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Monday, August 24, 2015

Sunway Construction Group Berhad

“Well on Track”

Results Review

- **Actual vs. expectations.** Sunway Construction Group Berhad (SCG) 6M15 core net profit of RM75 million, excluding exceptional item, came in line with ours and slightly above consensus estimates respectively, accounting 55% and 57% of both estimates full year net profit forecast. SCG registered a better performance in 2Q15 lifted by healthy PBT contribution from construction segment (+55% q-o-q) due to higher profit recognition from the group's civil/infrastructure projects.
- **Dividend.** No dividend was declared during the quarter.
- **Top line vs Bottom line.** SCG posted a decent results in 2Q15 with revenue and PBT improving to RM500 million (+1% q-o-q) and RM42 million (+5% q-o-q) respectively driven by strong contribution from the construction segment whose revenue and PBT rose to RM431 million (+2% q-o-q) and RM27 million (+55% q-o-q) underpinned by higher progress billing and profit recognition from civil/infrastructure projects including KVMRT Package V4, LRT Package B, Sunway Velocity Shopping Mall and KLCC North East Car park. However, the contribution from the group's precast concrete segment was weaker in 2Q15 as revenue and PBT declined to RM69 million (-8% q-o-q) and RM14 million (-35% q-o-q) respectively impacted by lower sales of precast concrete product in Singapore.
- **Solid orderbook.** SCG's current orderbook remains solid at RM2.7 billion (1.4x of FY14 revenue) which is expected to last the group at least until FY17. The group's selected major on-going projects are comprise of KVMRT Package V4 (Section 17 to Semantan) worth RM1.2 billion, LRT Kelana Jaya Line Extension (Package

BUY (TP: RM1.40)

Current Price (RM)	RM1.09
New Target Price (RM)	RM1.40
Previous Target Price (RM)	NA
Previous Recommend.	NA
Upside To Target Price	28%
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)	1,500
YTD Chg In Share Price	NA
Beta (x)	NA
52-week Hi/Lo (RM)	1.32 1.14
3M Average Volume (shrs)	NA
Estimated Free Float	37%

Major Shareholders

Sunholding	57%
Sungei Way Corp	7%

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.

- Expand precast concrete capacity.** SCG currently manufactures and supplies precast concrete product to various client 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.** No change to our earnings forecast as future visibility remains intact. We expect SCG to post a sustainable growth in FY15 PAT of 10% y-o-y to be anchored by the acceleration in KVMRT1 package V4 working progress. However, we estimate the group to register a drop in FY16 PAT (-5% y-o-y) as most of the projects are nearing the tail-end progress and also weaker-than-expected new contract awards in 1H2015 which would translate into lower earnings recognition in FY16. Nonetheless, we expect 2016 fresh major projects awards including KVMRT2, LRT3 and BRT which will boost SCG's outstanding orderbook and hence, translating into higher earnings growth in FY17 (+8% y-o-y).
- Valuation & recommendation.** We maintained our target price of RM1.40 and the stock is a **BUY**. The target price of RM1.40 based on PER multiple of 14.2x over its FY16 EPS estimate at 10sen. 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 play construction player with market cap of RM1.55 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 2015 projects.

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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	6.10	40	46	17.0	14.6	1.3	1.2	6	2	8.14	Buy
GAMUDA	Jul	4.06	31	30	15.4	15.7	1.9	1.8	13	3	5.87	Buy
WCT	Dec	1.19	12	14	11.7	10.1	0.7	0.6	5	2	1.28	Hold
SCGB	Dec	1.09	10	10	11.3	12.2	3.7	3.1	NA	NA	1.40	Buy
BENALEC	Jun	0.56	2	5	17.0	12.6	0.8	0.7	-2	0	NR	NR
CREST BUILDER	Dec	0.99	7	8	15.3	12.4	NA	NA	6	4	NR	NR
EVERSENDAL	Dec	0.80	10	11	10.3	8.9	0.8	0.8	5	1	NR	NR
KIMLUN	Dec	1.12	15	16	8.7	8.1	0.9	0.8	10	3	NR	NR
MRCB	Dec	0.91	5	7	21.0	14.9	1.1	1.1	19	2	NR	NR
AZRB	Dec	0.57	5	7	12.7	9.1	NA	NA	4	3	NR	NR
YTL CORP	Jun	1.53	14	13	13.8	12.4	1.1	1.1	8	6	NR	NR
Average					14.0	11.9	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	1,914	1,816	1,932
Gross profit	338	395	402	381	406
EBITDA	85	162	176	171	180
EBIT	42	120	134	127	135
Net Finance cost	7	7	15	17	22
Share of JV	45	30	34	33	35
PBT	90	151	173	164	177
Taxation	(24)	(26)	(38)	(36)	(39)
PAT	66	125	135	128	138
Minority interest	1	0	0	0	0
Net profit	67	125	135	128	138
EPS (sen)	5	10	10	10	11
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	10.4	11.0	10.2
P/BV (x)	NA	NA	3.5	2.9	2.5
Dividend (sen)	NA	NA	4	3	4
Dividend yield	NA	NA	3%	3%	3%

Source: M&A Securities, Prospectus

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Table 3: Results Analysis

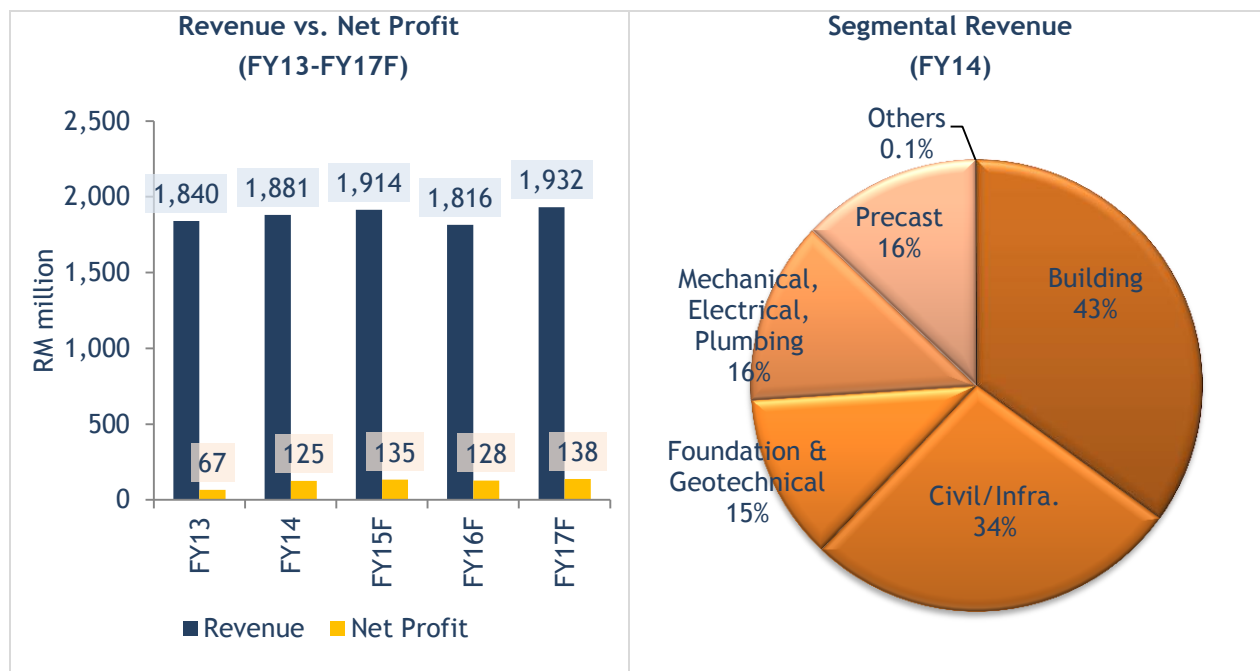
YE: Dec (RM million)	2Q14	1Q15	2Q15	q-o-q	y-o-y	6M14	6M15	y-o-y
Revenue	NA	496	500	1%	NA	NA	996	NA
EBIT	NA	39	41	5%	NA	NA	80	NA
Finance Income	NA	1	2	1%	NA	NA	3	NA
Finance Cost	NA	(1)	(1)	10%	NA	NA	(2)	NA
PBT	NA	40	42	5%	NA	NA	81	NA
Taxation	NA	(5)	(4)	-28%	NA	NA	(9)	NA
Net profit	NA	34	38	10%	NA	NA	72	NA
EPS (sen)	NA	3	3	10%	NA	NA	6	NA
PBT margin	NA	8%	8%			NA	8%	
Net profit margin	NA	7%	8%			NA	7%	
Effective tax rate	NA	13%	9%			NA	11%	

Source: Bursa Malaysia, M&A Securities

Table 4: Segmental Analysis

YE: Dec (RM million)	2Q14	1Q15	2Q15	q-o-q	y-o-y	6M14	6M15	y-o-y
Revenue								
Construction	NA	421	431	2%	NA	NA	852	NA
Precast Concrete	NA	75	69	-8%	NA	NA	144	NA
PBT								
Construction	NA	18	27	55%	NA	NA	45	NA
Precast Concrete	NA	22	14	-35%	NA	NA	36	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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