

# Sunway Construction Group (SCGB MK)

## 4Q17: Slight shortfall

# HOLD

Share Price MYR 2.46  
 12m Price Target MYR 2.63 (+7%)  
 Previous Price Target MYR 2.63

### Maintain HOLD

SCG's FY17 net profit of MYR138m fell short on the back of slower-than-expected contribution from the precast division. This is despite the stronger showing from the construction segment on the back of high works recognition. We make no change to our earnings forecasts pending an update with management. SCG declared an interim dividend of 4sen in 4Q17, bring its total payout in FY17 to 7sen (66% payout ratio) above its minimum payout of 35%.

### Shortfall at the precast division

4Q17 net profit of MYR32m (flat YoY, -8% QoQ) brought FY17 net profit to MYR138m (+12% YoY), meeting 94%/91% of ours/consensus forecasts. The slight shortfall against our forecast was largely due to the slower-than-expected contribution from the precast division. Precast EBIT was down 53% YoY to MYR27m in FY17, largely due to a delay in commencement of a major project and completion of several projects in FY16.

### Construction driving growth

For FY17, revenue from construction was up 29% YoY supported by i) higher works recognition from the Parcel F project in Putrajaya and KVMRT 2, ii) commencement of the PPA1M project in Kota Bahru and iii) finalization of account details for the earlier completed KVMRT 1 package. As a result, construction EBIT grew 51% YoY in FY17, on the back of improved EBIT margins (+1.0ppts YoY).

### No change to earnings

SCG's total outstanding orderbook of MYR6.6b (incl. precast) would continue to support earnings growth into FY18. With SCG having already secured MYR456m of new jobs YTD Feb 2018, we believe its internal job win target of MYR1.5-2b in FY18 is achievable. This would be supported by potential job wins from the KL-SG HSR, KVMRT 3 and internal property developments within the Sunway Group. We keep our FY18E/FY19E earnings pending an update with management. Our MYR2.63 TP is pegged to 16x FY18 PER.

FYE Dec (MYR m)	FY16A	FY17A	FY18E	FY19E	FY20E
Revenue	1,789	2,076	2,814	3,272	3,259
EBITDA	188	202	297	312	280
Core net profit	124	138	212	220	193
Core EPS (sen)	9.6	10.7	16.4	17.1	14.9
Core EPS growth (%)	(2.9)	11.6	53.9	3.9	(12.4)
Net DPS (sen)	5.0	7.0	5.7	6.0	5.2
Core P/E (x)	25.7	23.1	15.0	14.4	16.5
P/BV (x)	6.5	5.7	4.6	3.8	3.3
Net dividend yield (%)	2.0	2.8	2.3	2.4	2.1
ROAE (%)	26.2	26.3	34.1	28.9	na
ROAA (%)	8.2	7.9	9.9	8.4	6.6
EV/EBITDA (x)	9.9	14.3	8.2	7.2	7.5
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Consensus net profit	-	-	189	213	na
MKE vs. Consensus (%)	-	-	12.2	3.7	na

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### Company Description

Sunway Construction Group offers integrated construction services and has precast concrete business in Singapore.

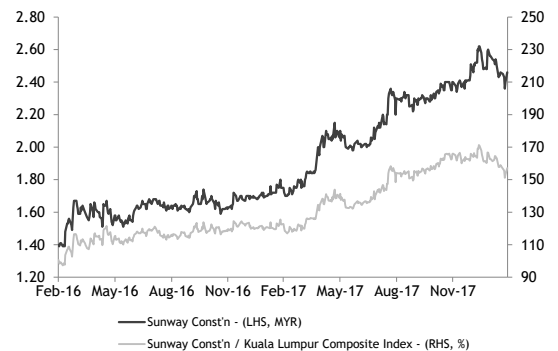
### Statistics

Shariah status	Yes
52w high/low (MYR)	2.62/1.70
3m avg turnover (USDm)	1.0
Free float (%)	24.8
Issued shares (m)	1,293
Market capitalisation	MYR3.2B USD815M

### Major shareholders:

Sunway Bhd.	54.4%
Active Equity Sdn. Bhd.	10.1%
Employees Provident Fund	5.6%

### Price Performance



	-1M	-3M	-12M
Absolute (%)	(5)	3	41
Relative to index (%)	(6)	(5)	28

Source: FactSet

## Results summary table

	Quarterly results					Cumulative		
	4Q17	4Q16	% YoY	3Q17	% QoQ	12M17	12M16	% YoY
<b>FY Dec (RM m)</b>								
Turnover	748.2	553.1	35.3	491.4	52.3	2,076.3	1,788.8	16.1
EBIT	38.4	36.7	4.7	42.4	(9.4)	164.6	149.2	10.3
Net interest	3.6	0.9	278.2	0.7	444.6	7.4	4.4	66.8
<b>Pre-tax profits</b>	<b>44.2</b>	<b>37.6</b>	<b>17.3</b>	<b>43.1</b>	<b>2.6</b>	<b>174.2</b>	<b>153.7</b>	<b>13.3</b>
Tax	(12.0)	(5.7)	113.1	(8.6)	40.2	(36.2)	(30.0)	20.6
Minority Interests	(0.3)	0.1	NM	0.1	NM	(0.1)	(0.1)	16.0
<b>Net profit</b>	<b>31.8</b>	<b>32.1</b>	<b>(0.8)</b>	<b>34.6</b>	<b>(8.0)</b>	<b>137.8</b>	<b>123.5</b>	<b>11.6</b>
	<b>4Q17</b>	<b>4Q16</b>	<b>+/- ppt</b>	<b>3Q17</b>	<b>+/- ppt</b>	<b>12M17</b>	<b>12M16</b>	<b>+/- ppt</b>
<i>EBIT margin (%)</i>	5.1	6.6	(1.5)	8.6	(3.5)	7.9	8.3	(0.4)
<i>Pretax margin (%)</i>	5.9	6.8	(0.9)	8.8	(2.9)	8.4	8.6	(0.2)
<i>Tax rate (%)</i>	27.3	15.0	12.3	20.0	7.3	20.8	19.5	1.3
<b>Revenue</b>	<b>4Q17</b>	<b>4Q16</b>	<b>% YoY</b>	<b>3Q17</b>	<b>% QoQ</b>	<b>12M17</b>	<b>12M16</b>	<b>% YoY</b>
Construction	721.7	466.5	54.7	471.8	53.0	1,931.4	1,502.1	28.6
Precast concrete	26.4	86.6	(69.5)	19.6	34.9	144.9	286.7	(49.5)
<b>Total</b>	<b>748.1</b>	<b>553.1</b>	<b>35.3</b>	<b>491.4</b>	<b>52.3</b>	<b>2,076.3</b>	<b>1,788.8</b>	<b>16.1</b>
<b>EBIT</b>								
Construction	35.4	19.4	83.0	40.1	(11.6)	137.2	91.1	50.7
Precast concrete	3.0	17.3	(82.7)	2.3	28.2	27.4	58.2	(52.8)
<b>Total</b>	<b>38.4</b>	<b>36.7</b>	<b>4.7</b>	<b>42.4</b>	<b>(9.4)</b>	<b>164.6</b>	<b>149.2</b>	<b>10.3</b>
<b>EBIT margin (%)</b>	<b>4Q17</b>	<b>4Q16</b>	<b>+/- ppt</b>	<b>3Q17</b>	<b>+/- ppt</b>	<b>12M17</b>	<b>12M16</b>	<b>+/- ppt</b>
Construction	4.9	4.2	0.8	8.5	(3.6)	7.1	6.1	1.0
Precast concrete	11.3	20.0	(8.7)	11.9	(0.6)	18.9	20.3	(1.3)
<b>Total</b>	<b>5.1</b>	<b>6.6</b>	<b>(1.5)</b>	<b>8.6</b>	<b>(3.5)</b>	<b>7.9</b>	<b>8.3</b>	<b>(0.4)</b>

Source: Maybank Kim Eng, Company

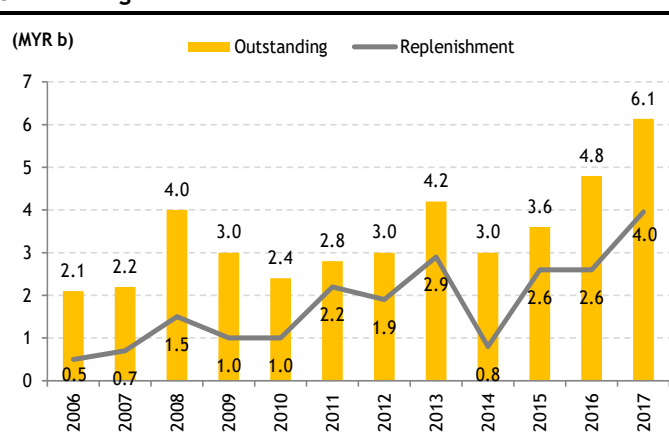
## Sunway Construction: Outstanding orderbook of MYR6.6b YTD Feb 2018

YTD Feb 2018	Contract value (MYR m)	Outstanding (MYR m)
<b>Infrastructure</b>		
KVMRT 2, V201 (Sg Buloh-Persiaran Dagang)	1,213	871
KVMRT 2, V201 - Advance Works	53	19
SUKE + DASH Bore Piling #	34	21
BBCC (Bore Piling) #	108	78
Mega Capital #	9	0
LRT 3 : Package GS07-08 #	2,178	2,150
<b>Building</b>		
Putrajaya Parcel F	1,610	707
KLCC (NEC + Package 2 & 2a)	646	98
HUKM (MEP works)	66	45
International School of KL	268	133
Gas District Cooling (Plant 1) #	152	102
PPA1M Project in Kota Bahru #	582	540
Warehouse in Shah Alam #	70	70
Others	26	6
<b>Internal</b>		
Sunway Velocity Hotel & Office	101	3
Sunway Velocity Medical Centre	185	128
Sunway Medical Centre 4 (2 towers)	428	383
Sunway Iskandar - Citrine Svc Apt	213	12
Sunway Geo Retail Shops & Flexi Suites Phase 2	244	19
Sunway Iskandar 88 Units Shoplots	57	13
Sunway Iskandar - Emerald Residences	175	32
Sunway Iskandar - Retail Complex	100	70
Sunway Property - Kelana Jaya Condo #	449	426
Sunway Carnival 2 Extension - PDP contract*	189	189
SunGeo Lake 44 storey residential tower*	223	223
Others	43	3
<b>Precast</b>	846	252
<b>TOTAL</b>	<b>10,268</b>	<b>6,593</b>

# Secured in 2017; \*Secured in 2018

Source: Company

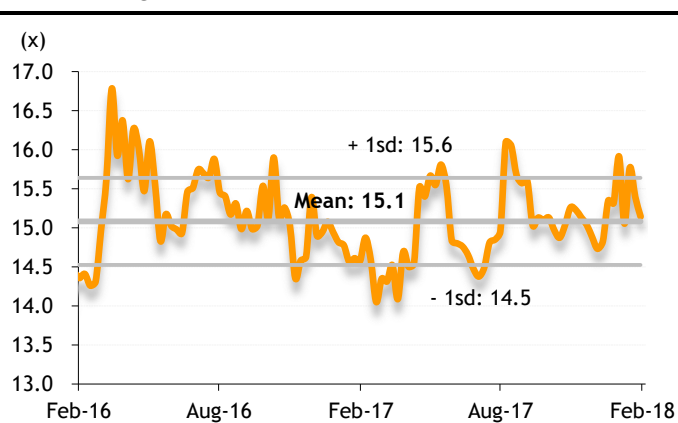
## Outstanding orderbook as of end-2017



\*Including precast

Source: Company data, Maybank Kim Eng

## Forward PER Chart



Source: Company data, Maybank Kim Eng

FYE 31 Dec	FY16A	FY17A	FY18E	FY19E	FY20E
<b>Key Metrics</b>					
P/E (reported) (x)	16.5	19.3	15.0	14.4	16.5
Core P/E (x)	25.7	23.1	15.0	14.4	16.5
P/BV (x)	6.5	5.7	4.6	3.8	3.3
P/NTA (x)	6.5	5.7	4.6	3.8	3.3
Net dividend yield (%)	2.0	2.8	2.3	2.4	2.1
FCF yield (%)	2.2	0.4	14.5	8.4	6.7
EV/EBITDA (x)	9.9	14.3	8.2	7.2	7.5
EV/EBIT (x)	12.5	17.6	9.4	8.3	9.0
<b>INCOME STATEMENT (MYR m)</b>					
Revenue	1,788.8	2,076.3	2,814.4	3,271.7	3,258.8
Gross profit	379.0	435.7	514.2	568.8	486.5
EBITDA	188.3	202.4	297.3	312.1	279.8
Depreciation	(39.1)	(37.8)	(36.3)	(40.4)	(45.7)
EBIT	149.2	164.6	261.0	271.7	234.1
Net interest income / (exp)	4.4	7.4	9.2	19.2	24.2
Associates & JV	0.0	2.2	0.0	0.0	0.0
Exceptionals	0.0	0.0	0.0	0.0	0.0
Pretax profit	153.7	174.2	270.1	290.9	258.3
Income tax	(30.0)	(36.2)	(58.0)	(70.5)	(65.3)
Minorities	(0.1)	(0.1)	0.0	0.0	0.0
Reported net profit	123.5	137.8	212.1	220.3	193.0
Core net profit	123.5	137.8	212.1	220.3	193.0
Preferred Dividends	0.0	0.0	0.0	0.0	na
<b>BALANCE SHEET (MYR m)</b>					
Cash & Short Term Investments	465.8	487.2	873.8	1,064.7	1,210.6
Accounts receivable	938.4	1,195.3	1,318.1	1,508.6	1,503.3
Inventory	24.0	24.4	31.5	37.0	38.0
Property, Plant & Equip (net)	138.4	151.3	168.5	190.2	206.5
Intangible assets	2.3	0.0	0.0	0.0	0.0
Investment in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other assets	28.5	27.6	27.6	27.6	27.6
<b>Total assets</b>	<b>1,597.3</b>	<b>1,885.9</b>	<b>2,419.5</b>	<b>2,828.2</b>	<b>2,986.0</b>
ST interest bearing debt	136.5	134.7	134.7	134.7	134.7
Accounts payable	955.0	1,184.3	1,580.0	1,845.5	1,877.9
LT interest bearing debt	0.0	0.0	0.0	0.0	0.0
Other liabilities	12.0	12.0	12.0	12.0	12.0
<b>Total Liabilities</b>	<b>1,103.5</b>	<b>1,331.1</b>	<b>1,726.8</b>	<b>1,992.3</b>	<b>2,024.6</b>
Shareholders Equity	493.0	553.7	691.6	834.8	960.3
Minority Interest	0.8	1.1	1.1	1.1	1.1
<b>Total shareholder equity</b>	<b>493.8</b>	<b>554.8</b>	<b>692.7</b>	<b>835.9</b>	<b>961.4</b>
Perpetual securities	0.0	0.0	0.0	0.0	0.0
<b>Total liabilities and equity</b>	<b>1,597.3</b>	<b>1,885.9</b>	<b>2,419.5</b>	<b>2,828.2</b>	<b>2,986.0</b>
<b>CASH FLOW (MYR m)</b>					
Pretax profit	153.7	174.2	270.1	290.9	258.3
Depreciation & amortisation	39.1	37.8	36.3	40.4	45.7
Adj net interest (income)/exp	4.4	7.4	9.2	19.2	24.2
Change in working capital	(58.7)	(112.1)	265.8	69.4	36.8
Cash taxes paid	(26.5)	(37.1)	(58.0)	(70.5)	(65.3)
Other operating cash flow	(26.4)	(7.7)	(9.2)	(19.2)	(24.2)
Cash flow from operations	85.6	62.4	514.2	330.2	275.4
Capex	(17.0)	(48.4)	(53.5)	(62.2)	(61.9)
Free cash flow	68.7	13.9	460.8	268.0	213.5
Dividends paid	(84.0)	(71.1)	(74.2)	(77.1)	(67.5)
Change in Debt	(0.3)	(1.9)	0.0	0.0	0.0
Other invest/financing cash flow	91.7	89.2	0.0	0.0	0.0
Net cash flow	76.0	30.2	386.5	190.9	145.9

FYE 31 Dec	FY16A	FY17A	FY18E	FY19E	FY20E
<b>Key Ratios</b>					
<b>Growth ratios (%)</b>					
Revenue growth	(6.7)	16.1	35.6	16.2	(0.4)
EBITDA growth	5.7	7.5	46.9	5.0	(10.4)
EBIT growth	9.5	10.3	58.5	4.1	(13.8)
Pretax growth	9.2	13.3	55.1	7.7	(11.2)
Reported net profit growth	(2.9)	11.6	53.9	3.9	(12.4)
Core net profit growth	(2.9)	11.6	53.9	3.9	(12.4)
<b>Profitability ratios (%)</b>					
EBITDA margin	10.5	9.7	10.6	9.5	8.6
EBIT margin	8.3	7.9	9.3	8.3	7.2
Pretax profit margin	8.6	8.4	9.6	8.9	7.9
Payout ratio	52.3	65.6	35.0	35.0	35.0
<b>DuPont analysis</b>					
Net profit margin (%)	6.9	6.6	7.5	6.7	5.9
Revenue/Assets (x)	1.1	1.1	1.2	1.2	1.1
Assets/Equity (x)	3.2	3.4	3.5	3.4	3.1
ROAE (%)	26.2	26.3	34.1	28.9	na
ROAA (%)	8.2	7.9	9.9	8.4	6.6
<b>Liquidity &amp; Efficiency</b>					
Cash conversion cycle	(51.6)	(44.4)	(51.2)	(68.0)	(70.5)
Days receivable outstanding	166.6	185.0	160.7	155.5	166.4
Days inventory outstanding	5.3	5.3	4.4	4.6	4.9
Days payables outstanding	223.5	234.7	216.3	228.1	241.7
Dividend cover (x)	1.9	1.5	2.9	2.9	2.9
Current ratio (x)	1.3	1.3	1.3	1.3	1.4
<b>Leverage &amp; Expense Analysis</b>					
Asset/Liability (x)	1.4	1.4	1.4	1.4	1.5
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Net gearing (%) (excl. perps)	net cash	net cash	net cash	net cash	net cash
Net interest cover (x)	na	na	na	na	na
Debt/EBITDA (x)	0.7	0.7	0.5	0.4	0.5
Capex/revenue (%)	0.9	2.3	1.9	1.9	1.9
Net debt/ (net cash)	(329.3)	(352.6)	(739.1)	(930.0)	(1,076.0)

Source: Company; Maybank



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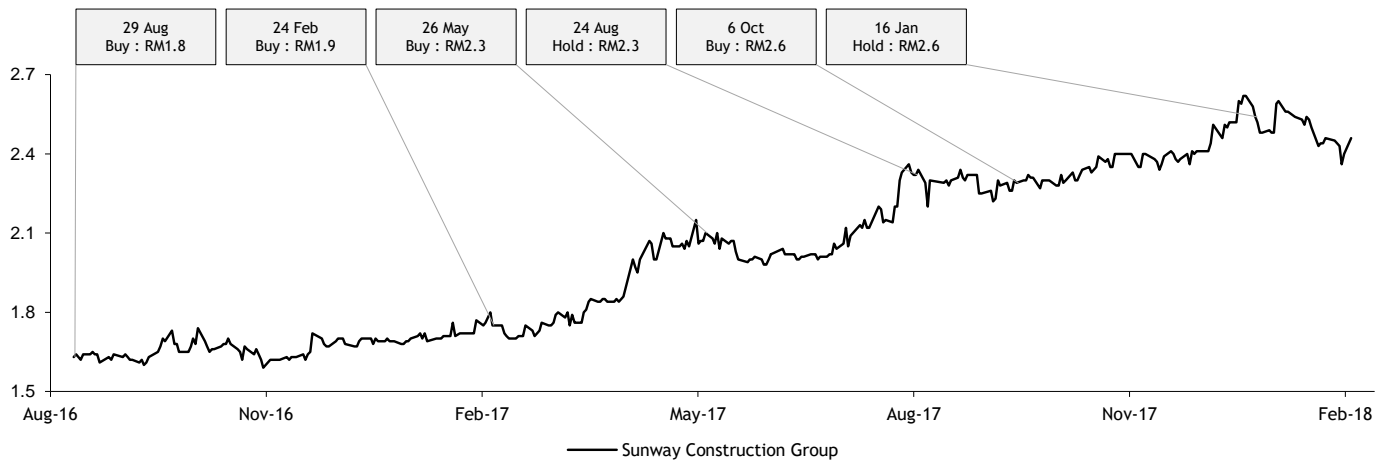
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## Historical recommendations and target price: Sunway Construction Group (SCGB MK)



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