

Sunway Construction Group (SCGB MK)

1Q16 in line but Non-Shariah compliant for now

Maintain BUY

1Q16 results were in line. We expect stronger earnings in the following quarters, underpinned by its solid MYR5b outstanding orderbook. Removal from the SC's Shariah-compliant list could lead to temporary share price weakness. However, its medium term prospect remains intact with more potential job wins from upcoming infrastructure projects. Reiterate BUY at an unchanged MYR1.80 TP.

1Q16 results were in line

1Q16 net profit of MYR29m (-15% YoY, -1% QoQ) met 19% of our full-year forecast. The sharp YoY decline was due to recognition of deferred tax assets in 1Q15. 1Q16 construction EBIT grew strongly at 40% YoY (+217% QoQ) on recovery of its EBIT margins (+1.7ppt YoY, +3.6ppt QoQ) although construction works recognition was slower (-9% YoY, -12% QoQ). However this was offset by precast EBIT that fell 48% YoY (-43% QoQ) as 1Q16 precast revenue fell 36% YoY (-3% QoQ) and precast EBIT margins also normalized to 19% (-4.2ppt YoY, -13.3ppt QoQ).

Earnings to accelerate in the coming quarters

SCG's job win YTD is strong at MYR2b, including the MYR1.2b KVMRT 2 elevated viaduct package, lifting its outstanding orderbook to MYR5b. We expect further job wins from major infrastructure projects. SCG's earnings would accelerate in the coming quarters as progress at its new major contracts pick up pace and its precast earnings is usually lumpy depending on the timing of delivery.

Removed from Shariah-compliant list

SCG has been removed from the latest Securities Commission's Shariah-compliant list released last evening given SCG's cash-in-conventional-accounts to asset ratio as of end-2015 was at 33.5% (above the 33% threshold). This could lead to a knee-jerk reaction to its share price. Our MYR1.80 TP is based on 13x 2017 PER (1x above sector average of 12x).

FYE Dec (MYR m)	FY14A	FY15A	FY16E	FY17E	FY18E
Revenue	1,881	1,917	2,560	2,622	2,556
EBITDA	151	178	231	262	265
Core net profit	114	128	156	180	183
Core EPS (sen)	8.8	9.9	12.0	13.9	14.2
Core EPS growth (%)	20.9	11.9	21.9	15.6	1.8
Net DPS (sen)	30.5	4.0	4.2	4.9	5.0
Core P/E (x)	17.3	15.5	12.7	11.0	10.8
P/BV (x)	5.9	4.4	3.6	3.0	2.5
Net dividend yield (%)	20.0	2.6	2.8	3.2	3.2
ROAE (%)	24.1	32.6	31.0	29.5	25.1
ROAA (%)	8.4	9.2	9.5	9.8	9.4
EV/EBITDA (x)	na	8.7	6.8	5.6	5.2
Net debt/equity (%)	net cash	net cash	net cash	net cash	net cash
Consensus net profit	-	-	149	172	183
MKE vs. Consensus (%)	-	-	4.2	4.8	0.0

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BUY

Share Price	MYR 1.53
12m Price Target	MYR 1.80 (+18%)
Previous Price Target	MYR 1.80

Company Description

Sunway Construction Group offers integrated construction services and has precast concrete business in Singapore.

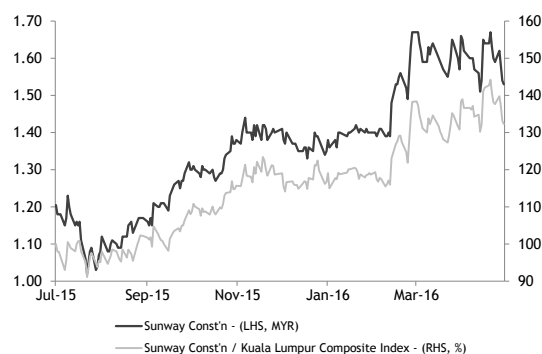
Statistics

52w high/low (MYR)	na/na
3m avg turnover (USDm)	1.6
Free float (%)	38.2
Issued shares (m)	1,293
Market capitalisation	MYR2.0B USD485M

Major shareholders:

Sunway Bhd.	54.4%
Sungei Way Corp. Sdn. Bhd.	6.8%
CHEAH FOOK LING	0.6%

Price Performance



	-1M	-3M	-12M
Absolute (%)	(3)	9	na
Relative to index (%)	1	11	na

Source: FactSet

SCG summary results table

	Quarterly results				
	1Q16	1Q15	% YoY	4Q15	% QoQ
FY Dec (RM m)					
Turnover	424.4	496.1	(14.5)	470.3	(9.8)
EBIT	35.4	39.2	(9.7)	27.6	28.4
Net interest	2.1	0.4	386.3	1.8	16.3
Pre-tax profits	37.5	39.6	(5.3)	29.4	27.6
Tax	(8.5)	(5.2)	61.8	1.0	NM
Minority Interests	-	(0.0)	NM	(1.0)	NM
Net profit	29.1	34.4	(15.5)	29.3	(1.0)
	1Q16	1Q15	+/- ppt	4Q15	+/- ppt
EBIT margin (%)	8.3	7.9	0.4	5.9	2.5
Pretax margin (%)	8.8	8.0	0.9	6.3	2.6
Tax rate (%)	22.6	13.2	9.4	(3.3)	25.9
Revenue:	1Q16	1Q15	% YoY	4Q15	% QoQ
Construction	479.8	528.2	(9.2)	547.4	(12.3)
Precast concrete	59.9	94.1	(36.4)	61.6	(2.8)
Inter-coy	(115.4)	(126.3)	(8.6)	(138.7)	(16.8)
Total	424.4	496.1	(14.5)	470.3	(9.8)
EBIT					
Construction	23.9	17.1	39.7	7.5	217.2
Precast concrete	11.5	22.1	(47.9)	20.0	(42.5)
Total	35.4	39.2	(9.7)	27.6	28.4
EBIT margin (%)	1Q16	1Q15	+/- ppt	4Q15	+/- ppt
Construction	5.0	3.2	1.7	1.4	3.6
Precast concrete	19.2	23.5	(4.2)	32.5	(13.3)
Total	8.3	7.9	0.4	5.9	2.5

Source: Company

FYE 31 Dec	FY14A	FY15A	FY16E	FY17E	FY18E
Key Metrics					
P/E (reported) (x)	15.8	15.5	12.7	11.0	10.8
Core P/E (x)	17.3	15.5	12.7	11.0	10.8
P/BV (x)	5.9	4.4	3.6	3.0	2.5
P/NTA (x)	6.0	4.4	3.6	3.0	2.5
Net dividend yield (%)	20.0	2.6	2.8	3.2	3.2
FCF yield (%)	7.0	10.7	10.3	8.4	8.2
EV/EBITDA (x)	na	8.7	6.8	5.6	5.2
EV/EBIT (x)	na	11.4	8.2	6.7	6.2

INCOME STATEMENT (MYR m)

Revenue	1,880.7	1,916.9	2,559.5	2,622.3	2,555.5
Gross profit	395.4	403.0	460.6	500.5	508.3
EBITDA	151.2	178.2	231.3	261.8	265.0
Depreciation	(41.6)	(41.9)	(39.0)	(41.3)	(43.4)
EBIT	109.6	136.3	192.3	220.5	221.6
Net interest income / (exp)	0.7	4.5	6.6	10.5	13.2
Associates & JV	30.4	(0.1)	0.0	0.0	0.0
Exceptionals	10.6	0.0	0.0	0.0	0.0
Pretax profit	151.3	140.8	198.8	230.9	234.8
Income tax	(26.5)	(13.0)	(43.1)	(51.0)	(51.6)
Minorities	0.1	0.0	0.0	0.0	0.0
Reported net profit	124.8	127.7	155.7	180.0	183.2
Core net profit	114.2	127.7	155.7	180.0	183.2

BALANCE SHEET (MYR m)

Cash & Short Term Investments	291.6	390.5	540.2	643.7	741.4
Accounts receivable	737.9	834.8	920.4	937.1	917.2
Inventory	20.2	17.3	28.8	29.1	28.0
Property, Plant & Equip (net)	178.7	162.5	172.2	180.7	185.9
Intangible assets	3.6	3.6	3.6	3.6	3.6
Investment in Associates & JVs	24.2	0.0	0.0	0.0	0.0
Other assets	16.0	106.4	106.4	106.4	106.4
Total assets	1,272.2	1,515.1	1,771.5	1,900.5	1,982.5
ST interest bearing debt	135.1	136.8	136.8	136.8	136.8
Accounts payable	791.3	913.3	1,068.5	1,080.5	1,043.4
LT interest bearing debt	0.1	0.0	0.0	0.0	0.0
Other liabilities	17.0	13.0	13.0	13.0	13.0
Total Liabilities	943.9	1,063.5	1,218.6	1,230.7	1,193.6
Shareholders Equity	333.5	451.0	552.2	669.2	788.3
Minority Interest	(5.2)	0.6	0.6	0.6	0.6
Total shareholder equity	328.3	451.7	552.9	669.9	788.9
Total liabilities and equity	1,272.2	1,515.1	1,771.5	1,900.5	1,982.5

CASH FLOW (MYR m)

Pretax profit	151.3	140.8	198.8	230.9	234.8
Depreciation & amortisation	41.6	41.9	39.0	41.3	43.4
Adj net interest (income)/exp	0.7	4.5	6.6	10.5	13.2
Change in working capital	14.1	111.7	58.1	(5.0)	(16.1)
Cash taxes paid	(28.5)	(29.6)	(43.1)	(51.0)	(51.6)
Other operating cash flow	4.7	(33.4)	(6.6)	(10.5)	(13.2)
Cash flow from operations	183.9	236.0	252.8	216.3	210.4
Capex	(45.7)	(24.3)	(48.6)	(49.8)	(48.6)
Free cash flow	138.2	211.7	204.2	166.4	161.9
Dividends paid	(428.0)	(70.0)	(54.5)	(63.0)	(64.1)
Change in Debt	46.5	1.6	0.0	0.0	0.0
Other invest/financing cash flow	394.3	(25.3)	0.0	0.0	0.0
Net cash flow	151.0	118.0	149.7	103.5	97.8

FYE 31 Dec	FY14A	FY15A	FY16E	FY17E	FY18E
Key Ratios					
Growth ratios (%)					
Revenue growth	2.2	1.9	33.5	2.5	(2.5)
EBITDA growth	34.2	17.9	29.8	13.2	1.2
EBIT growth	56.8	24.4	41.1	14.7	0.5
Pretax growth	68.4	(7.0)	41.3	16.1	1.7
Reported net profit growth	86.5	2.3	21.9	15.6	1.8
Core net profit growth	20.9	11.9	21.9	15.6	1.8
Profitability ratios (%)					
EBITDA margin	8.0	9.3	9.0	10.0	10.4
EBIT margin	5.8	7.1	7.5	8.4	8.7
Pretax profit margin	8.0	7.3	7.8	8.8	9.2
Payout ratio	nm	40.5	35.0	35.0	35.0
DuPont analysis					
Net profit margin (%)	6.6	6.7	6.1	6.9	7.2
Revenue/Assets (x)	1.5	1.3	1.4	1.4	1.3
Assets/Equity (x)	3.8	3.4	3.2	2.8	2.5
ROAE (%)	24.1	32.6	31.0	29.5	25.1
ROAA (%)	8.4	9.2	9.5	9.8	9.4
Liquidity & Efficiency					
Cash conversion cycle	(10.6)	(50.5)	(42.6)	(49.9)	(51.1)
Days receivable outstanding	168.3	147.7	123.4	127.5	130.6
Days inventory outstanding	5.5	4.5	3.9	4.9	5.0
Days payables outstanding	184.4	202.7	170.0	182.3	186.7
Dividend cover (x)	0.3	2.5	2.9	2.9	2.9
Current ratio (x)	1.1	1.3	1.3	1.4	1.5
Leverage & Expense Analysis					
Asset/Liability (x)	1.3	1.4	1.5	1.5	1.7
Net debt/equity (%)	net cash	net cash	net cash	net cash	net cash
Net interest cover (x)	na	na	na	na	na
Debt/EBITDA (x)	0.9	0.8	0.6	0.5	0.5
Capex/revenue (%)	2.4	1.3	1.9	1.9	1.9
Net debt/ (net cash)	(156.4)	(253.6)	(403.4)	(506.8)	(604.6)

Source: Company; Maybank

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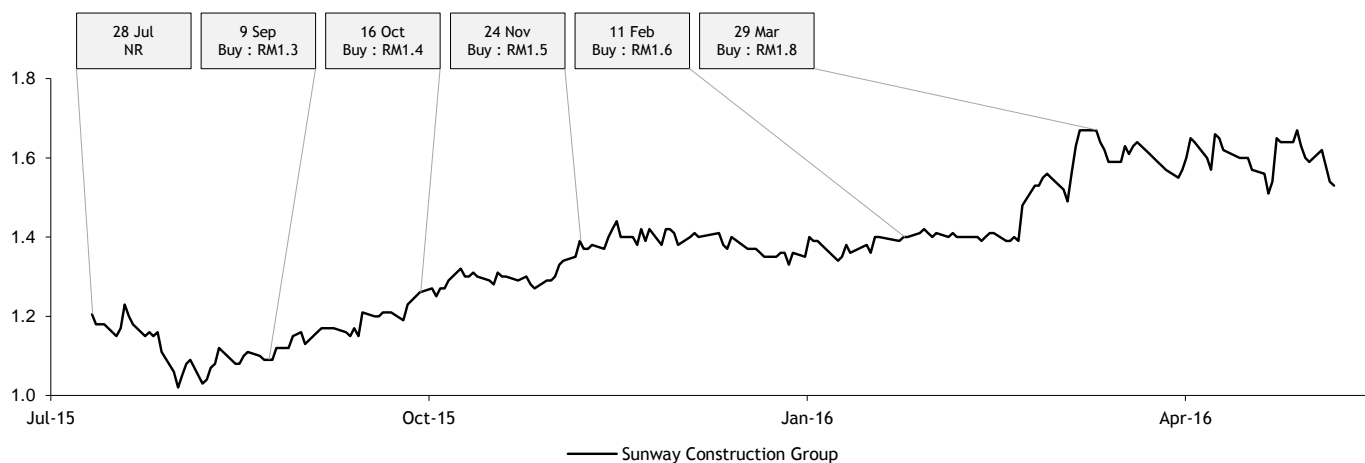
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