

Outthink. Outperform.

## 1Q19: Progress delays but results in line

Sunway Construction's (SunCon) 1Q19 results were weak but we expect a stronger 2H19 and deem the results to be in line. The review of major infrastructure projects by the government to reduce costs led to slower progress billings. Net profit fell 13% yoy to RM31m in 1Q19. SunCon saw good order book replenishment with RM1bn new contracts clinched in 1Q19 and is on track to meet its RM1.5bn target in 2019. We maintain our EPS forecasts on expectations of an acceleration in progress billings in 2H19. SunCon remains our top mid-cap construction BUY with a new, higher TP of RM2.24, based on a 10% discount to 2020E RNAV.

### Weak 1Q19 but expect stronger 2H19

SunCon's net profit of RM31m in 1Q19 comprised only 20-21% of market consensus and our 2019E forecasts of RM145-153m. Slow progress billings and completion of several projects in the previous year led to revenue declining 17% yoy and 30% qoq to RM440m in 1Q19. There were slower progress billings for the Klang Valley MRT Line 2 (MRT2) and Light Rail Transit 3 (LRT). Core net profit fell 17% yoy and 45% qoq to RM28m in 1Q19 on the back of lower revenue while 4Q18 earnings were boosted by profits from the finalisation of accounts for 3 completed projects, which did not recur.

### Construction margins sturdy, weak precast concrete earnings

Construction PBT was flat yoy but declined 20% qoq to RM40m in 1Q19. Construction PBT margin improved to 9.9% in 1Q19 compared to 8.2% in 1Q18 and 8.5% in 4Q18. Precast concrete PBT was RM0.1m, turning around from a loss of RM2.9m in 4Q18 on lower steel bar costs. But earnings were lower than PBT of RM3.6m in 1Q18 due to lower margins for current projects.

### Good order book replenishment

SunCon clinched RM1bn worth of new contracts, including the RM781m TNB HQ campus development. It is on track to meet its 2019 RM1.5bn new contract target, which we have assumed in our earnings forecasts. SunCon has submitted tenders worth RM7.4bn including road/railway projects in India, piling projects in Singapore and hospitals for Sunway.

### Top mid-cap construction BUY

SunCon is a potential beneficiary of projects to be revived such as the MRT3, Penang LRT and East Coast Rail Link. We raise our 2020E RNAV/share estimate to RM2.49 from RM2.24 previously to reflect a higher construction PER of 16x (14x previously) and higher net cash at end-1Q19. Based on the same 10% discount to RNAV, we raise our TP to RM2.24 from RM2.00. Maintain BUY.

### Earnings & Valuation Summary

FYE 31 Dec	2017A	2018A	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)	18.9	17.3	16.4	15.7	15.0
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)	19.3	16.6	16.4	15.7	15.0
Net DPS (sen)	7.0	7.0	7.0	8.0	9.0
Dividend Yield (%)	3.6	3.6	3.6	4.1	4.6
EV/EBITDA (x)	11.1	9.7	8.4	8.6	7.5
Chg in EPS (%)			0.0	0.0	0.0
Affin/Consensus (x)			1.1	1.1	1.1

Source: Company, Bloomberg, Affin Hwang estimates

Affin Hwang Investment Bank Bhd (14389-U)

### Results Note

# Sunway Construction

SCGB MK  
Sector: Construction

RM1.94 @ 16 May 2019

**BUY (maintain)**

Upside 15%

**Price Target: RM2.24**

Previous Target: RM2.00



### Price Performance

	1M	3M	12M
Absolute	-1.0%	23.6%	-9.8%
Rel to KLCI	0.9%	30.5%	4.9%

### Stock Data

Issued shares (m)	1,292
Mkt cap (RMm)/(US\$m)	2,507/602
Avg daily vol - 6mth (m)	0.9
52-wk range (RM)	1.3-2.2
Est free float	20.3%
BV per share (RM)	0.46
P/BV (x)	4.2
Net cash/ (debt) (RMm) (1Q19)	404.7
ROE (2019E)	24.6%
Derivatives	No
Shariah Compliant	Yes

### Key Shareholders

Sunway Berhad	64.5%
EPF	8.3%
Skim Amanah Saham Bumiputera	4.3%

Source: Affin Hwang, Bloomberg

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Page 1 of 3

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Fig 1: Results Comparison

FYE 31 Dec (RMm)	1Q18	4Q18	1Q19	QoQ % chg	YoY % chg	Comment
<b>Revenue</b>	<b>529.2</b>	<b>626.0</b>	<b>440.0</b>	<b>(29.7)</b>	<b>(16.9)</b>	Lower construction revenue (-17% yoy) and lower precast concrete revenue (-11% yoy).
Op costs	(479.0)	(556.2)	(394.9)	(29.0)	(17.6)	
<b>EBITDA</b>	<b>50.2</b>	<b>69.8</b>	<b>45.1</b>	<b>(35.4)</b>	<b>(10.2)</b>	
<i>EBITDA margin (%)</i>	<i>9.5</i>	<i>11.1</i>	<i>10.2</i>	<i>(0.9ppt)</i>	<i>0.8ppt</i>	
Depn and amort	(9.7)	(10.8)	(10.1)	(6.9)	3.6	
<b>EBIT</b>	<b>40.5</b>	<b>59.0</b>	<b>35.0</b>	<b>(40.6)</b>	<b>(13.5)</b>	
Interest income	3.8	3.5	4.2	20.3	11.3	Higher return on net cash.
Interest expense	(3.1)	(2.3)	(2.3)	1.1	(25.0)	
Associates	0.0	0.7	0.0	(100.0)	n.m	
Forex gain (losses)	(0.3)	(1.1)	(0.1)	(90.5)	(68.9)	
Exceptional items	2.7	(12.7)	3.3	NA	20.3	Arbitration gain and accretion gain of financial assets/liabilities.
<b>Pretax profit</b>	<b>43.6</b>	<b>47.2</b>	<b>40.1</b>	<b>(15.0)</b>	<b>(8.0)</b>	
<b>Core pretax</b>	<b>41.2</b>	<b>61.0</b>	<b>37.0</b>	<b>(39.4)</b>	<b>(10.4)</b>	
Tax	(7.9)	(10.4)	(8.5)	(18.7)	7.8	
<i>Tax rate (%)</i>	<i>18.1</i>	<i>22.5</i>	<i>21.2</i>	<i>(1.3ppt)</i>	<i>3.1ppt</i>	
Minority interests	0.0	(0.3)	(0.6)	139.3	n.m	
<b>Net profit</b>	<b>35.8</b>	<b>36.5</b>	<b>31.0</b>	<b>(15.0)</b>	<b>(13.3)</b>	Weak 1Q19 but expect better 2H19 earnings.
<b>Core net profit</b>	<b>33.4</b>	<b>50.3</b>	<b>27.9</b>	<b>(44.6)</b>	<b>(16.6)</b>	Excluding one-off items.
EPS (sen)	2.8	2.8	2.4	(14.9)	(13.4)	

Source: Affin Hwang, Company data

Fig 2: Segmental revenue breakdown

Segment	1Q18	2Q18	3Q18	4Q18	1Q19	% qoq	% yoy
Construction	492.1	511.6	524.1	595.4	407.0	(31.6)	(17.3)
Precast concrete	37.1	32.6	33.3	30.6	33.0	7.7	(11.2)
<b>Total</b>	<b>529.2</b>	<b>544.3</b>	<b>557.3</b>	<b>626.0</b>	<b>440.0</b>	<b>(29.7)</b>	<b>(16.9)</b>

Source: Affin Hwang, Company data

Fig 3: Segmental PBT breakdown

Segment	1Q18	2Q18	3Q18	4Q18	1Q19	% qoq	% yoy
Construction	40.1	43.0	48.9	50.1	40.1	(20.1)	0.0
Precast concrete	3.6	2.3	(1.9)	(2.9)	0.1	NA	(98.3)
<b>Total</b>	<b>43.6</b>	<b>45.3</b>	<b>46.9</b>	<b>47.2</b>	<b>40.1</b>	<b>(15.1)</b>	<b>(8.0)</b>

Source: Affin Hwang, Company data

Fig 4: Change in RNAV and target price

Segments	Stake (%)	New RNAV (RMm)	Old RNAV (RMm)	Change (%)
Construction @ PE 16x avg earnings of RM150m	100	2,400	2,100	14
Pre-cast concrete @ PE 14x avg earnings of RM30m	100	420	420	0
Net cash/(debt)		405	371	9
<b>RNAV</b>		<b>3,225</b>	<b>2,891</b>	<b>12</b>
No. of shares (m shrs)		1,293	1,293	0
<b>RNAV/share (RM)</b>		<b>2.49</b>	<b>2.24</b>	<b>12</b>
<b>Target price at 10% discount to RNAV/share</b>		<b>2.24</b>	<b>2.00</b>	<b>12</b>

Source: Affin Hwang estimates

## Important Disclosures and Disclaimer

### Equity Rating Structure and Definitions

<b>BUY</b>	Total return is expected to exceed +10% over a 12-month period
<b>HOLD</b>	Total return is expected to be between -5% and +10% over a 12-month period
<b>SELL</b>	Total return is expected to be below -5% over a 12-month period
<b>NOT RATED</b>	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.*

<b>OVERWEIGHT</b>	Industry, as defined by the analyst's coverage universe, is expected to outperform the KLCI benchmark over the next 12 months
<b>NEUTRAL</b>	Industry, as defined by the analyst's coverage universe, is expected to perform inline with the KLCI benchmark over the next 12 months
<b>UNDERWEIGHT</b>	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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