Better finish

Sunway Construction (Suncon) reported net profit of RM144.7m (+9% yoy) in 2018, which was within market and our expectations. Core net profit grew 16% yoy to RM150.7m, excluding net exception loss of RM6.5m. Remaining order book increased to RM6bn to date, equivalent to 2.7x 2018 revenue. We like Suncon for its good earnings visibility and good prospects to replenish its order book this year. Suncon remains our top construction sector BUY with RM2.00 target price, based on 10% discount to RNAV.

Within expectations

Suncon's 2018 net profit of RM145m was close to consensus and our forecasts of RM146-147m. Revenue was up 9% yoy to RM2.26bn in 2018, mainly driven by higher construction revenue (+10% yoy) as precast concrete revenue contracted (-8% yoy). Similarly, PBT increased 9% yoy to RM183m with higher contribution from its construction segment (+29% yoy), which offset the 96% yoy contraction in precast concrete PBT. Core earnings momentum picked up in 4Q18, up 14% qoq and 55% yoy to RM44m. But net profit was flat qoq due to net exceptional loss of RM8.2m.

High order book

Suncon clinched RM1.6bn new contracts in 2018 (80% from its parent company and 20% from external sources). Its target is to secure RM1.5bn new contracts in 2019, which is in line with our assumption for our earnings forecasts. The recently secured RM781m TNB HQ Campus Development (Phase 2) contract has met 52% of its target.

Good prospects for new contracts

Suncon is looking to bid for contracts such as the RM2bn Large Scale Solar 3, RM29bn public hospital projects developed by Jabatan Kerja Raya and the Subang Aerotech Park developed by Khazanah Nasional. It has a strong track record in these special-purpose building projects.

Top sector BUY

We lift our core EPS by 1% in 2019-20E after fine-tuning our forecasts. We reiterate our top sector BUY call on Suncon with RM2.00 target price, based on 10% discount to RNAV. Key downside risks are slow implementation of government projects and substantial cut in scope of works for Suncon's Light Rail Transit Line 3 contract, which is under negotiation.

Earnings & Valuation Summary

FYE 31 Dec	2017	2018	2019E	2020E	2021E
Revenue (RMm)	2,076.3	2,256.8	2,404.6	2,318.4	2,342.9
EBITDA (RMm)	194.5	220.5	228.6	237.0	247.7
Pretax profit (RMm)	168.7	183.1	202.1	210.5	220.2
Net profit (RMm)	132.3	144.7	153.2	159.6	167.0
EPS (sen)	10.2	11.2	11.9	12.4	12.9
PER (x)	16.9	15.5	14.6	14.0	13.4
Core net profit (RMm)	129.9	150.7	153.2	159.6	167.0
Core EPS (sen)	10.1	11.7	11.9	12.4	12.9
Core EPS growth (%)	9.2	16.0	1.7	4.2	4.6
Core PER (x)	17.2	14.8	14.6	14.0	13.4
Net DPS (sen)	7.0	7.0	7.0	8.0	9.0
Dividend Yield (%)	4.0	4.0	4.0	4.6	5.2
EV/EBITDA (x)	9.7	8.5	7.2	7.4	6.4
Chg in EPS (%)			0.7	1.1	New
Affin/Consensus (x)			1.0	1.0	NA

Source: Company, Bloomberg, Affin Hwang forecasts

Results Note

Sunway Construction

SCGB MK
Sector: Construction

RM1.73 @ 25 February 2019

BUY (maintain)

Upside: 16%

Price Target: RM2.00

Previous Target: RM2.00

Price Performance

	1M	3M	12M
Absolute	9.5%	14.6%	-27.9%
Rel to KLCI	8.0%	12.7%	-22.2%

Stock Data

Issued shares (m)	1,292.2
Mkt cap (RMm)/(US$m)	2,236/550
Avg daily vol - 6mth (m)	0.9
52-wk range (RM)	1.30-2.46
Est free float	22.5%
BV per share (RM)	0.46
P/BV (x)	3.8
Net cash/(debt) (RMm) (4Q18)	(371.2)
ROE (2019E)	24.6%
Derivatives	No
Shariah Compliant	Yes

Key Shareholders

Sunway Bhd	64.5%
Employees Provident Fund	8.1%
Skim Amanah Saham Bumiputera	2.2%

Source: Affin Hwang, Bloomberg

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Fig 1: Results comparison

FYE 31 Dec (RMm)	4Q17	3Q18	4Q18	QoQ % chg	YoY % chg	2017	2018	YoY % chg	4Q18 Comment
Revenue	**748.2**	**557.3**	**626.0**	***12.3***	***(16.3)***	**2,076.3**	**2,256.8**	***8.7***	2018: Higher construction revenue (+10% yoy) was partly offset by lower precast concrete revenue (-8% yoy)
Op costs	(703.5)	(500.5)	(563.9)	*12.7*	*(19.8)*	(1,881.8)	(2,036.3)	*8.2*	
EBITDA	**44.7**	**56.8**	**62.1**	***9.3***	***39.0***	**194.5**	**220.5**	***13.4***	Faster EBITDA growth due to higher revenue growth compared to cost increase
EBITDA margin (%)	*6.0*	*10.2*	*9.9*	*(0.3ppt)*	*3.9ppt*	*9.4*	*9.8*	*0.4ppt*	
Depn and amort	(9.8)	(10.1)	(9.9)	*(2.8)*	*0.6*	(37.8)	(40.0)	*5.8*	
EBIT	**34.8**	**46.7**	**52.2**	***11.9***	***49.9***	**156.7**	**180.6**	***15.2***	
Interest income	5.4	3.9	3.5	*(9.4)*	*(34.4)*	13.5	16.0	*19.0*	Higher return on net cash.
Interest expense	(1.8)	(1.7)	(2.0)	*17.9*	*14.7*	(6.1)	(8.3)	*36.4*	
Associates	2.2	0.0	0.7	*0.0*	*0.0*	2.2	0.7	*0.0*	
Forex gain (losses)	(0.7)	(0.1)	1.0	*n.m*	*n.m*	0.1	0.5	*>100*	
Exceptional items	1.4	(1.8)	(8.2)	*>100*	*n.m*	2.3	(6.5)	*n.m*	Impairment loss on receivables and accretion loss of financial assets/liabilities offset arbitraction gain.
Pretax profit	**41.3**	**46.9**	**47.3**	***0.7***	***14.6***	**168.7**	**183.1**	***8.5***	Within expectations. Construction PBT growth (+29% yoy) offset the contraction in precast concrete PBT (-96% yoy).
Core pretax	**40.6**	**48.8**	**54.4**	***11.5***	***34.1***	**166.2**	**189.1**	***13.7***	
Tax	(12.0)	(10.4)	(10.4)	*0.1*	*(13.3)*	(36.2)	(38.0)	*5.0*	
Tax rate (%)	*30.8*	*22.2*	*22.4*	*0.2ppt*	*(8.4ppt)*	*21.8*	*20.9*	*(0.9ppt)*	
Minority interests	(0.3)	(0.1)	(0.3)	*>100*	*(20.4)*	(0.1)	(0.3)	*>100*	
Net profit	**28.9**	**36.4**	**36.6**	***0.4***	***26.6***	**132.3**	**144.7**	***9.4***	Within expectations.
Core net profit	**28.2**	**38.3**	**43.7**	***14.2***	***55.0***	**129.9**	**150.7**	***16.0***	Excluding one-off items. Strong trajectory.
EPS (sen)	2.2	2.8	2.8	*1.8*	*26.3*	10.7	10.2	*(3.9)*	

Source: Affin Hwang, Company data

Fig 2: Segmental revenue breakdown

FYE 31 Dec	4Q17	1Q18	2Q18	3Q18	4Q18	% qoq	% yoy	2017	2018	% yoy
Construction	721.7	492.1	511.6	524.1	595.4	*13.6*	*(17.5)*	1,931.4	2,123.2	*9.9*
Precast concrete	26.4	37.1	32.6	33.3	30.6	*(7.9)*	*15.8*	144.9	133.7	*(7.7)*
Total	**748.2**	**529.2**	**544.3**	**557.3**	**626.0**	***12.3***	***(16.3)***	**2,076.3**	**2,256.8**	***8.7***

Source: Affin Hwang, Company data

Fig 3: Segmental PBT breakdown

FYE 31 Dec	4Q17	1Q18	2Q18	3Q18	4Q18	% qoq	% yoy	2017	2018	% yoy
Construction	35.7	40.1	42.9	48.9	50.2	*2.6*	*40.6*	141.2	182.0	*29.0*
Precast concrete	5.6	3.6	2.3	(1.9)	(2.9)	*48.3*	*n.m*	27.5	1.0	*(96.3)*
Total	**41.3**	**43.7**	**45.2**	**46.9**	**47.3**	***0.7***	***14.6***	**168.7**	**183.1**	***8.5***

Source: Affin Hwang, Company data

Fig 4: Segmental PBT margin

FYE 31 Dec (%)	4Q17	1Q18	2Q18	3Q18	4Q18	ppt qoq	ppt yoy	2017	2018	ppt yoy
Construction	4.9	8.2	8.4	9.3	8.4	*(0.9ppt)*	*3.5ppt*	7.3	8.6	*1.3ppt*
Precast concrete	21.2	9.6	7.0	(5.8)	(9.4)	*(3.6ppt)*	*n.m*	19.0	0.8	*(18.2ppt)*
Total	**5.5**	**8.3**	**8.3**	**8.4**	**7.6**	*(0.9ppt)*	*2.0ppt*	**8.1**	**8.1**	*(0.0ppt)*

Source: Affin Hwang, Company data

Fig 4: RNAV and target price

Segments	Stake (%)	RNAV (RMm)
Construction @ PE 14x avg earnings of RM150m	100	2,100
Pre-cast concrete @ PE 14x avg earnings of RM30m	100	420
Net cash/(debt)		371
RNAV		**2,891**
No. of shares (m shrs)		1,293
RNAV/share (RM)		**2.24**
Target price at 10% discount to RNAV/share		**2.00**

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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