

Outthink. Outperform.

Still lagging

Sunway Construction's (Suncon) 9M16 results were below our and market expectations. We were surprised by the low revenue and high effective tax rate. Net profit fell 7% yoy to RM91.5m in 9M16, mainly due to lower revenue (-15% yoy) and higher tax expense (+74% yoy). We cut our earnings forecasts by 3-13% for FY16-18, assuming lower precast concrete earnings and a higher tax rate. We reduce our RNAV-based target price to RM2.00 from RM2.03. Maintain BUY.

Lower earnings

Suncon's 9M16 net profit of RM91.5m was only 64-67% of the full-year consensus forecast of RM135.8m and our previous estimate of RM143m. The completion of several projects early this year and the slow ramp-up of new projects led to a 15% yoy decline in revenue to RM1.24bn. But PBT was up 4% yoy to RM116m in 9M16 due to a higher EBIT margin of 9.1% (compared to 7.9% in 9M15) and lower asset impairment. Net profit declined 7% yoy as the effective tax rate normalized to 21% in 9M16 vs 12.6% in 9M15. Core net profit fell 11% yoy to RM91.6m.

Higher construction profit margin

Construction revenue fell 17% yoy in 9M16 as several projects were completed early this year, while new projects such as the RM1.27bn MRT Line 2 V201 package have not started to contribute significantly. But construction PBT rose 38% yoy due to the absence of a provision for loss-making projects, and the PBT margin improved to 7.3% in 9M16 vs 4.4% in 9M15.

Lower precast concrete earnings

Precast concrete revenue fell 22% yoy in 9M16 due to lower delivery volume but is expected to pick up in 4Q16. Precast concrete PBT fell 28% yoy on a lower PBT margin of 20.4% in 9M16 vs 28.4% in 9M15.

Top sector BUY

We believe Suncon's current ex-cash FY17E PER of 10x is attractive, considering expected strong EPS growth of 32% yoy. Maintain BUY. We reduce our RNAV/share estimate to RM2.23 from RM2.26, reflecting lower valuation for its precast concrete business (lower sustainable earnings). Based on the same 10% discount to RNAV, we reduce our target price to RM2.00 from RM2.03. Suncon remains our top sector BUY. Key risks are public infrastructure project implementation delays and cost overruns.

Earnings & Valuation Summary

FYE 31 Dec	2014	2015	2016E	2017E	2018E
Revenue (RMm)	1,880.7	1,916.9	1,689.4	2,133.0	2,170.5
EBITDA (RMm)	172.3	187.3	195.5	248.1	267.7
Pretax profit (RMm)	151.3	140.8	158.2	211.3	232.0
Net profit (RMm)	124.8	127.2	124.5	164.3	175.8
EPS (sen)	9.7	9.8	9.6	12.7	13.6
PER (x)	16.8	16.5	16.8	12.7	11.9
Core net profit (RMm)	135.3	136.2	124.6	164.3	175.8
Core EPS (sen)	10.5	10.5	9.6	12.7	13.6
Core EPS growth (%)	31.9	0.7	(8.6)	31.9	7.0
Core PER (x)	15.5	15.4	16.8	12.7	11.9
Net DPS (sen)	0.0	4.0	5.5	6.5	7.0
Dividend Yield (%)	0.0	2.5	3.4	4.0	4.3
EV/EBITDA (x)	11.3	9.4	8.9	6.5	5.6
Chg in EPS (%)			(13.0)	(3.2)	(6.6)
Affin/Consensus (x)			0.9	1.0	1.0

Source: Company, Affin Hwang forecasts, Bloomberg

Affin Hwang Investment Bank Bhd (14389-U)

Results Note

Sunway Construction

SCGB MK
Sector: Construction

RM1.62 @ 22 November 2016

BUY (maintain)

Upside 23%

Price Target: RM2.00

Previous Target: RM2.03



Price Performance

	1M	3M	12M
Absolute	-6.9%	+0.6%	+20.9%
Rel to KLCI	-4.7%	+4.3%	+23.2%

Stock Data

Issued shares (m)	1,292.9
Mkt cap (RMm)/(US\$m)	2094.5/473.9
Avg daily vol - 6mth (m)	2.2
52-wk range (RM)	1.3-1.74
Est free float	34.8%
BV per share (RM)	0.35
P/BV (x)	4.64
Net cash/ (debt) (RMm) (3Q16)	330.8
ROE (2016F)	26.1%
Derivatives	Nil
Shariah Compliant	No

Key Shareholder

Sunway Bhd	54.4%
Sungei Way Corp	10.1%
Norges Bank	1.8%
Amanah Mutual Bhd	1.1%

Source: Affin Hwang, Bloomberg

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Record order book

Suncon secured RM2.6bn worth of new contracts in 9M16, exceeding its full-year target of RM2.5bn. Its construction order book increased to RM4.8bn (2.5x FY15 revenue) from RM3.7bn at end-2015. We believe the prospects for Suncon to grow its order book are good, given its strong track record and management team.

Fig 1: Results comparison

FYE 31 Dec (RMm)	3Q16	% QoQ	% YoY	9M16	% YoY	Comments
Revenue	381.1	(11.4)	(15.4)	1,235.7	(14.6)	Lower revenue yoy in 3Q16 and 9M16 is due to the completion of major projects early this year while new contracts secured have not contributed significantly. Lower precast concrete order book in 3Q16.
Op costs	(331.3)	(13.5)	(19.8)	(1,093.6)	(16.1)	
EBITDA	49.7	4.9	34.1	142.1	(0.5)	
<i>EBITDA margin (%)</i>	<i>13.1</i>	<i>2.0ppt</i>	<i>4.8ppt</i>	<i>11.5</i>	<i>1.6ppt</i>	Higher construction margin but lower precast concrete margin (normalization).
Depn and amort	(9.9)	2.9	8.1	(29.5)	3.0	
EBIT	39.8	5.4	42.7	112.7	(1.4)	
Interest income	3.3	73.2	22.5	8.0	41.0	
Interest expense	(2.4)	76.7	215.3	(4.5)	51.9	
Associates	0.0	0.0	0.0	0.0	0.0	
Forex gain (losses)	0.2	NA	(87.2)	(0.3)	82.3	
Exceptional items	(0.4)	NA	>100	0.1	NA	
Pretax profit	40.4	6.0	34.0	116.0	4.2	Higher construction earnings qoq and yoy due to margin improvement, partly offset by lower precast concrete earnings.
Core pretax	40.6	6.2	36.4	116.2	(0.6)	
Tax	(9.1)	34.0	84.2	(24.4)	74.4	
<i>Tax rate (%)</i>	<i>22.6</i>	<i>4.7ppt</i>	<i>6.1ppt</i>	<i>21.0</i>	<i>8.5ppt</i>	Higher effective tax rate as unabsorbed tax losses were used up last year.
Minority interests	(0.1)	>100	>100	(0.2)	NA	
Net profit	31.1	(0.4)	25.9	91.5	(6.5)	Below expectations.
Core net profit	31.4	(0.1)	28.7	91.6	(11.3)	
EPS (sen)	2.4	(0.4)	21.7	7.1	(6.6)	

Source: Company, Affin Hwang estimates

Fig 2: Segmental PBT breakdown

FYE 31 Dec (RMm)	3Q15	4Q15	1Q16	2Q16	3Q16	% QoQ	% YoY	9M15	9M16	% YoY
Construction	9.6	9.4	26.0	21.2	27.9	31.4	191.6	54.4	75.2	38.1
Precast concrete	20.6	20.0	11.5	16.9	12.5	(26.0)	(39.3)	56.9	40.9	(28.2)
Total	30.1	29.4	37.5	38.1	40.4	6.0	34.0	111.4	116.0	4.2

Source: Company, Affin Hwang estimates

Fig 3: Segmental PBT margin

FYE 31 Dec (%)	3Q15	4Q15	1Q16	2Q16	3Q16	ppt QoQ	ppt YoY	9M15	9M16	ppt YoY
Construction	2.4	2.2	7.0	5.9	9.3	3.4	6.8	4.4	7.3	2.9
Precast concrete	36.5	38.1	22.8	24.2	15.7	(8.5)	(20.9)	28.4	20.4	(8.0)
Total	6.7	6.3	8.8	8.9	10.6	1.7	3.9	7.7	9.4	1.7

Source: Company, Affin Hwang estimates

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Fig 4: RNAV and target price

Segments	Stake (%)	RNAV (RMm)
Construction @ PE 14x avg earnings of RM120m	100	1,680
Pre-cast concrete @ PE 14x avg earnings of RM62m	100	868
Net cash/(debt)		332
RNAV		2,880
No. of shares (m shrs)		1,293
RNAV/share (RM)		2.23
Target price at 10% discount to RNAV/share		2.00

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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