

26 February 2019

Construction & Engineering | Construction

Sunway Construction (SCGB MK)

Buy (Maintained)

Earnings Grow Despite Rough Year; BUY

Target Price (Return)	MYR2.12 (+23%)
Price:	MYR1.73
Market Cap:	USD550m
Avg Daily Turnover (MYR/USD)	1.7m/0.4m

- Maintain BUY and Street-high MYR2.12 TP, 23% upside with 4% FY19F yield.** Sunway Construction (Suncon) remains our Top Pick for exposure to the construction sector. The company's 2019 MYR1.5bn new order target could be revised higher, in our view, as it has already secured more than half of its 2019 target. A return of public sector projects, where Suncon is well-positioned to benefit, could provide a further catalyst for its share price. In addition, positive sentiment on the overall sector followed by a P/E rerating could materialise if mega projects are reintroduced. The company's balance sheet remains healthy, with net cash of MYR275m.
- FY18 earnings on point.** Suncon reported 4Q18 core earnings of MYR38m (+21% YoY, +3% QoQ), driven by a 35% YoY rise in construction EBIT. Suncon's Mass Rapid Transit 2 (MRT2) and Light Rail Transit 3 (LRT3) projects progressed by 5ppts and 3ppts to 62% and 10% completion. FY18 core earnings improved 6% YoY to MYR146m, within our and Street estimates, and at 99% of the Street's FY18 forecasts. Meanwhile, its construction operating margins improved 1ppt to 8.2%, as it finalised the accounts of past completed projects. A MYR0.035 DPS was announced, bringing 2018 DPS to MYR0.07 – which is also within our estimate.
- Possible upward revision on 2019 targets.** Last week, Suncon announced its first contract win in 2019, amounting to MYR781m from Tenaga Nasional (TNB MK, NEUTRAL, TP: MYR12.60). Already breaching the halfway mark of its 2019 target of MYR1.5bn with nine more months to go, we see scope for Suncon to upgrade its 2019 projections. At present, it has an active outstanding tenderbook of MYR6bn, vying for three upcoming hospitals by its parent company, and external mixed development projects. In 2018, it secured MYR1.6bn worth of new orders, and with the latest award, its current outstanding orderbook is at MYR6bn.
- Key risks.** A larger-than-anticipated reduction in its MRT2 and LRT3 contract values, and a prolonged suspension of new government-initiated infrastructure projects.

Figure 1: Sunway Construction's results review

FYE Dec (MYRm)	4Q17	3Q18	4Q18	QoQ (%)	YoY (%)	FY17	FY18	YoY (%)	Comments
Revenue	748.2	557.3	626.0	12.3	(16.3)	2,076.3	2,256.8	8.7	Higher billings from o/s orderbook.
EBIT	39.9	44.8	64.2	43.5	61.0	166.1	167.7	0.9	
EBIT Margin (%)	5.3	8.0	10.3			8.0	7.4		Lower contributions from precast
Interest expense	(1.8)	(14.9)	4.5	(130.0)	(351.7)	(6.1)	(1.8)	(70.8)	
Interest income	5.4	17.1	(20.8)	(222.1)	(488.7)	13.5	(8.3)	(161.6)	
EI/Others	0.7	0.0	(1.4)	nm	(295.0)	0.7	(1.4)	(295.0)	Several write-offs and reversals on receivables
Pretax profit	44.2	46.9	47.3	0.7	7.0	174.2	183.1	5.1	
Pretax Margin (%)	5.9	8.4	7.6			8.4	8.1		
Tax	(12.0)	(10.4)	(10.4)	0.1	(13.3)	(36.2)	(38.0)	5.0	
Effective tax rate (%)	27.1	22.2	22.0			20.8	20.8		
Minority Interest	(0.2)	0.1	(0.4)	0.0	0.0	0.0	0.0	0.0	
Net Profit	31.9	36.6	36.4	(0.5)	14.0	138.0	144.7	4.9	
Core Profit	31.2	36.6	37.8	3.2	20.9	137.3	146.1	6.4	Within estimates, at 99% of FY18F
Core Net Margin (%)	4.2	6.6	6.0			6.6	6.5		

Source: Company data, RHB

Forecasts and Valuations	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
Total turnover (MYRm)	2,076	2,257	2,301	2,449	2,686
Recurring net profit (MYRm)	138	146	164	176	186
Recurring net profit growth (%)	11.7	5.9	12.2	7.7	5.5
Recurring EPS (MYR)	0.11	0.11	0.13	0.14	0.14
Recurring P/E (x)	16.2	15.3	13.6	12.7	12.0
P/B (x)	4.04	3.90	3.50	3.15	2.85
P/CF (x)	4.59	3.56	3.16	2.83	2.51
Dividend Yield (%)	4.0	3.9	4.4	4.7	5.0
EV/EBITDA (x)	9.31	7.21	6.37	5.58	4.88
Return on average equity (%)	26.4	26.1	27.0	26.2	24.9
Net debt to equity (%)	net cash	net cash	net cash	net cash	net cash

Source: Company data, RHB

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