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Sunway Construction 1Q profit within forecast

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Sunway Construction Group Bhd
(May 18, RM2.02)

Maintain buy with an unchanged target price (TP) of RM2.67: Sunway Construction Group Bhd's (SunCon) first quarter ended March 31, 2018 (1QFY18) earnings of RM35.8 million (+3% year-on-year [y-o-y]) were in line with our expectations but lagged the street's.

Its net profit accounted for 23% and 19.1% of our and the consensus full-year forecasts respectively.

SunCon's 1QFY18 total revenue of RM529.8 billion (+26.2% y-o-y) came in stronger as a result of better-than-expected construction revenue of RM492.1 billion (+40.3% y-o-y) influenced by higher progress billing rates for the International School of Kuala Lumpur and Parcel F, Putrajaya.

Our expectations deviated from the street's as we had predicted a slightly higher progress billing schedule for SunCon's projects.

Although the Housing Development Board (HDB) of Singapore is still launching units, we fear that the construction of those units might face a slight delay due to an insipid property market across the Causeway.

It was reported by Channel NewsAsia that HDB resale value declined by 0.8% in 1QFY18. However, HDB launched 4,381 flats under the build-to-order scheme in February. Hopefully, this would translate into higher sales for SunCon's precast segment.

Additionally, steel bar prices had increased, hence impacting overall cost diverging from tender prices. As a result, profit before tax (PBT) of the precast segment registered a dismal RM3.6 million (-77.2%) with its PBT margin compressed to merely 9.7% (-13.3 percentage points).

Despite that, we reiterate our earnings projections on the account of a sturdy order book of RM6.1 billion. So far, SunCon has clinched RM542 million worth of projects for the year, which is 36.1% of its FY18 order book replenishment target of RM1.5 billion.

We maintain our TP of RM2.67, implying a 20.8% upside per share based on sum-of-parts methodology. We surmise that construction companies will face headwinds, but only temporarily, pending announcements of big-ticket projects like the high-speed rail and the mass rapid transit Circle Line. — MIDF Research, May 18