

24 August 2015 | 2QFY15 Results Review

## Sunway Construction Group Bhd.

*There's still a silver lining*

**Maintain NEUTRAL**  
**Revised Target Price (TP): RM1.14**  
*(Previously RM1.38)*

### INVESTMENT HIGHLIGHTS

- Sunway Construction Group Berhad's (SCGB) 2QFY15 earnings of RM36.2m were within our expectation
- Satisfactory results were attributable to: (i) Higher progress billings and; (ii) Higher profit recognition of civil and infrastructure jobs
- Our earnings forecasts remain sanguine due to: (i) Strong pure construction outstanding orderbook; and (ii) Potentially higher pre-cast concrete sales
- We reaffirm our NEUTRAL stance with a revised TP of RM1.14 based on a rolled-forward base year of FY16

**2QFY15 earnings met our expectation.** SCGB's 2QFY15 normalised PATAMI was higher at RM36.2m (+10%qoq) compared to the preceding period. The figure was in-line with ours and consensus expectations, accounting for 26.7% and 28.3% of respective full-year forecasts.

**Favourable earnings buoyed by construction segment despite insipid numbers from pre-cast.** We opine that its favourable earnings was buoyed mainly by construction jobs despite a slight lag from the pre-cast segment:


(i) Higher progress billings and profit recognition from civil and infrastructure jobs such as (i) Sunway Velocity and Sunway Pyramid Phase 3; (ii) LRT Package B Kelana Jaya Line Extension; and (iii) KVMRT Package V4 Viaduct Gateway. The construction segment contributed 86% of PATAMI in 2QFY15;

(ii) Lower sales from pre-cast concrete potentially due to low seasonal demand. The pre-cast segment contributed 14% of PATAMI in 2QFY15.

**Impact on earnings.** Overall, we maintain our earnings forecasts at this point on the account of strong construction outstanding orderbook of RM2.8b and higher expected sales of pre-cast construction in 4QFY15 due to prospective higher units of launches for HDB in Singapore. Year-to-date, HDB has launched 13,426 units of flats. Geographically, Singapore contributed 24% of SCGB's PATAMI in 2QFY15.

RETURN STATS	
Price (21 August 2015)	RM1.09
Target Price	RM1.14
Expected Share Price Return	+4.6%
Expected Dividend Yield	+3.0%
<b>Expected Total Return</b>	<b>+7.6%</b>

STOCK INFO	
KLCI	1,574.6
Bursa / Bloomberg	5263/ SCGB MK
Board / Sector	Main / Construction
Syariah Compliant	Yes
Issued shares (mil)	1,292
Par Value (RM)	1.00
Market cap. (RM'm)	1,409
Price over NA	4.46x
52-wk price Range	RM1.01 – RM1.32
Beta (against KLCI)	N/A
3-mth Avg Daily Vol	N/A
3-mth Avg Daily Value	N/A
Major Shareholders (%)	
Sunholdings S/B	55.6
Sungei Way Corp S/B	6.78
Cheah Fook Lin	0.60
Jef-San Ent S/B	0.24

**Recommendation.** We maintain our **NEUTRAL** recommendation on SCGB with an SOP based revised TP of **RM1.14 per share**. Our target price is premised on a rolled-forward valuation base year of FY16 with a lower FY16 PER of 12x (previously 14x). Our revised target price reflects: (i) Heightened market volatility, and (ii) Expectation of negative earnings growth in FY16. 

## INVESTMENT STATISTICS

FYE Dec	FY14	FY15F	FY16F	FY17F
Revenue (RM'm)	1,880.7	2,100.2	1,815.3	1,993.6
EBIT (RM'm)	120.2	167.2	149.4	164.1
Pre-tax Profit (RM'm)	151.3	168.6	150.4	165.5
Normalised PATAMI (RM'm)	114.2	135.1	120.6	132.6
EPS (sen)	8.8	10.5	9.3	10.3
EPS growth (%)	20.9	18.3	-10.8	10.0
PER(x)	13.6	10.4	11.7	10.6
Net Dividend (sen)	2.0	3.7	3.3	3.6
Net Dividend Yield (%)	1.5	3.4	3.0	3.3

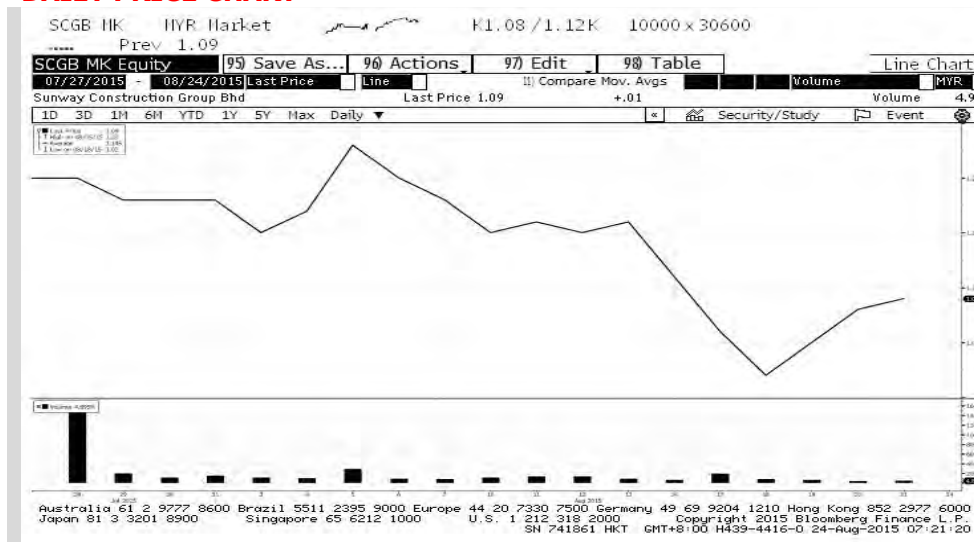
Source: MIDFR

## SOP VALUATION

Segments	Basis	Indicative Value (RM'm)	Per share (RM)
<b><u>Building and Civil Infrastructure</u></b>			
Various Projects	FY15 PER of 12x	1,747	1.35
<b><u>Foundation and Geotechnical Services</u></b>			
Mengkuang Dam and Sunway projects	FY15 PER of 12x	77	0.06
<b><u>MEP</u></b>			
MRT Station and Gas District Cooling Plant	FY15 PER of 12x	12	0.01
<b><u>Precast Concrete</u></b>			
Supplying to Singapore and other projects	FY15 PER of 12x	276	0.21
<b>Total SOP</b>		2,111.5	1.63
Net debt		-641.1	-0.50
<b>Total SOP</b>			<b>1.14</b>
			<b>RM1.14</b>
Enlarged share capital (mil)			1,293

Source: MIDFR, Bloomberg, Bursa

## DAILY PRICE CHART



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Source: Bloomberg, MIDFR

## 2QFY15 RESULTS SUMMARY

FYE Dec (RM'm)	Quarterly Results			Cumulative	Comments
	2Q15	2Q14	QoQ	6M15	
<b>Revenue</b>	<b>500</b>	<b>496</b>	<b>1%</b>	<b>996.2</b>	
<b>Gross profit</b>	<b>38</b>	<b>35.1</b>	<b>8%</b>	<b>73</b>	
Other income	3.3	4	-17%	7.4	
Other expenses	-	-	-	-	
Admin expenses	-	-	-	-	
<b>EBIT</b>	<b>41.3</b>	<b>39.1</b>	<b>5%</b>	<b>80.4</b>	
Finance costs	(1.1)	(1)	10%	(2.2)	
Associates	-	-	-	-	
JVs	(0.76)	-	-	(0.76)	
<b>Pre-tax profit</b>	<b>40</b>	<b>38.1</b>	<b>5%</b>	<b>78.2</b>	
Taxation	(3.8)	(5.2)	-27%	(9)	
<b>PATAMI</b>	<b>36.2</b>	<b>32.8</b>	<b>10%</b>	<b>69</b>	Increased due to higher billing rate
<b>Normalised PATAMI</b>	<b>36.2</b>	<b>32.8</b>	<b>10%</b>	<b>69</b>	
EPS (sen)	2.9	2.7	8%	6	In line with FYE15 expectation
	<b>2Q15</b>	<b>2Q14</b>	<b>+/- ppts</b>	<b>6M15</b>	
EBIT margin	8.3%	7.9%	0.4	8.1%	
Pre-tax margin	8.0%	7.7%	0.3	7.8%	
Net profit margin	7.3%	6.6%	0.6	6.9%	
Effective tax rate	9.5%	13.7%	-4.2	11.5%	

Source: Bursa Malaysia, MIDFR

## FINANCIAL SUMMARY

Income Statement	FY14	FY15F	FY16F	FY17F
<b>Revenue</b>	<b>1,880.7</b>	<b>2,100.2</b>	<b>1,815.3</b>	<b>1,993.6</b>
Cost of sales	-1,485.3	-1,645.5	-1,412.3	-1,548.2
Net operating expenses	-275.2	-287.5	-253.5	-281.3
<b>EBIT</b>	<b>120.2</b>	<b>167.2</b>	<b>149.4</b>	<b>164.1</b>
Net interest expense	0.7	1.4	1.0	1.3
Share of JV	30.4	0.0	0.0	0.0
<b>PBT</b>	<b>151.3</b>	<b>168.6</b>	<b>150.4</b>	<b>165.5</b>
Taxation	-26.5	-33.5	-29.9	-32.9
<b>Normalised PATAMI</b>	<b>114.2</b>	<b>135.1</b>	<b>120.6</b>	<b>132.6</b>
<b>Balance Sheet</b>	<b>FY14</b>	<b>FY15F</b>	<b>FY16F</b>	<b>FY17F</b>
<b>Non-current assets</b>	<b>214.0</b>	<b>217.6</b>	<b>221.2</b>	<b>224.9</b>
PPE	178.7	182.3	185.9	189.7
Investments in JV	24.2	24.2	24.2	24.2
Others	11.1	11.1	11.1	11.1
<b>Current assets</b>	<b>1,058.2</b>	<b>1,181.6</b>	<b>1,165.9</b>	<b>1,325.7</b>
Inventories	20.2	25.2	21.6	23.7
Receivables	737.9	824.0	859.6	944.0
Tax recoverable	8.5	8.5	8.5	8.5
Cash & equivalent	291.6	323.9	276.2	349.4
<b>TOTAL ASSETS</b>	<b>1,272.2</b>	<b>1,399.1</b>	<b>1,387.2</b>	<b>1,550.6</b>
Share capital	258.6	258.6	258.6	258.6
Minority Interest	-5.2	-5.2	-5.2	-5.2
Reserves	74.9	162.8	241.1	327.3
<b>TOTAL EQUITY</b>	<b>328.3</b>	<b>416.1</b>	<b>494.5</b>	<b>580.7</b>
<b>Non-current liabilities</b>	<b>4.4</b>	<b>4.4</b>	<b>4.4</b>	<b>4.4</b>
Long-term borrowings	0.1	0.1	0.1	0.1
Deferred tax liabilities	4.3	4.3	4.3	4.3
<b>Current liabilities</b>	<b>939.6</b>	<b>978.7</b>	<b>888.3</b>	<b>965.6</b>
Short-term borrowings	135.1	141.8	148.9	156.3
Payables	791.3	823.7	726.3	796.1
Others	13.2	13.2	13.2	13.2
<b>TOTAL LIABILITIES</b>	<b>943.9</b>	<b>983.0</b>	<b>892.7</b>	<b>969.9</b>

Source: MIDFR

Cash Flow Statement	FY14	FY15F	FY16F	FY17F
<b>Operating activities</b>				
PBT	151.3	168.6	150.4	165.5
Depreciation & amortization	41.6	41.1	41.9	42.8
Chgs in working capital	-37.9	-58.7	-129.4	-16.7
Non-cash adjustment	62.8	3.2	3.3	3.5
Interest expense	-3.3	-3.2	-3.3	-3.5
Tax paid	-30.5	-33.5	-29.9	-32.9
<b>CF from Operations</b>	<b>183.9</b>	<b>117.6</b>	<b>33.1</b>	<b>158.7</b>
<b>Investing activities</b>				
Capex	-46.0	-54.0	-55.0	-56.0
Other income received	394.9	8.9	9.1	9.3
<b>CF from Investments</b>	<b>348.9</b>	<b>-45.1</b>	<b>-45.9</b>	<b>-46.7</b>
<b>Financing activities</b>				
Dividends paid to owners	-428.0	-47.3	-42.2	-46.4
Net proceeds in borrowings	45.9	6.7	7.0	7.4
<b>CF from Financing</b>	<b>-382.1</b>	<b>-40.6</b>	<b>-35.2</b>	<b>-39.0</b>
Net changes in cash	151.7	32.3	-47.7	73.2
<b>Beginning cash</b>	<b>156.1</b>	<b>291.6</b>	<b>323.9</b>	<b>276.2</b>
Overdrafts & deposits	-16.1	0.0	0.0	0.0
<b>Ending cash</b>	<b>291.6</b>	<b>323.9</b>	<b>276.2</b>	<b>349.4</b>
<b>Ratios</b>	<b>FY14</b>	<b>FY15F</b>	<b>FY16F</b>	<b>FY17F</b>
Revenue growth	2.2%	11.7%	-13.6%	9.8%
PBT growth	68.4%	11.5%	-10.8%	10.0%
Normalised PATAMI growth	20.9%	18.3%	-10.8%	10.0%
PBT margin	8.0%	8.0%	8.3%	8.3%
Normalised PATAMI margin	6.1%	6.4%	6.6%	6.7%
ROE	34.2%	32.1%	24.1%	22.6%
ROA	9.0%	9.7%	8.7%	8.6%
Net gearing (x)	Ncash	Ncash	Ncash	Ncash
Book value/share (RM/sen)	0.25	0.32	0.38	0.45
PBV (x)	4.7	3.4	2.8	2.4
EV/EBITDA (x)	8.6	5.9	6.7	5.9

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### MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

#### STOCK RECOMMENDATIONS

BUY	Total return is expected to be >15% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >15% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -15% and +15% over the next 12 months.
SELL	Total return is expected to be <-15% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >15% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

#### SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.