

**COMPANY RESULTS**

**Sunway Construction (SCGB MK)**

1H18: Core Net Profit Up 11.3% yoy

SunCon's 1H18 net profit came in within expectations, at 41% of our and consensus full-year forecasts. 1H18 core net profit grew 11% yoy as its construction division continued to deliver resilient earnings growth but this is partially negated by the weaker performance from its precast business. Maintain HOLD. Target price: RM2.17. Entry price: RM1.81.

**2Q18 RESULTS**

Year to 31 Dec (RMm)	2Q18	1Q18	qoq % chg	1H18	1H17	yoy % chg
Revenue	544.3	529.2	2.8	1,073.5	836.8	28.3
Construction	511.6	492.1	4.0	1,003.7	737.9	36.0
Precast Concrete	32.7	37.1	(12.1)	69.8	98.9	(29.4)
EBIT	42.0	42.7	(1.7)	84.7	84.2	0.6
Construction	39.8	39.2	27.0	79.0	62.1	27.2
Precast Concrete	2.2	3.6	(37.5)	5.8	22.1	(73.9)
Pre-tax Profit	45.2	43.7	3.3	88.9	85.2	4.3
PATMI	35.9	35.9	0.0	71.7	69.7	2.9
Core PATMI	35.5	33.4	6.3	68.8	61.8	11.3

Source: SunCon, UOB Kay Hian

**RESULTS**

- Earnings within expectations.** Sunway Construction (SunCon) reported 1H18 core net profit of RM68.8m (+11.3% yoy) on the back of good progress billings at three of its key projects - MRT2, LRT3 and Parcel F building in Putrajaya which boosted 1H18 revenue to RM1.07b (+28% yoy). 1H18 results are within our expectations as we expect earnings to pick up progressively from 3Q18 on the back of progressive construction billings from its key projects and better margins from the construction division.
- Weak precast business.** SunCon's performance was partially offset by weaker performance from its precast division due to: a) slow offtakes of key customers are expected to persist until end-19, largely due to the slower-than-expected on-site construction progress in HDB developments in Singapore; and b) low realised ASPs in 2018 (per m<sup>3</sup>) due to competitive pricing in the Singapore market. Notwithstanding that, we expect stronger earnings growth from the precast segment from 2020 on improved ASP and stronger demand for precast for HDB construction activities.

**KEY FINANCIALS**

Year to 31 Dec (RMm)	2016	2017	2018F	2019F	2020F
Net turnover	1,789	2,076	2,040	2,572	2,904
EBITDA	113	147	256	253	280
Operating profit	74	110	216	208	233
Net profit (rep./act.)	85	100	169	176	194
Net profit (adj.)	85	100	169	176	194
EPS (sen)	6.6	7.8	13.1	13.6	15.0
PE (x)	30.8	26.0	15.4	14.9	13.5
P/B (x)	5.3	4.7	3.9	3.4	2.9
EV/EBITDA (x)	19.0	14.6	8.4	8.5	8.4
Dividend yield (%)	1.7	1.8	2.3	2.3	2.6
Net margin (%)	4.7	4.8	8.3	6.8	6.7
Net debt/(cash) to equity (%)	(66.8)	(63.7)	(69.5)	(73.5)	(76.5)
ROE (%)	17.9	19.2	27.8	24.4	23.1
Consensus net profit	-	-	169	187	194
UOBKH/Consensus (x)	-	-	1.00	0.94	1.00

Source: SunCon, Bloomberg, UOB Kay Hian

**HOLD**

(Maintained)

Share Price	RM2.02
Target Price	RM2.17
Upside	+7.4%

**COMPANY DESCRIPTION**

A leading construction company in Malaysia

**STOCK DATA**

GICS sector	Industrials
Bloomberg ticker:	SCGB MK
Shares issued (m):	1,292.2
Market cap (RMm):	2,610.3
Market cap (US\$m):	636.0
3-mth avg daily t'over (US\$m):	0.7

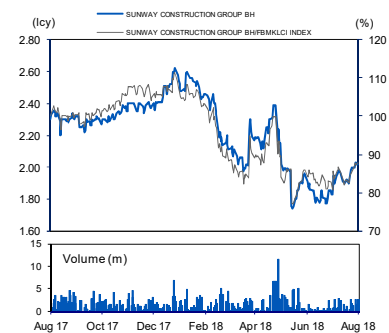
**Price Performance (%)**

52-week high/low	RM2.62/RM1.74			
<b>1mth</b>	<b>3mth</b>	<b>6mth</b>	<b>1yr</b>	<b>YTD</b>
9.2	(9.8)	(17.9)	(8.2)	(19.5)

**Major Shareholders**

	<b>%</b>
Sunway Berhad	54.4
FY18 NAV/Share (RM)	0.51
FY18 Net Cash/Share (RM)	0.36

**PRICE CHART**



Source: Bloomberg

**ANALYST(S)**

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## STOCK IMPACT

- Strong diversified outstanding orderbook.** SunCon's outstanding orderbook backlog of RM5.8b as of Jun 18 provides earnings visibility for its construction arm for the next 3- 4 years. In addition, the company has a balanced outstanding orderbook from both: a) external clients, mainly the federal government and private entities like KLCC Holdings, and b) works from sister company, Sunway Bhd. The company is concentrating on construction jobs from Sunway Bhd, such as building hospitals, shopping malls and high-rise residential block developments.
- ICPH to commence operations by mid-21.** The ICPH plant with an annual capacity of 100,000m<sup>3</sup> is expected to begin operations by mid-21, supplying various precast products like prefabricated bathroom units (PBU) and prefabricated volumetric construction (PPVC) products. We expect stronger earnings contribution from the ICPH plant from mid-21, with an estimated bottom line at >S\$10m annually. In addition, ICPH's precast products yield better margins (~>10%) relative to Johor precast products (annual capacity of 150,000m<sup>3</sup>).

## EARNINGS REVISION/RISK

- We maintain our 2018-19 net profit forecasts, but raise 2020 forecast by 10% to reflect improved earnings from the precast division.

## VALUATION/RECOMMENDATION

- Maintain HOLD and target price of RM2.17**, based on an 14x 2019F ex-cash EPS estimate of 13.5 sen.

## SHARE PRICE CATALYST

- Securing more construction jobs.

## OUTSTANDING ORDERBOOK AS OF JUNE-18

	(RMm)	(RMm)
LRT3	2,067	
MRT2	594	
BBCC	42	
Putrajaya Parcel F	421	
PPA1M Kelantan	420	
Others	330	
<b>Total External (A)</b>		<b>3,847</b>
Sunway Serene	357	
Sunway REITS	277	
Sunway GeoLAKE	210	
Others	885	
<b>Total Internal (B)</b>		<b>1,729</b>
<b>Precast (C)</b>		<b>183</b>
<b>Total (A+B+C)</b>		<b>5,786</b>

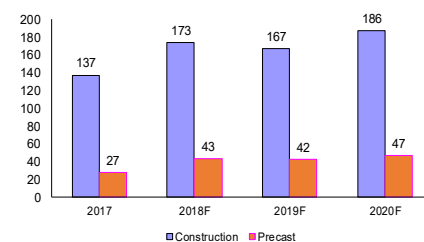
Source: UOB Kay Hian

## ANNUAL ORDERBOOK REPLENISHMENT ASSUMPTIONS

(RMm)	2018F	2019F	2020F
Orderbook Replenishment	1,500	1,500	1,500

Source: UOB Kay Hian

## SEGMENTAL EARNINGS FORECASTS



Source: UOB Kay Hian

### PROFIT & LOSS

Year to 31 Dec (RMm)	2017	2018F	2019F	2020F
<b>Net turnover</b>	<b>2,076</b>	<b>2,040</b>	<b>2,572</b>	<b>2,904</b>
EBITDA	147	256	253	280
Deprec. & amort.	38	40	44	47
EBIT	110	216	208	233
Total other non-operating income	17	0	0	0
Associate contributions	2	0	0	0
Net interest income/(expense)	7	3	5	6
<b>Pre-tax profit</b>	<b>136</b>	<b>220</b>	<b>214</b>	<b>239</b>
Tax	(36)	(51)	(38)	(46)
Minorities	0	0	0	0
<b>Net profit</b>	<b>100</b>	<b>169</b>	<b>176</b>	<b>194</b>
Net profit (adj.)	100	169	176	194

### BALANCE SHEET

Year to 31 Dec (RMm)	2017	2018F	2019F	2020F
Other LT assets	158	176	190	201
Cash/ST investment	487	596	706	826
Other current assets	1,242	766	808	903
<b>Total assets</b>	<b>1,887</b>	<b>1,537</b>	<b>1,705</b>	<b>1,930</b>
ST debt	135	135	135	135
Other current liabilities	1,191	734	788	887
LT debt	0	0	0	0
Other LT liabilities	7	4	4	4
Shareholders' equity	554	664	777	903
Minority interest	1	1	1	1
<b>Total liabilities &amp; equity</b>	<b>1,887</b>	<b>1,537</b>	<b>1,705</b>	<b>1,930</b>

### CASH FLOW

Year to 31 Dec (RMm)	2017	2018F	2019F	2020F
<b>Operating</b>	<b>63</b>	<b>224</b>	<b>226</b>	<b>243</b>
Pre-tax profit	174	220	213	239
Tax	(37)	(51)	(38)	(46)
Deprec. & amort.	38	40	44	47
Working capital changes	(112)	14	7	1
Other operating cashflows	0	0	0	0
<b>Investing</b>	<b>35</b>	<b>(55)</b>	<b>(55)</b>	<b>(55)</b>
Capex (growth)	(55)	(55)	(55)	(55)
Investments	83	0	0	0
Proceeds from sale of assets	6	0	0	0
Others	0	0	0	0
<b>Financing</b>	<b>(74)</b>	<b>(59)</b>	<b>(61)</b>	<b>(68)</b>
Dividend payments	(71)	(59)	(61)	(68)
Issue of shares	0	0	0	0
Proceeds from borrowings	0	0	0	0
Loan repayment	0	0	0	0
Others/interest paid	(3)	0	0	0
<b>Net cash inflow (outflow)</b>	<b>24</b>	<b>109</b>	<b>110</b>	<b>120</b>
<b>Beginning cash &amp; cash equivalent</b>	<b>465</b>	<b>487</b>	<b>596</b>	<b>706</b>
Changes due to forex impact	(2)	0	0	0
<b>Ending cash &amp; cash equivalent</b>	<b>487</b>	<b>596</b>	<b>706</b>	<b>826</b>

### KEY METRICS

Year to 31 Dec (%)	2017	2018F	2019F	2020F
<b>Profitability</b>				
EBITDA margin	7.1	12.6	9.8	9.7
Pre-tax margin	6.6	10.8	8.3	8.3
Net margin	4.8	8.3	6.8	6.7
ROA	5.8	9.9	10.8	10.8
ROE	19.2	27.8	24.4	23.3
<b>Growth</b>				
Turnover	16.1	(1.7)	23.9	39.9
EBITDA	30.0	74.0	(1.5)	11.0
Pre-tax profit	19.0	61.1	(2.5)	12.7
Net profit	18.4	68.7	3.9	11.4
Net profit (adj.)	18.4	68.7	3.9	11.4
EPS	18.4	68.5	3.9	11.4
<b>Leverage</b>				
Debt to total capital	19.5	16.8	14.7	13.1
Debt to equity	24.3	20.3	17.3	14.9
Net debt/(cash) to equity	(63.7)	(69.5)	(73.5)	(76.5)