

Malaysia Flash Note

Refer to important disclosures at the end of this report

DBS Group Research. Equity

27 May 2016

Sunway Construction Group (SCGB MK): **BUY**

Mkt. Cap: US\$483m | **3m Avg. Daily Val:** US\$1.6m

Last Traded Price : RM1.53

Price Target : RM1.92 (26% upside)

Company Guide

[Sunway Construction Group](#)



Summary of our point of view, and highlights the relevant data points, which are actively tracked

Analyst

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Improving margins

- **1Q16 earnings within expectations**
- **Stronger construction margins; while precast margins normalised towards 20-25% range**
- **Actively bidding for more jobs and potentially to exceed RM2.5bn FY16 order assumptions.**
- **Maintain BUY and TP of RM1.92**

Highlights

- **Within expectations**
SCG reported a net profit of RM29m (-16% y-o-y, -1% q-o-q), on the back of RM424m in revenue (-15% y-o-y, -10% q-o-q). Overall, 1Q16 earnings made up 20% of our full-year forecast and 21% of consensus. We expect earnings its momentum to pick up in the subsequent quarters as it delivers on its peak construction orderbook, while there could also be upside from the writebacks for its Indian projects.
- **Construction pretax margin improved significantly.**
1Q16 overall pretax margin was stronger at 8.8% (vs. 8.0% in 1Q15 and 6.3% in 4Q15), largely because of stronger margins contributed by its construction division. Although turnover for the construction division was lower by 29% y-o-y and 32% q-o-q, its pretax margin improved significantly to 7.0% in 1Q16 (vs 3.3% in 1Q15 and 1.7% in 4Q15). This is due to higher margins derived

from civil/ infrastructure projects as well as the lack of provisions for loss-making projects. Precast margin was 22.8% (vs 23.4% in 1Q15 and 32.5% in 4Q15). We expect margins to normalise at between 20% and 25% for FY16. Note that its 4Q15 margin was higher because of the finalisation of few projects.

- **Orderbook at all-time high of RM5bn.** Its current outstanding orderbook stands at RM5bn (2.5x FY15 revenue), of which 53% comes from Putrajaya Parcel F (RM1.6bn) and MRT Line2 V201package (1.2bn)

Outlook

- **Still bidding for more jobs and looking to exceed RM2.5bn forecast.** Not one to rest on its laurels, SCG will be bidding for LRT 3 (already prequalified), DASH and SUKE, Pan Borneo Highway and the internal projects from the property arm of its holding company. Its total tenderbook now stands at RM18bn. Assuming SCG were to win one package for LRT, one for either DASH or SUKE and also Pan Borneo Highway, it is likely to beat its 2013 new order wins of RM2.9bn (inclusive of precast orders).

Valuation:

We maintain our BUY rating and TP of RM1.92, pegged at a 10% discount to our SOP valuation.

Flash Note

Quarterly / Interim Income Statement (RMm)

FY Dec	1Q2015	4Q2015	1Q2016	% chg yoy	% chg qoq
Revenue	496	470	424	(14.5)	(9.8)
Other Oper. (Exp)/Inc	(457)	(443)	(389)	(14.9)	(12.1)
Operating Profit	39.2	27.6	35.4	(9.7)	28.4
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	nm	nm
Associates & JV Inc	0.0	0.0	0.0	nm	nm
Net Interest (Exp)/Inc	0.44	1.84	2.14	386.3	16.3
Exceptional Gain/(Loss)	0.0	0.0	0.0	nm	nm
Pre-tax Profit	39.6	29.4	37.5	(5.3)	27.6
Tax	(5.2)	0.97	(8.5)	61.8	(974.6)
Minority Interest	0.0	(1.0)	0.0	(100.0)	(100.0)
Net Profit	34.4	29.4	29.1	(15.5)	(1.0)
Net profit bef Except.	34.4	29.4	29.1	(15.5)	(1.0)
EBITDA	39.2	27.6	35.4	(9.7)	28.4
Margins (%)					
Opg Profit Margins	7.9	5.9	8.3		
Net Profit Margins	6.9	6.2	6.8		

Source of all data: Company, AllianceDBS Research

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STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

BUY (>15% total return over the next 12 months for small caps, >10% for large caps)

HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

FULLY VALUED (negative total return i.e. > -10% over the next 12 months)

SELL (negative total return of > -20% over the next 3 months, with identifiable catalysts within this time frame)

Share price appreciation + dividends

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