

## Attractive dividend

Sunway Construction Group's (SCGB) FY15 result was in line with expectations. Net profit was up 2% YoY to RM127m in FY15. RM2.6bn new contracts secured in FY15 has yet to contribute to bottom line. We are positive on SCGB's prospects to grow its order book and spur core EPS growth of 4% yoy in FY16E and 22% yoy in FY17E. SCGB remains one of our top market and sector BUYs with a RM1.74 target price, based on a 10% discount to RNAV. Suncon's current ex-cash FY16E PER of 11x and net yield of 4% are attractive.

### Revenue lifted by new contracts

SCGB's net profit of RM127m in FY15 was close to consensus and our forecasts of RM129-130m. Revenue increased 2% yoy to RM1.92bn with initial contributions from new projects such as Putrajaya Buildings Parcel F and Coastal Highway Southern Link. Pre-tax profit fell 7% yoy due to the completion of several major projects in FY15. But a lower effective tax rate lifted net profit by 2% yoy. Net DPS of RM0.04 for FY15 was below our estimate of RM0.05 but above consensus forecast of RM0.036.

### Boosted by property sale gain

Revenue increased 4% qoq in 4Q15 with contributions from new projects. Pre-tax profit declined 2% qoq in 4Q15 due to lower precast concrete earnings. The gain from sale of five units at Al Reem mixed development project in Abu Dhabi (payment-in-kind for construction works done previously) offset the low domestic earnings and RM0.5m loss for its Indian operation. The low tax rate boosted net profit by 11% qoq in 4Q15.

### Good new contract procurement prospect

Outstanding order book of RM3.66bn is equivalent to 1.9x FY15 revenue, providing good earnings visibility. Good prospect to expand its order book as it is pre-qualified to bid for the Klang Valley MRT Line 2, Pan-Borneo Highway (Sarawak stretch), SUKE and DASH expressway projects.

### Top sector BUY

Its precast concrete division (contributes 51% of net profit) benefits from the weak Ringgit as it derives SGD revenue. We trim our earnings forecasts marginally as precast concrete earnings normalize with a more stable Ringgit. We reduce our RNAV-based target price to RM1.74 from RM1.76 to reflect the lower net cash. Maintain BUY. Key risks are public infrastructure project implementation delays and cost overruns.

### Earnings & Valuation Summary

FYE 31 Dec	2014	2015	2016E	2017E	2018E
Revenue (RMm)	1,880.7	1,916.9	1,847.6	2,268.8	2,413.6
EBITDA (RMm)	172.3	178.2	207.9	261.1	279.5
Pretax profit (RMm)	151.3	140.8	169.2	222.2	241.1
Net profit (RMm)	124.8	127.2	141.5	172.7	182.6
EPS (sen)	9.7	9.8	10.9	13.4	14.1
PER (x)	14.5	14.2	12.8	10.5	9.9
Core net profit (RMm)	135.3	136.2	141.5	172.7	182.6
Core EPS (sen)	10.5	10.5	10.9	13.4	14.1
Core EPS growth (%)	31.9	0.7	3.9	22.0	5.7
Core PER (x)	13.4	13.3	12.8	10.5	9.9
Net DPS (sen)	0.0	4.0	5.5	6.5	7.0
Dividend Yield (%)	0.0	2.9	3.9	4.6	5.0
EV/EBITDA (x)	9.7	8.7	7.3	5.3	4.6
Chg in EPS (%)			(0.4)	(1.8)	NA
Affin/Consensus (x)			1.0	1.1	NA

Source: Company, Affin Hwang estimates

Affin Hwang Investment Bank Bhd (14389-U)  
(Formerly known as HwangDBS Investment Bank Bhd)

## Results Note

# Sunway Construction

SCGB MK  
Sector: Construction

**RM1.40 @ 25 February 2016**

**BUY (maintain)**

Upside 26%

**Price Target: RM1.76**

Previous Target: RM1.76



## Price Performance

	1M	3M	12M
Absolute	+1.4%	+2.2%	N/A
Rel to KLCI	-0.6%	+3.8%	N/A

## Stock Data

Issued shares (m)	1,292.9
Mkt cap (RMm)/(US\$m)	1,810.1/428.1
Avg daily vol - 6mth (m)	2.8
52-wk range (RM)	0.98-1.45
Est free float	37.9%
BV per share (RM)	0.35
P/BV (x)	4.0
Net cash/ (debt) (RMm) (4Q15)	253.6
ROE (2016F)	29.1%
Derivatives	Nil
Shariah Compliant	Yes

## Key Shareholder

Sunway Bhd	54.4%
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Source: Affin Hwang, Bloomberg

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Out think. Out perform.

Fig 1: Result comparison

FYE 31 Dec (RMm)	4Q15	% QoQ	FY15	FY15 Comment
<b>Revenue</b>	<b>470.3</b>	<b>4.4</b>	<b>1,916.9</b>	Higher qoq driven by construction (+5% qoq) with contribution from new contracts such as Putrajaya Parcel F and Coastal Highway Southern Link. Precast concrete revenue dropped 10% qoq on lower progress billings.
Op costs	(425.8)	3.1	(1,729.6)	
<b>EBITDA</b>	<b>44.5</b>	<b>19.8</b>	<b>187.3</b>	
<i>EBITDA margin (%)</i>	9.5	1.2	9.8	
Depn and amort	(13.3)	44.7	(41.9)	
<b>EBIT</b>	<b>31.1</b>	<b>11.6</b>	<b>145.4</b>	Boosted by RM12m gain from sale of 5 property units in Abu Dhabi (payment-in-kind for work done on Al Reem project previously).
Interest income	2.4	(11.1)	8.0	
Interest expense	(0.5)	(30.5)	(3.5)	
Associates	0.0	0.0	(0.1)	
Forex gain (losses)	(1.7)	(215.4)	(2.9)	
Exceptional items	(1.9)	76.1	(6.2)	
<b>Pretax profit</b>	<b>29.4</b>	<b>(2.5)</b>	<b>140.8</b>	Marginal loss for construction in 4Q15 due to Indian operations and new contracts have not contributed significantly in Malaysia. Precast concrete earnings down 3% qoq, partly offset by forex translation gain and profit from finalization of accounts for some completed projects.
<b>Core pretax</b>	<b>33.0</b>	<b>10.7</b>	<b>149.8</b>	
Tax	(1.0)	(80.4)	(13.0)	
<i>Tax rate (%)</i>	3.3	(13.1)	9.2	
Minority interests	(1.0)	120.3	(0.6)	
<b>Net profit</b>	<b>27.4</b>	<b>10.8</b>	<b>127.2</b>	In line with expectation.
<b>Core net profit</b>	<b>31.0</b>	<b>27.1</b>	<b>136.2</b>	Excluding forex loss and ESOS and listing expenses.
EPS (sen)	2.3	14.6	9.8	

Source: Company, Affin Hwang

Fig 2: Segmental pre-tax profit breakdown

FYE 31 Dec (RMm)	1Q15	2Q15	3Q15	4Q15	% QoQ	FY15
Construction	17.6	27.3	9.6	9.4	(2.2)	63.8
Precast concrete	22.0	14.3	20.6	20.0	(2.6)	77.0
<b>Total</b>	<b>39.6</b>	<b>41.6</b>	<b>30.1</b>	<b>29.4</b>	<b>(2.5)</b>	<b>140.8</b>

Source: Company, Affin Hwang

Fig 3: Segmental pre-tax profit margin

FYE 31 Dec (%)	1Q15	2Q15	3Q15	4Q15	ppt QoQ	FY15
Construction	4.2	6.3	2.4	2.2	(0.2)	3.9
Precast concrete	29.4	20.8	36.5	38.1	1.6	30.2
<b>Total</b>	<b>8.0</b>	<b>8.3</b>	<b>6.7</b>	<b>6.3</b>	<b>(0.4)</b>	<b>7.5</b>

Source: Company, Affin Hwang

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Fig 4: SCGB's order book

	Contract Sum (RM mil)	O/S Orderbook (RM mil)	
<b>Infrastructure</b>			
MRT Package V4 ( Sec 17 to Semantan)	1,173	320	}
LRT Kelana Jaya Line Extension ( Package B)	569	41	
<b>Johor</b>			
Urban Wellness Centre	283	15	}
Coastal Highway Southern Link	170	99	
<b>Others</b>			
Putrajaya Parcel F	1,609	1,382	}
KLCC NEC	304	199	
KLCC package 2 (Piling & Substructure)	222	129	
KLCC package 2a	120	111	
Others	83	31	
<b>Internal</b>			
Sunway Velocity 2 Mall	350	102	}
Sunway Geo Retail Shops & Flexi Suites	153	93	
Sunway Medical Centre Phase 3 (Subs and Superstructure)	167	118	
Sunway Iskandar - Citrine Swc Apt (Sub & Superstructure)	213	128	
Sunway Geo Retail Shops & Flexi Suites Phase 2	244	222	
Sunway Lenang Phase 1A	96	53	
Sunway Iskandar - Emerald Residences	175	137	
Others	615	69	
<b>Singapore</b>			
Precast	848	416	}
<b>Grand Total</b>	<b>7,393</b>	<b>3,664</b>	

Source: Company

Fig 5: New contracts secured in FY15 by SCGB

Projects	Contract Sum (RM mil)
CP3	244.0
Bukit Lenang Phase 1A	95.7
Sunway Iskandar International School	27.1
Parcel F, Precinct 1	1,609.6
Sunway Iskandar Emerald Residence	174.5
KLCC Package 2(a)	120.0
Others	22.7
Precast	316.8
<b>Grand Total</b>	<b>2,610.4</b>

Source: Company

Fig 6: New RNAV and target price

Segments	Stake (%)	RNAV (RMm)
Construction @ PE 14x avg earnings of RM60m	100	840
Pre-cast concrete @ PE 14x avg earnings of RM100m	100	1,400
Net cash/(debt)		254
<b>RNAV</b>		<b>2,494</b>
No. of shares (m shrs)		1,293
<b>RNAV/share (RM)</b>		<b>1.93</b>
<b>Target price at 10% discount to RNAV/share</b>		<b>1.74</b>

Source: Affin Hwang estimates

**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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