

Sunway Construction Group (SCGB MK)

Awarded largest KVLRT 3 package!

U/G to BUY

SCG's latest job win positively lifts its outstanding orderbook to MYR6.5b, providing earnings growth visibility into FY19 (previously FY18). We raise our job win assumption for FY17 to MYR4b (from MYR2b) with SCG having already secured MYR3.75b YTD 2017. Assuming the additional MYR2b of job wins only contribute to earnings from FY18 onwards, our FY18/FY19 earnings forecasts are raised by 15%/34%. We upgrade SCG to a BUY with higher TP of MYR2.63 on unchanged 16x (+1 SD) FY18 PER.

Secures biggest KVLRT 3 package!

Sunway Construction S/B, a 100%-subsidiary, had on 5 Oct 2017, accepted an award from Prasarana Malaysia for the construction of Package GS07-08 for KVLRT 3 with a total value of MYR2.178b (exclusive of GST). We understand that this is the largest package for KVLRT 3 in terms of value. The job scope would include 9.2km of viaduct works, 6 station works, 1 cable-stayed bridge over Klang River, 2 Park & Ride facilities at Pasar Besar Klang and Sri Andalas, and a centralised Labour Quarter at Johan Setia. Construction period is 36 months with construction expected to be completed by 4Q20.

Record high orderbook

This latest contract win lifts SCG's outstanding construction orderbook to a record high of MYR6.5b from MYR4.3b as of end-June 2017. Assuming a 6% pretax margin, we estimate a net profit contribution of MYR99m (7.7sen EPS) over the construction period, into FY20. With this latest job win, SCG's YTD orderbook replenishment has hit MYR3.75b, exceeding its MYR2b internal target for FY17. Having only assumed MYR2b of job wins, we raise our job win assumption for FY17 to MYR4b. Our FY17 earnings forecast is unchanged, assuming the additional MYR2b of job wins (mainly from KVLRT 3) to begin to contribute only from FY18. Our FY18/FY19 earnings forecasts are raised by 15%/34% respectively.

More to come?

The latest job win would give SCG earnings growth visibility into FY19 (FY18 previously). Additionally, SCG is still eyeing for jobs from TRX, KL-Klang BRT and ECRL. Into FY18, we believe in-house property developments from its parent, Sunway Berhad (SWB MK; HOLD) would continue to support its job win replenishment.

FYE Dec (MYR m)	FY15A	FY16A	FY17E	FY18E	FY19E
Revenue	1,917	1,789	2,347	2,814	3,272
EBITDA	178	188	211	293	302
Core net profit	127	124	146	213	220
Core EPS (sen)	9.8	9.6	11.3	16.4	17.0
Core EPS growth (%)	11.4	(2.9)	18.4	45.4	3.5
Net DPS (sen)	4.0	5.0	4.0	5.8	6.0
Core P/E (x)	23.4	24.1	20.3	14.0	13.5
P/BV (x)	6.6	6.0	5.1	4.1	3.4
Net dividend yield (%)	1.7	2.2	1.7	2.5	2.6
ROAE (%)	32.4	26.2	27.0	32.4	27.6
ROAA (%)	9.5	8.2	8.0	9.4	8.2
EV/EBITDA (x)	8.7	9.9	11.3	7.5	6.6
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Consensus net profit	-	-	151	170	178
MKE vs. Consensus (%)	-	-	(2.9)	25.1	23.5

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BUY

[Prior:HOLD]

Share Price MYR 2.30
12m Price Target MYR 2.63 (+14%)
Previous Price Target MYR 2.30

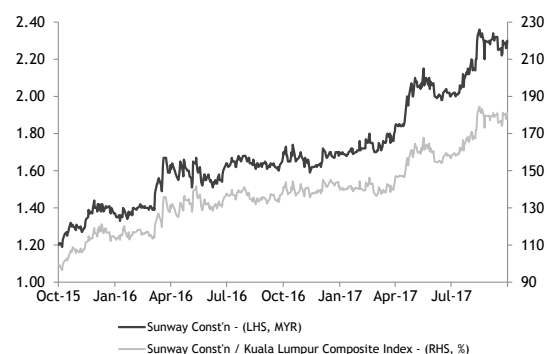
Company Description

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

Statistics

Shariah status	Yes
52w high/low (MYR)	2.36/1.59
3m avg turnover (USDm)	0.9
Free float (%)	24.2
Issued shares (m)	1,293
Market capitalisation	MYR3.0B USD703M
Major shareholders:	
Sunway Bhd.	54.4%
Active Equity Sdn. Bhd.	10.1%
True Paragon Sdn. Bhd.	3.9%

Price Performance



	-1M	-3M	-12M
Absolute (%)	0	15	38
Relative to index (%)	1	16	30

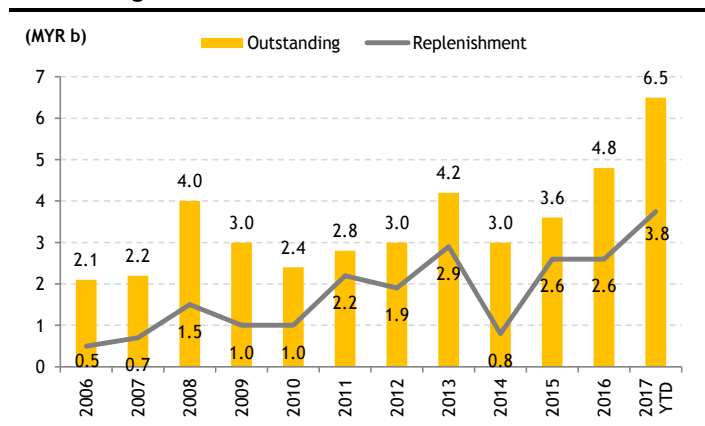
Source: FactSet

Sunway Construction: 2017 new wins

	Contract value (MYR m)
Infrastructure	
KVLRT 3 : Package GS07-08	2,178
MRT S201: 3 Elevated Stations #	212
SUKE - Cheras to Ulu Kelang - Bore Piling #	18
DASH - Puncak Perdana to Kota Damansara - Bore Piling #	16
BBCC - Piling Work	34
Mega Capital - Piling Work	9
Building	
Gas District Cooling (Plant 1) #	152
PPA1M project in Kota Bahru	582
Internal	
Sunway Serene - Kelana Jaya Condo #	449
Sunway South Quay - CP3 Walkway	4
Precast	
	98
TOTAL	3,751

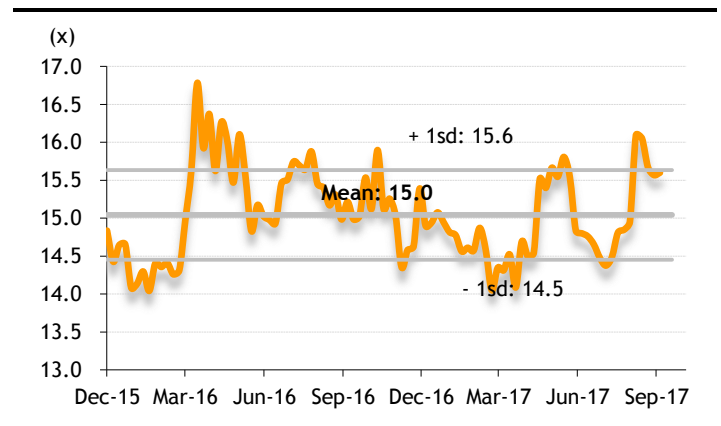
Contract sum is part of MRT V201 Package - MYR1.213b
 Source: Company

Outstanding orderbook YTD 2017



Source: Company data, Maybank Kim Eng

Forward PER Chart



Source: Company data, Maybank Kim Eng

FYE 31 Dec	FY15A	FY16A	FY17E	FY18E	FY19E
Key Metrics					
P/E (reported) (x)	12.6	16.5	20.3	14.0	13.5
Core P/E (x)	23.4	24.1	20.3	14.0	13.5
P/BV (x)	6.6	6.0	5.1	4.1	3.4
P/NTA (x)	6.6	6.1	5.1	4.1	3.4
Net dividend yield (%)	1.7	2.2	1.7	2.5	2.6
FCF yield (%)	7.3	2.3	10.7	8.4	9.6
EV/EBITDA (x)	8.7	9.9	11.3	7.5	6.6
EV/EBIT (x)	11.4	12.5	13.4	8.6	7.6

INCOME STATEMENT (MYR m)

Revenue	1,916.9	1,788.8	2,347.4	2,814.4	3,271.7
Gross profit	388.4	379.0	424.8	514.2	529.9
EBITDA	178.2	188.3	211.2	293.3	302.4
Depreciation	(41.9)	(39.1)	(33.2)	(35.9)	(40.2)
EBIT	136.3	149.2	178.0	257.4	262.2
Net interest income / (exp)	4.5	4.4	8.6	15.5	20.1
Associates & JV	(0.1)	0.0	0.0	0.0	0.0
Exceptionals	0.0	0.0	0.0	0.0	0.0
Pretax profit	140.8	153.7	186.5	272.9	282.3
Income tax	(13.0)	(30.0)	(40.3)	(60.3)	(62.1)
Minorities	(0.6)	(0.1)	0.0	0.0	0.0
Reported net profit	127.2	123.5	146.2	212.6	220.1
Core net profit	127.2	123.5	146.2	212.6	220.1
Preferred Dividends	0.0	0.0	0.0	0.0	0.0

BALANCE SHEET (MYR m)

Cash & Short Term Investments	390.5	465.8	732.5	907.9	1,117.0
Accounts receivable	717.1	938.4	1,123.8	1,318.2	1,508.8
Inventory	17.3	24.0	26.3	31.5	37.6
Property, Plant & Equip (net)	161.8	138.4	149.8	167.3	189.3
Intangible assets	0.7	2.3	2.3	2.3	2.3
Investment in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other assets	110.1	28.5	28.5	28.5	28.5
Total assets	1,397.4	1,597.3	2,063.2	2,455.7	2,883.5
ST interest bearing debt	136.8	136.5	136.5	136.5	136.5
Accounts payable	795.6	955.0	1,325.8	1,580.1	1,864.9
LT interest bearing debt	0.0	0.0	0.0	0.0	0.0
Other liabilities	13.0	12.0	12.0	12.0	12.0
Total Liabilities	945.8	1,103.5	1,474.4	1,728.7	2,013.4
Shareholders Equity	451.0	493.0	588.1	726.3	869.4
Minority Interest	0.6	0.8	0.8	0.8	0.8
Total shareholder equity	451.7	493.8	588.8	727.0	870.1
Perpetual securities	0.0	0.0	0.0	0.0	0.0
Total liabilities and equity	1,397.4	1,597.3	2,063.2	2,455.7	2,883.5

CASH FLOW (MYR m)

Pretax profit	140.8	153.7	186.5	272.9	282.3
Depreciation & amortisation	41.9	39.1	33.2	35.9	40.2
Adj net interest (income)/exp	4.5	4.4	8.6	15.5	20.1
Change in working capital	64.9	(58.7)	183.1	54.8	88.1
Cash taxes paid	(29.6)	(26.5)	(40.3)	(60.3)	(62.1)
Other operating cash flow	17.0	(26.4)	(8.6)	(15.5)	(20.1)
Cash flow from operations	239.6	85.6	362.5	303.3	348.4
Capex	(23.7)	(17.0)	(44.6)	(53.5)	(62.2)
Free cash flow	215.9	68.7	317.9	249.9	286.2
Dividends paid	(70.0)	(84.0)	(51.2)	(74.4)	(77.0)
Change in Debt	1.6	(0.3)	0.0	0.0	0.0
Other invest/financing cash flow	(25.3)	91.7	0.0	0.0	0.0
Net cash flow	122.3	76.0	266.7	175.4	209.1

FYE 31 Dec	FY15A	FY16A	FY17E	FY18E	FY19E
Key Ratios					
Growth ratios (%)					
Revenue growth	1.9	(6.7)	31.2	19.9	16.2
EBITDA growth	17.9	5.7	12.2	38.9	3.1
EBIT growth	24.4	9.5	19.2	44.6	1.9
Pretax growth	(7.0)	9.2	21.4	46.3	3.4
Reported net profit growth	1.9	(2.9)	18.4	45.4	3.5
Core net profit growth	11.4	(2.9)	18.4	45.4	3.5
Profitability ratios (%)					
EBITDA margin	9.3	10.5	9.0	10.4	9.2
EBIT margin	7.1	8.3	7.6	9.1	8.0
Pretax profit margin	7.3	8.6	7.9	9.7	8.6
Payout ratio	40.7	52.3	35.0	35.0	35.0
DuPont analysis					
Net profit margin (%)	6.6	6.9	6.2	7.6	6.7
Revenue/Assets (x)	1.4	1.1	1.1	1.1	1.1
Assets/Equity (x)	3.1	3.2	3.5	3.4	3.3
ROAE (%)	32.4	26.2	27.0	32.4	27.6
ROAA (%)	9.5	8.2	8.0	9.4	8.2
Liquidity & Efficiency					
Cash conversion cycle	(45.8)	(51.6)	(50.7)	(66.7)	(66.1)
Days receivable outstanding	136.6	166.6	158.1	156.2	155.5
Days inventory outstanding	4.4	5.3	4.7	4.5	4.5
Days payables outstanding	186.9	223.5	213.5	227.4	226.2
Dividend cover (x)	2.5	1.9	2.9	2.9	2.9
Current ratio (x)	1.3	1.3	1.3	1.3	1.3
Leverage & Expense Analysis					
Asset/Liability (x)	1.5	1.4	1.4	1.4	1.4
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Net gearing (%) (excl. perps)	net cash	net cash	net cash	net cash	net cash
Net interest cover (x)	na	na	na	na	na
Debt/EBITDA (x)	0.8	0.7	0.6	0.5	0.5
Capex/revenue (%)	1.2	0.9	1.9	1.9	1.9
Net debt/ (net cash)	(253.6)	(329.3)	(595.9)	(771.4)	(980.5)

Source: Company; Maybank

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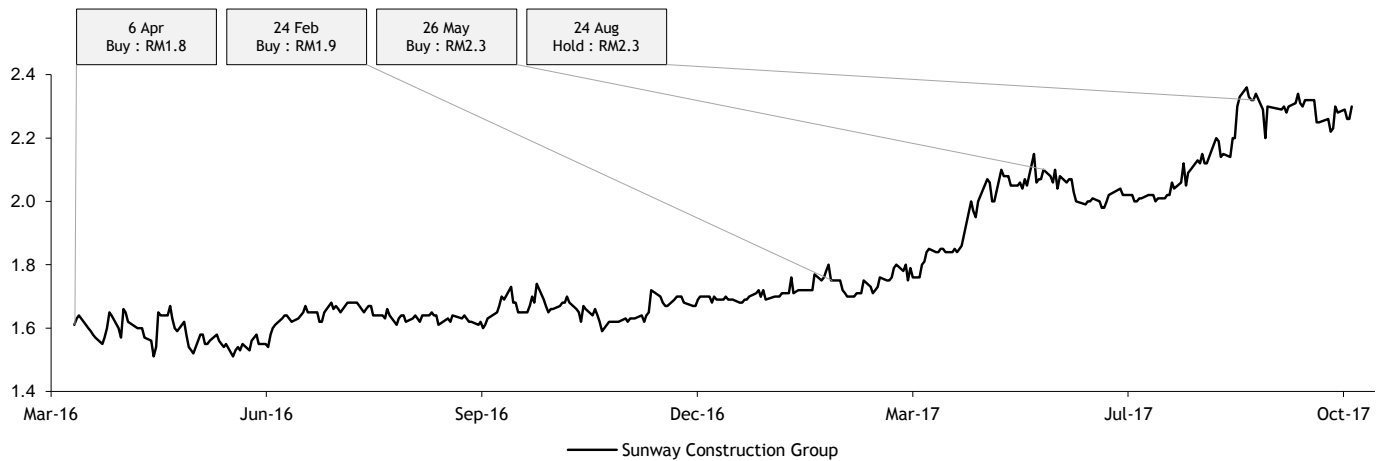
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