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Stock:	SCGB MK
Name:	Sunway Construction Group
Price:	RM1.78 (At 08:50, 23 February 2017 GMT)
Recommendation:	Outperform
12mth price target:	RM1.90
12-month TSR:	9.2%
Volatility index:	Low
Market Cap (m):	RM2,301
Market Cap (m):	US\$517
Free float:	27%
Current valuation (PER):	RM1.57 - 2.15

Event

- Sunway Construction (SunCon) reported its FY16 results after market hours on 23 February 2017.
- Key highlights: **(i)** SunCon registered FY16 PAT at RM124mn (-3% YoY), in-line with MQ and consensus forecasts at 101% and 97% of FY16 estimates, respectively. **(ii)** FY16 revenue came out weaker at RM1.73bn (-10% YoY), in-line with MQ and consensus forecasts at 103% and 91% of FY16 estimates, respectively.

Impact

- The lower revenue was a result of the completions of KVMRT1 and LRT2 projects, which reached the tail-end of construction period in FY16. Additionally, the KVMRT2 contract secured in FY16 did not garner much revenue as there were much preparatory works involved which were not claimable this year.
- In line with MQ forecast, construction division EBIT margin expanded by 250bps in FY16 at 6.1% vs. 3.6% in FY15, after accounting for the loss recognition in the KVMRT1 project. However, these losses can be recouped (albeit may not be 100%), once the government reimburses the variation order from SunCon.
- Precast division's revenue rose 13.4% as a result of higher ASP for certain precast components. EBIT margin for this division dropped 1021bps to 20.3% in FY16 (vs. 30.5% in FY15) and returned to normalcy as the higher margin registered in FY15 was a result of lumpy reimbursements of variation orders from Singapore HDB.
- SunCon currently sits on an outstanding orderbook of RM4.78bn, with YTD order win of RM449mn, coming from the parent company - Sunway Berhad.

Action and recommendation

- Outperform rating is maintained.

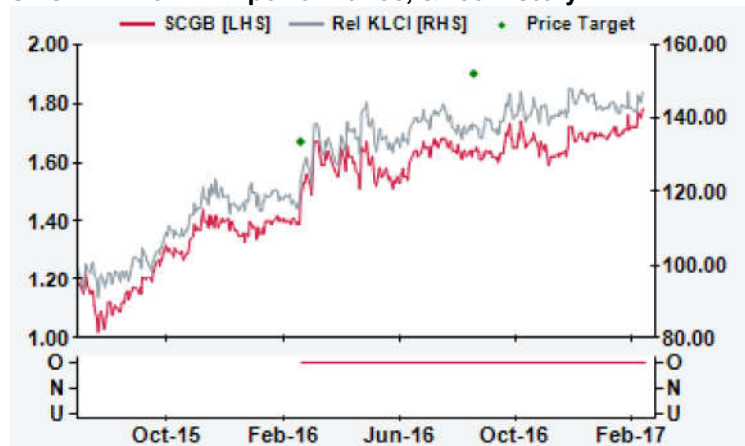
December		2015A	2016E	2017E	2018E
Revenue	m	1,916.9	1,733.9	2,317.3	2,486.1
EBIT	m	136.3	145.6	192.1	211.2
EBIT growth	%	13.4	6.9	31.9	9.9
Adjusted profit	m	127.2	122.9	158.8	165.2
Capex	m	39.2	42.3	81.1	81.3
EPS rep	sen	9.8	9.5	12.3	12.8
EPS rep growth	%	-79.6	-3.4	29.3	4.0
EPS adj	sen	9.8	9.5	12.3	12.8
EPS adj growth	%	-79.6	-3.4	29.3	4.0
PER rep	x	18.1	18.7	14.5	13.9
PER adj	x	18.1	18.7	14.5	13.9
Total DPS	sen	5.4	3.3	4.3	4.5
Total div yield	%	3.0	1.9	2.4	2.5
ROA	%	9.6	10.1	13.8	14.5
ROE	%	30.6	25.0	27.3	24.0
EV/EBIT	x	14.4	13.5	10.2	9.3
EV/EBITA	x	14.4	13.5	10.2	9.3
EV/EBITDA	x	11.0	10.3	8.0	7.2

Net debt/equity	%	-73.4	-64.7	-51.6	-55.5
P/BV	x	5.1	4.3	3.6	3.1
EBITDA	m	178.2	191.3	244.7	272.9
Net Debt/EBITDA	x	-1.9	-1.8	-1.3	-1.5
Payout ratio	%	55.0	35.0	35.0	35.0
FCF Yield	%	8.6	2.4	1.7	6.2

*All values are in MYR unless otherwise stated.

Source: Company data, Macquarie Research, Feb 2017.

SCGB MK rel KLCI performance, & rec history



Note: Recommendation timeline - if not a continuous line, then there was no Macquarie coverage at the time or there was an embargo period.

Source: FactSet, Macquarie Research, February 2017

(all figures in MYR unless noted)

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