



Sunway Construction Group Berhad

Increasing Urgency in Order Book Replenishment

TP: RM1.18(+8.0%)

Last traded: RM1.09

HOLD

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Results Review

- The 1H15 net profit of RM72.2mn came in within expectations, accounting for 56.8% and 55.2% of ours and consensus full-year estimates.
- QoQ, while the revenue was relatively flat at RM500.2mn, the net profit improved by 10.0% due to improvement in operating margin by 0.4% pts to 8.3% and lower effective tax rate, which dropped 4.1% pts to 9.1%.
- While the construction revenue grew marginally by 2.5% to RM431.4mn, the construction net profit surged 73.8% to RM25.7mn, as construction operating margin jumped by 2.2% pts to 6.3%.
- Meanwhile, the precast segment recorded 8.3% drop in revenue to RM68.8mn, and segmental net profit declined by 38.4% to RM12.1mn. This was due to high base effect in 1Q15 as 1Q15 profit was boosted by some tail-end projects.
- No YoY comparison available as SUNCON was just listed on 28 July 2015.

Impact

- Sales and earnings forecasts maintained.

Outlook

- Currently the company has an outstanding order book of about RM2.7bn (see Exhibit 1), which translate into 1.4x FY14 revenue. This could provide earning visibility for the next 1 to 2 years. YTD, the company has secured contracts worth RM520mm in FY15. They are i) construction works for Sunway Geo Commercial Precinct at Sunway South Quay with a contract sum of RM244mn; ii) Bukit Lenang project in Johor worth RM96mn; iii) new precast orders of RM119mn; and iv) others amounting to RM61mn.
- Going forward, we see SUNCON as a strong contender for upcoming mega projects such as LRT line 3, KVMRT line 2, and BRT. However, given the slower-than-expected new job wins in FY14 and 1HFY15, we expect the revenue to ease in FY16 and FY17, while earnings to drop at slower pace on the back of margin improvement. Should the order book replenishment recover to the region of RM2.0bn a year in FY15, FY16 and FY17, we expect revenue to rebound in FY18.

Valuation

- Given the weakening market sentiment and growing concerns on government's financial position after the plunge in Ringgit and crude oil price, which may affect government's spending on public infrastructure, as well as possible drop in demand for construction services from property development projects, we reduce the target multiple from 14x to 12x and arrived at a revised target price of **RM1.18**, based on 12x CY16 EPS, from RM1.36 previously. Downgrade **SUNCON** from **BUY** to **HOLD**.

Share Information

Bloomberg Code	SCGB MK
Bursa	SUNCON
Stock Code	5263
Listing	Main Market
Share Cap (mn)	1292.0
Market Cap (RMmn)	1408.3
Par Value	0.20
52-wk Hi/Lo (RM)	1.32/1.01
12-mth Avg Daily Vol ('000 shrs)	20088.2
Estimated Free Float (%)	36.7
Beta	1.77
Major Shareholders (%)	
	Sunholdings - 55.63
	Sungei Way Corp Sdn Bhd - 6.78

Forecast Revision

	FY15	FY16
Forecast Revision (%)	-	-
Net profit (RMm)	127.1	125.3
Consensus	130.8	123.8
TA's / Consensus (%)	97.2	101.2
Previous Rating	Buy (Downgraded)	

SCORECARD (%)

vs TA	56.8	Within
vs Consensus	55.2	Within

Financial Indicators

	FY15	FY16
Net Debt / Equity (%)	net cash	net cash
CFPS (sen)	4.4	3.9
Price / CFPS (x)	24.8	28.1
ROA (%)	9.1	9.1
NTA/Share (RM)	30.2	36.0
Price/NTA (x)	6.2	5.2

Share Performance (%)

Price Change	SCGB	FBM KLCI
1 mth	-	(0.8)
3 mth	-	(4.0)
6 mth	-	(4.7)
12 mth	-	(8.1)

(12-Mth) Share Price relative to the FBM KLCI



Source: Bloomberg

Earnings Summary

FYE Dec (RMmn)	2013	2014	2015F	2016F	2017F
Revenue	1,839.6	1,880.7	2,138.0	1,947.0	1,736.0
Gross profit	338.0	395.4	470.4	418.6	364.6
EBITDA	85.2	161.8	204.4	198.7	179.0
EBITDA margin (%)	4.6	8.6	9.6	10.2	10.3
EBIT	42.4	120.2	161.8	157.2	136.9
PBT	89.8	151.3	162.7	158.5	138.5
PAT	66.9	124.8	127.1	125.3	109.6
Core net profit	94.5	114.1	127.1	125.3	109.6
Core EPS (sen)	7.3	8.8	9.8	9.7	8.5
PER (x)	14.9	12.3	11.1	11.2	12.9
Gross dividend (sen)	na	na	3.9	3.9	3.4
Dividend yield (%)	na	na	3.6	3.6	3.1
ROE (%)	na	na	36.1	29.3	22.0

2Q15 Results Analysis (RMmn)

FYE Dec	2Q14	1Q15	2Q15	QoQ (%)	YoY (%)	6MFY14	6MFY15	YoY(%)
Revenue	na	496.1	500.2	0.8	na	0.0	996.3	na
Operating profit	na	39.2	41.3	5.4	na	0.0	80.5	na
Finance income	na	1.5	1.5	1.9	na	0.0	3.0	na
Finance costs	na	(1.1)	(1.2)	9.6	na	0.0	(2.2)	na
Profit before taxation	na	39.6	41.6	5.0	na	0.0	81.2	na
Income tax expense	na	(5.2)	(3.8)	(27.4)	na	0.0	(9.0)	na
Non-controlling interests	na	0.0	0.0	(100.0)	na	0.0	0.0	na
Net profit	na	34.4	37.8	10.0	na	0.0	72.2	na
Core net profit	na	34.4	37.8	10.0	na	0.0	72.2	na
Reported EPS (sen)	na	2.7	2.9	9.8	na	0.0	5.6	na
Core EPS (sen)	na	2.7	2.9	9.8	na	0.0	5.6	na
Dividend (sen)	na	0.00	0.00	na	na	0.0	0.0	na
Margin (%):				% pts	% pts			% pts
- Operating	na	7.9	8.3	0.4	8.3	na	8.1	na
- PBT	na	8.0	8.3	0.3	8.3	na	8.2	na
- PAT	na	6.9	7.6	0.6	7.6	na	7.2	na
- Effective tax rate	na	(13.2)	(9.1)	4.1	na	na	(11.1)	na

Exhibit 1: Ongoing projects (as of 30 June 2015)

Project	Contract Value (RMmn)	Outstanding Amount (RMmn)
Infrastructure		
MRT Package V4 (Section 17 to Semantan)	1,173	431
LRT Kelana Jaya Line Extension (Package B)	569	78
Johor		
Urban Wellness Centre	283	73
Coastal Highway Southern Link	170	155
Others		
KLCC NEC	304	203
KLCC Package 2 (Piling and Substructure)	222	96
Others	100	73
Internal		
Sunway Velocity 2 Mall	350	179
Sunway Pyramid 3	193	90
Sunway Geo Retail Shop & Flexi Suites	153	122
Sunway Medical Centre Phase 3 (Sub & Superstructure)	167	143
Sunway Iskandar – Citrine Service Apartment (Superstructure)	180	161
Sunway Geo Retail Shops & Flexi Suites Phase 2	244	244
Sunway Lenang Phase 1A	96	86
Others	618	251
Singapore		
Precast	620	306
	5,441	2,690

Source: Company, TA Research

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