



SUNWAY CONSTRUCTION

(SCGB MK EQUITY, SCOG.KL)

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Company report

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UNDERWEIGHT

(Maintained)

Rationale for report: Company results

Price	RM1.61
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)	15.1	14.0	12.7	11.6
EV/EBITDA (x)	8.5	7.6	6.9	6.2
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

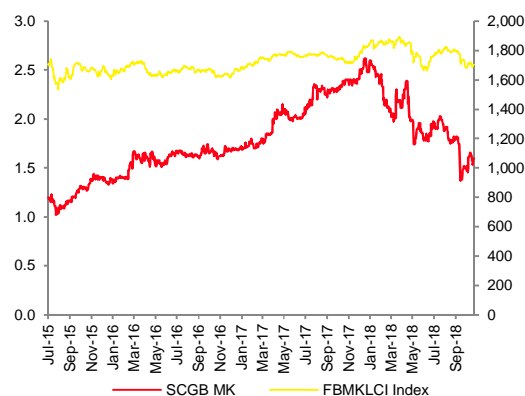
Stock and Financial Data

Shares Outstanding (million)	1,292.9
Market Cap (RMmil)	2,081.6
Book Value (RM/share)	0.43
P/BV (x)	3.8
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)	1.7

Price performance	3mth	6mth	12mth
Absolute (%)	(18.7)	(20.3)	(32.9)
Relative (%)	(15.0)	(13.6)	(32.6)



Investment Highlights

- We maintain our UNDERWEIGHT call, forecasts and FV of RM1.27 based on 10x FY19 EPS, in line with our benchmark forward P/E of 10x for large- and mid-cap construction stocks.
- Sunway Construction's 9MFY18 net profit came in within our expectations at 73% of our full-year forecast but missed market expectations at only 69% of the full-year consensus estimates.
- Its 9MFY18 net profit grew 5% YoY driven by higher construction profits (arising from the Parcel F building job in Putrajaya, Package V201 of the MRT2 and International School of Kuala Lumpur building contract in Ampang), partially offset by lower precast profits (due to the completion of several projects coupled with higher rebar prices).
- YTD, Sunway Construction has secured new jobs worth a total of RM1.22bil while its outstanding construction order book stands at RM5.38bil (Exhibit 1). Sunway Construction told us during a recent meeting that it is eyeing a third-party superstructure job (which it stands a very good chance by virtue of it being the piling contractor for the project) as well as parent Sunway Bhd's various new hospital and shopping mall projects. Our forecasts assume construction job wins of RM1.5bil annually in FY18-20F. Meanwhile, for its precast segment, the YTD new job wins stand at RM130mil while the order backlog stands at RM226mil.
- 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 backlogs 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 12-14x forward earnings on muted sector prospects.

EXHIBIT 1: RESULTS SUMMARY

YE Dec (RMmil)	FY18 1Q	FY18 2Q	FY18 3Q	QoQ Chg	FY17 9M	FY18 9M	YoY Chg
Turnover	529.2	544.3	557.3	2%	1,328.1	1,630.8	23%
Construction	492.1	511.6	524.1	2%	1,209.7	1,527.8	26%
Precast concrete	37.1	32.6	33.3	2%	118.5	103.1	-13%
EBIT	42.7	42.0	44.8	7%	123.6	129.5	5%
Construction	39.2	39.7	46.7	17%	101.7*	125.6	23%
Precast concrete	3.6	2.3	(1.9)	-184%	24.5*	3.9	-84%
Net inc/(exp)	1.0	3.2	2.1	-32%	3.8	6.3	64%
Associates	0.0	0.0	0.0	nm	0.0	0.0	nm
EI	0.0	0.0	0.0	nm	0.0	0.0	nm
Pretax profit	43.7	45.2	46.9	4%	127.4	135.8	7%
Taxation	(7.9)	(9.3)	(10.4)	12%	(24.2)	(27.6)	14%
Minority interest	0.0	(0.0)	(0.1)	nm	0.2	(0.1)	nm
Net profit	35.9	35.9	36.4	2%	103.4	108.1	5%
EPS (sen)	2.8	2.8	2.8	1%	8.0	8.4	5%
EBIT margin	8%	8%	8%	0%	9%	8%	(1%)
Pretax margin	8%	8%	8%	0%	10%	8%	(1%)
Effective tax rate	18%	21%	22%	2%	19%	20%	1%

Source: Company, AmInvestment Bank Bhd

*Before restatement

EXHIBIT 2: OUTSTANDING ORDER BOOK

Project	Outstanding	Value (RMmil)
GS07 & GS08, LRT3		2,021
Internal building jobs		1,997
Sunway Medical Centre (SMC) 4	449	
Sunway Serene	351	
Sunway Velocity Two	352	
Carnival Mall extension	261	
Sunway GeoLake	190	
SMC Seberang Jaya	176	
Big Box, Iskandar	114	
Others	104	
V201, MRT2		527
Parcel F, Putrajaya		287
PPA1M, Kota Bharu		208
KLCC		82
Nippon Express		68
Piling, SUKE CA1		53
Others		141
Total		5,384

Source: Company, AmInvestment Bank Bhd

EXHIBIT 3: PB BAND CHART

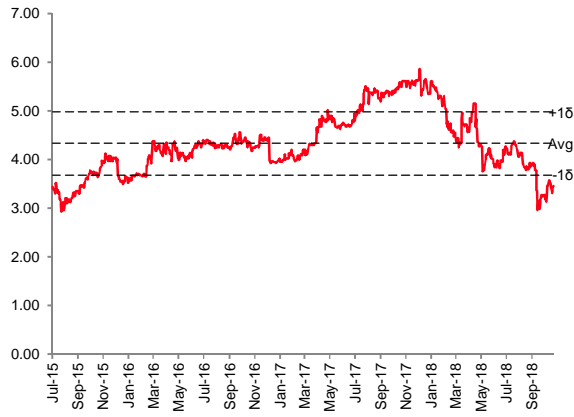


EXHIBIT 4: PE BAND CHART

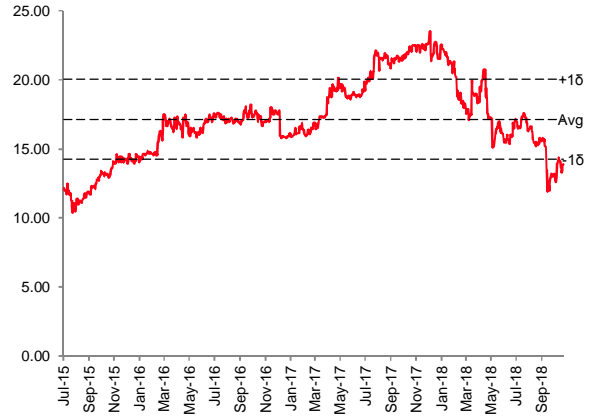


EXHIBIT 5: FINANCIAL DATA

Income Statement (RMmil, YE 31 Dec)	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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