

Sunway Construction Group (SCGB MK) : HOLD

Mkt. Cap: US\$749m | 3m Avg. Daily Val: US\$0.99m

Last Traded Price (20 Nov 2017): RM2.40

Price Target 12-mth: RM2.60 (8% upside) (Prev RM2.60)

Analyst

Tjen San CHONG, CFA +60 3 26043972; tjensan@alliancedbs.com

Executing on its peak orderbook

- 3Q17 met expectations; higher construction revenue compensated for lower precast revenue
- With an orderbook of RM6.8bn, execution remains key
- 5-year tax pioneer status for Iskandar plant
- Maintain HOLD rating and TP of RM2.60

Forecasts and Valuation

FY Dec (RMm)	2016A	2017F	2018F	2019F
Revenue	1,789	2,293	2,799	3,039
EBITDA	185	227	258	274
Pre-tax Profit	154	182	207	218
Net Profit	124	146	166	174
Net Pft (Pre Ex.)	124	146	166	174
Net Pft Gth (Pre-ex) (%)	(2.9)	18.1	13.5	5.2
EPS (sen)	9.55	11.3	12.8	13.5
EPS Pre Ex. (sen)	9.55	11.3	12.8	13.5
EPS Gth Pre Ex (%)	(3)	18	13	5
Diluted EPS (sen)	9.55	11.3	12.8	13.5
Net DPS (sen)	4.00	5.08	5.76	6.06
BV Per Share (sen)	38.1	44.4	51.4	58.8
PE (X)	25.1	21.3	18.7	17.8
PE Pre Ex. (X)	25.1	21.3	18.7	17.8
P/Cash Flow (X)	38.8	19.9	14.5	13.6
EV/EBITDA (X)	15.0	12.1	10.4	9.5
Net Div Yield (%)	1.7	2.1	2.4	2.5
P/Book Value (X)	6.3	5.4	4.7	4.1
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	26.2	27.4	26.7	24.4

Source of all data on this page: Company, AllianceDBS, Bloomberg Finance L.P.

Company Guide



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

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What's New

In-line results. Sunway Construction Group (SCG) reported a 3Q17 net profit of RM35m (+11% y-o-y, -6% q-o-q), bringing 9M17 net profit to RM106m (+15% y-o-y). This was on the back of an 8% y-o-y increase in 9M17 revenue to RM1.3bn. We deem the results to be in line with our and consensus estimates. We expect 4Q17 to be sequentially stronger as progress of its larger scale projects reach a higher stage of completion.

Construction margins held steady. 3Q17 construction pretax margin was 8.6% vs 9.3% in 3Q16 and 9.4% in 2Q17. Construction revenue for 3Q17 rose 57% y-o-y to RM472m due to higher progress of work for KV MRT V201 and Putrajaya Parcel F. On a 9M17 basis, construction revenue and pretax profit rose by 17% y-o-y and 40% y-o-y to RM1.2bn and RM106m respectively. Its outstanding construction orderbook stands at RM6.8bn while tenderbook is at RM15bn.

Lower precast revenue dragged margin lower. For 3Q17, its precast division recorded revenue and pretax profit of RM20m (-76% y-o-y) and RM2m (-81% y-o-y) respectively. The sharply lower numbers for 3Q17 were due to slower progress by the main contractor that was unable to take delivery of its precast products while new jobs secured are only expected to contribute in the next financial year. Hence, 3Q17 pretax margins sank to just 12% vs 16% in 3Q16 and 21% in 2Q17. The outstanding precast orderbook as at 30 September 2017 stood at RM260m, sufficient for about a year of revenue visibility. On a positive note, MIDA has granted its Iskandar Plant a 5-year tax exemption.

Staggering YTD wins but execution remains vital. YTD wins now stand at RM4.0bn, including the RM212m station works for MRT Line 2. The most recent win was for substructure works together with its JV partner Taisei to build a transit warehouse in Shah Alam (SCG's share is RM70m). Its total outstanding orderbook is now RM6.8bn, implying close to three years' revenue visibility. The three largest projects in its outstanding orderbook are LRT 3 (RM2.2bn), MRT V201 (RM952m) and Putrajaya Parcel F (RM901m). The composition of its orderbook is 48% civil jobs, 48% building and 4% precast projects.

What is in store for FY18F? SCG will focus on internal jobs in FY18F. This will include two hospitals (out of the five which parent company Sunway Berhad is planning for), the Carnival mall extension in Penang, Sunway South Quay RC1 and other developments which have ready development orders. SCG has ample room to take on more private sector residential projects given the large-scale wins so far have been infrastructure-based. SCG will also be pursuing other infrastructure jobs like ECRL, HSR and MRT 3.

Quarterly / Interim Income Statement (RMm)

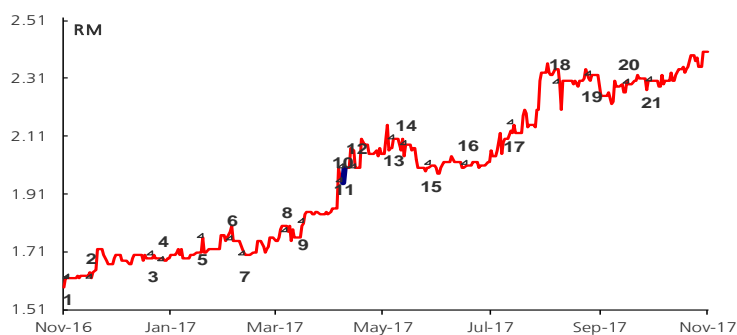
FY Dec	3Q2016	2Q2017	3Q2017	% chg yoy	% chg qoq
Revenue	381	417	491	28.9	17.8
Other Oper. (Exp)/Inc	(342)	(376)	(449)	31.5	19.6
Operating Profit	39.6	41.7	42.4	7.2	1.7
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	nm	nm
Associates & JV Inc	0.0	0.0	0.0	nm	nm
Net Interest (Exp)/Inc	0.84	1.04	0.66	(21.7)	(37.1)
Exceptional Gain/(Loss)	0.0	0.0	0.0	nm	nm
Pre-tax Profit	40.4	42.8	43.1	6.6	0.7
Tax	(9.1)	(6.1)	(8.6)	(5.7)	41.6
Minority Interest	(0.2)	0.0	0.0	nm	0.0
Net Profit	31.1	36.7	34.5	10.7	(6.0)
Net profit bef Except.	31.1	36.7	34.5	10.7	(6.0)
EBITDA	39.6	41.7	42.4	7.2	1.7

Margins (%)

Opg Profit Margins	10.4	10.0	8.6
Net Profit Margins	8.2	8.8	7.0

Source of all data: Company, AllianceDBS

Target Price & Ratings History



Note: Share price and Target price are adjusted for corporate actions.

S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	23 Nov 16	1.62	1.92	BUY
2:	06 Dec 16	1.62	1.92	BUY
3:	10 Jan 17	1.70	1.92	BUY
4:	16 Jan 17	1.68	1.92	BUY
5:	07 Feb 17	1.76	1.92	BUY
6:	24 Feb 17	1.75	2.13	BUY
7:	03 Mar 17	1.70	2.13	BUY
8:	27 Mar 17	1.78	2.13	BUY
9:	05 Apr 17	1.81	2.13	BUY
10:	27 Apr 17	1.95	2.13	BUY
11:	28 Apr 17	2.00	2.13	BUY
12:	05 May 17	2.00	2.13	BUY
13:	26 May 17	2.10	2.60	BUY
14:	02 Jun 17	2.08	2.60	BUY
15:	16 Jun 17	2.01	2.60	BUY
16:	07 Jul 17	2.01	2.60	BUY
17:	02 Aug 17	2.15	2.60	BUY
18:	28 Aug 17	2.29	2.60	HOLD
19:	15 Sep 17	2.32	2.60	HOLD
20:	06 Oct 17	2.29	2.60	HOLD
21:	19 Oct 17	2.30	2.60	HOLD

Source: AllianceDBS

Analyst: Tjen San CHONG

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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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Sources for all charts and tables are AllianceDBS unless otherwise specified.

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DBS Regional Research Offices

HONG KONG

DBS Vickers (Hong Kong) Ltd

Contact: Paul Yong
18th Floor Man Yee Building
68 Des Voeux Road Central
Central, Hong Kong
Tel: 65 6878 8888
Fax: 65 65353 418
e-mail: equityresearch@dbs.com
Participant of the Stock Exchange of Hong Kong

MALAYSIA

AllianceDBS Research Sdn Bhd

Contact: Wong Ming Tek (128540 U)
19th Floor, Menara Multi-Purpose,
Capital Square,
8 Jalan Munshi Abdullah 50100
Kuala Lumpur, Malaysia.
Tel.: 603 2604 3333
Fax: 603 2604 3921
e-mail: general@alliancedbs.com

SINGAPORE

DBS Bank Ltd

Contact: Janice Chua
12 Marina Boulevard,
Marina Bay Financial Centre Tower 3
Singapore 018982
Tel: 65 6878 8888
Fax: 65 65353 418
e-mail: equityresearch@dbs.com
Company Regn. No. 196800306E

INDONESIA

PT DBS Vickers Sekuritas (Indonesia)

Contact: Maynard Priajaya Arif
DBS Bank Tower
Ciputra World 1, 32/F
Jl. Prof. Dr. Satrio Kav. 3-5
Jakarta 12940, Indonesia
Tel: 62 21 3003 4900
Fax: 6221 3003 4943
e-mail: research@id.dbsvickers.com

THAILAND

DBS Vickers Securities (Thailand) Co Ltd

Contact: Chanpen Sirithanarattanakul
989 Siam Piwat Tower Building,
9th, 14th-15th Floor
Rama 1 Road, Pathumwan,
Bangkok Thailand 10330
Tel. 66 2 857 7831
Fax: 66 2 658 1269
e-mail: research@th.dbs.com
Company Regn. No 0105539127012
Securities and Exchange Commission, Thailand