

Sunway Construction (BUY ↔; EPS ↔)

INDUSTRY: OVERWEIGHT

EARNINGS EVALUATION

26 August 2016

Price Target: RM1.84 (↔)

Share price: RM1.64

Timing gap and normalisation
Results

- SunCon reported 2QFY16 results with revenue at RM430m (-14% YoY, +1% QoQ) and earnings of RM31m (-17% YoY, +8% QoQ).
- Cumulative 1H earnings of RM60m decreased -16% YoY.

Deviation

- 1H earnings were within expectations at 48% of our full year forecast but below consensus at 43%.

Dividends

- An interim dividend of 2.5 sen was declared.

Highlights

- **Timing gap for construction.** Construction saw 1H revenue decline by -14% YoY due to the timing gap between completion of old jobs (e.g. LRT ext and MRT1) and commencement of newer ones (e.g. MRT2). However, PBT managed to increase slightly by +5% YoY thanks to margin expansion from 5.3% to 6.4% (lower margins last year due to losses on a project being booked).
- **Job wins are flowing.** SunCon managed to secure RM2.4bn in new job wins YTD (FY15: RM2.6bn), almost meeting its full year guidance of RM2.5bn. Management has guided for several small to mid-sized jobs for the remainder of the year. In addition, we are hopeful that SunCon will be able to secure a slice of the LRT3 given its experience with the LRT ext, MRT1 and BRT. Its orderbook of RM4.9bn is at near high levels and implies a healthy cover of 2.6x on FY15 revenue.
- **Price fall and margin normalisation.** The precast division experienced a -16% revenue drop in 1H due to decline in selling prices by as much as -20%. PBT margins for the period contracted from 25.3% to 23.6% due to normalisation as last year's levels were boosted by certain account finalisations.

Risks

- Orderbook replenishment coming below its burn rate.

Forecasts

- As the results were inline we maintain our earnings forecast.

Rating
Maintain BUY, TP: RM1.84

- SunCon is a well-managed company with commendable execution capability, putting it in a prime spot to ride on the robust flow of mega contracts expected.

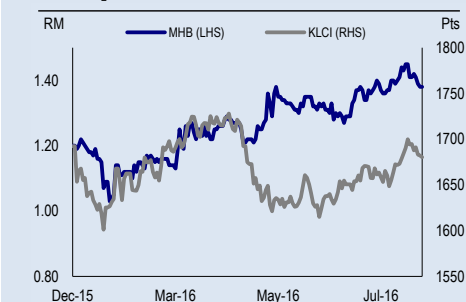
Valuation

- Our unchanged TP of RM1.84 is premised on 18x P/E multiple applied to mid-FY17 earnings.
- We reckon that our premium valuation yardstick for SunCon is justified given (i) its superior ROE of 23% which is double that of its peers average and (ii) healthy balance with net cash position of RM315m (RM0.24/ share).

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KLCI	1,680.3
Expected share price return	33.3%
Expected dividend return	3.2%
Expected total return	36.5%

Share price

Information

Bloomberg Ticker	MHB MK
Bursa Code	9571
Issued Shares (m)	669
Market cap (RM m)	923
3-mth avg. volume ('000)	1,846
SC Shariah-compliant	Yes

Price Performance	1M	3M	12M
Absolute	-1.4	3.8	58.6
Relative	-2.5	0.7	49.2

Major shareholders

Tan Eng Piow	40.6
Soon Aw Eng	2.1

Summary Earnings Table

FYE Dec (RM m)	FY15	FY16F	FY17F	FY18F
Revenue	1,917	2,103	2,312	2,479
EBITDA	166	202	221	231
EBIT	124	159	176	182
Profit Before Tax	128	163	179	186
Core PATAMI	115	126	139	144
vs Consensus (%)		(10)	(14)	(15)
Core EPS (sen)	8.9	9.7	10.7	11.1
P/E (x)	18.5	16.8	15.3	14.7
Net DPS (sen)	4.0	4.4	4.8	5.0
Net DY (%)	2.4	2.7	2.9	3.1
BV per share	0.35	0.40	0.46	0.52
P/B (x)	4.7	4.1	3.6	3.1
ROE (%)	30.8	23.1	22.2	20.9
Net Gearing (%)	CASH	CASH	CASH	CASH

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Figure #1 Quarterly results comparison

FYE Dec (RM m)	2QFY16	2QFY15	1QFY16	YoY (%)	QoQ (%)	Comments
Revenue	430.3	500.2	424.4	(14.0)	1.4	YoY: Lower due to timing gap on projects. QoQ: Not much changes as new projects have yet to kick in.
EBIT	37.6	41.3	35.4	(9.0)	6.3	
Finance cost	0.5	0.4	2.1	39.9	(76.0)	
Associates & JVs	-	(0.1)	-	(100.0)	n.m.	
PBT	38.1	41.6	37.5	(8.4)	1.6	
PAT	31.3	37.8	29.1	(17.2)	7.8	YoY: Decline greater than topline fall due to normalisation of effective tax rate upwards.
PATMI - core	31.3	37.8	29.1	(17.3)	7.6	
PATMI - reported	31.3	37.8	29.1	(17.3)	7.6	
EPS - core	2.4	2.9	2.2			
EBIT margin	8.7	8.3	8.3			Overall margins relatively stable as lower construction was offset by higher precast.
PBT margin	8.9	8.3	8.8			
Company						

Figure #2 Quarterly results comparison

FYE Dec (RM m)	6MFY16	6MFY15	YoY (%)	Comments
Revenue	854.6	996.3	(14.2)	Timing gap between completion of old jobs and commencement of new ones.
EBIT	73.0	80.5	(9.3)	Margin expansion for construction helps cushion the fall.
Finance cost	2.6	0.8	228.8	
Associates & JVs	-	(0.1)	(100.0)	
PBT	75.6	81.2	(6.9)	
PAT	60.4	72.2	(16.4)	
PATMI - core	60.3	72.2	(16.4)	1H made up 48% of our full year forecast.
PATMI - reported	60.3	72.2	(16.4)	
EPS - core	4.7	5.6		
EBIT margin	8.5	8.1		Expansion of construction margins more than offset the contraction for precast.
PBT margin	8.8	8.2		
Company				

Financial Projections for Sunway Construction Group

Balance Sheet

FYE Dec (RM m)	FY14	FY15	FY16F	FY17F	FY18F
Cash	292	468	515	552	667
Receivables	719	627	749	887	951
Inventories	20	17	23	25	27
PPE	176	162	144	123	95
Others	118	123	123	123	123
Assets	1,324	1,397	1,554	1,710	1,862
Debts	135	137	147	152	157
Payables	766	742	819	895	962
Others	43	67	67	67	67
Liabilities	944	946	1,033	1,114	1,186
Shareholder's equity	380	451	520	597	676
Minority interest	0	1	-	-	-
Equity	380	452	520	597	676

Cash Flow Statement

FYE Dec (RM m)	FY14	FY15	FY16F	FY17F	FY18F
Profit before taxation	139	128	163	179	186
Depreciation & amortisation	45	42	43	46	48
Changes in working capital	342	71	(50)	(64)	2
Share of JV profits	(22)	0	-	-	-
Taxation	(26)	(13)	(37)	(40)	(42)
Others	(187)	11	(1)	(0)	0
Operating cash flow	291	240	118	120	194
Net capex	(34)	(11)	(25)	(25)	(20)
Others	296	(53)	-	-	-
Investing cash flow	263	(64)	(25)	(25)	(20)
Changes in borrowings	45	2	10	5	5
Issuance of shares	-	14	-	-	-
Dividends paid	(25)	(51)	(57)	(63)	(65)
Others	(437)	(33)	-	-	-
Financing cash flow	(418)	(68)	(47)	(58)	(60)
Net cash flow	136	107	46	38	114
Forex	(0)	5	-	-	-
Others	1	65	-	-	-
Beginning cash	156	292	468	515	552
Ending cash	292	468	515	552	667

Income Statement

FYE Dec (RM m)	FY14	FY15	FY16F	FY17F	FY18F
Revenue	1,881	1,917	2,103	2,312	2,479
EBITDA	162	166	202	221	231
EBIT	117	124	159	176	182
Net finance income/ (cost)	1	5	4	4	3
Associates & JV	22	(0)	-	-	-
Profit before tax	139	128	163	179	186
Tax	(26)	(13)	(37)	(40)	(42)
Net profit	113	115	126	139	144
Discontinued operations	50	-	-	-	-
Minority interest	(0)	(1)	-	-	-
Core earnings	163	115	126	139	144
Exceptional items	-	12	-	-	-
Reported earnings	163	127	126	139	144

Valuation & Ratios

FYE Dec (RM m)	FY14	FY15	FY16F	FY17F	FY18F
Core EPS (sen)	12.6	8.9	9.7	10.7	11.1
P/E (x)	13.0	18.5	16.8	15.3	14.7
EV/EBITDA (x)	11.2	10.9	8.9	8.2	7.8
DPS (sen)	2.0	4.0	4.4	4.8	5.0
Dividend yield	1.2%	2.4%	2.7%	2.9%	3.1%
BVPS (RM)	0.29	0.35	0.40	0.46	0.52
P/B (x)	5.6	4.7	4.1	3.6	3.1
EBITDA margin	8.6%	8.7%	9.6%	9.6%	9.3%
EBIT margin	6.2%	6.5%	7.6%	7.6%	7.4%
PBT margin	7.4%	6.7%	7.7%	7.8%	7.5%
Net margin	8.7%	6.0%	6.0%	6.0%	5.8%
ROE	30.3%	30.8%	23.1%	22.2%	20.9%
ROA	8.7%	9.9%	7.8%	7.7%	7.6%
Net gearing	CASH	CASH	CASH	CASH	CASH

Assumptions

FYE Dec (RM m)	FY14	FY15	FY16F	FY17F	FY18F
Construction	759	2,294	2,500	2,500	2,000
Precast	4	317	250	300	300
Total new job wins	763	2,610	2,750	2,800	2,300

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BUY	Positive recommendation of stock under coverage. Expected absolute return of more than +10% over 12-months, with low risk of sustained downside.
TRADING BUY	Positive recommendation of stock not under coverage. Expected absolute return of more than +10% over 6-months. Situational or arbitrage trading opportunity.
HOLD	Neutral recommendation of stock under coverage. Expected absolute return between -10% and +10% over 12-months, with low risk of sustained downside.
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