



Company report

SUNWAY CONSTRUCTION

(SCGB MK EQUITY, SCOG.KL)

17 May 2019

1QFY19 net profit falls 13% YoY

UNDERWEIGHT

(Maintained)

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Rationale for report: Company results

Price	RM1.94
Fair Value	RM1.09
52-week High/Low	RM2.23/RM1.30

Key Changes

Fair value	⬇️
EPS	⬇️

YE to Dec	FY18	FY19F	FY20F	FY21F
Revenue (RM mil)	2,256.8	2,176.8	2,164.0	2,149.6
Core net profit (RM mil)	144.7	130.0	141.4	142.8
FD Core EPS (sen)	11.2	10.1	10.9	11.0
FD Core EPS growth (%)	9.4	(10.1)	8.7	1.0
Consensus Net Profit (RM mil)	-	150.3	157.8	160.5
DPS (sen)	7.0	7.0	7.0	7.0
PE (x)	17.3	19.3	17.7	17.6
EV/EBITDA (x)	10.0	10.9	10.0	9.8
Div yield (%)	3.6	3.6	3.6	3.6
ROE (%)	25.5	21.7	22.9	22.2
Net Gearing (%)	nm	nm	nm	nm

Stock and Financial Data

Shares Outstanding (million)	1,292.9
Market Cap (RM mil)	2,508.2
Book Value (RM/share)	0.46
P/BV (x)	4.2
ROE (%)	25.5
Net Gearing (%)	-
Major Shareholders	Sunway Bhd & Cheah family(65.1%) EPF(7.5%)
Free Float	27.4
Avg Daily Value (RM mil)	2.2

Price performance	3mth	6mth	12mth
Absolute (%)	23.6	21.3	(9.8)
Relative (%)	30.5	29.4	4.9



Investment Highlights

- We cut our FY19–21F net profit forecasts by 9%, 6% and 6% respectively, but only trim our FV by 2% to RM1.09 (from RM1.11) as we roll forward our base year to FY20F. Our new FV is based on 10x revised FY20 EPS, in line with our benchmark forward P/E of 10x for large- and mid-cap construction stocks. Maintain UNDERWEIGHT.
- Sunway Construction's 1QFY19 results disappointed us and the market, coming in at only 22% and 21% of our full-year forecast and full-year consensus estimates respectively. We believe the variance against our forecast came largely from the poor performance by the pre-cast concrete product division, which barely broke even during 1QFY19 due to margin squeeze. We have reflected the challenging operating environment for the division in our forecasts.
- Sunway Construction's 1QFY19 net profit fell 13% YoY due to lower construction profits (Parcel F building job in Putrajaya at the tail-end, coupled with the slowdown in the MRT2 and LRT3 projects pending the design change to downsize the stations) and the sharp plunge in the profitability of pre-cast concrete products as mentioned.
- Sunway Construction reiterated its guidance for order book replenishment in FY19F of RM1.5bil (including new pre-cast product orders). So far in FY19F, it has secured new construction jobs worth RM1bil and new pre-cast product orders worth RM31mil.
- It said that it has tendered for three road/rail projects in India and is venturing into the piling sector in Singapore. It is also eyeing three hospital expansion projects of parent Sunway Bhd.
- There is no change to our forecasts that assume construction and pre-cast product job wins of RM1.3bil and RM200mil annually in FY19-21F.
- At present, Sunway Construction's outstanding construction and pre-cast product order books stand at RM5.4bil (Exhibit 2) and RM316mil respectively.

- We acknowledge that the revival of the East Coast Rail Link (ECRL) and Bandar Malaysia projects shall result in more jobs available in the market for local construction players. However, we believe the market has not priced in enough risk premium to reflect the following:
 1. The fact that the latest mega projects are driven by world-class Chinese contractors (and Chinese funding) which probably leaves local contractors with only low-value/low-margin supporting roles in the projects; and
 2. The fact that given the still elevated national debt, the government has no choice but to remain steadfastly committed to fiscal prudence which means the revival of the ECRL project could be a “zero-sum game” as it impedes the government’s ability to implement other public infrastructure projects.
- We believe Sunway Construction can weather the sector downturn better given its proven ability to compete under an open bidding system, coupled with the availability of building jobs from its parent and sister companies under the Sunway group. However, valuations are unattractive at 18–19x forward earnings on muted sector prospects.

EXHIBIT 1: RESULTS SUMMARY

YE Dec (RM mil)	FY18 4Q	FY19 1Q	QoQ Chg	FY18 3M	FY19 3M	YoY Chg
Turnover	626.0	440.0	-30%	529.2	440.0	-17%
Construction	595.4	407.0	-32%	492.1	407.0	-17%
Precast concrete	30.6	33.0	8%	37.1	33.0	-11%
EBIT	45.1	38.2	-15%	42.9	38.2	-11%
Construction	47.9	37.9	-21%	39.3	37.9	-4%
Precast concrete	(2.8)	0.3	-112%	3.6	0.3	-91%
Net inc/(exp)	1.5	1.9	31%	0.7	1.9	162%
Associates	0.7	0.0	nm	0.0	0.0	nm
EI	0.0	0.0	nm	0.0	0.0	nm
Pre-tax profit	47.3	40.1	-15%	43.6	40.1	-8%
Taxation	(10.4)	(8.5)	-19%	(7.9)	(8.5)	8%
Minority interest	(0.3)	(0.6)	nm	0.0	(0.6)	nm
Net profit	36.6	31.0	-15%	35.8	31.0	-13%
EPS (sen)	2.8	2.4	-15%	2.8	2.4	-13%
EBIT margin	7%	9%	1%	8%	9%	1%
Pre-tax margin	8%	9%	2%	8%	9%	1%
Effective tax rate	22%	21%	(1%)	18%	21%	3%

Source: Company, AmInvestment Bank Bhd

EXHIBIT 2: OUTSTANDING ORDER BOOK

Project	Outstanding Value (RMmil)
GS07 & GS08, LRT3	1,929
Internal building jobs	1,923
Sunway Medical Centre (SMC) 4	429
Sunway Serene	306
Sunway Velocity Two	343
Carnival Mall extension	247
Sunway GeoLake	161
SMC Seberang Jaya	163
Big Box, Iskandar	145
Velocity 3C4	96
Others	33
TNB HQ campus, KL	781
V201, MRT2	359
Parcel F, Putrajaya	69
PPA1M, Kota Bharu	141
Nippon Express	48
Others	166
Total	5,416

Source: Company, AmInvestment Bank Bhd

EXHIBIT 3: PB BAND CHART

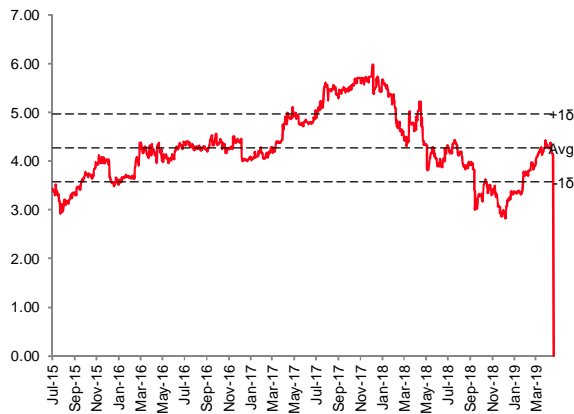


EXHIBIT 4: PE BAND CHART

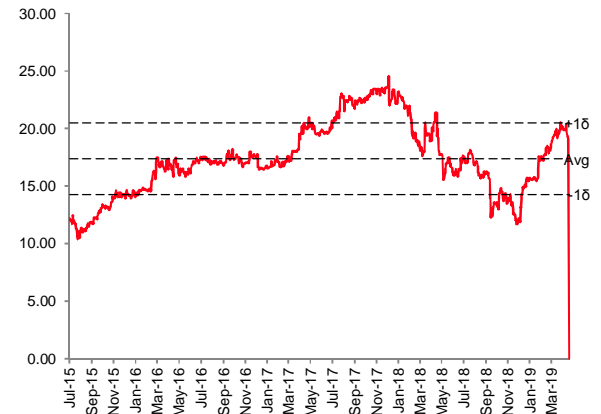


EXHIBIT 5: FINANCIAL DATA

Income Statement (RMmil, YE 31 Dec)	FY17	FY18	FY19F	FY20F	FY21F
Revenue	2,076.3	2,256.8	2,176.8	2,164.0	2,149.6
EBITDA	196.9	214.6	199.4	219.4	226.9
Depreciation/Amortisation	(37.8)	(40.0)	(47.2)	(52.2)	(57.2)
Operating income (EBIT)	159.1	174.6	152.2	167.2	169.6
Other income & associates	2.2	0.7	-	-	-
Net interest	7.4	7.7	10.6	9.6	9.0
Exceptional items	-	-	-	-	-
Pretax profit	168.7	183.1	162.7	176.9	178.7
Taxation	(36.2)	(38.0)	(32.5)	(35.4)	(35.7)
Minorities/pref dividends	(0.1)	(0.3)	(0.1)	(0.1)	(0.1)
Net profit	132.3	144.7	130.0	141.4	142.8
Core net profit	132.3	144.7	130.0	141.4	142.8
Balance Sheet (RMmil, YE 31 Dec)	FY17	FY18	FY19F	FY20F	FY21F
Fixed assets	152.1	163.7	216.5	264.3	307.1
Intangible assets	3.6	3.6	3.6	3.6	3.6
Other long-term assets	2.6	48.0	48.0	48.0	48.0
Total non-current assets	158.3	215.3	268.1	315.9	358.7
Cash & equivalent	487.2	484.9	445.9	423.2	407.0
Stock	-	-	-	-	-
Trade debtors	1,184.4	1,059.5	1,059.5	1,059.5	1,059.5
Other current assets	46.4	52.8	52.8	52.8	52.8
Total current assets	1,718.0	1,597.2	1,558.2	1,535.5	1,519.3
Trade creditors	1,185.1	994.8	994.8	994.8	994.8
Short-term borrowings	134.7	113.6	113.6	113.6	113.6
Other current liabilities	5.2	14.1	14.1	14.1	14.1
Total current liabilities	1,324.9	1,122.6	1,122.6	1,122.6	1,122.6
Long-term borrowings	-	-	-	-	-
Other long-term liabilities	7.0	0.6	0.6	0.6	0.6
Total long-term liabilities	7.0	0.6	0.6	0.6	0.6
Shareholders' funds	542.9	591.1	604.8	629.8	656.2
Minority interests	1.1	1.4	1.6	1.7	1.8
BV/share (RM)	0.42	0.46	0.47	0.49	0.51
Cash Flow (RMmil, YE 31 Dec)	FY17	FY18	FY19F	FY20F	FY21F
Pretax profit	168.7	183.1	162.7	176.9	178.7
Depreciation/Amortisation	37.8	40.0	47.2	52.2	57.2
Net change in working capital	(112.1)	(10.5)	-	-	-
Others	(208.7)	(22.7)	(43.1)	(45.0)	(44.8)
Cash flow from operations	(114.4)	189.8	166.8	184.1	191.1
Capital expenditure	(54.7)	(100.3)	(100.0)	(100.0)	(100.0)
Net investments & sale of fixed assets	6.2	1.4	-	-	-
Others	83.3	25.1	-	-	-
Cash flow from investing	34.9	(73.8)	(100.0)	(100.0)	(100.0)
Debt raised/(repaid)	-	(21.1)	-	-	-
Equity raised/(repaid)	-	-	-	-	-
Dividends paid	(68.5)	(96.9)	(116.4)	(116.4)	(116.4)
Others	(5.5)	-	10.6	9.6	9.0
Cash flow from financing	(73.9)	(118.0)	(105.8)	(106.7)	(107.3)
Net cash flow	(153.5)	(2.0)	(39.0)	(22.7)	(16.2)
Net cash/(debt) b/f	465.3	487.6	488.4	449.4	426.7
Net cash/(debt) c/f	310.4	485.6	449.4	426.7	410.5
Key Ratios (YE31 Dec)	FY17	FY18	FY19F	FY20F	FY21F
Revenue growth (%)	16.1	8.7	(3.5)	(0.6)	(0.7)
EBITDA growth (%)	16.2	9.0	(7.1)	10.1	3.4
Pretax margin (%)	8.1	8.1	7.5	8.2	8.3
Net profit margin (%)	6.4	6.4	6.0	6.5	6.6
Interest cover (x)	nm	nm	nm	nm	nm
Effective tax rate (%)	21.5	20.8	20.0	20.0	20.0
Dividend payout (%)	40.0	50.0	50.0	50.0	50.0
Debtors turnover (days)	208	171	178	179	180
Stock turnover (days)	-	-	-	-	-
Creditors turnover (days)	250	198	214	216	218

Source: Company, AmInvestment Bank Bhd estimates

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