

Sunway Construction Group

FY16 Below Expectations

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FY16 CNP of RM117.6m was below expectation, accounting for 88%/92% of our and streets' full-year estimates. No dividend declared, but we are expecting a final dividend to be declared at a later date. Trim FY17E CNP by 2.5% and introduce FY18E CNP of RM146.9m. Downgrade to MARKET PERFORM from OUTPERFORM with a lower SoP-driven Target Price of RM1.77 (previously, RM1.81).

Below expectations. FY16 CNP of RM117.6m was below expectations, accounting for only 88%/92% of our/streets' full-year estimates. The shortfall in earnings was mainly due to the progress billings mismatch, as our progressive billings for its on-going jobs are much more aggressive as compared to actual performance. No dividends were declared in 4Q16, but we are expecting a final interim dividend to be declared on a later date.

Results highlight. FY16 CNP saw a decline of 9%, in line with the decrease in revenue (-7%), where the main drag in revenue was due to its construction division as some of its on-going projects have been handed over and they are currently on transition to MRT2 project, which has yet reached advance construction stage and hence meaningful contribution. On a positive note, its construction division saw improvements in pre-tax margins by 2ppt to 6% as SUNCON had previously recognised the costs for acceleration works for certain projects back in FY15. **QoQ-wise**, its revenue shot up 45% as the construction works for some of its on-going projects have picked up pace. However, its CNP came off by 27%, mainly bogged down by margin compression of 4ppt to 7%.

Outlook. For FY16, SUNCON managed to bag RM2.7b worth of jobs surpassing our replenishment target of RM2.5b. That said, they also started FY17 with a RM449.0m contract for construction of an apartment in Kelana Jaya by Sunway Bhd. Current outstanding order book stands at RM4.8b providing earnings visibility for the next 2-3 years. Going forward, management targets a lower replenishment of RM2.0b for FY17, while we also revised down our forecast to management's target from RM2.5b previously. We believe a lower order-book replenishment target for FY17E is achievable should they secure a package from LRT3.

Revision in earnings. Following the downward revision in our FY17E order-book replenishments, we trimmed our FY17E CNP by 2.5%, and introduce our FY18E CNP of RM146.9m.

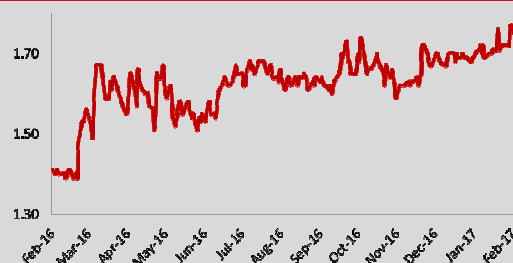
Downgrade to MARKET PERFORM. Following the adjustment in earnings, we are also downgrading our call on SUNCON from OUTPERFORM to MARKET PERFORM with a lower SoP-based Target Price of RM1.77 (previously, RM1.81). Our TP of RM1.77 implies FY17E PER of 15.7x which is still close to the lower end of our big caps' targeted PER range of 16-18x.

Risks to our call include: (i) lower-than-expected margins/order book replenishment, (ii) delay in construction works, and (iii) cut or delay in government spending on infrastructure and affordable housing projects.

MARKET PERFORM

Price: **RM1.80**
Target Price: **RM1.77**

Share Price Performance



KLCI	1,704.48
YTD KLCI chg	3.8%
YTD stock price chg	5.9%

Stock Information

Shariah Compliant	No
Bloomberg Ticker	SCGB MK Equity
Market Cap (RM m)	2,327.2
Issued shares	1,292.9
52-week range (H)	1.81
52-week range (L)	1.38
3-mth avg daily vol:	1,392,343
Free Float	34%
Beta	n.a.

Major Shareholders

Sunway Holdings Sdn Bhd	54.4%
Sungei Way Corp Sdn Bhd	10.1%
Norges Bank	1.8%

Summary Earnings Table

FY Dec (RM'm)	2016A	2017E	2018E
Turnover	1,788.8	2,339.0	2,414.3
EBIT	149.6	185.3	185.7
PBT	153.7	193.7	195.9
Net Profit (NP)	123.5	145.2	146.9
Core net profit	117.7	145.2	146.9
Consensus (NP)	n.a.	135.8	157.9
Earnings Revision	n.a.	-2.5%	n.a.
Basic EPS	9.1	11.2	11.4
EPS growth (%)	-3%	18%	1%
DPS (sen)	3.3	3.9	4.0
Basic PER (x)	19.8	16.0	15.8
BVPS (RM)	0.38	0.45	0.53
Net Gearing (x)	n.c.	n.c.	n.c.
Dividend Yield (%)	1.9%	2.2%	2.2%



24 February 2017

Results Highlight								
FYE Dec (RM'm)	4Q16	3Q16	QoQ	4Q15	YoY	FY16	FY15	YoY
Turnover	553.1	381.1	45%	470.3	18%	1,788.8	1,916.9	-7%
EBIT	28.6	40.7	-30%	27.6	4%	143.8	141.2	2%
Interest inc/(exp)	0.6	0.8	-29%	1.8	-67%	4.8	1.5	214%
Associates	0.0	0.0	n.m.	0.0	n.m.	-0.7	-0.1	838%
Exceptional items	8.4	-0.9	1013%	0.0	n.m.	6.4	-0.7	1061%
Forex gain/(loss)	0.0	-0.2	-100%	0.0	n.m.	-0.6	-1.2	-49%
Pretax profit	37.6	40.4	-7%	29.4	28%	153.7	140.8	9%
Taxation	-5.7	-9.1	-38%	1.0	-684%	-30.0	-13.0	131%
Deferred tax	0.0	0.0	n.m.	0.0	n.m.	0.0	0.0	n.m.
Profit after tax	32.0	31.3	2%	30.4	5%	123.6	127.7	-3%
Minority interest	-0.1	-0.1	-55%	-1.0	-94%	-0.3	-0.6	-56%
PATAMI	31.9	31.1	3%	29.3	9%	123.4	127.2	-3%
Core PATAMI	23.5	32.2	-27%	29.3	-20%	117.6	129.1	-9%
EBIT margin	5%	11%		6%		8%	7%	
Pretax margin	7%	11%		6%		9%	7%	
CNP margin	4%	8%		6%		7%	7%	
EPS (sen)	2.4	2.4		2.0		4.7	5.6	
Core EPS(sen)	2.5	2.5		1.8		4.8	5.9	
BV/share (RM)	0.4	0.4		0.3		0.4	0.3	
Net gearing (x)	-0.7	-0.7		-0.5		-0.7	-0.5	
Effective tax	15%	23%		-3%		20%	9%	

Source: Company, Kenanga Research

Segmental Breakdown								
Turnover Segmentation	4Q16	3Q16	QoQ	4Q15	YoY	FY16	FY15	YoY
Construction	466.5	301.3	55%	417.6	12%	1,502.1	1,664.0	-10%
Pre-cast	86.6	79.8	9%	52.7	65%	286.7	252.8	13%
Total	553.1	381.1	45%	470.3	18%	1,788.8	1,916.9	-7%
Pre-tax Profits								
Construction	20.3	27.9	-27%	9.4	117%	95.4	63.8	50%
Pre-cast	17.4	12.5	39%	20.0	-13%	58.2	77.0	-24%
Total	37.7	40.4	-7%	29.4	28%	153.7	140.8	9%
Pre-tax margins								
Construction	4%	9%		2%		6%	4%	
Pre-cast	20%	16%		38%		20%	30%	

Source: Company, Kenanga Research

Sum-of-parts valuation	
14x FY17E PER on existing business (RM m)	2033.0
50% of FY17E cash pile (RM m)	253.1
Fair Value (RM m)	2286.0
Shares Outstanding (m)	1292.9
Target Price (RM)	1.77
Implied FY17E PER (x)	15.7

Source: Kenanga Research

24 February 2017

Peer Comparison

CORE COVERAGE

NAME	Price (23/2/17)	Mkt Cap (RMm)	PER (x)			Est. Div. Yld. (%)	Est. ROE (%)	P/BV (x)	Net Profit (RMm)			1 Yr Fwd NP Growth (%)	2 Yr Fwd NP Growth (%)	Target Price (RM)	Rating	YTD (%)
	(RM)		Actual	1 Yr Fwd	2 Yr Fwd				Actual	1 Yr Fwd	2 Yr Fwd					
EVERSENDAI CORP BHD	0.65	499.2	10.5	9.9	9.7	0.0	5.1	0.5	47.5	50.6	51.7	6.5	2.2	0.60	Outperform	12.17
GAMUDA BHD	4.89	11861.9	18.8	16.6	15.9	2.5	9.8	1.6	626.1	709.5	741.7	13.3	4.5	4.85	Market Perform	2.30
IJM CORP BHD	3.42	12337.1	24.4	22.2	20.0	1.8	5.9	1.3	499.9	549.5	612.0	9.9	11.4	3.51	Market Perform	6.87
KIMLUN CORP BHD	2.16	670.2	10.1	8.2	7.7	3.0	15.1	1.2	64.4	78.7	83.8	22.2	6.5	2.51	Outperform	3.85
MUHIBBAH ENGINEERING (M) BHD	2.52	1210.4	13.0	12.9	11.4	1.7	9.3	1.2	88.9	89.5	101.5	0.7	13.4	2.48	Market Perform	13.00
HOCK SENG LEE BERHAD	1.69	928.7	12.2	14.5	10.4	1.4	9.0	1.3	76.2	64.1	89.2	-15.9	39.1	1.79	Market Perform	5.62
NAIM HOLDINGS BERHAD	1.65	391.0	-19.5	10.4	9.2	2.4	2.8	0.3	-20.1	37.5	42.6	-286.7	13.7	1.38	Underperform	-13.16
WCT HOLDINGS BHD	1.91	2397.0	37.7	21.8	19.3	0.0	5.0	1.1	84.8	146.9	165.3	73.2	12.5	1.58	Underperform	10.40
MITRAJAYA HOLDINGS BHD	1.27	849.9	10.9	9.6	9.4	3.1	18.7	1.8	87.7	99.9	102.1	13.9	2.2	1.49	Outperform	0.79
SUNWAY CONSTRUCTION GROUP	1.80	2327.2	19.8	16.0	15.8	2.2	25.0	4.0	117.7	145.2	146.9	23.4	1.2	1.77	Market Perform	5.88
KERJAYA PROSPEK GROUP BHD	2.51	1281.9	87.8	14.3	11.3	2.7	13.7	2.0	16.1	98.9	125.9	512.6	27.4	2.64	Outperform	15.67
<i>Average</i>			20.5	14.2	12.7											

NOT RATED/ON OUR RADAR

NAME	Price	Mkt Cap (RMm)	PER (x)			Est. Div. Yld. (%)	Est. ROE (%)	P/BV (x)	Net Profit (RMm)			1 Yr Fwd NP Growth (%)	2 Yr Fwd NP Growth (%)	Target Price (RM)	Rating	YTD (%)
	(RM)		Actual	1 Yr Fwd	2 Yr Fwd				Actual	1 Yr Fwd	2 Yr Fwd					
MUDAJAYA	0.91	489.9	-344.1	-11.2	12.8	4.9	-3.9	0.4	-1.4	-43.9	38.5	2974.2	-187.6	n.a.	Not Rated	0.00
PROTASCO	1.18	500.6	7.4	9.5	8.4	5.8	12.1	1.2	66.8	51.8	58.5	-22.4	12.9	1.52	Trading Buy	4.42
PINTARAS JAYA	3.50	573.2	32.1	13.9	11.3	5.6	12.1	1.7	17.8	41.1	50.3	130.8	22.4	4.20	Trading Buy	-0.57
GABUNGAN AQRS	1.08	421.6	18.6	10.9	7.7	0.0	1.1	0.1	22.6	38.5	54.2	70.4	40.9	n.a.	Not Rated	19.34
GADANG HOLDINGS	1.11	718.6	6.8	7.4	7.1	2.3	16.8	1.2	94.2	86.9	90.8	-7.7	4.4	2.44	Not Rated	5.71
AZRB	0.69	332.6	14.6	13.2	11.5	2.9	n.a.	n.a.	22.9	25.2	29.0	10.2	15.1	n.a.	Not Rated	8.66
TRC SYNERGY	0.42	201.8	6.6	7.3	5.4	n.a.	n.a.	n.a.	30.7	27.6	37.4	-10.1	35.3	n.a.	Not Rated	10.53
BINA PURI	0.46	114.3	29.4	7.5	6.5	n.a.	n.a.	n.a.	3.3	13.0	15.0	294.4	15.4	n.a.	Not Rated	5.75
GKENT	2.91	1092.7	21.7	14.8	12.3	2.6	20.1	3.0	50.3	73.6	89.1	46.4	21.1	2.80	Trading Buy	-4.28
PESONA	0.66	432.8	36.9	20.3	12.2	2.3	14.2	2.9	11.7	21.3	35.3	82.2	65.7	0.485	Take Profit	9.09
<i>Average</i>			-32.6	7.5	9.4											

Source: Kenanga Research

24 February 2017

Stock Ratings are defined as follows:**Stock Recommendations**

OUTPERFORM	:A particular stock's Expected Total Return is MORE than 10% (an approximation to the 5-year annualised Total Return of FBMKLCI of 10.2%).
MARKET PERFORM	:A particular stock's Expected Total Return is WITHIN the range of 3% to 10%.
UNDERPERFORM	:A particular stock's Expected Total Return is LESS than 3% (an approximation to the 12-month Fixed Deposit Rate of 3.15% as a proxy to Risk-Free Rate).

Sector Recommendations***

OVERWEIGHT	:A particular sector's Expected Total Return is MORE than 10% (an approximation to the 5-year annualised Total Return of FBMKLCI of 10.2%).
NEUTRAL	:A particular sector's Expected Total Return is WITHIN the range of 3% to 10%.
UNDERWEIGHT	:A particular sector's Expected Total Return is LESS than 3% (an approximation to the 12-month Fixed Deposit Rate of 3.15% as a proxy to Risk-Free Rate).

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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