

**Sunway Construction (BUY ↑; EPS ↑)**
**INDUSTRY: OVERWEIGHT**
**EARNINGS EVALUATION**
**25 November 2015**
**Price Target: RM1.59 (↑)**
**Share price: RM1.39**
**Above expectations due to low tax rate**
**Results**

- SunCon reported 3QFY15 results with revenue of RM450m and earnings of RM26m. This brings 9M earnings to RM98m.
- On a QoQ basis, revenue fell 10% due to: (i) timing gap as older jobs approached completion while new ones have yet to commence; and (ii) lower delivery of precast products as per clients' schedule. Earnings fell by a steeper 32% QoQ given margin compression as a result of cost incurred for variation orders without offsetting revenue as the works have not been certified. There is no YoY comparison as SunCon was only listed this year.

**Deviation**

- While 9M PBT was inline, making up 76% of our full year forecast, earnings was above expectations at 85% (consensus: 77%) due to lower than expected effective tax rate.

**Dividends**

- None. To be declared in 4Q.

**Highlights**

- **Strong on job wins.** SunCon's YTD job wins currently stands at RM2.6bn, surpassing management's target of RM2.5bn. Job wins this year are also the 2<sup>nd</sup> highest in the last 5 years (highest being in FY13 at RM3bn). Its orderbook stands at RM4.3bn, implying a healthy cover ratio of 2.3x on FY14 revenue.
- **Ready for the influx of jobs.** Given its strong track record amongst the various government related entities (e.g. Prasarana, MRT Corp, Putrajaya Holdings and KLCC Group), we reckon that SunCon is in a polar position to ride on the impending construction upcycle under the 11MP. Track record wise, SunCon is the only contractor that has experience with all 3 major public transport projects, namely the LRT, MRT and BRT.

**Risks**

- Orderbook replenishment coming below its burn rate.

**Forecasts**

- We raise FY15 earnings by 4% to account for the low effective tax rate and FY16-17 by 3-4% on back of slightly higher than expected job wins.

**Rating**
**Upgrade to BUY, TP: RM1.59**

- SunCon is a well-managed company with commendable execution capability, putting it in a prime spot to ride on the robust contract flows under the 11MP. Its strong job wins YTD compels us to upgrade our rating from Hold to BUY.

**Valuation**

- Apart from our earnings upgrade, we also raise our P/E target from 14x to 16x on FY16 earnings. We reckon that this higher valuation multiple is justified given its net cash position and superior ROE. This multiple is also in line with the valuation for its closet peer by market capitalisation, WCT Holdings (HOLD, TP: RM1.41).

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KLCI	1,677.0
Expected share price return	14.4%
Expected dividend return	2.5%
Expected total return	16.9%

**Share price**

**Information**

Bloomberg Ticker	SCGB MK
Bursa Code	5263
Issued Shares (m)	1,293
Market cap (RM m)	1,797
3-mth avg. volume ('000)	3,287
SC Shariah-compliant	Yes

Price Performance	1M	3M	12M
Absolute	7.8	33.7	NA
Relative	9.9	24.6	NA

**Major shareholders**

Sunholdings	54.4
Sungei Way Corp Sdn Bhd	6.8

**Summary Earnings Table**

FYE Dec (RM m)	FY14	FY15F	FY16F	FY17F
Revenue	1,881	2,019	2,177	2,344
EBITDA	162	188	205	218
EBIT	120	147	163	174
Profit Before Tax	151	147	162	174
Core PATAMI	125	118	128	137
vs Consensus (%)		(8)	(2)	(0)
Core EPS (sen)	9.7	9.1	9.9	10.6
P/E (x)	14.4	15.3	14.0	13.1
Net DPS (sen)	2.0	3.2	3.5	3.7
Net DY (%)	1.4	2.3	2.5	2.7
BV per share	0.26	0.30	0.37	0.44
P/B (x)	5.4	4.6	3.8	3.2
ROE (%)	28.7	31.0	25.9	23.6
Net Gearing (%)	CASH	CASH	CASH	CASH

HLIB

**Figure #1 Quarterly results comparison**

FYE Dec (RM m)	1QFY15	2QFY15	3QFY15	QoQ	9MFY15	Comments
Revenue	496.1	500.2	450.3	(10.0)	1,446.6	QoQ decline due to timing gap of construction jobs and lower precast deliveries.
EBIT	39.2	41.3	28.2	(31.6)	108.7	Lower due to higher costs on VOs which was not offset by revenue.
Finance cost	0.4	0.4	1.9	418.3	2.7	
Associates & JVs	-	(0.1)	-		(0.1)	
PBT	39.6	41.6	30.1	(27.5)	111.4	Within expectations at 76% of full year numbers.
PAT	34.4	37.8	25.2	(33.4)	97.4	
PATMI - core	34.4	37.8	25.7	(32.1)	97.8	9M made up 85% of full year estimates.
PATMI - reported	34.4	37.8	25.7	(32.1)	97.8	
EPS - core	2.7	2.9	2.0		7.6	
EBIT margin	7.9	8.3	6.3		7.5	
PBT margin	8.0	8.3	6.7		7.7	
Company						

**Figure #2 Peer comparison**

Stock	Mkt Cap (RM m)	Price (RM)	Target (RM)	Rating	FYE	P/E		P/B		ROE (T1)	Yield (T1)
						CY15	CY16	T1	T2		
Gamuda	10,827	4.50	5.01	BUY	July	15.5	15.4	1.7	1.6	10.7%	2.6%
IJM	11,826	3.31	3.92	BUY	Mar	21.2	17.9	1.3	1.3	6.8%	2.0%
WCT	1,803	1.51	1.41	HOLD	Dec	37.6	16.1	0.8	0.8	2.1%	1.1%
MRCB	2,430	1.36	1.63	BUY	Dec	41.6	21.3	1.2	1.1	2.9%	0.6%
Edgenta	2,758	3.39	4.14	BUY	Dec	15.4	12.4	2.2	2.0	14.9%	3.2%
SunCon	1,797	1.39	1.59	BUY	Dec	15.3	14.0	4.6	3.8	31.0%	2.3%
Mudajaya	646	1.20	0.99	HOLD	Dec	428.2	13.6	0.6	0.6	0.1%	0.0%
Eversendai	700	0.91	1.10	BUY	Dec	13.4	8.7	0.7	0.7	5.5%	1.5%
Kimlun	397	1.32	1.40	HOLD	Dec	7.8	7.6	0.9	0.8	12.1%	2.6%
Hock Seng Lee	1,061	1.93	1.75	HOLD	Dec	13.7	13.2	1.6	1.5	12.3%	1.5%
Mitrajaya	802	1.25	1.95	BUY	Dec	10.0	8.3	1.8	1.6	19.1%	3.5%
SCable	548	1.73	2.57	BUY	Dec	12.5	10.0	1.7	1.5	14.0%	2.4%

HLIB estimates

Note: T1 refers to most immediate forecast year, T2 refers to the year after T1

## Financial Projections for Sunway Construction Group

### Balance Sheet

FYE Dec (RM m)	FY13	FY14	FY15F	FY16F	FY17F
Cash	156	292	149	237	333
Receivables	1,020	738	995	1,074	1,156
Inventories	26	20	26	28	31
PPE	181	179	167	155	141
Others	59	44	45	46	47
<b>Assets</b>	<b>1,442</b>	<b>1,272</b>	<b>1,383</b>	<b>1,539</b>	<b>1,708</b>
Debts	90	135	145	155	165
Payables	731	791	833	897	968
Others	11	17	17	17	17
<b>Liabilities</b>	<b>832</b>	<b>944</b>	<b>996</b>	<b>1,070</b>	<b>1,150</b>
Shareholder's equity	614	333	391	474	563
Minority interest	(4)	(5)	(4)	(5)	(6)
<b>Equity</b>	<b>610</b>	<b>328</b>	<b>387</b>	<b>469</b>	<b>558</b>

### Cash Flow Statement

FYE Dec (RM m)	FY13	FY14	FY15F	FY16F	FY17F
Profit before taxation	90	151	147	162	174
Depreciation & amortisation	43	42	41	43	44
Changes in working capital	(19)	348	(221)	(16)	(14)
Share of JV profits	(45)	(30)	-	-	-
Taxation	(24)	(26)	(29)	(34)	(36)
Others	39	(301)	(19)	(2)	(2)
<b>Operating cash flow</b>	<b>83</b>	<b>184</b>	<b>(82)</b>	<b>153</b>	<b>164</b>
Net capex	(69)	(35)	(30)	(30)	(30)
Others	(1)	384	-	-	-
<b>Investing cash flow</b>	<b>(69)</b>	<b>349</b>	<b>(30)</b>	<b>(30)</b>	<b>(30)</b>
Changes in borrowings	27	45	10	10	10
Issuance of shares	-	-	-	-	-
Dividends paid	(33)	(25)	(41)	(45)	(48)
Others	15	(402)	-	-	-
<b>Financing cash flow</b>	<b>10</b>	<b>(382)</b>	<b>(31)</b>	<b>(35)</b>	<b>(38)</b>
<b>Net cash flow</b>	<b>24</b>	<b>151</b>	<b>(143)</b>	<b>88</b>	<b>96</b>
Forex	8	1	-	-	-
Others	(30)	(16)	-	-	-
Beginning cash	154	156	292	149	237
Ending cash	156	292	149	237	333

### Income Statement

FYE Dec (RM m)	FY13	FY14	FY15F	FY16F	FY17F
<b>Revenue</b>	<b>1,840</b>	<b>1,881</b>	<b>2,019</b>	<b>2,177</b>	<b>2,344</b>
EBITDA	85	162	188	205	218
EBIT	42	120	147	163	174
Net finance income/ (cost)	2	1	(0)	(0)	(0)
Associates & JV	45	30	-	-	-
<b>Profit before tax</b>	<b>90</b>	<b>151</b>	<b>147</b>	<b>162</b>	<b>174</b>
Tax	(24)	(26)	(29)	(34)	(36)
<b>Net profit</b>	<b>66</b>	<b>125</b>	<b>118</b>	<b>128</b>	<b>137</b>
Minority interest	1	0	-	-	-
<b>PATMI (core)</b>	<b>67</b>	<b>125</b>	<b>118</b>	<b>128</b>	<b>137</b>
Less: Non recurring items	(9)	(20)	-	-	-
<b>PATMI (recurring)</b>	<b>58</b>	<b>105</b>	<b>118</b>	<b>128</b>	<b>137</b>

### Valuation & Ratios

FYE Dec (RM m)	FY13	FY14	FY15F	FY16F	FY17F
Core EPS (sen)	5.2	9.7	9.1	9.9	10.6
P/E (x)	26.9	14.4	15.3	14.0	13.1
EV/EBITDA (x)	18.5	9.7	8.4	7.7	7.2
DPS (sen)	2.6	2.0	3.2	3.5	3.7
Dividend yield	1.8%	1.4%	2.3%	2.5%	2.7%
BVPS (RM)	0.48	0.26	0.30	0.37	0.44
P/B (x)	2.9	5.4	4.6	3.8	3.2
EBITDA margin	4.6%	8.6%	9.3%	9.4%	9.3%
EBIT margin	2.3%	6.4%	7.3%	7.5%	7.4%
PBT margin	4.9%	8.0%	7.3%	7.5%	7.4%
Net margin	3.6%	6.6%	5.8%	5.9%	5.9%
ROE	9.9%	28.7%	31.0%	25.9%	23.6%
ROA	4.2%	7.5%	8.8%	8.0%	7.8%
Net gearing	CASH	CASH	CASH	CASH	CASH

### Assumptions

FYE Dec (RM m)	FY13	FY14	FY15F	FY16F	FY17F
Construction	2,507	759	2,320	2,000	2,000
Precast	480	4	280	300	300
<b>Total new job wins</b>	<b>2,987</b>	<b>763</b>	<b>2,600</b>	<b>2,300</b>	<b>2,300</b>

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<b>BUY</b>	Positive recommendation of stock under coverage. Expected absolute return of more than +10% over 12-months, with low risk of sustained downside.
<b>TRADING BUY</b>	Positive recommendation of stock not under coverage. Expected absolute return of more than +10% over 6-months. Situational or arbitrage trading opportunity.
<b>HOLD</b>	Neutral recommendation of stock under coverage. Expected absolute return between -10% and +10% over 12-months, with low risk of sustained downside.
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## Industry rating definitions

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<b>NEUTRAL</b>	The sector, based on weighted market capitalization, is expected to have absolute return between -5% and +5% over 12-months.
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