

PP14767/09/2012(030761)

Thursday, November 26, 2015

Sunway Construction Group Berhad

“A Solid 9M15”

Results Review

- **Actual vs. expectations.** Sunway Construction Group Berhad (SCG) 9M15 core net profit of RM101 million, excluding exceptional item, came in line with ours and consensus estimates respectively, accounting 79% of both estimates full year net profit forecast. SCG registered a better-than-expected performance in 3Q15 lifted by healthy PBT contribution from precast concrete segment (+43% q-o-q) due to higher sales of precast concrete product in Singapore.
- **Dividend.** No dividend was declared during the quarter.
- **Top line vs Bottom line.** SCG 3Q15 revenue and PBT eased to RM450 million (-10% q-o-q) and RM30 million (-28% q-o-q) mainly due to lower contribution from construction segment whose revenue and PBT slipped to RM394 million (-9% q-o-q) and RM10 million (-65% q-o-q) as several of its civil/infrastructure projects were at the tail end of progress, weighed also by higher cost incurred during the quarter.
- **Solid orderbook.** SCG's current orderbook remains solid at RM4.3 billion (2.3x of FY14 revenue) which is expected to last the group at least until FY18. The group's selected major on-going projects are comprise of Putrajaya Parcel F worth RM1.6 billion, KVMRT Package V4 (Section 17 to Semantan) worth RM1.2 billion, LRT Kelana Jaya Line Extension (Package B) worth RM569 million and Sunway Velocity Shopping Mall valued at RM350 million. We expect the group to emerge as one of the potential beneficiaries to grab some goodies from the upcoming KVMRT2 and LRT3 awards in 2016 based on its existing experience and solid track record in developing work package from the current KVMRT1 and LRT Kelana Jaya Line Extension.

BUY (TP: RM1.63)

Current Price (RM)	RM1.37
New Target Price (RM)	RM1.63
Previous Target Price (RM)	RM1.40
Previous Recommend.	BUY
Upside To Target Price	19%
Dividend Yield (FY16)	3%

Stock Code

Bloomberg	SCGB MK
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Stock & Market Data

Listing	MAIN MARKET
Sector	Construction
Shariah Compliance	Yes
Issued Shares (mn)	1,293
Market Cap (RM mn)	1,668
YTD Chg In Share Price	NA
Beta (x)	NA
52-week Hi/Lo (RM)	1.35 0.98
3M Average Volume (shrs)	NA
Estimated Free Float	38%

Major Shareholders

Sunholding	54%
Sungei Way Corp	7%

- Expand precast concrete capacity.** SCG currently manufactures and supplies precast concrete product to various clients in Singapore, benefitting from creditable growth in residential property development by Housing and Development Board's (HDB) in Singapore. Therefore, SCG has expanded its precast concrete manufacturing capacity in Senai, Johor, which is expected to raise the maximum average annual capacity to 76,000 m³ by the end of FY15 (FY13: 62,000 m³, FY14: 65,000 m³). Furthermore, the group is planning to develop a new precast concrete plant in Sunway Iskandar Johor in FY15 with total annual capacity of 93,150 m³ which is to be carried out in two phases and estimated to be completed in FY16.
- Change to forecast.** We maintain our FY15 earnings forecast as 9M15 results are in line with our expectation but revise upwards our FY16 earnings projection by 16% in tandem with stronger orderbook replenishment which lifted its outstanding orderbook to RM4.3 billion. At this juncture, we expect FY15 earnings growth to be energized by the acceleration of its two major projects consist of LRT Package B and KVMRT Package V4 while FY16 earnings trajectory will be anchored by fresh major projects awards including KVMRT2, LRT3 and BRT.
- Valuation & recommendation.** We value SCG target price at RM1.63 and the stock is a **BUY**. The target price of RM1.63 is based on PER multiple of 14.2x over its FY16 EPS estimate of 11.5sen. The valuation is pegged to 1+ SD above average mid-cap construction players' PER of 11.3x and justified by 1) strong track record in building and civil/infrastructure construction services; 2) largest pure construction player with market cap of RM1.67 billion; 3) leverage on the support from its parent, Sunway Bhd; and 4) robust outlook on construction industry in Malaysia backed by 11MP and Budget 2016 projects.

Table 1: Peers comparison (Calenderised)

Company	FYE	Price (RM)	EPS (sen)		P/E (X)		P/B (X)		ROE (%)	DY (%)	TP (RM)	Call
			FY15	FY16	FY15	FY16	FY15	FY16				
IJM CORP	Mar	3.35	19	22	16.7	15.3	1.4	1.3	9	2	3.74	Buy
GAMUDA	Jul	4.56	28	29	16.0	15.6	1.7	1.6	12	3	5.80	Buy
WCT	Dec	1.53	10	13	13.3	10.9	0.7	0.7	5	1	1.63	HOLD
SCGB	Dec	1.37	10	10	12.9	12.7	3.9	3.3	NA	NA	1.63	Buy
BENALEC	Jun	0.58	0.04	0.1	9.1	7.7	1.0	1.1	1	1	NR	NR
CREST BUILDER	Dec	1.00	7	8	14.6	11.8	NA	NA	6	4	NR	NR
EVERSENDAL	Dec	0.88	8	10	9.3	7.9	0.6	0.6	6	2	NR	NR
KIMLUN	Dec	1.30	16	17	8.0	7.8	0.9	0.8	12	3	NR	NR
MRCB	Dec	1.33	4	7	34.1	20.5	1.2	1.2	15	2	NR	NR
AZRB	Dec	0.65	NA	NA	NA	NA	NA	NA	5	3	NR	NR
YTL CORP	Jun	1.54	11	13	13.5	11.8	1.1	1.0	7	6	NR	NR
Average					14.8	12.2	1.4	1.3	8	3		

Source: Bloomberg, M&A Securities

Table 2: SCG Profit and Loss (FY13-FY17F)

FYE DEC (RM million)	FY13	FY14	FY15F	FY16F	FY17F
Revenue	1,840	1,881	2,019	2,211	2,298
Gross profit	338	395	424	464	483
EBITDA	85	162	173	190	197
EBIT	42	120	131	146	151
Net Finance cost	7	7	15	17	22
Share of JV	45	30	36	40	41
PBT	90	151	173	190	201
Taxation	(24)	(26)	(38)	(42)	(44)
PAT	66	125	135	148	157
Minority interest	1	0	0	0	0
Net profit	67	125	135	148	157
EPS (sen)	5	10	10	11	12
EBITDA margin	5%	9%	9%	9%	9%
EBIT margin	2%	6%	7%	7%	7%
PBT margin	5%	8%	9%	9%	9%
Net profit margin	4%	7%	7%	7%	7%
PER (x)	NA	NA	13.4	12.1	11.5
P/BV (x)	NA	NA	4.5	3.6	3.0
Dividend (sen)	NA	NA	4	4	4
Dividend yield	NA	NA	3%	3%	3%

Source: M&A Securities, Prospectus

Table 3: Results Analysis

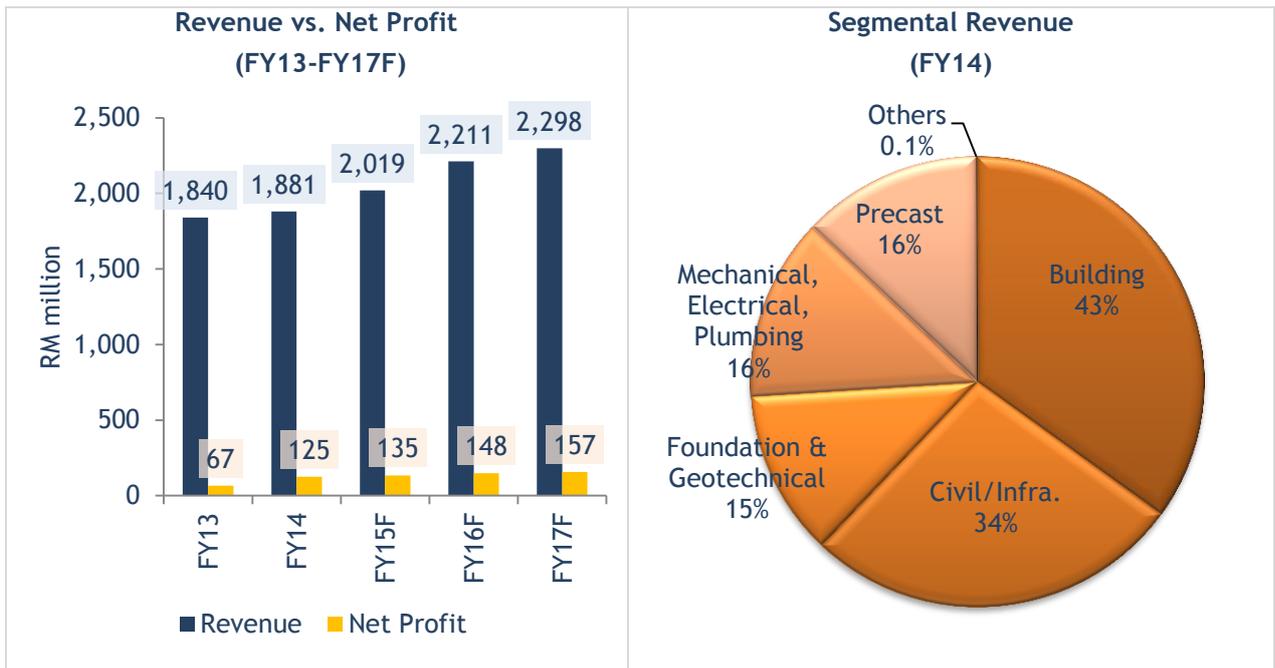
YE: Dec (RM million)	3Q14	2Q15	3Q15	q-o-q	y-o-y	9M14	9M15	y-o-y
Revenue	NA	500	450	-10%	NA	NA	1,447	NA
EBIT	NA	41	28	-32%	NA	NA	109	NA
Finance Income	NA	2	3	78%	NA	NA	6	NA
Finance Cost	NA	(1)	(1)	-33%	NA	NA	(3)	NA
PBT	NA	42	30	-28%	NA	NA	111	NA
Taxation	NA	(4)	(5)	31%	NA	NA	(14)	NA
Net profit	NA	38	26	-32%	NA	NA	98	NA
EPS (sen)	NA	3	2	-32%	NA	NA	8	NA
PBT margin	NA	8%	7%			NA	8%	
Net profit margin	NA	8%	6%			NA	7%	
Effective tax rate	NA	9%	16%			NA	13%	

Source: Bursa Malaysia, M&A Securities

Table 4: Segmental Analysis

YE: Dec (RM million)	3Q14	2Q15	3Q15	q-o-q	y-o-y	9M14	9M15	y-o-y
Revenue								
Construction	NA	431	394	-9%	NA	NA	1,246	NA
Precast Concrete	NA	69	56	-18%	NA	NA	200	NA
PBT								
Construction	NA	27	10	-65%	NA	NA	54	NA
Precast Concrete	NA	14	21	43%	NA	NA	57	NA

Source: Bursa Malaysia, M&A Securities



Source: Bloomberg, M&A Securities

M&A Securities

STOCK RECOMMENDATIONS

BUY	Share price is expected to be $\geq +10\%$ over the next 12 months.
TRADING BUY	Share price is expected to be $\geq +10\%$ within 3-months due to positive newsflow.
HOLD	Share price is expected to be between -10% and $+10\%$ over the next 12 months.
SELL	Share price is expected to be $\geq -10\%$ over the next 12 months.

SECTOR RECOMMENDATIONS

OVERWEIGHT	The sector is expected to outperform the FBM KLCI over the next 12 months.
NEUTRAL	The sector is expected to perform in line with the FBM KLCI over the next 12 months.
UNDERWEIGHT	The sector is expected to underperform the FBM KLCI over the next 12 months.

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