

21 November 2018

Construction & Engineering | Construction

Sunway Construction

Buy (Maintained)

Expected To End 2018 On a High Note

Target Price: MYR2.12
 Price: MYR1.61
 Market Cap: USD494m
 Bloomberg Ticker: SCGB MK

Maintain BUY with a higher TP of MYR2.12, from MYR2.00, 32% upside plus 4.8% 2019F yield, as we roll forward our valuation to FY19F. A 23.5% YoY increase in construction EBIT offset operating losses of MYR2.0m from the precast division, which incurred below breakeven utilisation rates. MRT2 and LRT3 projects continued to progress well, adding 5ppt and 2ppt of works between 2Q18 and 3Q18. We expect Suncon to record sequentially stronger numbers in 4Q18, underpinned by an acceleration of works on both these key projects. YTD, Suncon has secured MYR1.35bn worth of new jobs, bringing its outstanding orderbook to MYR5.5bn, in our estimate. Looking ahead, we believe Suncon could secure one or two more jobs for the remainder of 2018. Suncon remains one of our Top Picks for the construction sector, due to its ability to secure both external and internal private sector jobs amid a slowdown in new public sector-driven infrastructure projects.

9M18 earnings within estimates. Sunway Construction reported 3Q core PAT of MYR36.6m (+5.8% YoY, -4.3% QoQ) as a 23.5% YoY increase in construction EBIT offset operating losses amounting to MYR2m from the precast division. The construction segment benefitted from higher progress billings for key projects such as the Mass Rapid Transit 2 (MRT2), Light Rail Transit 3 (LRT3), Putrajaya Parcel F and PPA1M Kota Bharu which resulted in an 11% YoY increase in segmental revenue. EBIT margins for the segment also improved 1ppt YoY to 8.9%. In contrast, the precast division slid into the red in 3Q18 as a result of fewer orders secured from Singapore, which dragged the utilisation rate below breakeven levels. 9M18 core earnings improved 2.1% YoY to MYR108.3m, within our but missing consensus estimates, representing 74% of our and 69% of consensus FY18 forecasts.

Key infrastructure jobs forged ahead despite being subject to cost reviews. Our analysis of Suncon's outstanding orderbook figures indicates that projects placed under cost reviews, namely the MRT2 and LRT3 continued to progress well. Between 2Q18 and 3Q18, MRT2 saw an additional 5ppt of works being completed, while LRT3 advanced an additional 2ppt. Overall works for Suncon's package for MRT2 stood at 57% as of 3Q18 while LRT3 is 7% complete. We gather that between 3Q18 and Oct-Nov 2018, progress for both projects has accelerated, reaching 64-69% for MRT2 and 13% for LRT3. This is positive in our view, given the scrutiny placed by the Government on both projects in order to reduce costs significantly.

Approaching its MYR1.5bn target for FY18. YTD, Suncon has secured MYR1.35bn worth of new jobs. Between 3Q18 and Nov 2018, Suncon secured a contract valued at MYR352m for the Sunway Velocity Two project. Also it secured a MYR53m piling job for package CA1 of the SUKE Highway. In our view, Suncon could clinch one or two more contracts in FY18, with the Menara Dayabumi redevelopment and Phase 2 of Tenaga Nasional Headquarters among its outstanding tenders. Outstanding orderbook, in our estimation, amounts to c.MYR5.5bn as of Nov 2018.

Maintain BUY and keep our earnings forecasts unchanged; nonetheless, we increase our TP to MYR2.12, from MYR2.00, as we roll-forward our unchanged target ex-cash P/E multiple of 14x to FY19F earnings. Suncon remains one of our Top Picks for the construction sector. This is predicated on its ability to secure both external and internal private sector jobs, to make up for the lack of public sector infrastructure projects. Meanwhile, we believe Suncon is well-positioned to capitalise on a potential reintroduction of public sector initiated infrastructure projects in 2019-2020, underpinned by its solid track record of completing jobs and its ability to secure jobs in the open tender system. Suncon has net cash of MYR325m which allows it to weather any potential slowdowns in payments.

Key risks. A larger-than-anticipated reduction in Suncon's MRT2 and LRT3 contract values and a prolonged suspension of new Government-initiated infrastructure projects.

Forecasts and Valuations	Dec-16	Dec-17	Dec-18F	Dec-19F	Dec-20F
Total turnover (MYRm)	1,789	2,076	2,145	2,301	2,449
Reported net profit (MYRm)	124	138	147	164	176
Recurring net profit (MYRm)	124	138	147	164	176
Recurring net profit growth (%)	0.1	11.7	6.7	11.3	7.7
Recurring EPS (MYR)	0.10	0.11	0.11	0.13	0.14
DPS (MYR)	0.05	0.07	0.07	0.08	0.08
Recurring P/E (x)	16.7	15.0	14.0	12.6	11.7
P/B (x)	4.19	3.74	3.61	3.24	2.92
P/CF (x)	4.44	4.25	3.29	2.92	2.62
Dividend Yield (%)	3.1	4.4	4.3	4.8	5.1
EV/EBITDA (x)	9.26	8.48	6.50	5.70	4.95
Return on average equity (%)	26.2	26.4	26.1	27.0	26.2
Net debt to equity (%)	net cash	net cash	net cash	net cash	net cash
Our vs consensus EPS (adjusted) (%)			(6.1)	(5.9)	

Source: Company data, RHB

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Figure 1: Sunway Construction 3Q18 results review

FYE Dec (MYRm)	3Q17	2Q18	3Q18	QoQ (%)	YoY (%)	9M17	9M18	YoY (%)	Comments
Revenue	491.4	544.3	557.3	2.4	13.4	1,328.1	1,630.8	22.8	
EBIT	42.4	44.4	44.8	0.8	5.6	126.2	129.5	2.6	
<i>EBIT Margin (%)</i>	8.6	8.2	8.0			9.5	7.9		
Interest expense	(2.0)	11.5	(14.9)	(229.8)	660.1	(4.3)	(6.3)	45.3	
Interest income	2.6	(8.3)	17.1	(304.9)	551.3	8.1	12.5	54.3	
Associates	0.0	0.0	0.0	nm	nm	0.0	0.0	nm	
EI/Others	0.0	(2.4)	0.0	(100.0)	nm	0.0	0.0	nm	
Pretax profit	43.1	45.2	46.9	3.9	9.0	130.0	135.8	4.5	
<i>Pretax Margin (%)</i>	8.8	8.3	8.4			9.8	8.3		
Tax	(8.6)	(9.3)	(10.4)	12.2	21.3	(24.2)	(27.6)	14.1	
<i>Effective tax rate (%)</i>	(20.0)	(20.6)	(22.2)			(18.6)	(20.3)		
Minority Interest	0.1	(0.0)	0.1	0.0	0.0	0.0	0.0	0.0	
Net Profit	34.6	35.8	36.6	2.1	5.8	106.0	108.3	2.1	
Core Profit	34.6	38.2	36.6	(4.3)	5.8	106.0	108.3	2.1	
<i>Core Net Margin (%)</i>	7.0	7.0	6.6			8.0	6.6		

Source: Company data, RHB

Figure 2: Sunway Construction 3Q18 segmental breakdown

FYE Dec (MYRm)	3Q17	2Q18	3Q18	QoQ (%)	YoY (%)	9M17	9M18	YoY (%)	Comments
Revenue:									
Construction	471.8	511.6	524.1	2.4	11.1	1,209.7	1,527.8	26.3	
Precast Concrete	19.6	32.6	33.3	1.9	70.0	118.5	103.1	(13.0)	
EBIT:									
Construction	36.9	39.7	46.7	17.5	26.4	101.7	125.6	23.5	
Precast Concrete	2.4	2.3	(1.9)	(184.3)	(181.3)	24.5	3.9	(84.0)	
EBIT Margin %:									
Construction	7.8%	7.8%	8.9%			8.4%	8.2%		
Precast Concrete	12.0%	6.9%	-5.7%			20.6%	3.8%		

Source: Company data, RHB

Figure 3: New jobs secured in 2018

Date	Project	Client	Amount (MYRm)
26/2/2018	Sunway GEOLake	Sunway GEOLake	223.0
27/2/2018	Sunway Carnival Shopping Mall	Sunway Carnival Shopping Mall	286.0
14/5/2018	Sunway Medical Centre Penang	Sunway Medical Centre Penang	180.0
na	SUKE CA1 - Piling Works	Acre Works	53.0
13/11/2018	Sunway Velocity Two	50%+1 share subsidiary of Sunway	352.0
Various	Other in house	Sunway Group	56.0
Various	Piling (incl. TNB and BBCC)	Various	75.0
Various	Precast	Various	129.0
Total			1,354.0

Source: Company data, RHB

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