

Sunway Construction Group (SCGB MK)

Share Price: MYR1.39

MCap (USD): 418M

Malaysia

Target Price: MYR1.50 (+8%)

ADTV (USD): 0.9M

Construction

BUY

(Unchanged)

Positive outlook; TP raised

- 3Q15 was above expectation due to stronger-than-expected earnings from the precast concrete business.
- Expect its strong orderbook replenishment to persist in 2016.
- Raise 2015-17 net profit estimates by 2-6%. Reiterate BUY at a higher TP of MYR1.50 (+7%).

What's New

3Q15 net profit of MYR26m (-32% QoQ) brought 9M15 net profit to MYR98m, making up 82% of our full-year forecast. The stronger-than-expected 3Q15 results was due to strong earnings from its Singapore precast concrete business that contributed 73% of group EBIT, which has also resulted in a lower tax rate at the group level. These offset lower-than-expected contributions from construction.

QoQ, the weaker 3Q15 group profit was due to construction EBIT which fell 72% QoQ due to lower construction works recognition (-6% QoQ) and weaker EBIT margins (-3.4ppt QoQ), due to variation cost incurred in 3Q15 and some of its major projects were at final completion stage. However, this was partly offset by the stronger precast concrete EBIT (+45% QoQ) mainly due to improvement in EBIT margins by 13.5ppt QoQ while revenue declined 20% YoY. The higher precast concrete margin was due to the weaker MYR against SGD and finalization of accounts.

What's Our View

SCG's earnings from both construction and precast concrete divisions can be volatile due to lumpy recognition and variation orders. We expect construction EBIT to pick up strongly in 4Q15 driven by its solid outstanding construction orderbook of MYR4.3b.

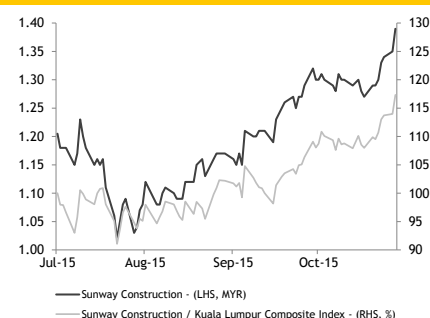
With SCG's robust job wins YTD of MYR2.6b, we expect its orderbook replenishment momentum to continue in 2016. We raise our 2015/16/17 net profit forecasts by 2%/4.4%/5.6% after imputing its latest MYR107m job win. Thereafter, we lift our TP to MYR1.50 (from MYR1.40) after we roll forward our valuation basis to 2017 EPS based on unchanged 13x PER. Reiterate BUY.

FYE Dec (MYR m)	FY13A	FY14A	FY15E	FY16E	FY17E
Revenue	1,839.6	1,880.7	2,305.0	2,277.0	2,449.7
EBITDA	112.7	151.2	192.2	217.6	227.1
Core net profit	94.4	114.2	121.0	143.7	148.4
Core EPS (sen)	7.3	8.8	9.4	11.1	11.5
Core EPS growth (%)	37.6	20.9	5.9	18.7	3.3
Net DPS (sen)	2.6	30.5	1.6	3.9	4.0
Core P/E (x)	19.0	15.7	14.9	12.5	12.1
P/BV (x)	2.9	5.4	4.9	3.9	3.2
Net dividend yield (%)	1.8	22.0	1.2	2.8	2.9
ROAE (%)	16.1	24.1	34.7	35.0	29.4
ROAA (%)	6.5	8.4	9.0	9.8	9.4
EV/EBITDA (x)	na	na	8.4	7.1	6.3
Net debt/equity (%)	net cash	net cash	net cash	net cash	net cash

Key Data

Shariah status	Yes
52w high/low (MYR)	na/na
3m avg turnover (USDm)	0.9
Free float (%)	38.2
Issued shares (m)	1,293
Market capitalization	MYR1.8B
Major shareholders:	
-Sunway Bhd.	54.4%
-Sungei Way Corp. Sdn. Bhd.	6.8%
-CHEAH FOOK LING	0.6%

Share Price Performance



	1 Mth	3 Mth	12 Mth
Absolute(%)	7.8	35.0	na
Relative to index (%)	10.3	23.7	na

Maybank vs Market

	Positive	Neutral	Negative
Market Recs	3	2	0
	Maybank Consensus		% +/-
Target Price (MYR)	1.50	1.40	7.1
'15 PATMI (MYRm)	121	120	0.8
'16 PATMI (MYRm)	144	132	8.8

Source: FactSet; Maybank

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3Q15 Results Summary Table

FY Dec (RM m)	Quarterly			Cumulative
	3Q15	2Q15	% QoQ	9M15
Turnover	450.3	500.2	(10.0)	1,446.6
EBIT	28.2	41.3	(31.6)	108.7
Interest expense	1.9	0.4	418.3	2.7
Associates, JVs	-	(0.1)	(100.0)	(0.1)
Pre-tax profits	30.1	41.6	(27.5)	111.4
Tax	(4.9)	(3.8)	30.3	(14.0)
Minority Interests	0.5	-	NM	0.4
Net profit	25.7	37.8	(32.1)	97.8
	3Q15	2Q15	+/- ppt	9M15
<i>EBIT margin (%)</i>	6.3	8.3	(2.0)	7.5
<i>Pretax margin (%)</i>	6.7	8.3	(1.6)	7.7
<i>Tax rate (%)</i>	16.4	9.1	7.3	12.6
Revenue:	3Q15	2Q15	% QoQ	9M15
Construction	522.9	554.2	(5.7)	1,605.3
Precast concrete	68.3	85.1	(19.7)	247.4
Inter-coy	(140.8)	(139.1)	NM	(406.1)
Total	450.3	500.2	(10.0)	1,446.6
EBIT				
Construction	7.5	27.0	(72.1)	51.6
Precast concrete	20.7	14.3	45.0	57.1
Total	28.2	41.3	(31.6)	108.7
EBIT margin (%)	3Q15	2Q15	+/- ppt	9M15
Construction	1.4	4.9	(3.4)	3.2
Precast concrete	30.4	16.8	13.5	23.1
Total	6.3	8.3	(2.0)	7.5

Note: There are no YoY comparisons as the stock was recently listed

Source: Company

FYE 31 Dec	FY13A	FY14A	FY15E	FY16E	FY17E
Key Metrics					
P/E (reported) (x)	26.9	14.4	14.9	12.5	12.1
Core P/E (x)	19.0	15.7	14.9	12.5	12.1
P/BV (x)	2.9	5.4	4.9	3.9	3.2
P/NTA (x)	2.9	5.4	5.0	4.0	3.3
Net dividend yield (%)	1.8	22.0	1.2	2.8	2.9
FCF yield (%)	1.9	7.7	6.3	7.1	9.0
EV/EBITDA (x)	na	na	8.4	7.1	6.3
EV/EBIT (x)	na	na	10.8	8.8	7.7

INCOME STATEMENT (MYR m)

Revenue	1,839.6	1,880.7	2,305.0	2,277.0	2,449.7
Gross profit	338.0	395.4	413.7	446.9	465.6
EBITDA	112.7	151.2	192.2	217.6	227.1
Depreciation	(42.8)	(41.6)	(42.9)	(43.1)	(43.1)
EBIT	69.9	109.6	149.3	174.5	183.9
Net interest income / (exp)	2.1	0.7	3.5	4.1	6.1
Associates & JV	45.4	30.4	0.0	0.0	0.0
Exceptionals	(27.5)	10.6	0.0	0.0	0.0
Pretax profit	89.8	151.3	152.9	178.6	190.0
Income tax	(23.7)	(26.5)	(31.9)	(34.9)	(41.6)
Minorities	0.8	0.1	0.0	0.0	0.0
Reported net profit	66.9	124.8	121.0	143.7	148.4
Core net profit	94.4	114.2	121.0	143.7	148.4

BALANCE SHEET (MYR m)

Cash & Short Term Investments	156.1	291.6	314.2	391.5	502.0
Accounts receivable	1,020.5	737.9	858.4	850.9	902.3
Inventory	25.5	20.2	31.1	30.1	32.6
Property, Plant & Equip (net)	180.9	178.7	179.6	179.8	183.2
Intangible assets	3.6	3.6	3.6	3.6	3.6
Investment in Associates & JVs	22.1	24.2	24.2	24.2	24.2
Other assets	33.1	16.0	16.0	16.0	16.0
Total assets	1,441.9	1,272.2	1,427.1	1,496.1	1,663.9
ST interest bearing debt	75.1	135.1	135.1	135.1	135.1
Accounts payable	730.7	791.3	916.4	892.0	963.3
LT interest bearing debt	15.4	0.1	0.1	0.1	0.1
Other liabilities	11.0	17.0	17.0	17.0	17.0
Total Liabilities	832.2	943.9	1,069.1	1,044.6	1,115.9
Shareholders Equity	614.2	333.5	363.3	456.7	553.2
Minority Interest	(4.5)	(5.2)	(5.2)	(5.2)	(5.2)
Total shareholder equity	609.7	328.3	358.1	451.5	547.9
Total liabilities and equity	1,441.9	1,272.2	1,427.1	1,496.1	1,663.9

CASH FLOW (MYR m)

Pretax profit	89.8	151.3	152.9	178.6	190.0
Depreciation & amortisation	42.8	41.6	42.9	43.1	43.1
Adj net interest (income)/exp	2.1	0.7	3.5	4.1	6.1
Change in working capital	(68.3)	14.1	(6.3)	(15.9)	17.4
Cash taxes paid	(20.1)	(28.5)	(31.9)	(34.9)	(41.6)
Other operating cash flow	36.8	4.7	(3.5)	(4.1)	(6.1)
Cash flow from operations	83.1	183.9	157.6	170.8	208.9
Capex	(49.4)	(45.7)	(43.8)	(43.3)	(46.5)
Free cash flow	33.7	138.2	113.8	127.6	162.4
Dividends paid	(14.5)	(428.0)	(91.2)	(50.3)	(51.9)
Change in Debt	29.2	46.5	0.0	0.0	0.0
Other invest/financing cash flow	(24.8)	394.3	0.0	0.0	0.0
Net cash flow	23.7	151.0	22.6	77.3	110.5

FYE 31 Dec	FY13A	FY14A	FY15E	FY16E	FY17E
Key Ratios					
Growth ratios (%)					
Revenue growth	27.0	2.2	22.6	(1.2)	7.6
EBITDA growth	25.7	34.2	27.1	13.2	4.4
EBIT growth	12.6	56.8	36.3	16.8	5.4
Pretax growth	9.7	68.4	1.1	16.8	6.4
Reported net profit growth	22.2	86.5	(3.1)	18.7	3.3
Core net profit growth	37.6	20.9	5.9	18.7	3.3
Profitability ratios (%)					
EBITDA margin	6.1	8.0	8.3	9.6	9.3
EBIT margin	3.8	5.8	6.5	7.7	7.5
Pretax profit margin	4.9	8.0	6.6	7.8	7.8
Payout ratio	49.3	nm	17.5	35.0	35.0
DuPont analysis					
Net profit margin (%)	3.6	6.6	5.2	6.3	6.1
Revenue/Assets (x)	1.3	1.5	1.6	1.5	1.5
Assets/Equity (x)	2.3	3.8	3.9	3.3	3.0
ROAE (%)	16.1	24.1	34.7	35.0	29.4
ROAA (%)	6.5	8.4	9.0	9.8	9.4
Liquidity & Efficiency					
Cash conversion cycle	27.2	(10.6)	(33.0)	(36.7)	(33.8)
Days receivable outstanding	204.5	168.3	124.7	135.1	128.8
Days inventory outstanding	5.7	5.5	4.9	6.0	5.7
Days payables outstanding	183.0	184.4	162.5	177.9	168.3
Dividend cover (x)	2.0	0.3	5.7	2.9	2.9
Current ratio (x)	1.5	1.1	1.1	1.2	1.3
Leverage & Expense Analysis					
Asset/Liability (x)	1.7	1.3	1.3	1.4	1.5
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)	0.8	0.9	0.7	0.6	0.6
Capex/revenue (%)	2.7	2.4	1.9	1.9	1.9
Net debt/ (net cash)	(65.6)	(156.4)	(179.0)	(256.3)	(366.8)

Source: Company; Maybank

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