

Outthink. Outperform.

## Precast lag

Sunway Construction's (Suncon) 1H17 result was below market and our expectations. Net profit increased 18% yoy to RM71.4m driven by higher construction earnings. However, precast concrete earnings was lower due to slow progress for the main contractor that Suncon supplies products. We cut our EPS by 6% in FY17E to reflect lower slower progress billings but lift our EPS by 2-10% in FY18-19E to reflect higher new contract assumptions. We reiterate our HOLD call with higher TP of RM2.34, based on 10% discount to RNAV.

### Lower 1H17 core net profit

Net profit of RM71.4m (+18% yoy) in 1H17 comprised 44-46% of full-year consensus and our previous forecasts of RM154.4-162.7m. Revenue declined 2% yoy to RM837m due to lower precast concrete revenue. The main contractor that Suncon supplies precast products saw slow progress. However, PBT increased 15% yoy to RM86.9m in 1H17, on the back of better construction PBT margins (8.8% in 1H17 vs 6.4% in 1H16) and exceptional gains of RM8.8m. However, core net profit fell 10% yoy to RM61.8m in 1H17 due to lower precast concrete earnings.

### Higher construction earnings

Construction profit PBT jumped 37% yoy to RM64.8m (75% of group PBT) in 1H17 due to improved PBT margin and arbitration gain of RM6.1m, which relates to an Indian highway project completed in the past. Suncon secured RM0.99bn (includes RM212m contract for MRT Line 2 stations which forms part of MRT V201 package secured last year) new contracts to date, replenishing its order book to RM4.3bn, equivalent to 2.4x 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 declined 22% yoy to RM22.1m in 1H17 on lower revenue (-18% yoy) due to lower sales volume as construction progress for a main contractor slowed. PBT margin eased 1.2ppt yoy to 22.4% in 1H17.

### Maintain HOLD

We upgrade our RNAV/share to RM2.60 from RM2.37 after lifting our construction segment valuation (higher sustainable earnings assumed) and rolling forward the valuation base year to FY18E. Based on the same 10% discount to RNAV, we lift our TP to RM2.34 from RM2.13. We reiterate our HOLD call supported by reasonable net yield of 3%.

### Earnings & Valuation Summary

FYE 31 Dec	2015	2016	2017E	2018E	2019E
Revenue (RMm)	1,916.9	1,788.8	1,902.1	2,489.4	2,836.6
EBITDA (RMm)	187.3	188.6	216.6	277.5	295.3
Pretax profit (RMm)	140.8	153.7	194.3	244.0	261.3
Net profit (RMm)	127.2	123.5	153.4	185.3	198.5
EPS (sen)	9.8	9.6	11.9	14.3	15.3
PER (x)	23.6	24.3	19.6	16.2	15.1
Core net profit (RMm)	136.2	118.7	143.7	185.3	198.5
Core EPS (sen)	10.5	9.2	11.1	14.3	15.3
Core EPS growth (%)	0.7	(12.9)	21.1	28.9	7.1
Core PER (x)	22.0	25.3	20.9	16.2	15.1
Net DPS (sen)	4.0	5.0	11.0	7.0	7.0
Dividend Yield (%)	1.7	2.2	4.7	3.0	3.0
EV/EBITDA (x)	14.2	14.2	12.1	9.3	8.5
Chg in EPS (%)			(5.7)	2.1	9.8
Affin/Consensus (x)			1.0	1.1	1.1

Source: Company, Affin Hwang forecasts, Bloomberg

## Results Note

# Sunway Construction

SCGB MK  
Sector: Construction

RM2.32 @ 24 Aug 2017

**HOLD (maintain)**

Upside 1%

**Price Target: RM2.34**

Previous Target: RM2.13



## Price Performance

	1M	3M	12M
Absolute	+12.6%	+12.1%	+41.5%
Rel to KLCI	+11.8%	+11.8%	+34.0%

## Stock Data

Issued shares (m)	1,292.2
Mkt cap (RMm)/(US\$m)	2,998/700.4
Avg daily vol - 6mth (m)	1.5
52-wk range (RM)	1.56-2.41
Est free float	30.2%
BV per share (RM)	0.41
P/BV (x)	5.6
Net cash/ (debt) (RMm) (2Q17)	364.1
ROE (2017F)	30.8
Derivatives	Nil
Shariah Compliant	Yes

## Key Shareholder

Sunway Bhd	54.4%
Sungei Way Corp	10.1%
EPF	3.6%

Source: Affin Hwang, Bloomberg

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**Lower sequential core net profit**

Core net profit contracted 10% qoq and 2% yoy to RM30.8m in 2Q17. Net profit grew 6% qoq and 18% yoy to RM36.8m in 2Q17 due to arbitration gain and reversal of impairment for trade receivables.

**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)	2Q17	% QoQ	% YoY	1H17	% YoY	2Q17 Comment
<b>Revenue</b>	<b>417.2</b>	<b>(0.5)</b>	<b>(3.0)</b>	<b>836.8</b>	<b>(2.1)</b>	Flat construction revenue but lower precast concrete revenue (-22% yoy) due to slow progress for a main contractor client.
Op costs	(372.3)	0.9	(2.8)	(744.3)	(1.2)	
<b>EBITDA</b>	<b>44.9</b>	<b>(11.4)</b>	<b>(5.2)</b>	<b>92.4</b>	<b>(8.4)</b>	
<i>EBITDA margin (%)</i>	<i>10.8</i>	<i>(1.3ppt)</i>	<i>(0.2ppt)</i>	<i>11.0</i>	<i>(0.8ppt)</i>	Better profit margin for construction division but lower for its precast concrete arm.
Depn and amort	(9.1)	0.1	(5.4)	(18.3)	(6.3)	
<b>EBIT</b>	<b>35.8</b>	<b>(13.9)</b>	<b>(5.2)</b>	<b>74.1</b>	<b>(9.0)</b>	
Interest income	2.3	(27.5)	22.6	5.5	16.2	Higher cash deposits.
Interest expense	(1.3)	17.8	(7.7)	(2.3)	12.3	
Associates	0.0	NA	NA	0.0	NA	
Forex gain (losses)	0.1	(80.8)	NA	0.8	(124.1)	
Exceptional items	5.8	NA	>100	8.9	NA	Arbitration gain for a completed Indian highway project and reversal of impairment on receivables.
<b>Pretax profit</b>	<b>42.8</b>	<b>(3.2)</b>	<b>12.2</b>	<b>86.9</b>	<b>14.9</b>	Below expectations due to lower-than-expected earnings for construction and precast concrete divisions.
<b>Core pretax</b>	<b>36.8</b>	<b>(15.7)</b>	<b>(3.7)</b>	<b>77.3</b>	<b>(8.1)</b>	
Tax	(6.1)	(36.2)	(10.8)	(15.6)	2.1	
<i>Tax rate (%)</i>	<i>14.2</i>	<i>(7.4ppt)</i>	<i>(3.7ppt)</i>	<i>17.9</i>	<i>(2.3ppt)</i>	
Minority interests	0.1	>100	NA	0.1	NA	
<b>Net profit</b>	<b>36.8</b>	<b>6.1</b>	<b>17.6</b>	<b>71.4</b>	<b>18.4</b>	Below expectations.
<b>Core net profit</b>	<b>30.8</b>	<b>(9.8)</b>	<b>(1.8)</b>	<b>61.8</b>	<b>(10.2)</b>	Weaker precast concrete performance drag down core earnings.
EPS (sen)	2.8	6.0	17.4	5.5	18.2	

Source: Company, Affin Hwang estimates

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**Fig 2: Segmental PBT breakdown**

FYE 31 Dec (RMm)	2Q16	1Q17	2Q17	% QoQ	% YoY	1H16	1H17	% YoY
Construction	21.2	28.4	36.4	28.4	71.5	47.2	64.8	37.2
Precast concrete	16.9	15.8	6.3	(59.9)	(62.4)	28.4	22.1	(22.1)
<b>Total</b>	<b>38.1</b>	<b>44.2</b>	<b>42.8</b>	<b>(3.2)</b>	<b>12.2</b>	<b>75.6</b>	<b>86.9</b>	<b>14.9</b>

Source: Company, Affin Hwang estimates

**Fig 3: Segmental PBT margin**

FYE 31 Dec (%)	2Q16	1Q17	2Q17	ppt QoQ	ppt YoY	1H16	1H17	ppt QoQ
Construction	5.9	8.1	9.4	1.3	3.5	5.1	7.0	2.0
Precast concrete	24.2	23.0	21.0	(1.9)	(3.1)	19.0	15.8	(3.2)
<b>Total</b>	<b>8.9</b>	<b>10.5</b>	<b>10.3</b>	<b>(0.3)</b>	<b>1.4</b>	<b>7.0</b>	<b>8.2</b>	<b>1.2</b>

Source: Company, Affin Hwang estimates

**Fig 4: RNAV and target price**

Segments	Stake (%)	New RNAV (RMm)	Old RNAV (RMm)	Change (%)
Construction @ PE 16x avg earnings of RM145m	100	2,320	2,112	10
Pre-cast concrete @ PE 16x avg earnings of RM42m	100	672	672	0
Net cash/(debt)		364	280	30
<b>RNAV</b>		<b>3,356</b>	<b>3,064</b>	<b>10</b>
No. of shares (m shrs)		1,293	1,293	0
<b>RNAV/share (RM)</b>		<b>2.60</b>	<b>2.37</b>	<b>10</b>
<b>Target price at 10% discount to RNAV/share</b>		<b>2.34</b>	<b>2.13</b>	<b>10</b>

Source: Company, Affin Hwang

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**Equity Rating Structure and Definitions**


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<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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