



Sunway Construction Group Berhad

Higher Construction Margin Offset by Lower Precast Revenue

TP: RM2.26 (-2.6%)

Last traded: RM2.32

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SELL

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Results Review

- SUNCON's 1HFY17 net profit of RM71.4mn came in within expectations, accounting for 43.7% and 46.3% of ours and consensus full-year estimates. We expect a stronger 2H17, backed by sizeable job wins of RM2.6bn each in 2015 and 2016 and acceleration in construction progress.
- A first interim dividend of 3sen/share was declared, versus 2.5sen/share declared in the corresponding quarter last year.
- YoY, 1HFY17 net profit jumped 18.4% to RM71.4mn despite the revenue was 2.1% lower at RM836.8mn. The improved bottom line was largely attributable to the improvement in construction operating margin by 2.3%pts to 8.4%. However, it was partially dragged by the precast division as the segmental bottom line declined 21.8% to RM17.8mn. The precast revenue dipped 17.8% to RM98.9mn due to completion of a few major projects in prior quarters while new projects secured have yet to make meaningful contributions.
- QoQ, 2QFY17 net profit improved by 6.1% to RM36.8mn due to lower taxation as the effective tax rate dropped from 21.6% to 14.2%. At PBT level, the profit was 3.2% lower at RM42.8mn as the revenue was 0.5% lower at RM417.2mn compared with the immediate preceding quarter.
- Its net cash position improved from RM279.9mn a quarter ago to RM364.1mn (28.2sen/share).

Impact

- Maintain earnings forecasts.

Outlook

- YTD, the group secured RM1.0bn of new orders in 1HFY17. Its outstanding order book stood at RM4.3bn (see Exhibit 1), sufficient to provide earnings visibility for the next 2 to 3 years. The group currently has a tender book of more than RM14bn.
- We expect the group to register strong profit growth in FY17, backed by strong outstanding order book and as some of its construction projects accelerates in 2H17.

Valuation

- We maintain the target price at **RM2.26**, based on unchanged 18x CY18 earnings. While the company is fundamentally sound with positive industry outlook, we think the stock is currently fully valued as the share price has surged 36.5% YTD. As such, we downgrade the stock from HOLD to **SELL**.

Share Information

Bloomberg Code	SCGB MK
Bursa	SUNCON
Stock Code	5263
Listing	Main Market
Share Cap (mn)	1292.9
Market Cap (RMmn)	2998.0
52-wk Hi/Lo (RM)	2.41/1.56
12-mth Avg Daily Vol ('000 shrs)	1576.1
Estimated Free Float (%)	30.2
Beta	0.42

Major Shareholders (%)

Sunholdings	54.44
Sungei Way Corp Sdn Bhd	10.06

Forecast Revision

	FY17	FY18
Forecast Revision (%)	-	-
Net profit (RMmn)	163.5	162.2
Consensus	154.4	169.2
TA's / Consensus (%)	105.9	95.9
Previous Rating	Hold (Downgraded)	

SCORECARD (%)

vs TA	43.7	Within
vs Consensus	46.3	Within

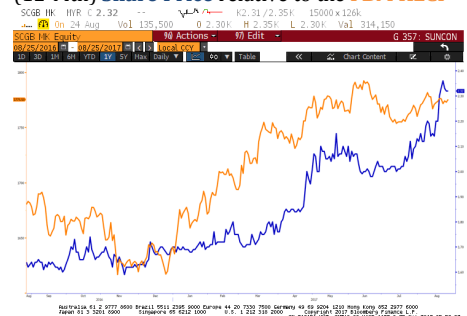
Financial Indicators

	FY17	FY18
Net Debt / Equity (%)	net cash	net cash
CFPS (sen)	17.7	5.5
Price / CFPS (x)	13.1	42.2
ROA (%)	9.2	8.3
NTA/Share (sen)	45.3	52.3
Price/NTA (x)	5.1	4.4

Share Performance (%)

Price Change	SUNCON	FBM KLCI
1 mth	12.6	0.8
3 mth	12.1	0.3
6 mth	32.6	4.5
12 mth	41.5	5.6

(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)	23.6	24.3	18.3	18.5	16.6
Gross dividend (sen)	4.0	5.0	5.5	5.5	6.0
Dividend yield (%)	1.7	2.2	2.4	2.4	2.6
ROE (%)	30.6	26.2	30.3	25.7	24.8

2Q17 Results Analysis (RMmn)

FYE Dec	2Q16	1Q17	2Q17	QoQ (%)	YoY (%)	6MFY16	6MFY17	YoY(%)
Revenue	430.3	419.5	417.2	(0.5)	(3.0)	854.6	836.8	(2.1)
Operating profit	37.6	42.1	41.7	(0.8)	11.0	73.0	83.8	14.8
Finance income	1.9	3.2	2.3	(27.5)	22.6	4.7	5.5	16.2
Finance costs	(1.4)	(1.1)	(1.3)	17.8	(7.7)	(2.1)	(2.3)	12.3
Profit before taxation	38.1	44.2	42.8	(3.2)	12.2	75.6	86.9	14.9
Income tax expense	(6.8)	(9.5)	(6.1)	(36.2)	(10.8)	(15.3)	(15.6)	2.1
Non-controlling interests	0.0	(0.0)	(0.1)	400.0	(244.4)	0.0	(0.1)	(273.3)
Net profit	31.3	34.7	36.8	6.1	17.6	60.3	71.4	18.4
Core net profit	31.3	34.7	36.8	6.1	17.6	60.3	71.4	18.4
Reported EPS (sen)	2.4	2.7	2.8	6.0	17.4	4.7	5.5	18.2
Core EPS (sen)	2.4	2.7	2.8	6.0	17.4	4.7	5.5	18.2
Dividend (sen)	2.5	0.0	3.0	na	20.0	2.5	3.0	20.0
Margin (%):				% pts	% pts			% pts
- Operating	8.7	10.0	10.0	(0.0)	1.3	8.5	10.0	1.5
- PBT	8.9	10.5	10.3	(0.3)	1.4	8.8	10.4	1.5
- PAT	7.3	8.3	8.8	0.5	1.5	7.1	8.5	1.5
- Effective tax rate	(17.9)	(21.6)	(14.2)	7.4	3.7	(20.2)	(17.9)	2.3

Exhibit 1: Ongoing projects

Project	Contract Value (RMmn)	Outstanding Amount (RMmn)
Infrastructure	1,342	1,079
MRT Package V201 (Sungai Buloh– Persiaran Dagang)	1,213	974
MRT Package V201 – Advance Works	53	32
SUKE & DASH – Bore Piling	34	30
BBCC – Bore Piling	34	34
Mega Capital Development	9	9
Buildings	2,944	1,652
Putrajaya Parcel F	1,610	1,064
KLCC (NEC + Package 2 & 2a)	646	170
HUKM (MEP works)	66	63
International School of KL	268	202
Gas District Cooling (Plant 1)	152	148
Others	202	4
Internal	2,001	1,296
Sunway Velocity Hotel + Office	101	19
Sunway Velocity Medical Centre	185	143
Sunway Medical Centre Phase 4 (2 towers)	428	394
Sunway Iskandar – Citrine Service Apartment	213	13
Sunway Geo Retail Shops & Flexi Suites Phase 2	244	62
Sunway Iskandar – Emerald Residences	175	89
Sunway Iskandar – 88 units shoplots	57	36
Sunway Iskandar – Retail Complex	100	79
Sunway Serene – Serviced Residence	449	449
Others	50	12
Singapore	757	251
Precast	757	251
	7,044	4,278

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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