

Malaysia Company Guide

Sunway Construction Group

Version 7 | Bloomberg: SCGB MK | Reuters: SCOG.KL

Refer to important disclosures at the end of this report

DBS Group Research . Equity

24 Feb 2017

BUY

Last Traded Price (23 Feb 2017): RM1.80 (KLCI : 1,704.48)

Price Target 12-mth: RM2.13 (18% upside) (Prev RM1.92)

Potential Catalyst: Higher construction and manufacturing wins

Where we differ: We are broadly in line with consensus

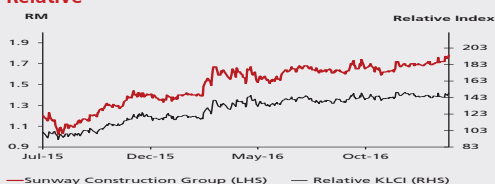
Analyst

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What's New

- In-line 4Q16 results; expect better FY17 showing
- Strong orderbook to anchor 2017 earnings growth
- Potential jobs win include LRT 3 and BRT
- Maintain BUY, raising TP to RM2.13

Price Relative



Forecasts and Valuation

FY Dec (RM m)	2015A	2016A	2017F	2018F
Revenue	1,917	1,789	2,321	2,739
EBITDA	178	185	231	259
Pre-tax Profit	141	154	194	222
Net Profit	127	124	155	178
Net Pft (Pre Ex.)	127	124	155	178
Net Pft Gth (Pre-ex) (%)	1.9	(2.9)	25.6	14.7
EPS (sen)	9.84	9.55	12.0	13.8
EPS Pre Ex. (sen)	9.84	9.55	12.0	13.8
EPS Gth Pre Ex (%)	2	(3)	26	15
Diluted EPS (sen)	9.84	9.55	12.0	13.8
Net DPS (sen)	4.00	4.00	5.40	6.19
BV Per Share (sen)	34.9	38.1	44.7	52.3
PE (X)	18.3	18.8	15.0	13.1
PE Pre Ex. (X)	18.3	18.8	15.0	13.1
P/Cash Flow (X)	9.9	29.1	15.2	11.2
EV/EBITDA (X)	11.2	10.8	8.4	7.2
Net Div Yield (%)	2.2	2.2	3.0	3.4
P/Book Value (X)	5.2	4.7	4.0	3.4
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	33.2	26.2	29.0	28.4
Earnings Rev (%):		0	0	0
Consensus EPS (sen):		9.90	12.3	12.8
Other Broker Recs:		B: 10	S: 0	H: 3

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

Executing on peak orderbook

Malaysia's leading pure construction player. Sunway Construction Group (SCG) is the largest listed pure play construction company in Malaysia. Given its strong track record with MRT, LRT and BRT jobs previously, we are of the view that SCG is on a strong footing to bag several key infrastructure packages such as LRT3 and BRT as well as other infrastructure-related and building projects. SCG has also established itself as the only construction specialist to be involved in all three Rapid Line infra projects (MRT, LRT and BRT). This makes the group one of the strongest contenders to win the pipeline of 11MP projects.

Riding on Singapore's public housing development. Its precast division is a strong proxy to the growing demand for HDB residences in Singapore, where the government is targeting to build an additional 88,000 units of public housing in FY16-FY19. With premium EBIT margins recorded over the past few years, the business is ROE-enhancing and also synergistic to its construction business. We estimate that for every incremental RM200m new wins will raise our FY17F forecast by 6% vs 1% for construction wins.

More modest RM2bn order win guidance for FY17F. Not one to rest on its laurels, SCG will be bidding for LRT 3 (already prequalified), private and public sector building jobs and the internal projects from the property arm of its holding company. 2016 wins reached RM2.7bn (including precast) which exceeded its RM2.5bn guidance. For FY17F, it is guiding for RM2bn worth of new wins which should come from a combination of LRT3, internal jobs, precast projects and some other private sector building jobs.

Valuation:

BUY, TP raised to RM2.13. Our TP is based on sum-of-parts (SOP) valuation to reflect the growing contribution from its high-margin precast business. We have ascribed a 10% discount to our new SOP value of RM3.1bn or RM2.34/share to arrive at our target price of RM2.13.

Key Risks to Our View:

The timely execution of its peak orderbook of RM5bn is crucial to minimise the risk of any earnings cuts. With its strong execution track record and experience, we believe the group is able to execute the projects in a timely manner.

At A Glance

Issued Capital (m shrs)	1,293
Mkt. Cap (RMm/US\$m)	2,327 / 523
Major Shareholders (%)	
Sunway Berhad	55.6
Tan Sri Jeffrey Cheah & Family	7.6
Free Float (%)	37.9
3m Avg. Daily Val (US\$m)	0.57

ICB Industry : Industrials / Construction & Materials

WHAT'S NEW**Decent finish, expect much better 2017**

4Q16 profit was in-line: A pick-up in precast revenue and profit was seen in 4Q.

RM2bn new orders look achievable: Suncon has already secured 23% of this with an internal win from parent company.

BUY, TP raised to RM2.13. This is to reflect a higher construction orderbook and margins but this is offset by a lower precast orderbook.

In-line. SCG reported a 4Q16 net profit of RM32m (+9% y-o-y, +2% q-o-q), bringing FY16 net profit to RM124m (-3% y-o-y). This is on the back of a 7% decline in FY16 revenue to RM1,789m. The decline in revenue is expected as certain large-scale projects like MRT Line 2 have not filtered through. Additionally, 2015 earnings were buoyed by LRT and MRT V4 package. We expect the earnings momentum to pick up in FY17F as it executes on its strong orderbook.

Construction margins improved for FY16. 4Q16 construction pretax margin was 4.4% vs 3Q16's 9.3% and 4Q15's 2.2%. The lower margin for this quarter was due to certain preparatory costs incurred for MRT Line 2 without recognising the corresponding revenue. On a full-year basis, FY16 margin was 6.4% vs 3.8% in FY15. The better margins for the full year was due to the absence of loss recognition and adjustment for lower margin for its KLCC project last year while there was also better margin recognition for some ongoing projects. Construction turnover for FY16 fell 10% y-o-y to RM1,502m due to the completion of certain projects last year while its foundation and geotechnical engineering services also recorded lower turnover. Its total construction orderbook now stands at RM4.5bn.

Precast revenue picked up. For 4Q16, its precast division recorded turnover and pretax profit of RM87m (+65% y-o-y) and RM17m (14% y-o-y) respectively. On a full-year basis, revenue increased by 13% to RM287m but pretax profit fell by 24% to RM58m. The higher turnover was due to higher average selling prices while the lower profit was due to the finalisation of accounts of certain projects and better pricing of some earlier jobs. Hence, FY16 precast pretax margins normalised to 20% vs 30% in FY15. The outstanding precast orderbook as at 31 December 2016 stood at RM245m, sufficient for more than a year of revenue visibility.

BUY, raising TP to RM2.13. We raise our TP to RM2.13 by assuming a similar 10% discount to its upgraded SOP value. Our higher TP now reflects a higher sustainable orderbook of RM4bn (vs RM3.5bn previously) on the back of margins of 7% (vs 6% previously). This is offset by a lower sustainable precast orderbook of RM300m (vs RM450m previously) to reflect the slower orderbook replenishment for this division.

Quarterly / Interim Income Statement (RMm)

FY Dec	4Q2015	3Q2016	4Q2016	% chg yoy	% chg qoq
Revenue	470	381	553	17.6	45.2
Cost of Goods Sold	0.0	0.0	0.0	N/A	N/A
Gross Profit	470	381	553	17.6	45.2
Other Oper. (Exp)/Inc	(443)	(342)	(516)	16.6	51.1
Operating Profit	27.6	39.6	37.0	34.4	(6.4)
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	1.84	0.84	0.60	(67.4)	(28.7)
Exceptional Gain/(Loss)	0.0	0.0	0.0	nm	nm
Pre-tax Profit	29.4	40.4	37.6	28.0	(6.8)
Tax	0.97	(9.1)	(5.7)	(684.0)	(38.0)
Minority Interest	(1.0)	(0.2)	0.0	99.4	(95.5)
Net Profit	29.4	31.1	32.0	9.0	2.7
Net profit bef Except.	29.4	31.1	32.0	9.0	2.7
EBITDA	27.6	39.6	37.0	34.4	(6.4)
Margins (%)					
Opg Profit Margins	5.9	10.4	6.7		
Net Profit Margins	6.2	8.2	5.8		

Source of all data: Company, AllianceDBS

CRITICAL DATA POINTS TO WATCH

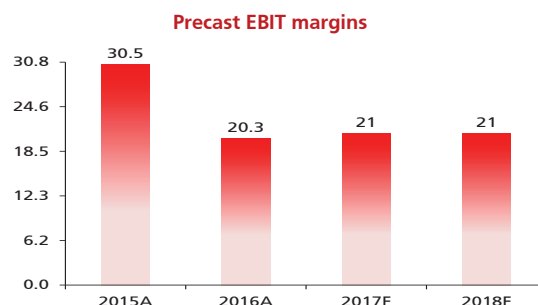
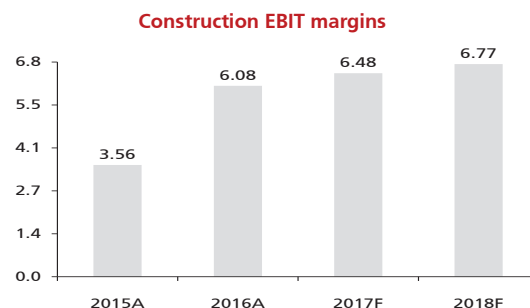
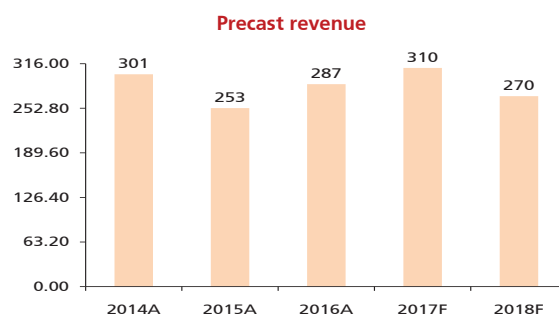
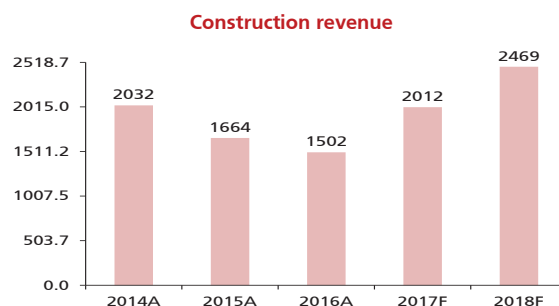
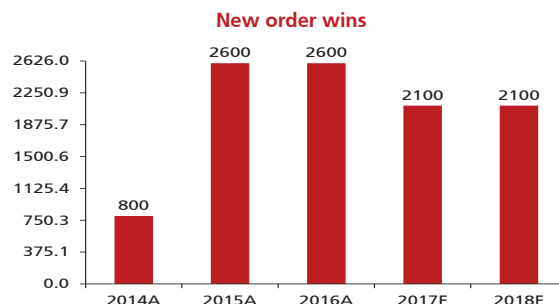
Earnings Drivers:

Sweet spot ahead. We think SCG’s construction segment is entering a ‘sweet spot’ on the back of the expected upturn in Malaysia’s construction industry. Given its notable brand name and strong execution track record, we believe the group is one of the strongest contenders to bag several key projects under the Eleventh Malaysia Plan (11MP). We are of the view that SCG is on a strong footing to bag several key infrastructure packages such as LRT3, BRT and other private sector building jobs.

Stronger infrastructure orderbook. With MRT2 viaduct package (V201) being the major infra win in 2016, its construction orderbook now stands at RM4.5bn (RM4.8bn including precast). For 2016, the company’s new contract wins of RM2.7bn exceeded its initial guidance of RM2.5bn. The quality of its orderbook is also strong and we think margins should also be relatively intact. About half of its outstanding orderbook comes from two key projects – MRT Line 2 V201 and Putrajaya Parcel F where the raw material requirements for MRT aboveground works are borne by the government while it has also locked in half of the steel requirements for the Putrajaya job at lower prices.

Highly profitable precast segment. SCG’s precast segment should be sturdy in contributing a larger share of earnings to the group. SCG’s precast division made up 13-16% of revenue in FY12-FY16. It was the largest earnings contributor in FY15, accounting for 57% of the group’s overall EBIT. The group believes the normalised margin lies in the 20-25% range. This is supported by sustainable orders from the Singapore market. Its Tampines plant will be returned in April 2017 but will be compensated by an additional four lines for its Iskandar plant by 2Q17 and better capacity for its Senai plant. This will increase the capacity of both its Johor plants to c.170,000 m3/year.

What’s in store for 2017? SCG is guiding for a more modest RM2bn worth of new wins, inclusive of precast, in FY17F. Our current forecast is RM2.1bn. This would likely come from one package for LRT 3, in-house projects, private sector building jobs and a pick-up in orders for its precast division. It has already achieved 23% of the RM2bn forecast with an in-house win from its parent company. At this point, it is unlikely to bid for the Pan Borneo Sabah highway project, citing its experience with Pan Borneo Sarawak as a key reason for its non-participation. It is exploring jobs overseas in two countries, Myanmar and Indonesia, but works are just in the preliminary stages.



Source: Company, AllianceDBS

Balance Sheet:

Strong balance sheet and cash generation ability. As at 31 December 2016, the company has a net cash position of RM29m, with no long-term borrowings and minimal working capital requirements going forward. We estimate the group will retain its strong balance sheet with a net cash position in FY17F and FY18F. Meanwhile, its ROAE is expected to hover around the 27-29% level.

Share Price Drivers:

Executing on peak orderbook. SCG's outstanding orderbook now stands at RM4.8bn which is at its peak. This will give it two and a half years' visibility. The largest projects are Putrajaya Parcel F and MRT Line 2, V201 package which form about half of the orderbook. More importantly, we think pretax margins for these two key projects will also be at least 7-8%. Recall that 2015 pretax margin was low at 3.6% due to MRT Line 1 and KLCC project (NEC and Package 2 and 2A) where certain losses and provisions were fully provided for.

Dividend payout policy of at least 35%. SCG is committed to distribute a minimum 35% of its core profit to shareholders, which is rare among construction players. This could be attributable to its sizeable operations with a large asset base that requires little capex spending going forward. We have imputed a 45% dividend payout ratio, based on our strong net cash forecasts. This translates into decent yields of c.3-4%.

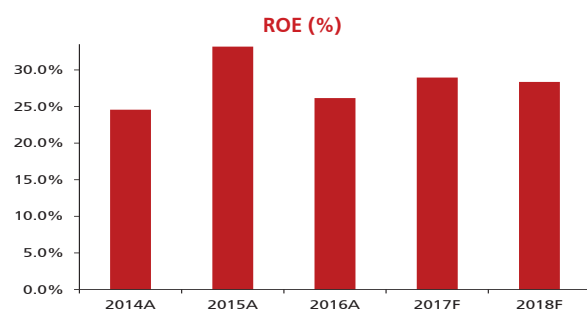
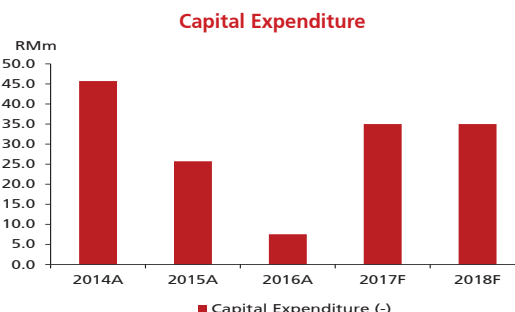
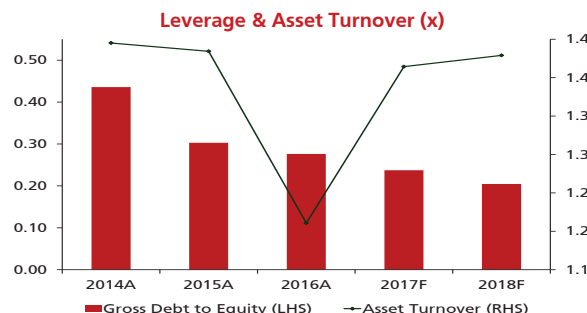
Key Risks:

Delays in construction. There may be project cost overruns due to several factors such as design and engineering issues and soil conditions.

Fluctuating prices of raw materials. The construction business typically requires a wide range of raw materials including steel bars, ready-mixed concrete, diesel, electrical cables and fittings, which are all subject to price fluctuations.

Company Background

An established player with >30 years of heritage, Sunway Construction Group (SCG) is one of Malaysia's largest construction companies. It adopts an integrated business model that covers various phases of construction activities, from project design to completion.



Source: Company, AllianceDBS

Sunway Construction Group

Key Assumptions

FY Dec	2014A	2015A	2016A	2017F	2018F
New order wins	800	2,600	2,700	2,100	2,100
Construction revenue	2,032	1,664	1,502	2,012	2,469
Precast revenue	301	253	287	310	270
Construction EBIT margins		3.56	6.08	6.48	6.77
Precast EBIT margins		30.5	20.3	21.0	21.0

Segmental Breakdown

FY Dec	2014A	2015A	2016A	2017F	2018F
Revenues (RMm)					
Construction	2,032	1,664	1,502	2,012	2,469
Precast Concrete	301	253	287	310	270
Consolidated Adjustments	(452)	0.0	0.0	0.0	0.0
Total	1,881	1,917	1,789	2,321	2,739

EBIT (RMm)

Construction		59.2	91.4	130	167
Precast Concrete		77.1	58.2	65.1	56.7
Total	120	136	150	195	224

EBIT Margins (%)

Construction		3.6	6.1	6.5	6.8
Precast Concrete		30.5	20.3	21.0	21.0
Total	6.4	7.1	8.4	8.4	8.2

Income Statement (RMm)

FY Dec	2014A	2015A	2016A	2017F	2018F
Revenue	1,881	1,917	1,789	2,321	2,739
Cost of Goods Sold	(1,485)	(1,514)	(1,413)	(1,875)	(2,262)
Gross Profit	395	403	376	447	477
Other Opng (Exp)/Inc	(275)	(267)	(227)	(251)	(253)
Operating Profit	120	136	150	195	224
Other Non Opng (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	30.4	(0.1)	0.0	0.0	0.0
Net Interest (Exp)/Inc	0.72	4.54	4.08	(1.4)	(1.4)
Exceptional Gain/(Loss)	(10.6)	0.0	0.0	0.0	0.0
Pre-tax Profit	141	141	154	194	222
Tax	(26.5)	(13.0)	(30.0)	(38.8)	(44.5)
Minority Interest	0.05	(0.6)	(0.1)	0.0	0.0
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Profit	114	127	124	155	178
Net Profit before Except.	125	127	124	155	178
EBITDA	162	178	185	231	259
Growth					
Revenue Gth (%)	2.2	1.9	(6.7)	29.8	18.0
EBITDA Gth (%)	90.0	10.1	4.0	24.6	12.3
Opg Profit Gth (%)	183.7	13.4	9.7	30.6	14.6
Net Profit Gth (Pre-ex) (%)	86.5	1.9	(2.9)	25.6	14.7
Margins & Ratio					
Gross Margins (%)	21.0	21.0	21.0	19.2	17.4
Opg Profit Margin (%)	6.4	7.1	8.4	8.4	8.2
Net Profit Margin (%)	6.1	6.6	6.9	6.7	6.5
ROAE (%)	24.6	33.2	26.2	29.0	28.4
ROA (%)	8.5	9.2	8.0	9.1	9.0
ROCE (%)	21.8	25.3	20.9	22.8	23.0
Div Payout Ratio (%)	0.0	40.7	41.9	45.0	45.0
Net Interest Cover (x)	NM	NM	NM	143.6	159.8

Source: Company, AllianceDBS

Quarterly / Interim Income Statement (RMm)

FY Dec	4Q2015	1Q2016	2Q2016	3Q2016	4Q2016
Revenue	470	424	430	381	553
Cost of Goods Sold	0.0	0.0	0.0	0.0	0.0
Gross Profit	470	424	430	381	553
Other Oper. (Exp)/Inc	(443)	(389)	(393)	(342)	(516)
Operating Profit	27.6	35.4	37.6	39.6	37.0
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	0.0	0.0	0.0	0.0	0.0
Net Interest (Exp)/Inc	1.84	2.14	0.51	0.84	0.60
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	29.4	37.5	38.1	40.4	37.6
Tax	0.97	(8.5)	(6.8)	(9.1)	(5.7)
Minority Interest	(1.0)	0.0	0.0	(0.2)	0.0
Net Profit	29.4	29.1	31.3	31.1	32.0
Net profit bef Except.	29.4	29.1	31.3	31.1	32.0
EBITDA	27.6	35.4	37.6	39.6	37.0

Growth

Revenue Gth (%)	4.4	(9.8)	1.4	(11.4)	45.2
EBITDA Gth (%)	(2.4)	28.4	6.3	5.2	(6.4)
Opg Profit Gth (%)	(2.4)	28.4	6.3	5.2	(6.4)
Net Profit Gth (Pre-ex) (%)	14.4	(1.0)	7.8	(0.6)	2.7

Margins

Gross Margins (%)	100.0	100.0	100.0	100.0	100.0
Opg Profit Margins (%)	5.9	8.3	8.7	10.4	6.7
Net Profit Margins (%)	6.2	6.8	7.3	8.2	5.8

Balance Sheet (RMm)

FY Dec	2014A	2015A	2016A	2017F	2018F
Net Fixed Assets	179	163	135	134	134
Invt in Associates & JVs	24.2	0.0	0.0	0.0	0.0
Other LT Assets	10.8	17.4	15.2	15.2	15.2
Cash & ST Invt	222	468	467	516	610
Inventory	20.2	17.3	24.0	23.3	27.6
Debtors	790	835	912	1,132	1,336
Other Current Assets	8.52	14.4	14.9	14.9	14.9
Total Assets	1,254	1,515	1,567	1,836	2,137
ST Debt	135	137	137	138	139
Creditor	791	913	925	1,107	1,309
Other Current Liab	13.2	9.26	11.4	11.4	11.4
LT Debt	0.07	0.0	0.0	0.0	0.0
Other LT Liabilities	4.29	4.10	0.61	0.61	0.61
Shareholder's Equity	315	451	493	579	676
Minority Interests	(5.2)	0.63	0.76	0.76	0.76
Total Cap. & Liab.	1,254	1,515	1,567	1,836	2,137
Non-Cash Wkg. Capital	14.1	(56.1)	14.2	52.2	57.5
Net Cash/(Debt)	86.4	332	331	379	471
Debtors Turn (avg days)	175.7	154.7	178.2	160.7	164.4
Creditors Turn (avg days)	192.4	211.3	243.6	201.6	198.0
Inventory Turn (avg days)	5.8	4.6	5.5	4.7	4.2
Asset Turnover (x)	1.4	1.4	1.2	1.4	1.4
Current Ratio (x)	1.1	1.3	1.3	1.3	1.4
Quick Ratio (x)	1.1	1.2	1.3	1.3	1.3
Net Debt/Equity (X)	CASH	CASH	CASH	CASH	CASH
Net Debt/Equity ex MI (X)	CASH	CASH	CASH	CASH	CASH
Capex to Debt (%)	33.8	18.8	5.5	25.5	25.3
Z-Score (X)	3.5	3.2	3.4	3.2	3.0

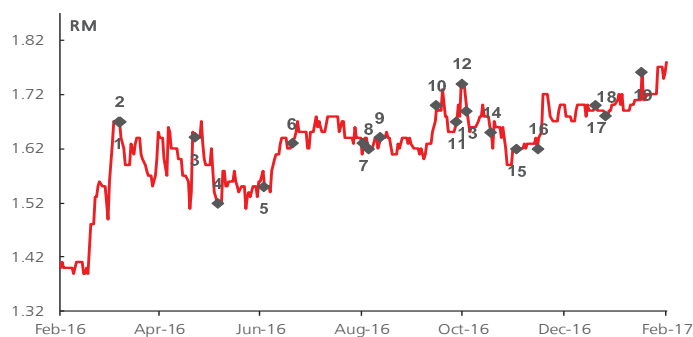
Source: Company, AllianceDBS

Cash Flow Statement (RMm)

FY Dec	2014A	2015A	2016A	2017F	2018F
Pre-Tax Profit	151	141	154	194	222
Dep. & Amort.	41.6	41.9	35.7	35.6	35.4
Tax Paid	(26.5)	(13.0)	(30.0)	(38.8)	(44.5)
Assoc. & JV Inc/(loss)	0.0	0.0	0.0	0.0	0.0
Chg in Wkg.Cap.	297	79.9	(71.9)	(38.0)	(5.4)
Other Operating CF	(279)	(13.6)	(7.6)	0.0	0.0
Net Operating CF	184	236	79.9	153	208
Capital Exp.(net)	(45.7)	(25.7)	(7.5)	(35.0)	(35.0)
Other Invt.(net)	0.0	0.0	0.0	0.0	0.0
Invt in Assoc. & JV	0.0	0.0	0.0	0.0	0.0
Div from Assoc & JV	0.0	0.0	0.0	0.0	0.0
Other Investing CF	395	(38.8)	86.1	0.0	0.0
Net Investing CF	349	(64.5)	78.5	(35.0)	(35.0)
Div Paid	(429)	(70.0)	(84.0)	(69.8)	(80.1)
Chg in Gross Debt	46.5	1.64	(0.3)	1.00	1.00
Capital Issues	0.0	0.0	0.0	0.0	0.0
Other Financing CF	(85.5)	65.7	1.25	0.0	0.0
Net Financing CF	(468)	(2.6)	(83.1)	(68.8)	(79.1)
Currency Adjustments	0.0	0.0	0.0	0.0	0.0
Chg in Cash	65.5	169	75.3	48.9	93.9
Opg CFPS (sen)	(8.7)	12.1	11.7	14.8	16.5
Free CFPS (sen)	10.7	16.3	5.60	9.11	13.4

Source: 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:	28 Mar 16	1.67	1.92	BUY
2:	29 Mar 16	1.67	1.92	BUY
3:	13 May 16	1.64	1.92	BUY
4:	27 May 16	1.52	1.92	BUY
5:	24 Jun 16	1.55	1.92	BUY
6:	11 Jul 16	1.63	1.92	BUY
7:	23 Aug 16	1.63	1.92	BUY
8:	26 Aug 16	1.62	1.92	BUY
9:	02 Sep 16	1.64	1.92	BUY
10:	06 Oct 16	1.70	1.92	BUY
11:	18 Oct 16	1.67	1.92	BUY
12:	21 Oct 16	1.74	1.92	BUY
13:	24 Oct 16	1.69	1.92	BUY
14:	08 Nov 16	1.65	1.92	BUY
15:	23 Nov 16	1.62	1.92	BUY
16:	06 Dec 16	1.62	1.92	BUY
17:	10 Jan 17	1.70	1.92	BUY
18:	16 Jan 17	1.68	1.92	BUY
19:	07 Feb 17	1.76	1.92	BUY

Source: AllianceDBS

Analyst: Chong Tjen San

AllianceDBS recommendations are based on Absolute Total Return* Rating system, defined as follows:

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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