

Sunway Construction (BUY ↔; EPS ↔)
INDUSTRY: OVERWEIGHT
EARNINGS EVALUATION
26 February 2016
Price Target: RM1.59 (↔)
Share price: RM1.40
Tax booster to strong finish
Results

- SunCon reported 4QFY15 results with revenue of RM470m and earnings of RM29m. This brings full year FY15 earnings to RM127m, increasing 2% against FY14 proforma numbers.
- On a QoQ basis (no YoY comparison as SunCon was only listed in July 2015) revenue inched up by 4% as jobs such as the Putrajaya Parcel F buildings (RM1.6bn) and Coastal Highway Southern Link (RM170m) began to peak in progress. Earnings outpaced topline growth at +14% YoY due to margin expansion for the precast division.

Deviation

- While FY15 PBT was inline (96% of forecast), earnings surpassed our projection by 8% (consensus by -1%). This was largely due to a positive taxation in 4Q (RM1m), bringing full year effective tax rate to 9.2% (FY14: 22%).

Dividends

- Final dividend of 4 sen was declared (2.9% yield). This translates to a payout ratio of 41%, above its minimum payout ratio of 35%.

Highlights

- **Jobs are flowing.** SunCon managed to amass RM2.6bn in new job wins for FY15, the 2nd highest recorded. YTD, it has managed to secure RM142m worth of new contracts. This brings its orderbook to RM3.7bn, translating to a cover of 1.9x on FY15 revenue.
- **More in the pipeline.** Given its strong track record amongst the various government related entities (e.g. Prasarana, MRT Corp, Putrajaya Holdings and KLCC Group), we reckon that SunCon is in a polar position to ride on the impending construction upcycle. We reckon that SunCon has a strong participating chance with jobs such as the MRT2 (RM26bn), LRT3 (RM9bn), Pan Borneo (RM16bn), DASH (RM4bn) and SUKE (RM4bn), all of which are expected to be rolled out this year.

Risks

- Orderbook replenishment coming below its burn rate.

Forecasts

- While earnings were above expectations, we make no changes to our forecast as it was mainly due to positive tax factors.

Rating
Maintain BUY, TP: RM1.59

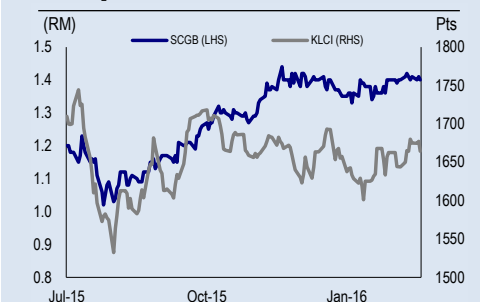
- SunCon is a well-managed company with commendable execution capability, putting it in a prime spot to ride on the robust flow of mega contracts expected this year.

Valuation

- Our TP is based on a 16x P/E target applied to FY16 earnings. Whilst this may seem to be a premium valuation yardstick, we reckon it is justified by SunCon's superior ROE of 32.4% which is almost 3-fold compared to the industry average of 11%.

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KLCI	1,658.2
Expected share price return	13.6%
Expected dividend return	2.5%
Expected total return	16.1%

Share price

Information

Bloomberg Ticker	SCGB MK
Bursa Code	5263
Issued Shares (m)	1,293
Market cap (RM m)	1,810
3-mth avg. volume ('000)	2,434
SC Shariah-compliant	Yes

Price Performance	1M	3M	12M
Absolute	1.4	2.2	N.M
Relative	-0.6	3.8	N.M

Major shareholders

SunHoldings	54.4%
Sungei Way Corp S/B	6.8%

Summary Earnings Table

FYE Dec (RM m)	FY14	FY15	FY16F	FY17F
Revenue	1,881	1,917	2,177	2,344
EBITDA	162	178	205	218
EBIT	120	136	163	174
Profit Before Tax	151	141	162	174
Core PATAMI	125	127	128	137
vs Consensus (%)			(8)	(9)
Core EPS (sen)	9.7	9.8	9.9	10.6
P/E (x)	14.5	14.2	14.1	13.2
Net DPS (sen)	2.0	4.0	3.5	3.7
Net DY (%)	1.4	2.9	2.5	2.7
BV per share	0.26	0.35	0.37	0.44
P/B (x)	5.4	4.0	3.8	3.2
ROE (%)	28.7	32.4	25.9	23.6
Net Gearing (%)	CASH	CASH	CASH	CASH

HLIB

Figure #1 Quarterly results comparison

FYE Dec (RM m)	1QFY15	2QFY15	3QFY15	4QFY15	QoQ (%)	12MFY15	Comments
Revenue	496.1	500.2	450.3	470.3	4.4	1,916.9	Higher QoQ driven by projects such as Parcel F and Coastal Highway Southern Link.
EBIT	39.2	41.3	28.2	27.6	(2.4)	136.3	
Finance cost	0.4	0.4	1.9	1.8	(3.2)	4.5	Finance income given its net cash position.
Associates & JVs	-	(0.1)	-	-	<i>n.m.</i>	(0.1)	
PBT	39.6	41.6	30.1	29.4	(2.5)	140.8	
PAT	34.4	37.8	25.2	30.4	20.5	127.7	Positive tax of RM1m recorded in 4Q.
PATMI - core	34.4	37.8	25.7	29.3	14.4	127.2	Made up 108% of our full year forecast.
PATMI - reported	34.4	37.8	25.7	29.3	14.4	127.2	
EPS - core	2.7	2.9	2.0	2.3		9.8	
EBIT margin	7.9	8.3	6.3	5.9		7.1	
PBT margin	8.0	8.3	6.7	6.3		7.3	

Company, HLIB

Note: No YoY comparison as SunCon was listed only listed in July 2015

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BUY	Positive recommendation of stock under coverage. Expected absolute return of more than +10% over 12-months, with low risk of sustained downside.
TRADING BUY	Positive recommendation of stock not under coverage. Expected absolute return of more than +10% over 6-months. Situational or arbitrage trading opportunity.
HOLD	Neutral recommendation of stock under coverage. Expected absolute return between -10% and +10% over 12-months, with low risk of sustained downside.
TRADING SELL	Negative recommendation of stock not under coverage. Expected absolute return of less than -10% over 6-months. Situational or arbitrage trading opportunity.
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NOT RATED	No research coverage and report is intended purely for informational purposes.

Industry rating definitions

OVERWEIGHT	The sector, based on weighted market capitalization, is expected to have absolute return of more than +5% over 12-months.
NEUTRAL	The sector, based on weighted market capitalization, is expected to have absolute return between -5% and +5% over 12-months.
UNDERWEIGHT	The sector, based on weighted market capitalization, is expected to have absolute return of less than -5% over 12-months.