

Sunway Construction Group Berhad

TP: RM2.65 (+10.4%)

Growth in Top Line but Performance Dragged by Precast Segment

Last Traded: RM2.40

BUY

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Results Review

- SUNCON's 9MFY17 net profit of RM106.0mn came in below our expectation but within consensus' forecast, accounting for 64.8% and 70.7% of ours and consensus full-year estimates. The variance was mainly due to lower-than-expected construction revenue and lower-than-expected contribution from the precast segment.
- YoY, 9MFY17 net profit jumped 15.9% to RM106.0mn as the revenue grew 7.5% to RM1,328.1mn. Besides the growth in top line, the construction operating margin expanded by 1.5%-pts to 8.4%. However, the precast segment registered a 40.8% drop in revenue to RM118.5mn due to slower progress by the main contractors who are unable to take delivery of its precast components.
- QoQ, 3QFY17 net profit eased 5.9% to RM34.6mn despite the revenue jumped 17.8% to RM491.4mn. The weaker results was largely due to weaker construction margin, which declined by 0.6%-point to 8.5%, and compounded by a 62.4% plunge in precast operating profit, for the same reason stated above.
- Its net cash position reduced from RM364.1.9mn a quarter ago to RM328.0mn (25.4sen/share).
- MIDA has granted SUNCON a 5-year tax exemption for its Iskandar precast plant in Johor.

Impact

- Following the weaker-than-expected results, adjustments were made on FY17 construction revenue recognition assumptions (-2.7%) and FY17 precast revenue assumption (-46.7%). Margin assumptions for various projects were fine-tuned as well. All in, we cut FY17 earnings forecasts by 10.5%.

Outlook

- YTD, the group secured RM3.7bn worth of new orders. Its outstanding order book stood at RM6.8bn (see Table 3), sufficient to provide earnings visibility for the next 3 to 4 years. The group currently has a tender book of more than RM15bn, dominated by civil/ infrastructure works.

Valuation

- We maintain the target price at **RM2.65**, based on unchanged 18x CY18 earnings. Maintain **BUY** call on the stock.

Share Information

Bloomberg Code	SCGB MK
Bursa	SUNCON
Stock Code	5263
Listing	Main Market
Share Cap (mn)	1,292.9
Market Cap (RMmn)	3102.96
52-wk Hi/Lo (RM)	2.44/1.58
12-mth Avg Daily Vol ('000 shrs)	1532.2
Estimated Free Float (%)	30.2
Beta	0.6

Major Shareholders (%)

Sunholdings	54.44
Sungei Way Corp Sdn Bhd	10.06

Forecast Revision

	FY17	FY18
Forecast Revision (%)	(10.5)	0.0
Net profit (RMmn)	146.4	190.0
Consensus	149.8	191.2
TA's / Consensus (%)	97.7	99.4
Previous Rating	Buy (Maintained)	

Financial Indicators

	FY17	FY18
Net Debt / Equity (%)	net cash	net cash
CFPS (sen)	10.1	5.3
Price / CFPS (x)	23.7	45.1
ROA (%)	9.5	9.2
NTA/Share (RM)	53.2	63.6
Price/NTA (x)	4.5	3.8

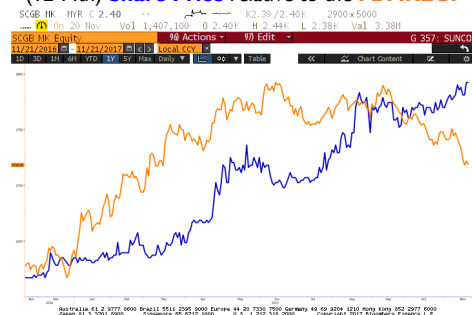
Scorecard

	% of FY	
vs. TA	64.8	Below
vs. Consensus	70.7	Within

Share Performance (%)

Price Change	SUNCON	FBM KLCI
1 mth	4.3	(1.3)
3 mth	3.0	(3.3)
6 mth	17.1	(2.8)
12 mth	50.9	5.8

(12-Mth) Share Price relative to the FBMKLCI



Source: Bloomberg

Table 1: Earnings Summary (RMmn)

FYE Dec (RMmn)	2015	2016	2017F	2018F	2019F
Revenue	1,916.9	1,788.8	1,946.0	2,745.0	3,084.7
Gross profit	388.4	379.0	408.7	576.5	647.8
EBITDA	178.2	188.3	225.5	280.8	299.9
EBITDA margin (%)	9.3	10.5	11.6	10.2	9.7
EBIT	136.3	149.2	183.4	238.7	265.6
PBT	140.8	153.7	185.0	240.3	269.0
PAT	127.1	123.5	146.4	190.0	212.5
Core net profit	127.1	123.5	146.4	190.0	212.5
Core EPS (sen)	9.8	9.6	11.3	14.7	16.4
PER (x)	24.4	25.1	21.2	16.3	14.6
Gross dividend (sen)	4.0	5.0	5.5	5.5	6.0
Dividend yield (%)	1.7	2.1	2.3	2.3	2.5
ROE (%)	30.6	26.2	27.6	30.3	28.2

Table 2: 3QFY17 Results Analysis (RMmn)

FYE Dec	3Q16	2Q17	3Q17	QoQ (%)	YoY (%)	9MFY16	9MFY17	YoY (%)
Revenue	381.1	417.2	491.4	17.8	28.9	1235.7	1328.1	7.5
Operating profit	39.6	41.7	42.4	1.7	7.2	112.5	126.2	12.1
Finance income	3.3	2.3	2.6	13.2	(19.9)	8.0	8.1	1.5
Finance costs	(2.4)	(1.3)	(2.0)	54.7	(19.2)	(4.5)	(4.3)	(4.7)
Profit before taxation	40.4	42.8	43.1	0.7	6.6	116.0	130.0	12.0
Income tax expense	(9.1)	(6.1)	(8.6)	41.6	(5.7)	(24.4)	(24.2)	(0.8)
Non-controlling interests	0.1	(0.1)	(0.1)	66.2	(174.5)	0.2	(0.2)	(197.9)
Net profit	31.1	36.8	34.6	(5.9)	11.1	91.5	106.0	15.9
Core net profit	31.1	36.8	34.6	(5.9)	11.1	91.5	106.0	15.9
Reported EPS (sen)	2.4	2.8	2.7	(5.6)	11.2	7.1	8.2	15.8
Core EPS (sen)	2.4	2.8	2.7	(5.6)	11.2	7.1	8.2	15.8
Dividend (sen)	0.0	3.0	0.0	na	na	2.5	3.0	20.0
Margin (%):				% pts	% pts			% pts
- Operating	10.4	10.0	8.6	(1.4)	(1.7)	9.1	9.5	0.4
- PBT	10.6	10.3	8.8	(1.5)	(1.8)	9.4	9.8	0.4
- PAT	8.2	8.8	7.0	(1.8)	(1.2)	7.4	8.0	0.6
- Effective tax rate	22.6	14.2	20.0	5.8	(2.6)	21.0	18.6	(2.4)

Table 3: Ongoing projects

Project	Contract Value (RMmn)	Outstanding Amount (RMmn)
Infrastructure		3,256
MRT Package V201 + S201 (Sungai Buloh–Persiaran Dagang)	1,213	926
MRT Package V201 – Advance Works	53	26
SUKE & DASH – Bore Piling	34	27
BBCC – Bore Piling	108	95
Mega Capital Development	9	3
LRT 3 Package GS07-08	2,178	2,178
Buildings		2,060
Putrajaya Parcel F	1,610	901
KLCC (NEC + Package 2 & 2a)	646	139
HUKM (MEP works)	66	55
International School of KL	268	172
Gas District Cooling (Plant 1)	152	136
PPAIM project in Kota Bharu	582	582
Warehouse in Shah Alam	70	70
Others	196	6
Internal		1,209
Sunway Velocity Hotel + Office	101	12
Sunway Velocity Medical Centre	185	137
Sunway Medical Centre Phase 4 (2 towers)	428	389
Sunway Iskandar – Citrine Service Apartment	213	8
Sunway Geo Retail Shops & Flexi Suites Phase 2	244	45
Sunway Iskandar – Emerald Residences	175	69
Sunway Iskandar – 88 units shoplots	57	25
Sunway Iskandar – Retail Complex	100	78
Sunway Serene – Serviced Residence	449	439
Others	50	6
Singapore		260
Precast	821	260
	10,007	6,785

Source: Company, TA Research

Stock Recommendation Guideline

- BUY** : Total return within the next 12 months exceeds required rate of return by 5%-point.
HOLD : Total return within the next 12 months exceeds required rate of return by between 0-5%-point.
SELL : Total return is lower than the required rate of return.
Not Rated: The company is not under coverage. The report is for information only.

Total Return is defined as expected share price appreciation plus gross dividend over the next 12 months. Gross dividend is excluded from total return if dividend discount model valuation is used to avoid double counting.

Required Rate of Return of 7% is defined as the yield for one-year Malaysian government treasury plus assumed equity risk premium.

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As of Tuesday, November 21, 2017, the analyst, Ooi Beng Hooi, who prepared this report, has interest in the following securities covered in this report:
(a) nil

Kaladher Govindan – Head of Research

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