



Sunway Construction Group Berhad

Momentum to Pick Up Despite a Slow Start

TP: RM1.80(+17.6%)

Last traded: RM1.53

BUY

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Ooi Beng Hooi

Tel: +603-2167 9612

benghooi@ta.com.my

www.taonline.com.my

Results Review

- The 1Q16 net profit of RM29.1mn came in below our expectation but in line with consensus' forecast, as it accounted for 17.8% and 20.8% of ours and consensus' full-year estimates. The variance was mainly due to lower-than-expected construction progress.
- YoY, 1Q16 net profit of RM29.1mn was 15.5% lower, in line with 14.5% of drop in the top line. This was mainly due to lower billings from both civil and building works as some of the projects had reached or were near completion stage. Besides, package V201 of MRT line 2, which was secured recently is yet to kick off.
- QoQ, 1Q15 net profit was just marginally lower despite 9.8% drop in the revenue. The improvement in margin was mainly due to no provision was made for loss-making project.
- The PBT margin for precast division dropped 6.6% pts and 15.3% pts YoY and QoQ respectively as the margin normalised. The margins recorded in comparison periods were boosted by finalization of projects.

Impact

- Adjustments are made to the recognition of construction revenues. Subsequently, the earnings forecasts for FY16 to FY18 are downgraded by 6.9% to 11.8%.

Outlook

- YTD, the group has secured RM2.0bn of new orders, boosting the outstanding order book to its record high of RM5.0bn (see Exhibit 1), which translates into 2.6x FY15 revenue. This could provide earnings visibility for the next 2 years.
- We are positive on the prospects of SUNCON. Besides having secured a works package of MRT line 2, it is a strong contender for upcoming mega projects such as LRT line 3, BRT, and various highway projects such as Pan Borneo Highway, DASH, SUKE.

Valuation

- Subsequent to the earnings adjustments and after rolling forward the valuation base year to CY17, we reduce the target price from RM1.90 to **RM1.80**, based on unchanged 15xCY17 EPS. Maintained our **BUY** call on **SUNCON**.

Share Information

Bloomberg Code	SCGB MK
Bursa	SUNCON
Stock Code	5263
Listing	Main Market
Share Cap (mn)	1292.9
Market Cap (RMmn)	1978.1
Par Value	0.20
52-wk Hi/Lo (RM)	1.72/0.98
12-mth Avg Daily Vol ('000 shrs)	4731.1
Estimated Free Float (%)	37.9
Beta	0.54
Major Shareholders (%)	
	Sunholdings - 54.42
	Sungei Way Corp Sdn Bhd - 7.02

Forecast Revision

	FY16	FY17
Forecast Revision (%)	(11.8)	(11.5)
Net profit (RMm)	144.7	155.3
Consensus	139.8	160.5
TA's / Consensus (%)	103.5	96.8
Previous Rating	Buy (Maintained)	

SCORECARD (%)

vs TA	17.8	Below
vs Consensus	20.8	Within

Financial Indicators

	FY16	FY17
Net Debt / Equity (%)	net cash	net cash
CFPS (sen)	11.0	6.6
Price / CFPS (x)	13.9	23.2
ROA (%)	9.1	8.5
NTA/Share (RM)	41.1	47.6
Price/NTA (x)	3.7	3.2

Share Performance (%)

Price Change	SUNCON	FBM KLCI
1 mth	(2.5)	(3.6)
3 mth	9.3	(1.9)
6 mth	11.7	(3.1)
12 mth	na	(7.5)

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



Source: Bloomberg

Earnings Summary

FYE Dec (RMmn)	2014	2015	2016F	2017F	2018F
Revenue	1,880.7	1,916.9	2,192.5	2,206.0	2,110.0
Gross profit	395.4	388.4	471.4	463.3	443.1
EBITDA	161.7	178.2	223.2	236.8	240.7
EBITDA margin (%)	8.6	9.3	10.2	10.7	11.4
EBIT	117.1	136.3	181.7	194.7	198.6
PBT	139.3	140.8	183.0	196.3	200.2
PAT	112.8	127.1	144.7	155.3	158.4
Core net profit	102.1	127.1	144.7	155.3	158.4
Core EPS (sen)	7.9	9.8	11.2	12.0	12.2
PER (x)	20.9	16.8	14.7	13.7	13.5
Gross dividend (sen)	na	4.0	5.0	5.5	5.5
Dividend yield (%)	na	2.4	3.0	3.3	3.3
ROE (%)	na	30.6	29.5	27.1	24.0

1Q16 Results Analysis (RMmn)

FYE Dec	1Q15	4Q15	1Q16	QoQ (%)	YoY (%)	3MFY15	3MFY16	YoY(%)
Revenue	496.1	470.3	424.4	(9.8)	(14.5)	496.1	424.4	(14.5)
Operating profit	39.2	27.6	35.4	28.4	(9.7)	39.2	35.4	(9.7)
Finance income	1.5	2.4	2.8	20.1	91.1	1.5	2.8	91.1
Finance costs	(1.1)	(0.5)	(0.7)	33.3	(32.2)	(1.1)	(0.7)	(32.2)
Profit before taxation	39.6	29.4	37.5	27.6	(5.3)	39.6	37.5	(5.3)
Income tax expense	(5.2)	1.0	(8.5)	<(100.0)	61.8	(5.2)	(8.5)	61.8
Non-controlling interests	0.0	1.0	0.0	(100.0)	(100.0)	0.0	0.0	(100.0)
Net profit	34.4	29.3	29.1	(1.0)	(15.5)	34.4	29.1	(15.5)
Core net profit	34.4	29.3	29.1	(1.0)	(15.5)	34.4	29.1	(15.5)
Reported EPS (sen)	2.7	2.3	2.3	(0.9)	(15.4)	2.7	2.3	(15.4)
Core EPS (sen)	2.7	2.3	2.3	(0.9)	(15.4)	2.7	2.3	(15.4)
Dividend (sen)	0.00	4.0	0.0	(100.0)	na	0.0	0.0	na
Margin (%):				% pts	% pts			% pts
- Operating	7.90	5.9	8.3	2.5	0.4	7.9	8.3	0.4
- PBT	8.0	6.3	8.8	2.6	0.9	8.0	8.8	0.9
- PAT	6.9	6.5	6.8	0.4	(0.1)	6.9	6.8	(0.1)
- Effective tax rate	(13.2)	3.3	(22.6)	(25.9)	(9.4)	(13.2)	(22.6)	(9.4)

Exhibit 1: Ongoing projects

Project	Contract Value (RMmn)	Outstanding Amount (RMmn)
Infrastructure		
MRT Package V4 (Section 17 to Semantan)	1,173	43
MRT Package V201 (Sungai Buloh– Persiaran Dagang)	1,213	1,213
Johor		
Coastal Highway Southern Link	170	66
Buildings		
Putrajaya Parcel F	1,610	1,450
KLCC (NEC + Package 2 & 2a)	646	414
Others	92	33
Internal		
Sunway Velocity 2 Mall + Link Bridge	370	92
Sunway Velocity Hotel + Office	93	69
Sunway Velocity Medical Centre	200	159
Sunway Geo Retail Shop & Flexi Suites	153	59
Sunway Medical Centre Phase 3 (Sub & Superstructure)	167	96
Sunway Medical Centre Phase 4 (2 towers)	380	380
Sunway Iskandar – Citrine Service Apartment	213	106
Sunway Geo Retail Shops & Flexi Suites Phase 2	244	207
Sunway Lenang Phase 1A	96	30
Sunway Iskandar – Emerald Residences	175	133
Others	124	51
Singapore		
Precast	844	416
	7,961	5,016

Source: Company, TA Research

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for TA SECURITIES HOLDINGS BERHAD^(14948-M)
 (A Participating Organisation of Bursa Malaysia Securities Berhad)
 Kaladher Govindan – Head of Research