

23 November 2016 | 9MFY16 Results Review

Sunway Construction Group Bhd.

Results Slight Lower than Expected

Maintain NEUTRAL
Unchanged Target Price (TP): RM1.74

INVESTMENT HIGHLIGHTS


- Sunway Construction Group Berhad (SCGB) 9MFY16 earnings of RM91.4m slightly lower than expected
- 9MFY16 results were influenced by project completion and lower pre-cast sales volume
- Nevertheless, our earnings forecast remain sanguine due to total outstanding orderbook of RM4.8bn and uptick in HDB new launches
- We reaffirm our NEUTRAL stance with an unchanged TP of RM1.74 per share price.

9MFY15 earnings within our expectations. SCGB's 9MFY16 PATAMI came in lamentably lower at RM91.4m (-7.0% YoY). Nonetheless, its 9MFY16 earnings came in below our expectations, registering for 71% of ours and 67% of consensus' full-year forecasts.

Disappointing earnings influenced by construction segment. We opine its tepid earnings was dragged mainly to the following:

- Completion of civil and construction for infrastructure jobs such as ; (a) Sunway Geo Retail and Flexi Suites in Bandar Sunway, (b) LRT Package B (Kelana Jaya Line Extension) and (c) KVMRT Package V4 Viaduct Gateway, Section 17, Petaling Jaya and Sunway Lenang Phase 1A in Johor. The construction segment contributes 65.2% of PBT for 9MFY16.
- Lower sales volume at higher cost due to steel bar prices for pre cast segment despite an uptick from Housing Development Board of Singapore (HDB) new launches especially in Punggol. The segment contributes 34.7% of PBT for the 9MFY16.

Impact on earnings We maintain our earnings forecast despite the slight blip in 9MFY16 results which is transient. Its total outstanding orderbook stands at RM4.8bn or approximately 36 months. We believe that 4QFY16 would be more promising especially for pre-cast segment as the measures by the government to imposed duties between the ranges of 13.4% to 13.9% for imported steel bars. Hence, the move will potentially maintain the PBT margin for pre-cast segment in upcoming quarters and remove the concern on margin erosion.

Recommendation. Altogether, we reiterate our Neutral stance with an SOP-based target price of RM1.74 per share. 

RETURN STATS	
Price (22 Nov 2016)	RM1.62
Target Price	RM1.74
Expected Share Price Return	+7.4%
Expected Dividend Yield	+1.1%
Expected Total Return	+8.5%

STOCK INFO	
KLCI	1,629
Bursa / Bloomberg	5263/ SCGB MK
Board / Sector	Main / Construction
Syariah Compliant	No
Issued shares (mil)	1,292.9
Par Value (RM)	1.00
Market cap. (RM'm)	2,094.5
Price over NA	4.64x
52-wk price Range	RM1.30 – RM1.74
Beta (against KLCI)	N/A
3-mth Avg Daily Vol	1.96
3-mth Avg Daily Value	3.23
Major Shareholders (%)	
Sunholdings S/B	54.4
Sungei Way Corp S/B	10.0
Norges Bank	2.0
Affin Trust	1.0

INVESTMENT STATISTICS

FYE Dec	FY14	FY15	FY16F	FY17F
Revenue (RM'm)	1,662.2	1,854.1	1,940.0	1,874.0
EBIT (RM'm)	202.4	335.6	191.4	347.9
Pre-tax Profit (RM'm)	151.1	256.2	172.2	226.8
Normalised PATAMI (RM'm)	111.1	216.6	128.6	163.4
EPS (sen)	10.1	18.1	11.7	14.8
EPS growth (%)	-26.6	78.9	-35.9	27.0
PER(x)	18.9	8.8	13.1	10.3
Net Dividend (sen)	2.5	5.0	1.8	1.8
Net Dividend Yield (%)	1.2	3.5	1.1	1.2

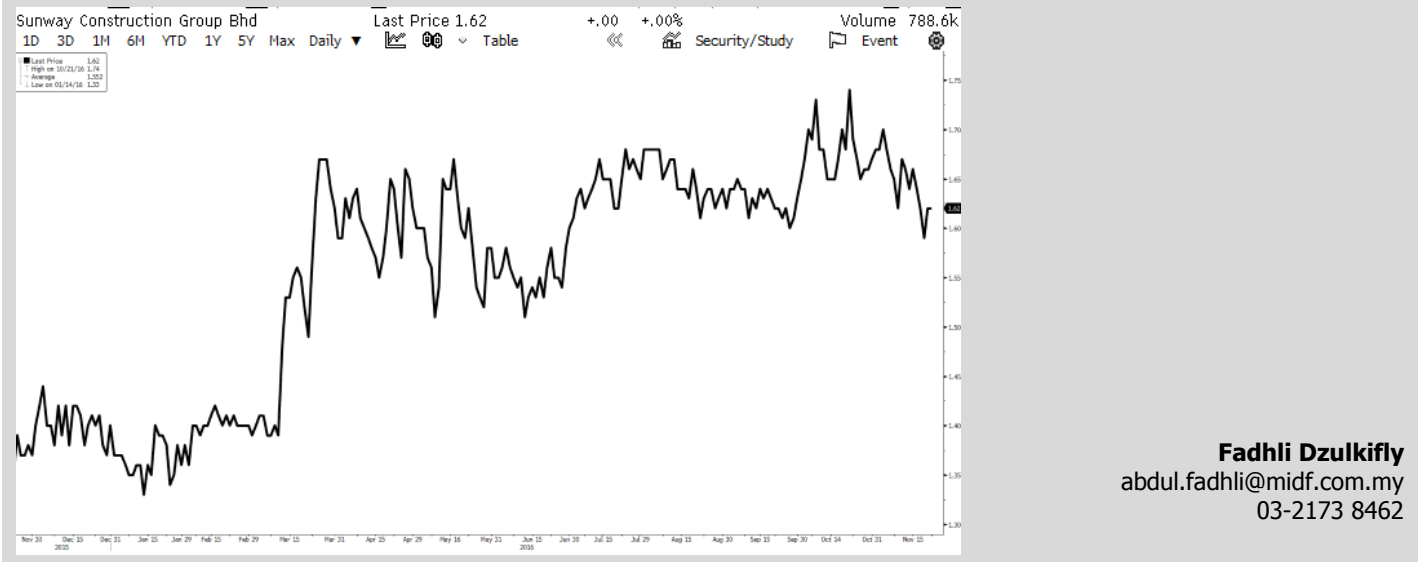
Source: MIDFR

SOP VALUATION

Segments	Basis	Value (RM'm)	Per share (RM)
Building and Civil Infrastructure	DCF at 8.0%	2,300	1.78
Foundation and Geotechnical Services	DCF	77	0.06
MEP	DCF	12	0.01
Precast Concrete	DCF	441	0.34
Others			
Ongoing works	FY16 PER of 12x	66	0.05
Total SOP		2,895.9	2.24
Net debt		-641.1	-0.50
Total Net SOP			1.74
Enlarged share capital (mil)			1,293

Source: MIDFR, Bloomberg, Bursa

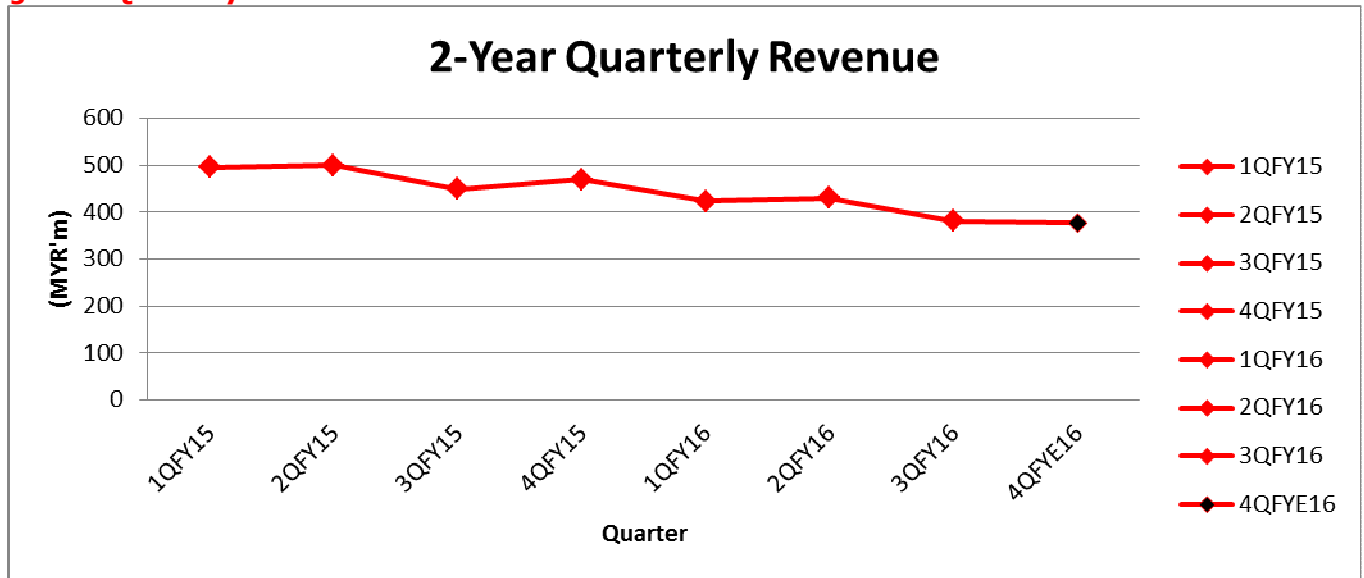
DAILY PRICE CHART



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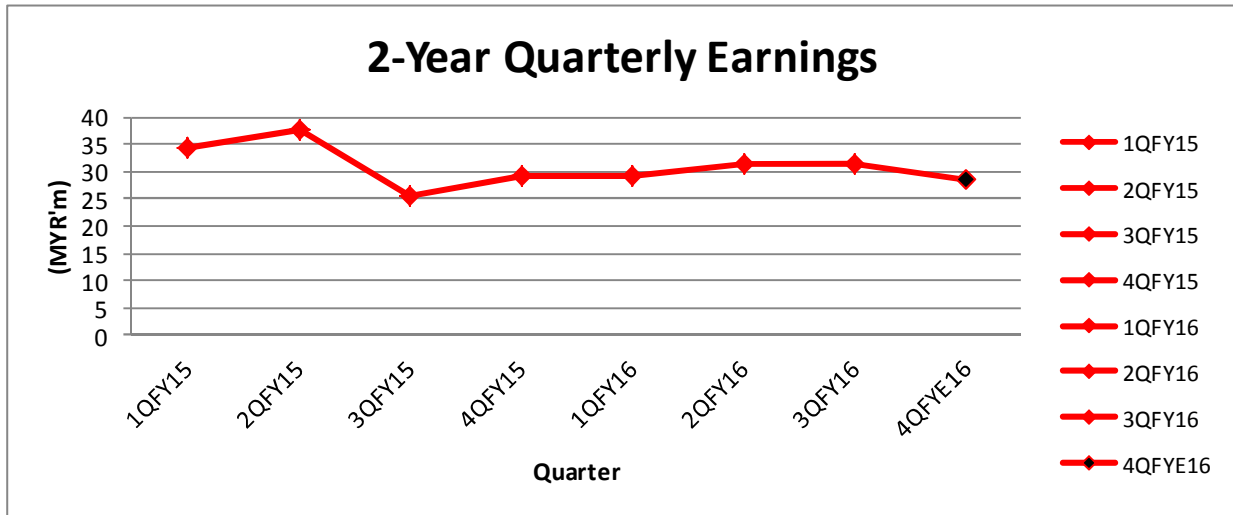
Source: Bloomberg, MIDFR

Figure 1: Quarterly Revenue Trend



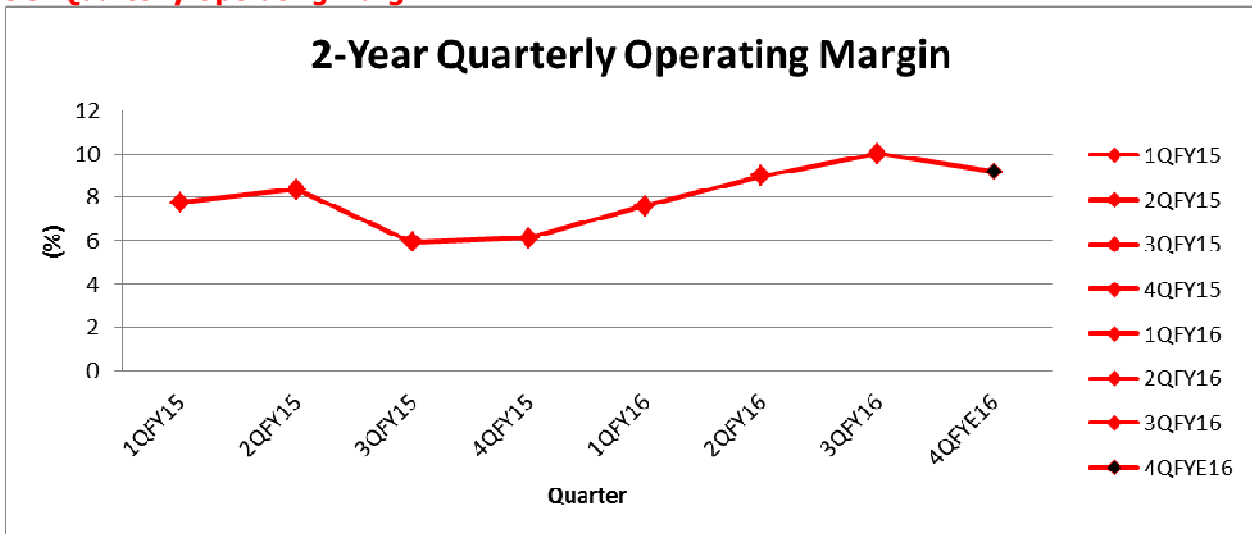
Source: Bloomberg, MIDFR

Figure 2: Quarterly Earnings Trend



Source: Bloomberg, MIDFR

Figure 3: Quarterly Operating Margin



Source: Bloomberg, MIDFR

9MFY16 RESULTS SUMMARY

	3Q16	2Q16	3Q15	YoY Chg	QoQ Chg	9MFY16	9MFY15	YoY Chg
Revenue	381.1	430.9	450.3	-15%	-12%	1,235.6	1,446.5	-15%
Operating Expenses	-348.8	-401.8	-424.4	-18%	-13%	-1,149.0	-1,347.6	15%
Other income	7.3	0.9	2.3	217%	711%	0.0	9.8	-100%
Interest income	3.2	1.9	2.6	23%	71%	8.0	5.6	43%
Finance cost	-2.4	-1.3	-0.7	243%	85%	-4.5	-2.9	55%
Operating profit	39.5	38.1	28.2	40%	4%	112.5	108.7	3%
Pre-tax profit	40.3	38.1	30.1	34%	6%	116.0	111.3	4%
Taxation	-9.1	-6.8	-4.9	86%	34%	-23.4	-13.9	68%
PATAMI	31.3	31.2	25.6	22%	0%	91.4	97.8	-7%
EPS (sen)	2.4	2.4	2.0	22%	0%	7.1	7.6	-6%
	3Q16	2Q16	3Q15	Pts (+/-)	Pts (+/-)	9MFY16	9MFY15	Pts
Operating margin	10%	9%	6.3%	0.04	0.02	9.1%	7.5%	1.6%
Pre-tax margin	11%	9%	6.7%	0.04	0.02	9.4%	7.7%	1.7%
PATAMI margin	8%	7%	5.7%	0.03	0.01	7.4%	6.8%	0.6%
Effective tax rate	-2%	-2%	-1.1%	-0.01	-0.01	-1.9%	-1.0%	-0.9%
	3Q16	2Q16	3Q15	YoY Chg	QoQ Chg	9MFY16	9MFY15	YoY Chg
Construction	301.3	360.5	394.0	-0.2	-0.2	1,035.0	1,246.3	-17%
Pre Cast Concrete	79.8	69.8	56.3	0.4	0.1	200.0	200.2	0%
TOTAL	381.1	430.3	450.3	-0.2	-0.1	1,235.0	1,446.5	-15%
	3Q16	2Q16	3Q15	YoY Chg	QoQ Chg	9MFY16	9MFY15	YoY Chg
Construction	27.90	21.20	9.6	1.9	0.3	59.8	53.1	13%
Pre Cast Concrete	12.50	16.90	20.5	-0.4	-0.3	31.8	56.9	-44%
TOTAL	40.4	38.1	30.1	0.3	0.1	91.6	110.0	-17%
	3Q16	2Q16	3Q15	Pts (+/-)	Pts (+/-)	9MFY16	9MFY15	Pts (+/-)
Construction	9%	6%	2.4%	0.07	-0.97	5.8%	4.3%	1.5%
Pre Cast Concrete	16%	24%	36.4%	-0.21	-1.09	15.9%	28.4%	-12.5%

Source: MIDFR

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STOCK RECOMMENDATIONS

BUY	Total return is expected to be >15% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >15% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -15% and +15% over the next 12 months.
SELL	Total return is expected to be <-15% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >15% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.