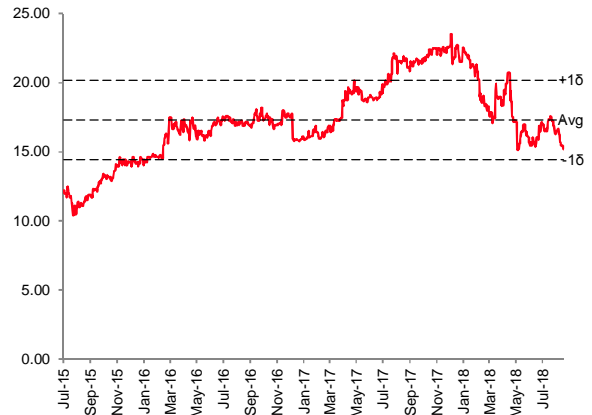


EXHIBIT 4: FINANCIAL DATA

Income Statement (RMmil, YE 31 Dec)	FY16	FY17	FY18F	FY19F	FY20F
Revenue	1,788.8	2,076.3	2,736.8	2,403.8	2,855.7
EBITDA	169.4	202.6	228.2	253.5	277.9
Depreciation/Amortisation	(39.1)	(37.8)	(42.2)	(47.2)	(52.2)
Operating income (EBIT)	130.3	164.8	185.9	206.3	225.7
Other income & associates	-	2.2	-	-	-
Net interest	4.4	7.2	10.4	10.1	10.3
Exceptional items	18.9	-	-	-	-
Pretax profit	153.7	174.2	196.3	216.4	236.0
Taxation	(30.0)	(36.2)	(47.1)	(51.9)	(56.6)
Minorities/pref dividends	(0.1)	(0.1)	(0.1)	(0.2)	(0.2)
Net profit	123.5	137.8	149.1	164.3	179.2
Core net profit	104.6	137.8	149.1	164.3	179.2
Balance Sheet (RMmil, YE 31 Dec)	FY16	FY17	FY18F	FY19F	FY20F
Fixed assets	140.7	152.1	209.8	262.6	310.4
Intangible assets	3.6	3.6	3.6	3.6	3.6
Other long-term assets	10.8	2.6	2.6	2.6	2.6
Total non-current assets	155.1	158.3	216.1	268.9	316.7
Cash & equivalent	465.8	487.2	475.2	470.6	485.8
Stock	-	-	-	-	-
Trade debtors	763.9	1,105.7	1,105.7	1,105.7	1,105.7
Other current assets	212.5	135.9	135.9	135.9	135.9
Total current assets	1,442.2	1,728.9	1,716.9	1,712.2	1,727.4
Trade creditors	955.0	1,185.1	1,185.1	1,185.1	1,185.1
Short-term borrowings	136.5	134.7	134.7	134.7	134.7
Other current liabilities	11.4	5.2	5.2	5.2	5.2
Total current liabilities	1,102.9	1,324.9	1,324.9	1,324.9	1,324.9
Long-term borrowings	-	-	-	-	-
Other long-term liabilities	0.6	7.0	7.0	7.0	7.0
Total long-term liabilities	0.6	7.0	7.0	7.0	7.0
Shareholders' funds	493.0	553.7	599.4	647.3	710.2
Minority interests	0.8	1.1	1.3	1.4	1.6
BV/share (RM)	0.38	0.43	0.46	0.50	0.55
Cash Flow (RMmil, YE 31 Dec)	FY16	FY17	FY18F	FY19F	FY20F
Pretax profit	153.7	174.2	196.3	216.4	236.0
Depreciation/Amortisation	39.1	37.8	42.2	47.2	52.2
Net change in working capital	(58.7)	(112.1)	-	-	-
Others	(48.5)	(38.8)	(57.5)	(62.1)	(67.0)
Cash flow from operations	85.6	61.0	181.0	201.5	221.3
Capital expenditure	(19.0)	(54.7)	(100.0)	(100.0)	(100.0)
Net investments & sale of fixed assets	2.1	6.2	-	-	-
Others	89.6	83.3	-	-	-
Cash flow from investing	72.7	34.9	(100.0)	(100.0)	(100.0)
Debt raised/(repaid)	(0.3)	-	-	-	-
Equity raised/(repaid)	-	-	-	-	-
Dividends paid	(84.0)	(69.6)	(103.4)	(116.4)	(116.4)
Others	-	(4.4)	10.4	10.1	10.3
Cash flow from financing	(84.4)	(73.9)	(93.0)	(106.2)	(106.1)
Net cash flow	73.9	21.9	(12.0)	(4.7)	15.2
Net cash/(debt) b/f	389.7	465.3	487.6	475.6	470.9
Net cash/(debt) c/f	465.3	485.8	475.6	470.9	486.2
Key Ratios (YE 31 Dec)	FY16	FY17	FY18F	FY19F	FY20F
Revenue growth (%)	(6.7)	16.1	31.8	(12.2)	18.8
EBITDA growth (%)	(3.5)	19.6	12.6	11.1	9.7
Pretax margin (%)	8.6	8.4	7.2	9.0	8.3
Net profit margin (%)	6.9	6.6	5.4	6.8	6.3
Interest cover (x)	nm	nm	nm	nm	nm
Effective tax rate (%)	19.5	20.8	24.0	24.0	24.0
Dividend payout (%)	68.0	40.0	50.0	50.0	50.0
Debtors turnover (days)	156	194	147	168	141
Stock turnover (days)	2	-	-	-	-
Creditors turnover (days)	254	250	194	231	194

Source: Company, AmInvestment Bank Bhd estimates

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