

25 November 2015 | 3QFY15 Results Review

Sunway Construction Group Berhad

Robust Pre-Cast Contribution

Maintain NEUTRAL
Unchanged Target Price (TP): RM1.32

INVESTMENT HIGHLIGHTS


- Sunway Construction Group Berhad (SCGB)'s 9MFY15 earnings of RM97.2 were within our expectation.
- The 9MFY15 results were driven by higher contribution from (a) progress billings and (b) profit recognition of civil and infrastructure jobs.
- Our earnings forecasts remain sanguine due to (a) strong pure construction outstanding orderbook, and (b) potentially higher pre-cast concrete sales.
- We reaffirm our NEUTRAL stance with an unchanged TP of RM1.32.

9MFY15 earnings within expectations. SCGB's 9MFY15 PATAMI of RM97.2 was within ours and consensus expectations accounting for 72% of ours and 76% of consensus full-year forecasts.

Favourable earnings buoyed by construction and pre-cast segment. We opine its favourable earnings were buoyed mainly to the following:

- Higher progress billings and profit recognition from civil and construction for infrastructure jobs such as (a) Sunway Velocity and Sunway Pyramid Phase 3, (b) LRT Package B Kelana Jaya Line Extension, and (c) KVMRT Package V4 Viaduct Gateway and the newly clinched Sunway Iskandar in Pulau, Johor. The construction segment contributes 52% of PBT for 9MFY15.
- Higher sales in pre cast segment due to encouraging response from Housing Development Board of Singapore for new development in Bukit Batok, Hougang, Sembawang Jurong East and West. The segment contributes 48% of PBT for the 9MFY15.

Impact on earnings. Overall, we maintain our earnings forecasts at this point with potential upward revision on the account of (i) strong construction outstanding orderbook of RM4.87bn, and (ii) potential higher sales of precast materials in 4QFY15 and 1QFY16 due to the mid November launch of 12,411 units for HDB units in Singapore. The units are available through balloting and build-to-order. Sales from Singapore have increased from 24% of SCGB's PBT to 30% for the quarter.

Recommendation. We maintain our TP of RM1.32 based on FYE16 sum-of-parts valuation (SOP) and implied PER16 of 12x. 

RETURN STATS	
Price (24 Nov 2015)	RM1.39
Target Price	RM1.32
Expected Share Price Return	-5%
Expected Dividend Yield	+3%
Expected Total Return	-2%

STOCK INFO	
KLCI	1,677
Bursa / Bloomberg	5263/ SCGB MK
Board / Sector	Main / Construction
Syariah Compliant	Yes
Issued shares (mil)	1,292
Par Value (RM)	1.00
Market cap. (RM'm)	1,797
Price over NA	5.69x
52-wk price Range	RM0.98 – RM1.39
Beta (against KLCI)	N/A
3-mth Avg Daily Vol	3.23
3-mth Avg Daily Value	3.96
Major Shareholders (%)	
Sunholdings S/B	54.4
Sungei Way Corp S/B	6.78
Cheah Fook Lin	0.6
Teachers Advisors	0.04

INVESTMENT STATISTICS

FYE Dec	FY14	FY15F	FY16F	FY17F
Revenue (RM'm)	1,880.7	2,100.2	1,815.3	1,993.6
EBIT (RM'm)	120.2	167.2	149.4	164.1
Pre-tax Profit (RM'm)	151.3	168.6	150.4	165.5
Normalised PATAMI (RM'm)	114.2	135.1	120.6	132.6
EPS (sen)	8.8	10.5	9.3	10.3
EPS growth (%)	20.9	18.3	-10.8	10.0
PER(x)	13.6	10.4	11.7	10.6
Net Dividend (sen)	2.0	3.7	3.3	3.6
Net Dividend Yield (%)	1.5	3.4	3.0	3.3

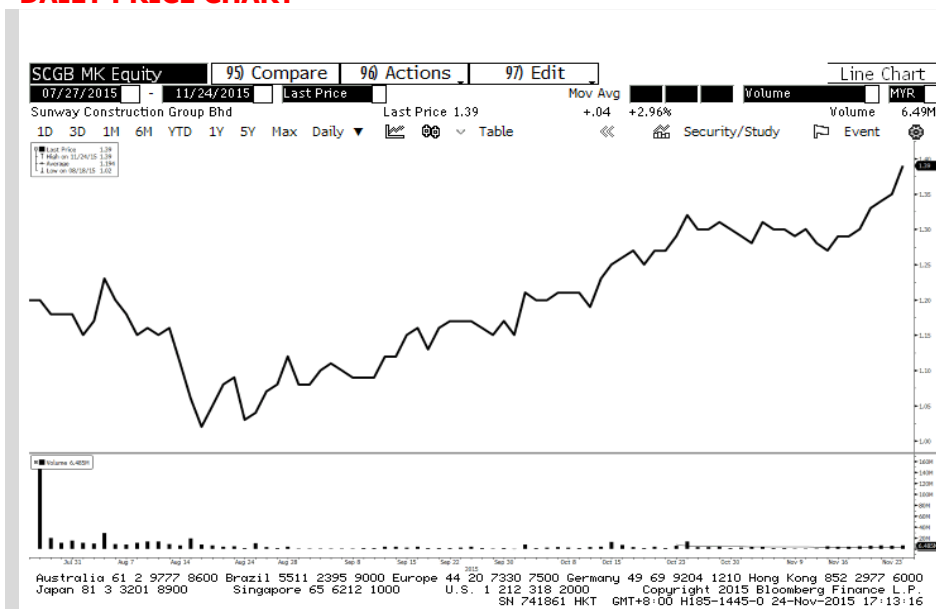
Source: MIDFR

SOP VALUATION

Segments	Basis	Value (RM'm)	Per share (RM)
<u>Building and Civil Infrastructure</u>	DCF of 8.6%	1,901	1.47
Sunway Velocity Shopping Mall			
KLCC North East Car Park			
KLCC Package 2			
Sunway Pyramid Phase 3			
Afiniti Medini mixed development project			
Sunway Geo Retail and Flexi Suites			
Sunway Medical Center Phase 3			
Citrine Mixed Development, Sunway Iskandar			
Coastal Highway Southern Link			
BRT-Sunway Line			
Sunway University new academic block			
Urban Wellness Center			
Various Projects			
Putrajaya Presint 1 Parcel F			
Sunway Iskandar			
<u>Foundation and Geotechnical Services</u>	DCF of 8.6%		
Mengkuang Dam expansion			
Sunway Velocity tunneling			
Sunway South Quay Commercial Precinct 3			
Total		77	0.06
<u>MEP</u>	DCF of 8.6%		
Pasar Seni MRT Station			
Gas District Cooling Plant			
		12	0.01
<u>Precast Concrete</u>	DCF of 8.6%		
Supplying to Singapore and other projects		296	0.23
<u>Others</u>	FY16 PER of 12x		
Ongoing works		66	0.05
Total SOP		2,351.8	1.82
Net debt		-641.1	-0.50
Total Net SOP			1.32
Enlarged share capital (mil)			1,293

Source: MIDFR, Bloomberg, Bursa

DAILY PRICE CHART



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Source: Bloomberg, MIDFR

3QFY15 RESULTS SUMMARY

FYE Dec (RM'm)	3Q15	2Q15	1Q15	QoQ Chg	6MFY15	9MFY15
Revenue	450.0	500.0	496.0	-9.3%	996	1446
Operating Expenses	-424.0	-462.0	-460.9	-8.0%	-922.9	-1346.9
Other income	2.3	3.3	4.0	-42.5%	7.3	9.6
Interest income	2.6	1.5	1.4	85.7%	2.9	5.5
Finance cost	-0.7	-1.2	-1.0	-30.0%	-2.15	-2.85
Operating profit	28.4	41.5	39.1	-27.4%	80.6	109
Share results of associates	-	-0.8	-	-	-0.8	-
Pre-tax profit	30.1	41.5	39.6	-24.0%	81.1	111.2
Taxation	-4.9	-3.7	-5.2	-5.8%	-8.9	-13.8
Minority interest	0.4	-	0.02	N/A	0.02	0.42
PATAMI	25.1	37.8	34.3	-26.8%	72.1	97.2
Extraordinary Items	-	-	-	-	-	-
Core PATAMI	25.1	37.8	34.3	-26.8%	72.1	97.2
EPS (sen)	2.0	2.9	2.7	-25.6%	5.58	7.56
	3Q15	2Q15	1Q15	+/- ppts	6MFY15	9MFY15
Operating margin	6.3%	8.3%	7.9%	-1.6	8.1%	8%
Pre-tax margin	6.7%	8.3%	8.0%	-1.3	8.1%	#VALUE!
PATAMI margin	5.6%	7.6%	6.9%	-1.3	7.2%	1158%
Effective tax rate	16.3%	8.9%	13.1%	3.1	11%	-251%

Segmental Breakdown							
Revenue	3Q15	2Q15	1Q15	QoQ Chg	6MFY15	9MFY15	
Construction	1,605.0	1,082.0	528.0	2.0	1,610.0	3215	
Pre Cast Concrete	247.0	179.0	94.0	1.6	273.0	520	
(Eliminations)	-406.0	-265.0	-126.0	2.2	-391.0	-797	
TOTAL	1,446.0	996.0	496.0	1.9	1,492.0	2938	
PBT	3Q15	2Q15	1Q15		6MFY15	9MFY15	
Construction	54.0	44.8	17.5	2.1	62.3	116.3	
Pre Cast Concrete	56.0	36.3	22.0	1.5	58.3	114.3	
Tax Expense	-13.9	-9.0	-5.2	1.7	-14.2	-28.1	
Non-Controlling Interest	-0.4	-17.00	-17.0	-	-	-	
TOTAL	95.7	55.1	34.3	1.8	89.4	185.1	
PBT Margin	3Q15	2Q15	1Q15	+/- ppts	PBT Margin	PBT Margin	Comments
Construction	3.4%	4.1%	3.3%	5.0%	3.9%	3.6%	
Pre Cast Concrete	22.7%	20.3%	23.4%	-73.2%	21.4%	22.0%	

Source: MIDFR

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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >15% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >15% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -15% and +15% over the next 12 months.
SELL	Total return is expected to be <-15% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >15% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.