

Sunway Construction Group (SCGB MK)

Steady earnings delivery

BUY

Share Price MYR 1.40
 12m Price Target MYR 1.65 (+18%)
 Previous Price Target MYR 1.65

2015 net profit grew 11% YoY

4Q15 was in line. 2015 net profit grew 11% YoY on higher construction works recognition and stronger precast concrete margins. SCG's solid MYR3.6b orderbook would drive its forward earnings growth. In addition, we expect its strong orderbook replenishment to persist in 2016 as SCG would benefit from major infrastructure project awards. Our earnings forecasts are unchanged. A higher-than-expected first interim DPS of 4sen positively surprised. Reiterate BUY at an unchanged MYR1.65 TP.

4Q15 was in line

4Q15 net profit of MYR29m (+14% QoQ) brought 2015 net profit to MYR127m, making up 105% of our full-year forecast. The QoQ growth was driven mainly by recognition of deferred tax assets in 4Q15. Meanwhile, 4Q15 pretax profit was marginally down QoQ (-2.5%). The first interim DPS of 4sen is 94% of SCG's 2H15 (post listing) EPS and it was above our estimate of 1.6 sen based on 35% payout.

Flattish quarter, operationally

QoQ, construction EBIT was flat as higher construction works recognition (+5% QoQ) was offset by slightly lower EBIT margins (-0.1ppt QoQ). Elsewhere, precast concrete EBIT was down 3% QoQ due to 10% QoQ lower revenue but partly cushion by improvement in EBIT margins by 2.2ppt QoQ. The higher precast concrete margin was due to the weaker MYR against SGD and finalization of accounts. Consequently, group EBIT was marginally down by 2% QoQ.

Potential MYR5.6b job wins

SCG is tendering actively for both infrastructure and building jobs to enhance its solid orderbook of MYR3.6b. Its potential job wins from KVMRT 2, KVLRT 3, KL-Klang BRT, Pan Borneo Sarawak Highway, DASH and SUKE could amount up to MYR5.6b, we estimate. We have imputed just MYR2.5b wins for 2016 in our forecasts. Every additional MYR100m win could lift our TP by 3%. After we impute the actual 2015 numbers, our earnings forecasts were largely unchanged. We introduce our 2018 estimates. Reiterate BUY at an unchanged TP of MYR1.65 (13x 2017 PER).

FYE Dec (MYR m)	FY14A	FY15A	FY16E	FY17E	FY18E
Revenue	1,881	1,917	2,542	2,508	2,441
EBITDA	151	178	228	240	243
Core net profit	114	128	153	164	166
Core EPS (sen)	8.8	9.9	11.8	12.7	12.9
Core EPS growth (%)	20.9	11.9	19.9	6.8	1.7
Net DPS (sen)	30.5	4.0	4.1	4.4	4.5
Core P/E (x)	15.9	14.2	11.8	11.1	10.9
P/BV (x)	5.4	4.0	3.3	2.8	2.4
Net dividend yield (%)	21.8	2.9	3.0	3.2	3.2
ROAE (%)	24.1	32.6	30.6	27.1	23.4
ROAA (%)	8.4	9.2	9.3	9.1	8.9
EV/EBITDA (x)	na	8.7	6.2	5.5	5.1
Net debt/equity (%)	net cash	net cash	net cash	net cash	net cash
Consensus net profit	-	-	141	148	na
MKE vs. Consensus (%)	-	-	8.6	10.9	na

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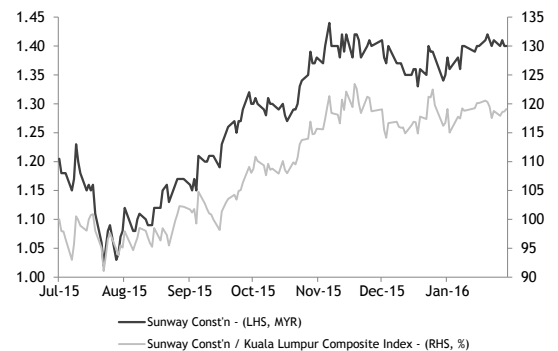
Company description

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

Statistics

Shariah status	Yes
52w high/low (MYR)	na/na
3m avg turnover (USDm)	0.7
Free float (%)	38.2
Issued shares (m)	1,293
Market capitalisation	MYR1.8B USD429M
Major shareholders:	
Sunway Bhd.	54.4%
Sungei Way Corp. Sdn. Bhd.	6.8%
CHEAH FOOK LING	0.6%

Price Performance



	-1M	-3M	-12M
Absolute (%)	1	2	na
Relative to index (%)	(1)	4	na

Source: FactSet

4Q15 Results Summary Table

FY Dec (RM m)	Quarterly			Cumulative
	4Q15	3Q15	% QoQ	2015
Turnover	470.3	450.3	4.4	1,916.9
EBIT	27.6	28.2	(2.4)	136.3
Interest expense	1.8	1.9	(3.2)	4.5
Associates, JVs	-	-	Na	(0.1)
Pre-tax profit	29.4	30.1	(2.5)	140.8
Tax	1.0	(4.9)	NM	(13.0)
Minority Interests	(1.0)	0.5	NM	(0.6)
Net profit	29.3	25.7	14.4	127.2
	4Q15	3Q15	+/- ppt	2015
<i>EBIT margin (%)</i>	5.9	6.3	(0.4)	7.1
<i>Pretax margin (%)</i>	6.3	6.7	(0.4)	7.3
<i>Tax rate (%)</i>	(3.3)	16.4	(19.7)	9.2
Revenue:	4Q15	3Q15	% QoQ	2015
Construction	547.4	522.9	4.7	2,152.7
Precast concrete	61.6	68.3	(9.8)	309.0
Inter-coy	(138.7)	(140.8)	NM	(544.9)
Total	470.3	450.3	4.4	1,916.9
EBIT				
Construction	7.5	7.5	(0.0)	59.2
Precast concrete	20.0	20.7	(3.3)	77.1
Total	27.6	28.2	(2.4)	136.3
EBIT margin (%)	4Q15	3Q15	+/- ppt	2015
Construction	1.4	1.4	(0.1)	2.7
Precast concrete	32.5	30.4	2.2	25.0
Total	5.9	6.3	(0.4)	7.1

Note: There are no YoY comparisons for 4Q15 as the stock was listed in 2015

Source: Company

FYE 31 Dec	FY14A	FY15A	FY16E	FY17E	FY18E
Key Metrics					
P/E (reported) (x)	14.5	14.2	11.8	11.1	10.9
Core P/E (x)	15.9	14.2	11.8	11.1	10.9
P/BV (x)	5.4	4.0	3.3	2.8	2.4
P/NTA (x)	5.5	4.0	3.3	2.8	2.4
Net dividend yield (%)	21.8	2.9	3.0	3.2	3.2
FCF yield (%)	7.6	11.7	11.1	7.9	8.1
EV/EBITDA (x)	na	8.7	6.2	5.5	5.1
EV/EBIT (x)	na	11.4	7.5	6.7	6.2
INCOME STATEMENT (MYR m)					
Revenue	1,880.7	1,916.9	2,542.0	2,508.2	2,441.5
Gross profit	395.4	403.0	457.3	478.9	485.9
EBITDA	151.2	178.2	227.9	240.2	242.6
Depreciation	(41.6)	(41.9)	(39.0)	(41.2)	(42.8)
EBIT	109.6	136.3	188.9	198.9	199.8
Net interest income / (exp)	0.7	4.5	6.6	10.4	12.7
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	195.5	209.3	212.5
Income tax	(26.5)	(13.0)	(42.4)	(45.8)	(46.2)
Minorities	0.1	0.0	0.0	0.0	0.0
Reported net profit	124.8	127.7	153.2	163.6	166.3
Core net profit	114.2	127.7	153.2	163.6	166.3
BALANCE SHEET (MYR m)					
Cash & Short Term Investments	291.6	390.5	537.4	623.8	712.5
Accounts receivable	737.9	834.8	915.1	902.7	882.8
Inventory	20.2	17.3	28.6	27.8	26.8
Property, Plant & Equip (net)	178.7	162.5	171.8	178.2	181.8
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	1,762.9	1,842.6	1,914.0
ST interest bearing debt	135.1	136.8	136.8	136.8	136.8
Accounts payable	791.3	913.3	1,061.4	1,034.9	998.2
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	1,211.6	1,185.1	1,148.4
Shareholders Equity	333.5	451.0	550.6	656.9	765.0
Minority Interest	(5.2)	0.6	0.6	0.6	0.6
Total shareholder equity	328.3	451.7	551.2	657.5	765.6
Total liabilities and equity	1,272.2	1,515.1	1,762.9	1,842.6	1,914.0
CASH FLOW (MYR m)					
Pretax profit	151.3	140.8	195.5	209.3	212.5
Depreciation & amortisation	41.6	41.9	39.0	41.2	42.8
Adj net interest (income)/exp	0.7	4.5	6.6	10.4	12.7
Change in working capital	14.1	111.7	56.6	(13.4)	(15.8)
Cash taxes paid	(28.5)	(29.6)	(42.4)	(45.8)	(46.2)
Other operating cash flow	4.7	(33.4)	(6.6)	(10.4)	(12.7)
Cash flow from operations	183.9	236.0	248.8	191.3	193.3
Capex	(45.7)	(24.3)	(48.3)	(47.7)	(46.4)
Free cash flow	138.2	211.7	200.5	143.7	146.9
Dividends paid	(428.0)	(70.0)	(53.6)	(57.2)	(58.2)
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	146.9	86.4	88.7

FYE 31 Dec	FY14A	FY15A	FY16E	FY17E	FY18E
Key Ratios					
Growth ratios (%)					
Revenue growth	2.2	1.9	32.6	(1.3)	(2.7)
EBITDA growth	34.2	17.9	27.9	5.4	1.0
EBIT growth	56.8	24.4	38.6	5.3	0.4
Pretax growth	68.4	(7.0)	38.9	7.1	1.5
Reported net profit growth	86.5	2.3	19.9	6.8	1.7
Core net profit growth	20.9	11.9	19.9	6.8	1.7
Profitability ratios (%)					
EBITDA margin	8.0	9.3	9.0	9.6	9.9
EBIT margin	5.8	7.1	7.4	7.9	8.2
Pretax profit margin	8.0	7.3	7.7	8.3	8.7
Payout ratio	nm	40.5	35.0	35.0	35.0
DuPont analysis					
Net profit margin (%)	6.6	6.7	6.0	6.5	6.8
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	30.6	27.1	23.4
ROAA (%)	8.4	9.2	9.3	9.1	8.9
Liquidity & Efficiency					
Cash conversion cycle	(10.6)	(50.5)	(42.6)	(50.5)	(50.5)
Days receivable outstanding	168.3	147.7	123.9	130.5	131.6
Days inventory outstanding	5.5	4.5	4.0	5.0	5.0
Days payables outstanding	184.4	202.7	170.5	185.9	187.1
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	1.6	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	0.6	0.6
Capex/revenue (%)	2.4	1.3	1.9	1.9	1.9
Net debt/ (net cash)	(156.4)	(253.6)	(400.5)	(487.0)	(575.7)

Source: Company; Maybank

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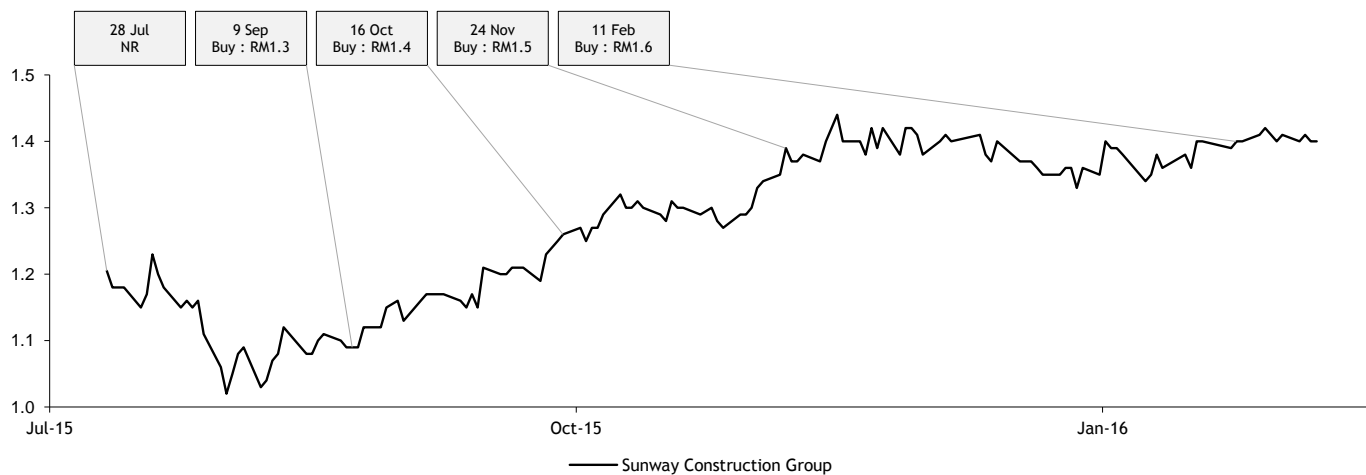
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