



Sunway Construction Group Berhad

Margin Improvement in Both Construction and Precast Divisions

TP: RM2.26(+9.1%)

Last traded: RM2.07

HOLD

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Results Review

- 1QFY17 net profit of RM34.6mn came in within expectations, accounting for 21.2% and 22.3% of ours and consensus full-year estimates.
- YoY, 1QFY17 net profit jumped 19.3% to RM34.6% despite the revenue was marginally lower (-1.1%) at RM419.5mn. This was attributable to margin improvement recorded by both the construction (+1.1%pts to 7.5%) and precast (+0.2%pts to 22.9%) divisions.
- QoQ, 1QFY17 net profit improved by 8.1% despite the revenue was 24.2% lower. The higher bottom line was boosted by meaningful margin improvement in both the construction (+3.3%pts to 7.5%) and precast (+2.9%pts to 22.9%) divisions.
- Its net cash position eased from RM329.3mn a quarter ago to RM279.9mn (21.6sen/share)
- SUNCON has been reinstated its Syariah-compliant status w.e.f 26 May 2017.

Impact

- Maintain profit forecasts.

Outlook

- YTD, the group secured RM0.9bn worth of new orders in FY17. Its outstanding order book stood at RM4.6bn (see Exhibit 1), sufficient to provide earnings visibility for the next 2 to 3 years.
- We expect the group to register strong growth in FY17, backed by strong outstanding order book and as some of its construction projects accelerates in 2H17.

Valuation

- In view of the ample opportunity in the construction industry in near to medium term, coupled with its net cash position and bedrock orders from its parent company, we raise the target PE multiple for SUNCON from 15x to 18x. We roll forward our valuation base year to CY18 and raise our target price from RM1.90 to **RM2.26**. Maintain **HOLD** call on the stock.

Share Information

Bloomberg Code	SCGB MK
Bursa	SUNCON
Stock Code	5263
Listing	Main Market
Share Cap (mn)	1292.9
Market Cap (RMmn)	2676.3
Par Value	0.20
52-wk Hi/Lo (RM)	2.15/1.42
12-mth Avg Daily Vol ('000 shrs)	1837.1
Estimated Free Float (%)	30.2
Beta	0.55

Major Shareholders (%)

Sunholdings	54.42
Sungei Way Corp Sdn Bhd	10.06

Forecast Revision

	FY17	FY18
Forecast Revision (%)	-	-
Net profit (RMm)	163.5	162.2
Consensus	155.5	168.5
TA's / Consensus (%)	105.2	96.3
Previous Rating	Hold (Maintained)	

SCORECARD (%)

vs TA	21.2	Within
vs Consensus	22.3	Within

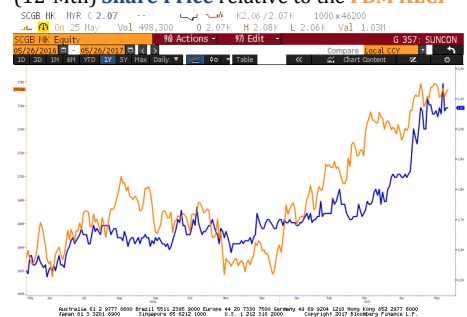
Financial Indicators

	FY17	FY18
Net Debt / Equity (%)	net cash	net cash
CFPS (sen)	17.7	5.5
Price / CFPS (x)	11.7	37.7
ROA (%)	9.2	8.3
NTA/Share (sen)	45.3	52.3
Price/NTA (x)	4.6	4.0

Share Performance (%)

Price Change	SUNCON	FBM KLCI
1 mth	5.1	0.3
3 mth	18.3	4.5
6 mth	27.8	9.0
12 mth	35.3	8.8

(12-Mth) Share Price relative to the FBM KLCI



Source: Bloomberg

Earnings Summary

FYE Dec (RMmn)	2015	2016	2017F	2018F	2019F
Revenue	1,916.9	1,788.8	2,336.0	2,170.0	2,409.7
Gross profit	388.4	379.0	490.6	455.7	506.0
EBITDA	178.2	188.3	247.2	245.5	259.1
EBITDA margin (%)	9.3	10.5	10.6	11.3	10.8
EBIT	136.3	149.2	205.1	203.4	224.9
PBT	140.8	153.7	206.7	205.0	228.3
PAT	127.1	123.5	163.5	162.2	180.4
Core net profit	127.1	123.5	163.5	162.2	180.4
Core EPS (sen)	9.8	9.6	12.6	12.5	13.9
PER (x)	21.1	21.7	16.4	16.5	14.8
Gross dividend (sen)	4.0	5.0	5.5	5.5	6.0
Dividend yield (%)	1.9	2.4	2.7	2.7	2.9
ROE (%)	30.6	26.2	30.3	25.7	24.8

1Q17 Results Analysis (RMmn)

FYE Dec	1Q16	4Q16	1Q17	QoQ (%)	YoY (%)	3MFY16	3MFY17	YoY(%)
Revenue	424.4	553.1	419.5	(24.2)	(1.1)	424.4	419.5	(1.1)
Operating profit	35.4	37.0	42.1	13.5	18.8	35.4	42.1	18.8
Finance income	2.8	2.1	3.2	49.1	12.0	2.8	3.2	12.0
Finance costs	(0.7)	(1.5)	(1.1)	(30.2)	50.9	(0.7)	(1.1)	50.9
Profit before taxation	37.5	37.6	44.2	17.3	17.7	37.5	44.2	17.7
Income tax expense	(8.5)	(5.7)	(9.5)	68.4	12.4	(8.5)	(9.5)	12.4
Non-controlling interests	0.0	(0.1)	(0.0)	nm	nm	0.0	(0.0)	nm
Net profit	29.1	32.1	34.7	8.1	19.3	29.1	34.7	19.3
Core net profit	29.1	32.1	34.7	8.1	19.3	29.1	34.7	19.3
Reported EPS (sen)	2.3	2.5	2.7	8.1	19.1	2.3	2.7	19.1
Core EPS (sen)	2.3	2.5	2.7	8.1	19.1	2.3	2.7	19.1
Dividend (sen)	0.0	2.5	0.0	nm	nm	0.0	0.0	nm
Margin (%):				% pts	% pts			% pts
- Operating	8.3	6.7	10.0	3.3	1.7	8.3	10.0	1.7
- PBT	8.8	6.8	10.5	3.7	1.7	8.8	10.5	1.7
- PAT	6.8	5.8	8.3	2.5	1.4	6.8	8.3	1.4
- Effective tax rate	(22.6)	(15.0)	(21.6)	(6.5)	1.0	(22.6)	(21.6)	1.0

Exhibit 1: Ongoing projects

Project	Contract Value (RMmn)	Outstanding Amount (RMmn)
Infrastructure		
MRT Package V201 (Sungai Buloh– Persiaran Dagang)	1,213	1,101
MRT Package V201 – Advance Works	53	39
SUKE – Cheras to Ulu Kelang – Bore Piling	18	18
DASH – Puncak Perdana to Kota Damansara – Bore Piling	16	16
Johor		
Coastal Highway Southern Link	170	5
Buildings		
Putrajaya Parcel F	1,610	1,147
KLCC (NEC + Package 2 & 2a)	646	196
HUKM (MEP works)	66	66
International School of KL	268	209
Gas District Cooling (Plant 1)	152	152
Others	26	3
Internal		
Sunway Velocity 2 Link Bridge	20	5
Sunway Velocity Hotel + Office	101	38
Sunway Velocity Medical Centre	185	144
Sunway Medical Centre Phase 3 (Sub & Superstructure)	167	24
Sunway Medical Centre Phase 4 (2 towers)	428	396
Sunway Iskandar – Citrine Service Apartment	213	17
Sunway Geo Retail Shops & Flexi Suites Phase 2	244	97
Sunway Iskandar – Emerald Residences	175	105
Sunway Iskandar – 88 units shoplots	57	50
Sunway Iskandar – Retail Complex	100	96
Sunway Property – Kelana Jaya Condo	449	449
Others	31	19
Singapore		
Precast	713	234
	7,118	4,626

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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