

Good start

Sunway Construction's (Suncon) 1Q17 result was below 1/4th of market and our expectations. Core net profit jumped 21% qoq and 51% yoy to RM34.2m in 1Q17 on better margins. We expect progress billings on its RM4.6bn order book to accelerate and lift earnings in subsequent quarters and hence maintain our EPS forecasts. We lift our target price to RM2.13 from RM2.00, based on 10% discount to upgraded RNAV. But the share price outperformance has narrowed potential upside to 3%, prompting us to downgrade our call to HOLD from Buy.

Highest quarterly PBT

Net profit of RM34.2m in 1Q17 comprises 21-22% of full-year consensus and our forecasts of RM155.5-162.7m. Revenue declined 24% qoq and 1% yoy to RM419.5m, mainly due to lower construction revenue. Some building jobs were completed in 4Q16 while new projects saw slower progress due to design finalization. But PBT increased 17% qoq and 18% yoy to RM44.2m in 1Q17, the highest quarterly PBT since listing, on the back of better construction PBT margins (8.1% in 1Q17 vs 7.0% in 1Q16 and 4.4% in 4Q16). Net profit grew 8% qoq and 19% yoy in 1Q17.

Higher construction earnings

Construction profit earnings was lifted by one-off arbitration award of about RM3m, which relates to an Indian highway project completed in the past. Suncon secured RM0.9bn (includes RM212m contract for MRT Line 2 stations which forms part of MRT V201 package secured last year) new contracts to date, expanding its order book to RM4.6bn, equivalent to 2.6x FY16 revenue. Good prospects for new contracts as Suncon is bidding for the LRT Line 3 package that could be worth RM2bn.

Lower precast concrete earnings

Precast concrete PBT increased 37% yoy in 1Q17 on higher revenue (+36% yoy). PBT fell 9% qoq, as revenue declined 21% qoq due to lower production volume as construction progress slowed.

Downgrade to HOLD

We upgrade our RNAV/share to RM2.37 from RM2.23 assuming higher PER of 16x compared to 14x previously to value its construction and precast concrete divisions as peer average PER has expanded. Based on the same 10% discount to RNAV, we lift our TP to RM2.13 from RM2.00. We downgrade our call to HOLD from Buy due to limited potential upside.

Earnings & Valuation Summary

FYE 31 Dec	2015	2016	2017E	2018E	2019E
Revenue (RMm)	1,916.9	1,788.8	2,117.4	2,313.5	2,432.0
EBITDA (RMm)	187.3	188.6	239.3	268.5	266.3
Pretax profit (RMm)	140.8	153.7	208.7	239.1	237.9
Net profit (RMm)	127.2	123.5	162.7	181.6	180.7
EPS (sen)	9.8	9.6	12.6	14.0	14.0
PER (x)	21.0	21.7	16.5	14.7	14.8
Core net profit (RMm)	136.2	118.7	162.7	181.6	180.7
Core EPS (sen)	10.5	9.2	12.6	14.0	14.0
Core EPS growth (%)	0.7	(12.9)	37.0	11.6	(0.5)
Core PER (x)	19.6	22.5	16.5	14.7	14.8
Net DPS (sen)	4.0	5.0	6.5	7.0	7.0
Dividend Yield (%)	1.9	2.4	3.1	3.4	3.4
EV/EBITDA (x)	12.5	12.4	9.2	7.8	7.5
Chg in EPS (%)			0.0	0.0	0.0
Affin/Consensus (x)			1.0	1.1	1.1

Source: Company, Affin Hwang forecasts, Bloomberg

Results Note

Sunway Construction

SCGB MK
Sector: Construction

RM2.07 @ 25 May 2017

HOLD (downgrade)

Upside 3%

Price Target: RM2.13

Previous Target: RM2.00



Price Performance

	1M	3M	12M
Absolute	+3.5%	+18.3%	+34.4%
Rel to KLCI	+3.0%	+13.2%	+23.6%

Stock Data

Issued shares (m)	1,292.9
Mkt cap (RMm)/(US\$m)	2676.3/625.7
Avg daily vol - 6mth (m)	1.5
52-wk range (RM)	1.42-2.15
Est free float	34.8%
BV per share (RM)	0.38
P/BV (x)	5.43
Net cash/ (debt) (RMm) (1Q17)	279.9
ROE (2017F)	30.5%
Derivatives	Nil
Shariah Compliant	Yes

Key Shareholder

Sunway Bhd	54.4%
Sungei Way Corp	10.1%
Norges Bank	1.9%
Amanah Mutual Bhd	1.1%

Source: Affin Hwang, Bloomberg

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Key risks

Key downside risks are delays in implementation of public infrastructure projects and cost overruns. Key upside risk is higher-than-expected new contract awards (our assumption is RM2bn in FY17E) in the current infrastructure boom. Suncon will be included back into the Securities Commission's Shariah List effective from 26 May 2017, providing a short-term catalyst for the share price performance due to potential buying of the stock by Shariah-compliant funds.

Fig 1: Results comparison

FYE 31 Dec (RMm)	1Q16	4Q16	1Q17	% QoQ	% YoY	1Q17 Comment
Revenue	424.4	553.1	419.5	(24.2)	(1.1)	Lower construction revenue with several building job completions in 4Q16 and new projects saw slower progress pending design finalization.
Op costs	(379.9)	(515.9)	(368.8)	(28.5)	(2.9)	
EBITDA	44.5	37.3	50.7	36.0	14.0	Better profit margins for construction division and one-off arbitration award of about RM3m boosted EBITDA.
<i>EBITDA margin (%)</i>	10.5	6.7	12.1	5.3ppt	1.6ppt	
Depn and amort	(9.8)	(9.6)	(9.1)	(4.8)	(7.2)	
EBIT	34.6	27.7	41.6	50.1	20.0	
Interest income	2.8	2.1	3.2	49.1	12.0	Higher return on cash deposits.
Interest expense	(0.7)	(1.5)	(1.1)	(30.2)	50.9	
Associates	0.0	0.0	0.0	NA	NA	
Forex gain (losses)	0.2	0.3	0.7	155.3	193.2	
Exceptional items	0.5	9.1	(0.2)	NA	NA	
Pretax profit	37.5	37.6	44.2	17.3	17.7	Slow progress billings in 1Q17 but should accelerate in subsequent quarters.
Core pretax	36.8	28.3	43.7	54.4	18.8	
Tax	(8.5)	(5.7)	(9.5)	68.4	12.4	
<i>Tax rate (%)</i>	22.6	15.0	21.6	6.5ppt	-1.0ppt	
Minority interests	(0.0)	0.1	0.0	NA	NA	
Net profit	29.0	32.1	34.7	8.1	19.4	Below 14/th of our forecast
Core net profit	28.3	22.7	34.2	50.6	20.9	Exclude one-off gains. Strong operational performance.
EPS (sen)	2.3	2.5	2.7	8.1	19.1	

Source: Company, Affin Hwang estimates

Fig 2: Segmental PBT breakdown

FYE 31 Dec (RMm)	1Q15	2Q15	3Q15	4Q15	1Q16	2Q16	3Q16	4Q16	1Q17	% QoQ	% YoY
Construction	421.0	431.4	394.0	417.6	373.8	360.5	301.3	466.5	350.7	(24.8)	(6.2)
Precast concrete	75.1	68.8	56.3	52.6	50.5	69.8	79.8	86.6	68.8	(20.6)	36.1
Total	496.1	500.2	450.3	470.3	424.4	430.3	381.1	553.1	419.5	(24.2)	(1.1)

Source: Company, Affin Hwang estimates

Fig 3: Segmental PBT margin

FYE 31 Dec (RMm)	1Q15	2Q15	3Q15	4Q15	1Q16	2Q16	3Q16	4Q16	1Q17	% QoQ	% YoY
Construction	4.2	6.3	2.4	2.2	7.0	5.9	9.3	4.4	8.1	3.7	1.1
Precast concrete	29.4	20.8	36.5	38.1	22.8	24.2	15.7	20.0	23.0	2.9	0.2
Total	8.0	8.3	6.7	6.3	8.8	8.9	10.6	6.8	10.5	3.7	1.7

Source: Company, Affin Hwang estimates

Out think. Out perform.

Fig 4: RNAV and target price

Segments	Stake (%)	RNAV (RMm)
Construction @ PE 16x avg earnings of RM132m	100	2,112
Pre-cast concrete @ PE 16x avg earnings of RM42m	100	672
Net cash/(debt)		280
RNAV		3,064
No. of shares (m shrs)		1,293
RNAV/share (RM)		2.37
Target price at 10% discount to RNAV/share		2.13

Source: Company, Affin Hwang

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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