



AmInvestment Bank

SUNWAY CONSTRUCTION

(SCGB MK EQUITY, SCOG.KL)

15 Sep 2017

Poised to surpass FY17 target for job wins

Company report

BUY

(Upgraded)

AmInvestment Bank

www.amesecurities.com.my

03-2036 2250

Rationale for report: Company update

Price	RM2.30
Fair Value	RM2.60
52-week High/Low	RM2.41/RM1.56

Key Changes

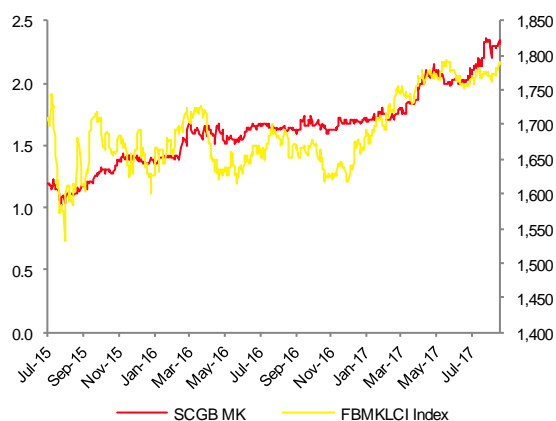
Fair value	↑
EPS	↑

YE to Dec	FY16	FY17F	FY18F	FY19F
Revenue (RM mil)	1,788.8	1,987.9	3,421.0	3,646.8
Core net profit (RM mil)	123.5	140.6	223.7	244.0
FD Core EPS (sen)	9.6	10.9	17.3	18.9
FD Core EPS growth (%)	(2.9)	13.8	59.1	9.1
Consensus Net Profit (RM mil)	-	150.6	170.0	177.3
DPS (sen)	6.5	7.0	8.0	9.0
PE (x)	24.1	21.1	13.3	12.2
EV/EBITDA (x)	14.2	12.4	7.6	6.7
Div yield (%)	2.8	3.0	3.5	3.9
ROE (%)	26.2	26.6	35.3	31.8
Net Gearing (%)	nm	nm	nm	nm

Stock and Financial Data

Shares Outstanding (million)	1,292.9
Market Cap (RMmil)	2,973.7
Book Value (RM/share)	0.38
P/BV (x)	6.0
ROE (%)	26.2
Net Gearing (%)	-
Major Shareholders	Sunway Holdings (54.4%) Sungei Way Corp (10.0%) True Paragon (3.9%)
Free Float	347.7
Avg Daily Value (RMmil)	3.8

Price performance	3mth	6mth	12mth
Absolute (%)	15.0	34.5	42.0
Relative (%)	15.7	30.1	32.4



Investment Highlights

- We upgrade Sunway Construction (SunCon) from HOLD to BUY, raise our FY17-19F net profit forecasts by 1%, 29% and 29%, and increase our FV by 29% to RM2.60 from RM2.01 previously. This follows an upward revision in our assumption for new job wins in FY17 to RM3.5bil (from RM2.5bil previously), while keeping our new order book replenishment assumption of RM2bil annually in FY18-19F. Our FV is based on 15x revised FY18F EPS, in line with our benchmark forward PE of 14-16x for large-cap listed construction companies.
- We came away from a recent visit to the company feeling more upbeat on the company's prospects. SunCon appeared confident that its FY17 job wins will surpass its initial target of RM2bil by a huge margin. YTD, SunCon has bagged new jobs worth RM1.6bil, including the RM582mil government servant housing project PP1AM to build 2,160 units of apartments in Kota Bharu secured yesterday. SunCon is particularly bullish in the rail-related space, as well as internal projects from parent Sunway Bhd.
- For FY18-19F, SunCon reiterated its guidance for annual job wins normalising to RM2bil underpinned largely by: (1) internal contracts from parent Sunway Bhd comprising building jobs for new property launches, and up to five new hospital projects; and (2) external jobs from key mega infrastructure projects such the HSR, ECRL and MRT3.
- Meanwhile, SunCon is awaiting the outcome of its tender, via a 50:50 JV with a Singaporean partner, for an integrated construction precast hub (ICPH) yard in Pulau Punggol Barat in Singapore which should be made known by mid-2018.
- SunCon intends to build on the yard a fully automated robotic precast plant with an annual capacity of 300m³ (vs. its total capacity of 156.6 m³ in Iskandar and Senai at present). SunCon guided for a capex of SG\$40-60mil (RM120-180mil) for the venture, which it has no problem funding, given its net cash of ~RM360mil as at end-1HFY17. The new plant, which takes about three years to be completed, will ride on the growing demand for precast products in Singapore, driven by government initiatives with the latest being mandatory requirement for prefabricated bathrooms in new HDB flats by 2019.
- We continue to like SunCon for: 1) its good earnings visibility underpinned by an outstanding order book of RM4.9bil (Exhibit 1), which will keep it busy for the next 2-3 years; 2) its strong prospects for new job wins underpinned by various mega infrastructure projects, particularly the rail-related ones, in the market; and 3) its proven track record with various blue-chip clients in the market.

EXHIBIT 1: OUTSTANDING ORDERBOOK

Infrastructure/Piling	
MRT V201	1,006
SUKE + DASH (Bore piling)	30
BBCC (Bore piling)	34
Mega Capital	9
Building	
Putrajaya Parcel F	1,064
KLCC (NEC + Package 2 & 2a)	170
HUKM (MEP works)	63
ISKL	202
GDC (Plant 1)	148
PP1AM Kota Bharu	582
Others	4
Internal	
Sunway Velocity	
Hotel + Office	19
Medical Centre	143
Sunway Medical Centre	394
Sunway Iskandar	
Citrine Svc Apartment	13
Emerald Residence	89
88 unit shoplots	36
Retail complex/Big Box	79
Sunway Serene	449
Sunway Geo	62
Others	12
Singapore - Precast	251
Total	4,859

*Outstanding orderbook as of June 2017 (except PP1AM Kota Bharu that was awarded on 14 September 2017)

Source: Company, AmlInvestment Bank Bhd

EXHIBIT 2: FINANCIAL DATA

Income Statement (RMmil, YE 31 Dec)	FY15	FY16	FY17F	FY18F	FY19F
Revenue	1,916.9	1,788.8	1,987.9	3,421.0	3,646.8
EBITDA	175.6	186.4	209.4	321.9	348.2
Depreciation/Amortisation	(39.3)	(37.1)	(37.2)	(42.2)	(47.2)
Operating income (EBIT)	136.3	149.2	172.1	279.7	300.9
Other income & associates	-	-	-	-	-
Net interest	4.5	4.4	13.0	14.9	20.4
Exceptional items	-	-	-	-	-
Pretax profit	140.8	153.7	185.2	294.6	321.4
Taxation	(13.0)	(30.0)	(44.4)	(70.7)	(77.1)
Minorities/pref dividends	(0.6)	(0.1)	(0.1)	(0.2)	(0.2)
Net profit	127.2	123.5	140.6	223.7	244.0
Core net profit	127.2	123.5	140.6	223.7	244.0
Balance Sheet (RMmil, YE 31 Dec)	FY15	FY16	FY17F	FY18F	FY19F
Fixed assets	162.5	140.7	153.5	161.3	164.1
Intangible assets	3.6	3.6	3.6	3.6	3.6
Other long-term assets	14.0	10.8	10.8	10.8	10.8
Total non-current assets	180.2	155.1	167.9	175.7	178.5
Cash & equivalent	390.5	465.8	523.6	655.6	780.2
Stock	-	-	-	-	-
Trade debtors	626.5	763.9	763.9	763.9	763.9
Other current assets	200.2	212.5	212.5	212.5	212.5
Total current assets	1,217.2	1,442.2	1,500.0	1,632.1	1,756.6
Trade creditors	795.6	955.0	955.0	955.0	955.0
Short-term borrowings	136.8	136.5	136.5	136.5	136.5
Other current liabilities	9.3	11.4	11.4	11.4	11.4
Total current liabilities	941.7	1,102.9	1,102.9	1,102.9	1,102.9
Long-term borrowings	-	-	-	-	-
Other long-term liabilities	4.1	0.6	0.6	0.6	0.6
Total long-term liabilities	4.1	0.6	0.6	0.6	0.6
Shareholders' funds	451.0	493.0	563.5	703.1	830.2
Minority interests	0.6	0.8	0.9	1.1	1.3
BV/share (RM)	0.35	0.38	0.44	0.54	0.64
Cash Flow (RMmil, YE 31 Dec)	FY15	FY16	FY17F	FY18F	FY19F
Pretax profit	140.8	153.7	185.2	294.6	321.4
Depreciation/Amortisation	39.3	37.1	37.2	42.2	47.2
Net change in working capital	239.8	(58.7)	-	-	-
Others	(181.8)	(46.5)	(57.5)	(85.6)	(97.6)
Cash flow from operations	238.1	85.6	164.9	251.2	271.0
Capital expenditure	(38.7)	(19.0)	(50.0)	(50.0)	(50.0)
Net investments & sale of fixed assets	15.0	2.1	-	-	-
Others	(40.2)	89.6	19.1	21.0	26.5
Cash flow from investing	(63.9)	72.7	(30.9)	(29.0)	(23.5)
Debt raised/(repaid)	136.8	(0.3)	-	-	-
Equity raised/(repaid)	-	-	-	-	-
Dividends paid	(70.0)	(84.0)	(70.1)	(84.0)	(116.9)
Others	(135.2)	-	(6.1)	(6.1)	(6.1)
Cash flow from financing	(68.4)	(84.4)	(76.2)	(90.1)	(123.0)
Net cash flow	105.7	73.9	57.8	132.1	124.5
Net cash/(debt) b/f	277.6	389.7	465.3	523.1	655.2
Net cash/(debt) c/f	388.1	465.3	523.1	655.2	779.7
Key Ratios (YE 31 Dec)	FY15	FY16	FY17F	FY18F	FY19F
Revenue growth (%)	-	(6.7)	11.1	72.1	6.6
EBITDA growth (%)	-	6.2	12.3	53.8	8.2
Pretax margin (%)	7.3	8.6	9.3	8.6	8.8
Net profit margin (%)	6.6	6.9	7.1	6.5	6.7
Interest cover (x)	nm	nm	nm	nm	nm
Effective tax rate (%)	9.2	19.5	24.0	24.0	24.0
Dividend payout (%)	-	68.0	40.0	50.0	50.0
Debtors turnover (days)	119	156	140	82	76
Stock turnover (days)	-	-	-	-	-
Creditors turnover (days)	195	254	211	125	121

Source: Company, AmlInvestment Bank Bhd estimates

EXHIBIT 3: PB BAND CHART

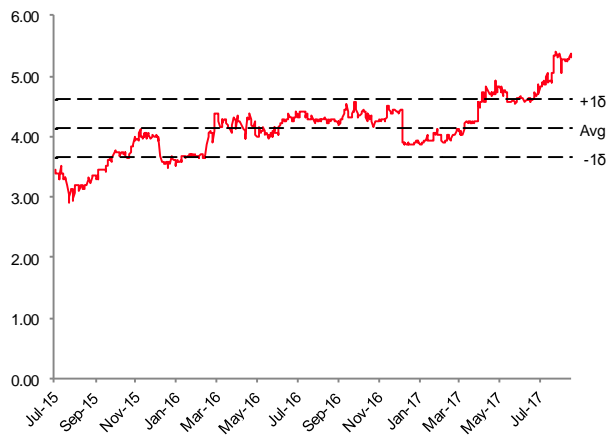
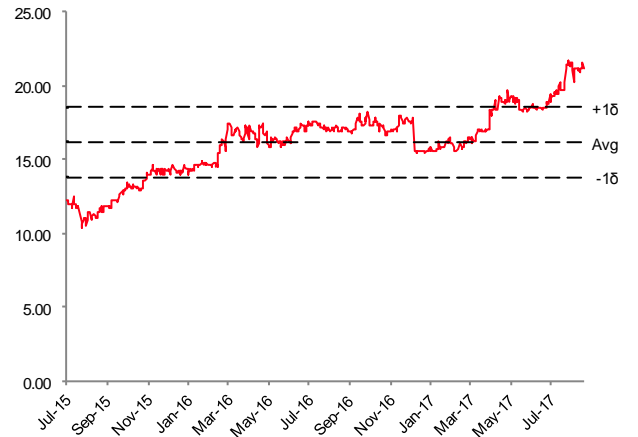


EXHIBIT 4: PE BAND CHART



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