



Sunway Construction Group Berhad

Expecting Stronger Performance in 2017

TP: RM1.85(+14.2%)

Last traded: RM1.62

BUY

THIS REPORT IS STRICTLY FOR INTERNAL CIRCULATION ONLY*

Ooi Beng Hooi

Tel: 603-2167-9612

benghooi@ta.com.my

www.taonline.com.my

Results Review

- The 9M16 net profit of RM91.5mn came in below our expectation but in line with consensus forecast, accounting for 63.2% and 67.4% of ours and consensus full-year estimates. The variance was due mainly to slower-than-expected revenue recorded by its construction division.
- YoY, 9M16 net profit of RM91.5mn was 5.9% lower, in line with 14.6% drop in the top line to RM1,235.7mn. The lower revenue was results of recent completion of Kelana Jaya LRT Line Extension project and package V4 of MRT line 1 project.
- QoQ, 3Q16 net profit was little changed at RM31.3mn as lower revenue (-11.4%) was largely offset by higher construction margin (operating margin +3.2% pts to 9.0%).
- Its precast division has made a plan to return the land of its precast factory in Tampines, Singapore, with capacity of 124k MT a year, in April 2017. Its manufacturing of precast concrete has been progressively taken over by its plants in Senai and Iskandar which combined, have similar annual capacity of 128k MT as the one in Singapore. The group intends to increase a further 4 lines to its Iskandar plant by 2Q17 to expand its capacity to approximately 170k MT a year.

Impact

- We cut FY16 earnings by 9.4% to reflect the slower-than-expected construction revenue in 3Q16.

Outlook

- YTD, the group has secured strong RM2.6bn of new orders. The outstanding order book is at RM4.8bn (see Exhibit 1), sufficient to provide earnings visibility for the next 2 to 3 years.
- We expect the group to register strong growth in FY17, given the low base effect, strong outstanding order book and as some of its construction projects accelerate.

Valuation

- No change to our target of **RM1.85**, based on unchanged 15x CY17 EPS. Maintain our **BUY** call on the stock. We see **SUNCON** as a potential beneficiary in several mammoth construction projects in the pipeline such as East Coast Rail Line, KL-Singapore High Speed Rail, Southern Double Track and MRT line 3.

Share Information

Bloomberg Code	SCGB MK
Bursa	SUNCON
Stock Code	5263
Listing	Main Market
Share Cap (mn)	1292.9
Market Cap (RMmn)	2094.5
Par Value	0.20
52-wk Hi/Lo (RM)	1.74/1.30
12-mth Avg Daily Vol ('000 shrs)	2734.6
Estimated Free Float (%)	34.8
Beta	0.53

Major Shareholders (%)

Sunholdings	54.42
Sungei Way Corp Sdn Bhd	10.06

Forecast Revision

	FY16	FY17
Forecast Revision (%)	(9.4)	-
Net profit (RMm)	131.1	159.1
Consensus	135.8	157.9
TA's / Consensus (%)	96.5	100.7
Previous Rating	Buy (Maintained)	

SCORECARD (%)

vs TA	63.2	Below
vs Consensus	67.4	Within

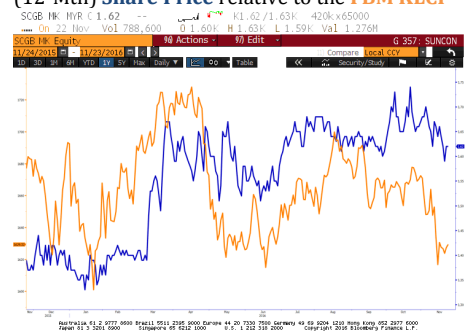
Financial Indicators

	FY16	FY17
Net Debt / Equity (%)	net cash	net cash
CFPS (sen)	9.4	7.7
Price / CFPS (x)	17.3	21.1
ROA (%)	8.6	9.0
NTA/Share (sen)	40.0	46.8
Price/NTA (x)	4.0	3.5

Share Performance (%)

Price Change	SUNCON	FBM KLCI
1 mth	(6.9)	(2.4)
3 mth	(0.6)	(3.2)
6 mth	(0.6)	(0.3)
12 mth	20.0	(2.5)

(12-Mth) Share Price relative to the FBM KLCI



Source: Bloomberg

Earnings Summary

FYE Dec (RMmn)	2014	2015	2016F	2017F	2018F
Revenue	1,880.7	1,916.9	1,946.5	2,266.0	2,150.0
Gross profit	395.4	388.4	418.5	475.9	451.5
EBITDA	161.7	178.2	206.0	241.6	243.9
EBITDA margin (%)	8.6	9.3	10.6	10.7	11.3
EBIT	117.1	136.3	164.5	199.5	201.8
PBT	139.3	140.8	165.8	201.1	203.4
PAT	112.8	127.1	131.1	159.1	160.9
Core net profit	102.1	127.1	131.1	159.1	160.9
Core EPS (sen)	7.9	9.8	10.1	12.3	12.4
PER (x)	20.5	16.5	16.0	13.2	13.0
Gross dividend (sen)	na	4.0	5.0	5.5	5.5
Dividend yield (%)	na	2.5	3.1	3.4	3.4
ROE (%)	na	30.6	27.1	28.3	24.7

3Q16 Results Analysis (RMmn)

FYE Dec	3Q15	2Q16	3Q16	QoQ (%)	YoY (%)	9MFY15	9MFY16	YoY(%)
Revenue	450.3	430.3	381.1	(11.4)	(15.4)	1,446.6	1,235.7	(14.6)
Operating profit	28.2	37.6	39.6	5.2	40.1	108.7	112.5	3.5
Finance income	2.7	1.9	3.3	73.2	22.5	5.7	8.0	41.0
Finance costs	(0.8)	(1.4)	(2.4)	76.7	215.3	(3.0)	(4.5)	51.9
Profit before taxation	30.1	38.1	40.4	6.0	34.0	111.4	116.0	4.2
Income tax expense	(4.9)	(6.8)	(9.1)	34.0	84.2	(14.0)	(24.4)	74.4
Non-controlling interests	(0.5)	0.0	0.1	222.2	(131.4)	(0.4)	0.2	(142.7)
Net profit	25.7	31.3	31.1	(0.4)	21.4	97.8	91.5	(6.5)
Core net profit	25.7	31.3	31.1	(0.4)	21.4	97.8	91.5	(6.5)
Reported EPS (sen)	2.0	2.4	2.4	(0.4)	21.7	7.6	7.1	(6.3)
Core EPS (sen)	2.0	2.4	2.4	(0.4)	21.7	7.6	7.1	(6.3)
Dividend (sen)	0.00	2.5	0.0	(100.0)	na	0.0	2.5	na
Margin (%):				% pts	% pts			% pts
- Operating	6.27	8.7	10.4	1.6	4.1	7.5	9.1	1.6
- PBT	6.7	8.9	10.6	1.7	3.9	7.7	9.4	1.7
- PAT	5.6	7.3	8.2	0.9	2.6	6.8	7.4	0.6
- Effective tax rate	(16.4)	(17.9)	(22.6)	(4.7)	(6.1)	(12.6)	(21.0)	(8.5)

Exhibit 1: Ongoing projects

Project	Contract Value (RMmn)	Outstanding Amount (RMmn)
Infrastructure		
MRT Package V4 (Section 17 to Semantan)	1,173	47
MRT Package V201 (Sungai Buloh– Persiaran Dagang)	1,213	1,181
MRT Package V201 – Advance Works	53	53
Johor		
Coastal Highway Southern Link	170	46
Buildings		
Putrajaya Parcel F	1,610	1,252
KLCC (NEC + Package 2 & 2a)	646	274
HUKM (MEP works)	66	66
International School of KL	268	268
Others	93	17
Internal		
Sunway Velocity 2 Mall + Link Bridge	370	33
Sunway Velocity Hotel + Office	113	47
Sunway Velocity Medical Centre	185	156
Sunway Geo Retail Shop & Flexi Suites	153	15
Sunway Medical Centre Phase 3 (Sub & Superstructure)	167	51
Sunway Medical Centre Phase 4 (2 towers)	428	412
Sunway Iskandar – Citrine Service Apartment	213	54
Sunway Geo Retail Shops & Flexi Suites Phase 2	244	174
Sunway Iskandar – Emerald Residences	175	146
Sunway Iskandar – 88 units shoplots	57	57
Sunway Iskandar – Retail Complex	100	100
Others	239	44
Singapore		
Precast	903	305
	8,635	4,800

Source: Company, TA Research

Stock Recommendation Guideline

- BUY** : Total return within the next 12 months exceeds required rate of return by 5%-point.
HOLD : Total return within the next 12 months exceeds required rate of return by between 0-5%-point.
SELL : Total return is lower than the required rate of return.
Not Rated: The company is not under coverage. The report is for information only.

Total Return is defined as expected share price appreciation plus gross dividend over the next 12 months.

Required Rate of Return of 7% is defined as the yield for one-year Malaysian government treasury plus assumed equity risk premium.

Disclaimer

The information in this report has been obtained from sources believed to be reliable. Its accuracy or completeness is not guaranteed and opinions are subject to change without notice. This report is for information only and not to be construed as a solicitation for contracts. We accept no liability for any direct or indirect loss arising from the use of this document. We, our associates, directors, employees may have an interest in the securities and/or companies mentioned herein.

for TA SECURITIES HOLDINGS BERHAD^(14948-M)
(A Participating Organisation of Bursa Malaysia Securities Berhad)

Kaladher Govindan – Head of Research