

COMPANY RESULTS

Sunway Construction (SCGB MK)

2Q16: Below Expectations

Sunway Construction reported 2Q16 net profit of RM31.3m, lifting 1H16 net profit to RM60.3m, representing 43% of our full-year estimate. Ytd, the group has secured about RM1.65b worth of external orders, mainly infrastructure jobs. Going forward, we expect the group to be one of the front runners for the Light Rail Transit 3 (LRT3) construction jobs, which are expected to be awarded as soon as this year-end. Maintain HOLD with a higher target price of RM1.55. A good entry price is RM1.40.

2Q16 Results

Year to 31 Dec (RMm)	2Q16	1Q16	qoq % chg	yoy % chg	1H16	yoy % chg
Revenue	430.3	424.4	1.4	(14.0)	854.6	(14.2)
Construction	360.5	373.8	(3.6)	(16.4)	734.3	(13.9)
Precast Concrete	69.8	50.5	38.1	1.4	120.3	(16.4)
EBIT	37.6	35.4	6.3	(9.0)	73.0	(9.3)
Construction	20.7	23.9	(13.1)	(23.2)	44.6	1.1
Precast Concrete	16.9	11.5	46.5	18.0	28.4	(22.0)
Pre-tax Profit	38.1	37.5	1.6	(8.4)	75.6	(6.9)
Net Profit	31.3	29.1	7.6	(17.3)	60.3	(16.4)
Margins (%)			+/-ppt	+/-ppt		+/-ppt
Construction	5.8	6.4	(0.6)	(0.5)	6.1	0.9
Precast Concrete	24.2	22.8	1.4	3.4	23.6	(1.7)
PBT	8.9	8.8	0.0	0.5	8.8	0.7
Net Profit	7.3	6.8	0.4	(0.3)	7.1	(0.2)

Source: Sunway Construction, UOB Kay Hian

KEY FINANCIALS

Year to 31 Dec (RMm)	2014	2015	2016F	2017F	2018F
Net turnover	1,881	1,917	2,273	2,500	2,585
EBITDA	149	154	220	246	243
Operating profit	107	112	169	192	200
Net profit (rep./act.)	125	128	135	154	163
Net profit (adj.)	114	128	135	154	163
EPS (sen)	8.8	9.9	10.5	11.9	12.6
PE (x)	18.6	16.5	15.7	13.8	13.0
P/B (x)	5.2	4.3	3.7	3.1	2.7
EV/EBITDA (x)	12.7	12.3	8.6	7.7	7.8
Dividend yield (%)	0.0	2.1	2.2	2.5	2.7
Net margin (%)	6.6	6.7	6.0	6.2	6.3
Net debt/(cash) to equity (%)	(38.5)	(43.9)	(39.0)	(54.9)	(70.0)
ROE (%)	24.5	28.6	25.4	24.5	22.3
Consensus net profit	-	-	139	161	170
UOBKH/Consensus (x)	-	-	0.97	0.96	0.96

Source: Sunway Construction, Bloomberg, UOB Kay Hian

HOLD

(Maintained)

Share Price	RM1.64
Target Price	RM1.55
Upside	-5.5%
(Previous TP)	RM1.50

COMPANY DESCRIPTION

A leading construction company in Malaysia

STOCK DATA

GICS sector	Industrials
Bloomberg ticker:	SCGB MK
Shares issued (m):	1,292.9
Market cap (RMm):	2,120.4
Market cap (US\$m):	527.4
3-mth avg daily t'over (US\$m):	1.0

Price Performance (%)

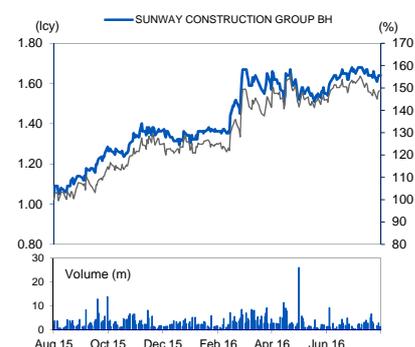
52-week high/low	RM1.68/RM1.08			
1mth	3mth	6mth	1yr	YTD
(2.4)	6.5	17.1	57.7	17.1

Major Shareholders

Sunway Berhad	54.4%
Sungei Way Corp Sdn Bhd	10.1%
-	-

FY16 NAV/Share (RM)	0.45
FY16 Net Cash/Share (RM)	0.17

PRICE CHART



Source: Bloomberg

ANALYST

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RESULTS

- **Results below expectations**, with 2Q16 net profit of RM31.3m (+7.6% qoq, -17.3% yoy), on revenue of RM430.3m (+1.4% qoq, -14.0% yoy). Earnings declined due to the completion of jobs in 1Q16 as well as the recognition of costs for the MRT Line 2 works. For 1H16, net profit was RM60.3m (-16.4% yoy), or about 43% of our and consensus full-year estimates.
- **Construction division saw negative EBIT growth** on recognition of operating costs for MRT Line 2. Revenue and EBIT for the segment fell to RM360.5m (-3.6% qoq, -16.4% yoy) and RM20.7m (-13.1% qoq, -23.2% yoy) respectively due to the completion of projects in 1Q16. EBIT margin dropped to 5.8% due to preparatory works for MRT Line 2, which revenue would only be recognised from 2H16. Going forward, we are expecting EBIT margin for this division to hover at 5-6%.
- **Precast concrete showed positive growth momentum due to higher delivery volume.** The precast division recorded revenue and PBT of RM69.8m (+38.1% qoq, 1.4% yoy) and RM16.9m (+46.5% qoq, 18.0% yoy) in 1H16 respectively. Margin-wise, the division continues to see healthy EBIT margin at 24.2% (+1.4ppt qoq, +3.4ppt yoy).

STOCK IMPACT

- **Earnings backed by a strong orderbook backlog.** As at Jun 16, SunCon had an outstanding construction orderbook of about RM4.9b (or 2.4x our 2016 revenue forecast). Its orderbook includes the recently-won MRT Line 2 viaduct package worth RM1.2b and construction work worth RM268m for an international school campus in Kuala Lumpur. The group has also secured about RM765m worth of new jobs from its parent, Sunway Bhd.
- **Near-term contract catalysts could include the LRT Line 3 job.** Tender awards for the RM9b Light Rail Transit 3 (LRT3) job are expected to kick start by this year-end, which could see Sunway Construction a potential beneficiary given its expertise in handling rail-related projects. However, should this project be awarded by this year-end, contribution to profits should only be seen from 2H17.

EARNINGS REVISION/RISK

- We trim our 2016 net profit forecast by 4% and raise our 2017-18 forecasts by 4% and 3% as we adjust the billing cycle for key construction jobs.
- Key risks include: a) execution risk, b) fluctuation in raw material prices which will impact margins, and c) downscaling of construction project awards by the government.

VALUATION/RECOMMENDATION

- **Maintain HOLD with a higher target price of RM1.55 (from RM1.50)**, in line with our upward revision to earnings. Our target price is based on 13x 2017F PE. We think share price has reflected new sizeable contract wins that the company may secure but has not priced in possible trading opportunities should contract win newsflow intensifies. A good entry price is RM1.40.

SHARE PRICE CATALYST

- Securing more construction jobs.

TARGET PRICE CALCULATION

2017F EPS (sen)	PE (x)	Target Price (RM)
11.9	13	1.55

Source: UOB Kay Hian

YTD CONTRACT WINS

	(RMm)
MRT Package V201	1,213
Sunway Medical Centre 4 & 5	428
Sunway Bhd related (total)	765
Total	2,419

Source: Sunway Construction, UOB Kay Hian

OUTSTANDING CONSTRUCTION ORDERBOOK

	(RMm)
Putrajaya Parcel F	1,292
MRT Package V201	1,199
Sunway Medical Centre 3 & 4	487
KLCC	349
International School of Kuala Lumpur	268
Others	1,332
Total	4,927

Source: Sunway Construction, UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (RMm)	2015	2016F	2017F	2018F
Net turnover	1,917	2,273	2,500	2,585
EBITDA	154	220	246	243
Deprec. & amort.	42	51	54	43
EBIT	112	169	192	200
Total other non-operating income	25	0	0	0
Associate contributions	0	0	0	0
Net interest income/(expense)	5	2	2	4
Pre-tax profit	141	170	194	204
Tax	(13)	(35)	(40)	(41)
Minorities	1	0	0	0
Net profit	128	135	154	163
Net profit (adj.)	128	135	154	163

BALANCE SHEET

Year to 31 Dec (RMm)	2015	2016F	2017F	2018F
Other LT assets	222	228	226	233
Cash/ST investment	350	361	507	684
Other current assets	1,020	954	908	935
Total assets	1,592	1,542	1,642	1,851
ST debt	135	135	135	135
Other current liabilities	963	825	824	928
LT debt	0	0	0	0
Other LT liabilities	4	4	4	4
Shareholders' equity	490	578	678	784
Minority interest	0	0	0	0
Total liabilities & equity	1,592	1,542	1,642	1,851

CASH FLOW

Year to 31 Dec (RMm)	2015	2016F	2017F	2018F
Operating	317	108	250	294
Pre-tax profit	141	170	194	204
Tax	(13)	(35)	(40)	(41)
Deprec. & amort.	42	51	54	43
Working capital changes	153	(74)	48	93
Other operating cashflows	(5)	(5)	(5)	(5)
Investing	(50)	(50)	(50)	(60)
Capex (growth)	(50)	(50)	(50)	(60)
Investments	0	0	0	0
Proceeds from sale of assets	0	0	0	0
Others	0	0	0	0
Financing	(195)	(47)	(54)	(57)
Dividend payments	(45)	(47)	(54)	(57)
Issue of shares	0	0	0	0
Proceeds from borrowings	0	0	0	0
Loan repayment	(150)	0	0	0
Others/interest paid	0	0	0	0
Net cash inflow (outflow)	72	11	147	176
Beginning cash & cash equivalent	278	350	361	507
Changes due to forex impact	n.a.	n.a.	n.a.	n.a.
Ending cash & cash equivalent	350	361	507	684

KEY METRICS

Year to 31 Dec (%)	2015	2016F	2017F	2018F
Profitability				
EBITDA margin	8.0	9.7	9.8	9.4
Pre-tax margin	7.3	7.5	7.7	7.9
Net margin	6.7	6.0	6.2	6.3
ROA	8.8	8.6	9.7	9.3
ROE	28.6	25.4	24.5	22.3
Growth				
Turnover	1.9	18.6	10.0	3.4
EBITDA	3.1	43.2	11.6	(1.1)
Pre-tax profit	(7.0)	21.0	13.7	5.4
Net profit	2.8	5.6	13.6	6.0
Net profit (adj.)	12.7	5.6	13.6	6.0
EPS	12.7	5.6	13.6	5.9
Leverage				
Debt to total capital	21.6	19.0	16.6	14.7
Debt to equity	27.6	23.4	19.9	17.2
Net debt/(cash) to equity	(43.9)	(39.0)	(54.9)	(70.0)

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