

Lands RM352mil Sunway Velocity Two building job

UNDERWEIGHT

(Maintained)

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Rationale for report: Company update

Price	RM1.57
Fair Value	RM1.27
52-week High/Low	RM2.64/RM1.30

Key Changes

Fair value	⬇️
EPS	↔️

YE to Dec	FY17	FY18F	FY19F	FY20F
Revenue (RM mil)	2,076.3	2,736.8	2,403.8	2,855.7
Core net profit (RM mil)	137.8	149.1	164.3	179.2
FD Core EPS (sen)	10.7	11.5	12.7	13.9
FD Core EPS growth (%)	31.7	8.2	10.2	9.1
Consensus Net Profit (RM mil)	-	156.7	174.1	180.3
DPS (sen)	7.0	8.0	9.0	9.0
PE (x)	14.7	13.6	12.4	11.3
EV/EBITDA (x)	8.3	7.4	6.7	6.0
Div yield (%)	4.5	5.1	5.7	5.7
ROE (%)	26.3	25.9	26.4	26.4
Net Gearing (%)	nm	nm	nm	nm

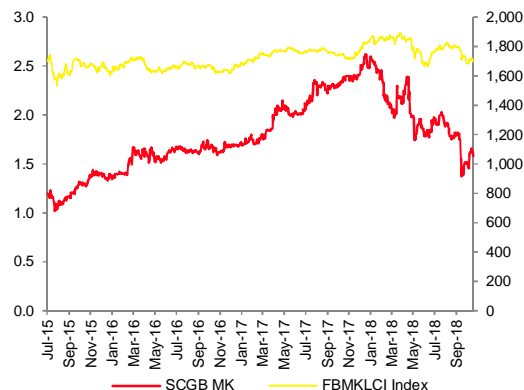
Stock and Financial Data

Shares Outstanding (million)	1,292.9
Market Cap (RM mil)	2,029.9
Book Value (RM/share)	0.43
P/BV (x)	3.7
ROE (%)	26.3
Net Gearing (%)	-

Major Shareholders	Sunway Holdings (54.4%) Sungei Way Corp (10.0%) True Paragon (3.9%)
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Free Float	347.7
Avg Daily Value (RMmil)	2.0

Price performance	3mth	6mth	12mth
Absolute (%)	(21.5)	(34.3)	(33.8)
Relative (%)	(17.0)	(28.1)	(31.8)



Investment Highlights

- We maintain our forecasts but reduce our fair value by 17% to RM1.27 (from RM1.53) based on 10x FY19 EPS (from 12x previously), which is still in line with our benchmark forward P/E of 10-12x for mid-cap construction stocks. The downgrade in P/E multiple is to reflect the continuing sector de-rating. Maintain UNDERWEIGHT.
- Sunway Construction has secured a RM352.1mil contract from sister company Sunway Velocity Two Sdn Bhd for the construction of an office tower and two apartment blocks in Sunway Velocity Two development in Jalan Peel, Kuala Lumpur, with a construction period of 37 months beginning November 2018.
- The latest job has boosted its YTD construction job wins (excluding precast orders) to RM1.2bil and its outstanding construction order book to RM5.95bil based on our estimates (Exhibit 1). We are keeping our forecasts that assume construction job wins of RM1.5bil annually in FY18-20F.
- We remain cautious on the outlook for the local construction sector. As the government scales back on public projects, local contractors will be competing for a shrinking pool of new jobs in the market. Severe undercutting among the players will result in razor-thin margins for the successful bidders. On the other hand, the introduction of a more transparent public procurement system under the new administration should weed out rent-seekers, paving the way toward healthier competition within the local construction sector.
- We believe Sunway Construction is mitigated by its substantial order backlog that should keep it busy over the next 1-2 years, coupled with its proven ability to compete under an open bidding system. However, valuations are unattractive at 11-14x forward earnings on muted sector prospects.

EXHIBIT 1: OUTSTANDING ORDER BOOK

Project	Outstanding	Value (RMmil)
GS07 & GS08, LRT3		2,067
Internal building jobs		2,081
Sunway Medical Centre (SMC) 4	456	
Sunway Serene	357	
Sunway Velocity Two	352	
Carnival Mall extension	277	
Sunway GeoLake	210	
SMC Seberang Jaya	180	
Big Box, Iskandar	130	
Others	119	
V201, MRT2		587
Parcel F, Putrajaya		421
PPA1M, Kota Bharu		420
Others		378
Total		5,954

Source: Company, AmInvestment Bank Bhd

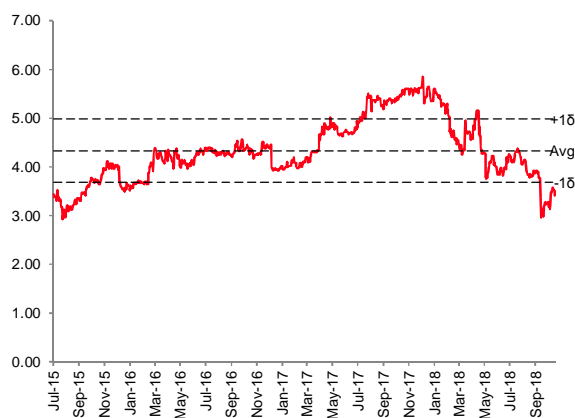
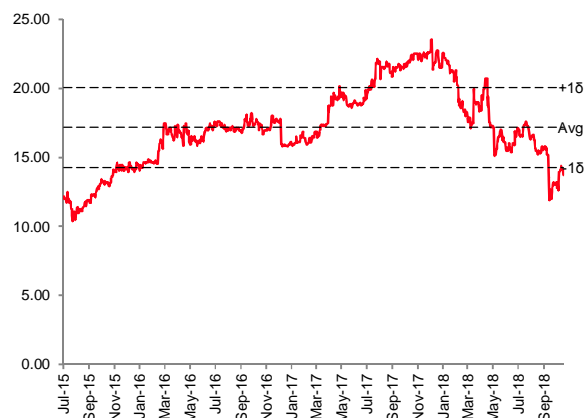
EXHIBIT 2: PB BAND CHART**EXHIBIT 3: PE BAND CHART**

EXHIBIT 4: FINANCIAL DATA

Income Statement (RMmil, YE 31 Dec)	FY16	FY17	FY18F	FY19F	FY20F
Revenue	1,788.8	2,076.3	2,736.8	2,403.8	2,855.7
EBITDA	169.4	202.6	228.2	253.5	277.9
Depreciation/Amortisation	(39.1)	(37.8)	(42.2)	(47.2)	(52.2)
Operating income (EBIT)	130.3	164.8	185.9	206.3	225.7
Other income & associates	-	2.2	-	-	-
Net interest	4.4	7.2	10.4	10.1	10.3
Exceptional items	18.9	-	-	-	-
Pretax profit	153.7	174.2	196.3	216.4	236.0
Taxation	(30.0)	(36.2)	(47.1)	(51.9)	(56.6)
Minorities/pref dividends	(0.1)	(0.1)	(0.1)	(0.2)	(0.2)
Net profit	123.5	137.8	149.1	164.3	179.2
Core net profit	104.6	137.8	149.1	164.3	179.2
Balance Sheet (RMmil, YE 31 Dec)	FY16	FY17	FY18F	FY19F	FY20F
Fixed assets	140.7	152.1	209.8	262.6	310.4
Intangible assets	3.6	3.6	3.6	3.6	3.6
Other long-term assets	10.8	2.6	2.6	2.6	2.6
Total non-current assets	155.1	158.3	216.1	268.9	316.7
Cash & equivalent	465.8	487.2	475.2	470.6	485.8
Stock	-	-	-	-	-
Trade debtors	763.9	1,105.7	1,105.7	1,105.7	1,105.7
Other current assets	212.5	135.9	135.9	135.9	135.9
Total current assets	1,442.2	1,728.9	1,716.9	1,712.2	1,727.4
Trade creditors	955.0	1,185.1	1,185.1	1,185.1	1,185.1
Short-term borrowings	136.5	134.7	134.7	134.7	134.7
Other current liabilities	11.4	5.2	5.2	5.2	5.2
Total current liabilities	1,102.9	1,324.9	1,324.9	1,324.9	1,324.9
Long-term borrowings	-	-	-	-	-
Other long-term liabilities	0.6	7.0	7.0	7.0	7.0
Total long-term liabilities	0.6	7.0	7.0	7.0	7.0
Shareholders' funds	493.0	553.7	599.4	647.3	710.2
Minority interests	0.8	1.1	1.3	1.4	1.6
BV/share (RM)	0.38	0.43	0.46	0.50	0.55
Cash Flow (RMmil, YE 31 Dec)	FY16	FY17	FY18F	FY19F	FY20F
Pretax profit	153.7	174.2	196.3	216.4	236.0
Depreciation/Amortisation	39.1	37.8	42.2	47.2	52.2
Net change in working capital	(58.7)	(112.1)	-	-	-
Others	(48.5)	(38.8)	(57.5)	(62.1)	(67.0)
Cash flow from operations	85.6	61.0	181.0	201.5	221.3
Capital expenditure	(19.0)	(54.7)	(100.0)	(100.0)	(100.0)
Net investments & sale of fixed assets	2.1	6.2	-	-	-
Others	89.6	83.3	-	-	-
Cash flow from investing	72.7	34.9	(100.0)	(100.0)	(100.0)
Debt raised/(repaid)	(0.3)	-	-	-	-
Equity raised/(repaid)	-	-	-	-	-
Dividends paid	(84.0)	(69.6)	(103.4)	(116.4)	(116.4)
Others	-	(4.4)	10.4	10.1	10.3
Cash flow from financing	(84.4)	(73.9)	(93.0)	(106.2)	(106.1)
Net cash flow	73.9	21.9	(12.0)	(4.7)	15.2
Net cash/(debt) b/f	389.7	465.3	487.6	475.6	470.9
Net cash/(debt) c/f	465.3	485.8	475.6	470.9	486.2
Key Ratios (YE 31 Dec)	FY16	FY17	FY18F	FY19F	FY20F
Revenue growth (%)	(6.7)	16.1	31.8	(12.2)	18.8
EBITDA growth (%)	(3.5)	19.6	12.6	11.1	9.7
Pretax margin (%)	8.6	8.4	7.2	9.0	8.3
Net profit margin (%)	6.9	6.6	5.4	6.8	6.3
Interest cover (x)	nm	nm	nm	nm	nm
Effective tax rate (%)	19.5	20.8	24.0	24.0	24.0
Dividend payout (%)	68.0	40.0	50.0	50.0	50.0
Debtors turnover (days)	156	194	147	168	141
Stock turnover (days)	2	-	-	-	-
Creditors turnover (days)	254	250	194	231	194

Source: Company, AmInvestment Bank Bhd estimates

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