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Stock:	SCGB MK
Name:	Sunway Construction Group
Price:	RM2.07 (At 13:51, 25 May 2017 GMT)
Recommendation:	Outperform
12mth price target:	RM2.50
12-month TSR:	23.9%
Volatility index:	Low
Market Cap (m):	RM2,676
Market Cap (m):	US\$623
Free float:	24%
Current valuation (PER):	RM1.80 - 2.65

Event

- Sunway Construction Group Berhad (SunCon) reported its 1Q17 results after market hours on 25 May 2017.
- Earnings in 1Q17 were +19.2% YoY at RM35mn, which tracks in-line at 22% of MQ/Consensus FY17E estimates.
- Earnings growth was backed by margins expansion, in-line with our expectations for FY17E, as the loss-making projects have been fully delivered in FY16. Also, as widely expected by the market - SunCon's shariah status was [reinstated](#) by the Securities Commission Malaysia (SC) after the company lost its Shariah status the same time last year for failing to comply with SC's cash requirement in conventional accounts and instruments.

Impact

- Construction division posted PBT growth of +10% YoY at RM28.4mn, mainly backed by margin improvement in the division. PBT margin for the division grew from 7.0% (1Q16) to 8.1% (1Q17).
- Precast division posted a PBT growth of +37% YoY at RM15.8mn on the back of higher ASP for the group's precast division. The division's PBT margin was 23% in 1Q17, an increase of +0.2% from 1Q16 PBT margin.
- Outstanding orderbook currently stands at RM4.6bn with c.RM900mn of new orders secured YTD. According to management, construction revenue will pick up in the coming quarters as some revenue recognition in 1Q17 was delayed due to design finalisation. Once the projects kick off, we believe revenue and earnings will be stronger in the coming quarters of FY17E.
- On future orders, SunCon is hopeful to secure the largest above ground package in the LRT3 project, which is expected to be valued above RM1.5bn. SunCon will also opportunistically participate in the East Coast Railway Link project when the tenders are opened. We have an orderbook replenishment target of RM2bn in FY17E, given the current order wins FYTD, SunCon may surpass our target if it manages to secure the aforementioned LRT3 package.

Action and recommendation

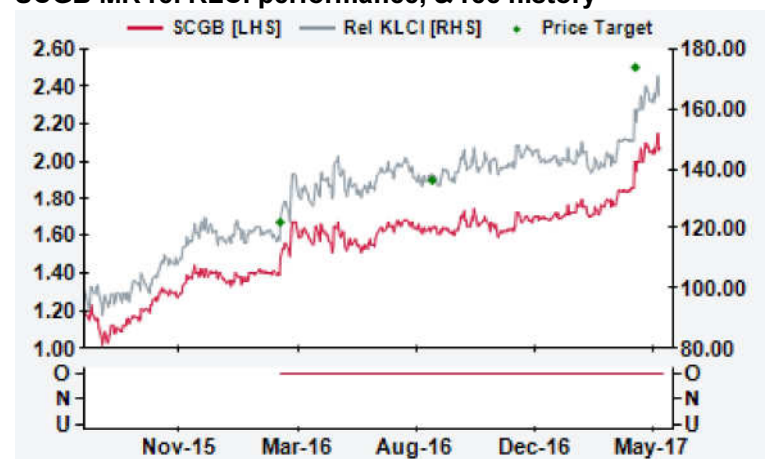
- In the small mid cap space, we prefer Econpile (ECON MK, RM2.45, OP, TP: RM2.50) over SunCon due to the higher ROE and overall business margins. Maintain Outperform.

December		2016A	2017E	2018E	2019E
Revenue	m	1,788.8	2,377.6	2,483.4	2,294.4
EBIT	m	149.6	205.2	225.4	195.5
EBIT growth	%	9.8	37.2	9.9	-13.3
Adjusted profit	m	123.5	161.2	177.6	156.0
Capex	m	19.0	46.9	52.1	57.8
EPS rep	sen	9.6	12.5	13.7	12.1
EPS rep growth	%	-2.9	30.5	10.2	-12.2
EPS adj	sen	9.6	12.5	13.7	12.1
EPS adj growth	%	-2.9	30.5	10.2	-12.2
PER rep	x	21.7	16.6	15.1	17.2
PER adj	x	21.7	16.6	15.1	17.2
Total DPS	sen	6.5	6.2	6.9	4.1
Total div yield	%	3.1	3.0	3.3	2.0
ROA	%	9.7	11.8	11.5	9.6
ROE	%	26.2	30.2	28.7	22.2
EV/EBIT	x	15.7	11.4	10.4	12.0
EV/EBITDA	x	12.4	9.4	8.6	9.4
Net debt/equity	%	-66.9	-72.7	-74.8	-76.9
P/BV	x	5.4	4.7	4.0	3.6
EBITDA	m	188.6	248.3	273.3	248.7
Net Debt/EBITDA	x	-1.8	-1.7	-1.8	-2.3
Payout ratio	%	68.0	50.0	50.0	33.6
FCF Yield	%	2.3	7.3	6.3	5.7

*All values are in MYR unless otherwise stated.

Source: Company data, Macquarie Research, May 2017.

SCGB MK rel KLCI performance, & rec history



Note: Recommendation timeline - if not a continuous line, then there was no Macquarie coverage at the time or there was an embargo period.

Source: FactSet, Macquarie Research, May 2017

(all figures in MYR unless noted)

Analyst(s)

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