

PP14767/09/2012(030761)

Friday, February 26, 2016

Sunway Construction Group Berhad

“Ready to Rumble”

Results Review

- Actual vs. expectations.** Sunway Construction Group Berhad (SCG) FY15 net profit of RM127 million, excluding exceptional item, came in line with ours and consensus estimates respectively, accounting 95% and 99% of both estimates full year net profit forecast. SCG registered better-than-expected performance in 4Q15 lifted by additional contribution from the group’s current project in Putrajaya and Johor. However, we note that 4Q15 PBT margin was slightly lower at 6% compared against 3Q15 margin of 7% weighed by higher cost incurred during the quarter.
- Dividend.** No dividend was declared during the quarter.
- Top line vs Bottom line.** SCG posted higher 4Q15 revenue of RM470 million (+4% y-o-y) thanks to the stronger contribution from construction segment whose revenue surged to RM418 million (+6% y-o-y) due to the commencement of Parcel F project in Putrajaya and Coastal Highway Southern Link project in Johor. However, SCG PBT eased to RM29 million (-2% q-o-q) in 4Q15 as several of its civil/infrastructure projects were at the tail end of progress.
- Solid orderbook.** SCG’s current orderbook remains solid at RM3.7 billion which is expected to last the group at least until FY18. The group’s selected major on-going projects are comprise of Putrajaya Parcel F worth RM1.6 billion, KVMRT Package V4 (Section 17 to Semantan) worth RM1.2 billion, LRT Kelana Jaya Line Extension (Package B) worth RM569 million and Sunway Velocity Shopping Mall valued at RM350 million. We expect the group to emerge as one of the potential beneficiaries to grab some goodies from the upcoming KVMRT2 and LRT3 awards in 2016 based on

BUY (TP: RM1.70)

Current Price (RM)	RM1.40
New Target Price (RM)	RM1.70
Previous Target Price (RM)	RM1.63
Previous Recommend.	BUY
Upside To Target Price	21%
Dividend Yield (FY17)	3%

Stock Code

Bloomberg	SCGB MK
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Stock & Market Data

Listing	MAIN MARKET
Sector	Construction
Shariah Compliance	Yes
Issued Shares (mn)	1,293
Market Cap (RM mn)	1,823
YTD Chg In Share Price	1%
Beta (x)	NA
52-week Hi/Lo (RM)	1.45 0.98
3M Average Volume (shrs)	2.27
Estimated Free Float	38%

Major Shareholders

Sunholding	54%
Sungei Way Corp	7%

its existing experience and solid track record in developing work package from the current KVMRT1 and LRT Kelana Jaya Line Extension.

- **Strong synergies with its holding company, Sunway.** SCG will be powered by the strong synergies with its holding company, Sunway, one of the major property companies in Malaysia. Encouragingly, Sunway has appointed SCG for selected strategic projects such as the construction of shopping malls, hospitals, education campuses, theme parks, office towers and hotels/resorts. The main purpose of the internal collaboration is to keep such technical knowledge and expertise within the ambit of Sunway Group in order to maintain competitive business advantage.
- **Change to forecast.** We maintain our FY16 and FY17 earnings forecast as FY15 results are in line with our expectation. At this juncture, we expect FY16 and FY17 earnings to grow by 17% y-o-y and 6% y-o-y to be energized by i) acceleration of its major projects including Putrajaya Parcel F and ii) potential fresh major projects awards including KVMRT2, LRT3 and BRT.
- **Valuation & recommendation.** We value SCG target price at RM1.70 and the stock is a **BUY**. The target price of RM1.70 is based on PER multiple of 14.2x over its FY17 EPS estimate of 12sen. The valuation is pegged to 1+ SD above average mid-cap construction players' PER of 11.3x and justified by 1) strong track record in building and civil/infrastructure construction services; 2) largest pure construction player with market cap of RM1.8 billion; 3) leverage on the support from its parent, Sunway Bhd; and 4) robust outlook on construction industry in Malaysia backed by 11MP and Budget 2016 projects.

Table 1: Peers comparison (Calenderised)

Company	FYE	Price (RM)	EPS (sen)		P/E (X)		P/B (X)		ROE (%)	DY (%)	TP (RM)	Call
			FY15	FY16	FY15	FY16	FY15	FY16				
IJM CORP	Mar	3.41	21	23	15.4	14.0	1.3	1.2	9	3	3.80	Buy
GAMUDA	Jul	4.48	29	32	15.7	13.9	1.6	1.5	11	3	5.80	Buy
WCT	Dec	1.61	11	13	14.9	12.7	0.8	0.8	7	1	1.93	Buy
SCGB	Dec	1.40	11	11	13.0	12.3	3.4	2.9	NA	NA	1.70	Buy
BENALEC	Jun	0.52	7	9.0	8.2	6.2	0.7	0.3	0	1	NR	NR
CREST BUILDER	Dec	0.91	8	NA	11.8	NA	NA	NA	8	4	NR	NR
EVERSENDAL	Dec	0.72	9	10	8.6	7.3	0.6	0.6	7	2	NR	NR
KIMLUN	Dec	1.51	19	19	7.3	7.3	0.8	0.8	14	3	NR	NR
MRCB	Dec	1.16	6	8	22.2	17.2	1.1	1.0	14	2	NR	NR
AZRB	Dec	0.59	NA	NA	NA	NA	NA	NA	6	3	NR	NR
YTL CORP	Jun	1.56	13	14	12.4	11.5	1.1	1.0	7	6	NR	NR
Average					13.0	11.4	1.3	1.1	8	3		

Source: Bloomberg, M&A Securities

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Table 2: SCG Profit and Loss (FY13-FY17F)

FYE DEC (RM million)	FY13	FY14	FY15	FY16F	FY17F
Revenue	1,840	1,881	1,917	2,211	2,298
Gross profit	338	395	0	464	483
EBITDA	85	162	178	190	197
EBIT	42	120	136	146	151
Net Finance cost	7	7	5	17	22
Share of JV	45	30	0	40	41
PBT	90	151	141	190	201
Taxation	(24)	(26)	(13)	(42)	(44)
PAT	66	125	128	148	157
Minority interest	1	0	1	0	0
Net profit	67	125	127	148	157
EPS (sen)	5	10	10	11	12
EBITDA margin	5%	9%	9%	9%	9%
EBIT margin	2%	6%	7%	7%	7%
PBT margin	5%	8%	7%	9%	9%
Net profit margin	4%	7%	7%	7%	7%
PER (x)	NA	NA	14.2	12.1	11.5
P/BV (x)	NA	NA	4.0	3.6	3.0
Dividend (sen)	NA	NA	NA	4	4
Dividend yield	NA	NA	NA	3%	3%

Source: M&A Securities, Prospectus

Table 3: Results Analysis

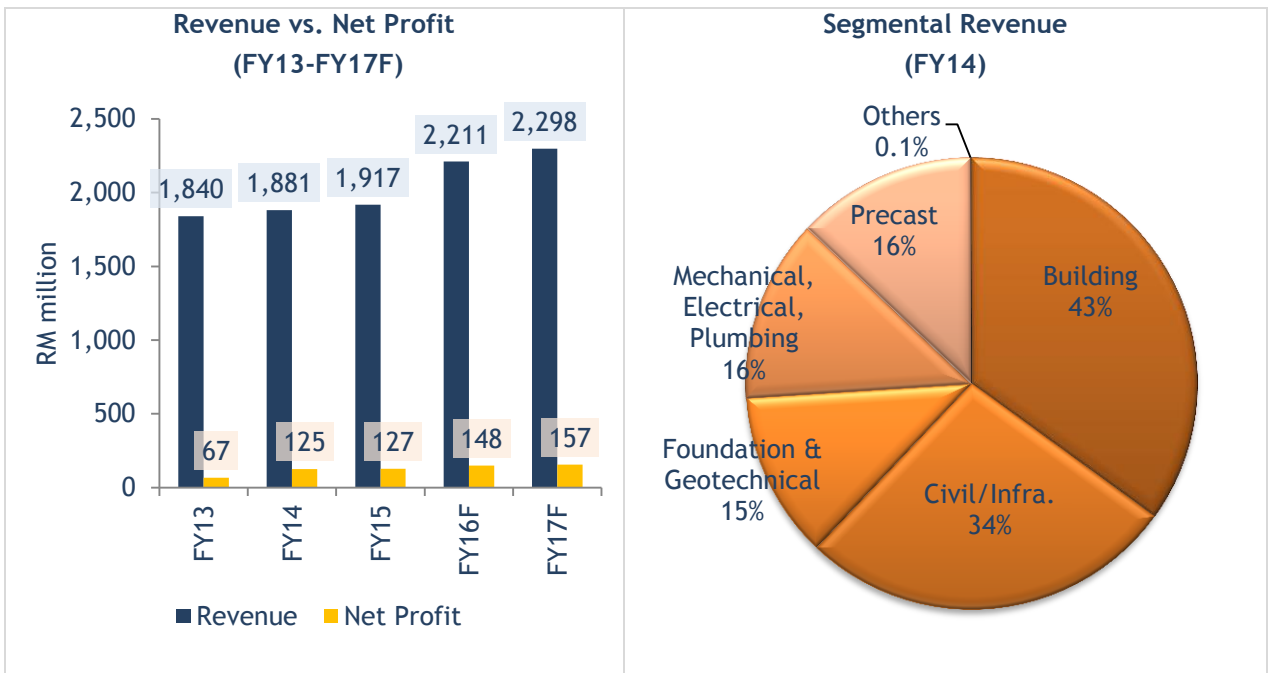
YE: Dec (RM million)	4Q14	3Q15	4Q15	q-o-q	y-o-y	12M14	12M15	y-o-y
Revenue	NA	450	470	4%	NA	NA	1,917	NA
EBIT	NA	28	28	-2%	NA	NA	136	NA
Finance Income	NA	3	2	-11%	NA	NA	8	NA
Finance Cost	NA	(1)	(1)	-31%	NA	NA	(4)	NA
PBT	NA	30	29	-2%	NA	NA	141	NA
Taxation	NA	(5)	1	-120%	NA	NA	(13)	NA
Net profit	NA	26	29	14%	NA	NA	127	NA
EPS (sen)	NA	2	2	15%	NA	NA	10	NA
PBT margin	NA	7%	6%			NA	7%	
Net profit margin	NA	6%	6%			NA	7%	
Effective tax rate	NA	16%	-3%			NA	9%	

Source: Bursa Malaysia, M&A Securities

Table 4: Segmental Analysis

YE: Dec (RM million)	4Q14	3Q15	4Q15	q-o-q	y-o-y	12M14	12M15	y-o-y
Revenue								
Construction	NA	394	418	6%	NA	NA	1,664	NA
Precast Concrete	NA	56	53	-7%	NA	NA	253	NA
PBT								
Construction	NA	10	9	-1%	NA	NA	64	NA
Precast Concrete	NA	21	20	-2%	NA	NA	77	NA

Source: Bursa Malaysia, M&A Securities



Source: Bloomberg, M&A Securities

M&A Securities

STOCK RECOMMENDATIONS

BUY	Share price is expected to be $\geq +10\%$ over the next 12 months.
TRADING BUY	Share price is expected to be $\geq +10\%$ within 3-months due to positive newsflow.
HOLD	Share price is expected to be between -10% and $+10\%$ over the next 12 months.
SELL	Share price is expected to be $\geq -10\%$ over the next 12 months.

SECTOR RECOMMENDATIONS

OVERWEIGHT	The sector is expected to outperform the FBM KLCI over the next 12 months.
NEUTRAL	The sector is expected to perform in line with the FBM KLCI over the next 12 months.
UNDERWEIGHT	The sector is expected to underperform the FBM KLCI over the next 12 months.

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