

26 August 2016

Sunway Construction Group

Picking up pace in 2H16

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SUNCON's 1H16 CNP of RM61.8m was broadly in line, accounting for 46%/44% of our/street's full-year estimates. NDPS of 2.5 sen declared, as expected. Outlook remains bright with a strong outstanding order book of RM4.9b with more potential wins. No changes to FY17-18E core earnings. Maintain OUTPERFORM with an unchanged Target Price of RM1.81.

Within expectations. SUNCON's 1H16 CNP of RM61.8m was broadly in line, making up 46% and 44% of our and street's full-year estimates. We are expecting a stronger 2H16 performance as the construction billings for its newly started projects pick up pace. A single-tier interim dividend of 2.5 sen was declared as expected.

Results highlight. 1H16 CNP saw a sharp decline by 19%, YoY due to lower revenue registered (-14%, YoY), dragged down by both of its division namely construction (-14%, YoY) and pre-cast (-16%, YoY). Construction division has yet to see meaningful contribution from MRT jobs as works only started in early July 2016. Furthermore, they had a project handover back in 1H15, i.e. BRT which explains the higher revenue back in 1H15. Its pre-cast division weaker revenue was a result of a softer average selling price due to low raw material prices. QoQ, 2Q16 CNP saw an improvement of 6% despite a marginal increase of 1.0% in revenue primarily driven by a lower effective tax rate of 18% vis-à-vis 23% in 1Q16 due to a higher earnings contribution from Singapore.

Outlook. SUNCON's outstanding order book stands at RM4.9b providing earnings visibility for the next 2-3 years. We believe our FY16E replenishment target of RM2.9b is highly achievable underpinned by anticipated project wins from LRT3, which is expected by year-end or beginning of 2017.

Earnings unchanged. We make no changes to our FY16-17E earnings forecasts as the award is within our FY16E replenishment target.

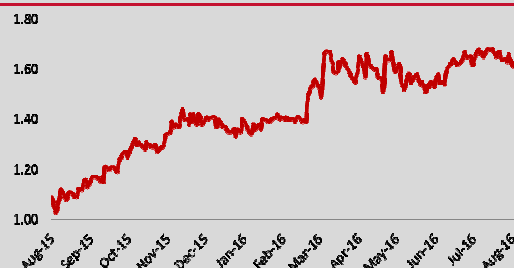
Maintain OUTPERFORM. We maintain our OUTPERFORM call on our Top Pick with an unchanged TP of RM1.81 based on SoP valuation. Considering SUNCON's strong job flows, execution track record and light balance sheet against other big cap peers, we feel our valuation is fair as our SoP-derived TP of RM1.81 implies FY17E PER of 15.7x which is slightly below our big caps' targeted PER range of 16-18x.

Risks to our call include: (i) lower-than-expected margins/order book replenishment, (ii) delay in construction works, and (iii) cut or delay in government spending on infrastructure and affordable housing projects.

OUTPERFORM ↔

Price: RM1.64
Target Price: RM1.81 ↔

Share Price Performance



KLCI	1,680.30
YTD KLCI chg	-0.7%
YTD stock price chg	17.1%

Stock Information

Shariah Compliant	No
Bloomberg Ticker	SCGB MK Equity
Market Cap (RM m)	2,120.4
Issued shares	1,292.9
52-week range (H)	1.72
52-week range (L)	1.02
3-mth avg daily vol:	2,419,089
Free Float	34%
Beta	n.a.

Major Shareholders

SUNHOLDINGS	54.4%
SUNGEI WAY CORP SDN	10.1%
NORGES BANK	1.8%

Summary Earnings Table

FY Dec (RM'm)	2015A	2016E	2017E
Turnover	1,916.9	2,175.3	2,422.3
EBIT	133.0	174.0	193.3
PBT	140.8	177.7	198.7
Net Profit (NP)	127.2	133.2	149.0
Core net profit	127.2	133.2	149.0
Consensus (NP)	n.a.	139.5	161.1
Earnings Revision	n.a.	n.a.	n.a.
Basic EPS	9.8	10.3	11.5
EPS growth (%)	-22%	5%	12%
DPS (sen)	4.0	3.6	4.0
Basic PER (x)	16.4	15.6	14.0
BVPS (RM)	0.35	0.42	0.49
Net Gearing (x)	n.c.	n.c.	n.c.
Dividend Yield (%)	2.5%	2.2%	2.5%



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Results Highlight

	2Q16	1Q16	QoQ	2Q15	YoY	1H16	1H15	YoY-Ytd
FYE Dec (RM'm)								
Turnover	430.3	424.4	1%	500.2	-14%	854.6	996.3	-14%
EBIT	38.2	36.3	5%	43.4	-12%	74.5	87.4	-15%
Interest inc/(exp)	0.5	2.8	-82%	-1.2	-144%	3.4	-2.2	-253%
Associates	0.0	-0.7	-100%	-0.1	-100%	-0.7	-0.1	838%
Exceptional items	0.1	-1.1	-107%	0.0	n.m.	-1.0	-1.2	-13%
Forex gain/(loss)	-0.6	0.2	-420%	-0.6	10%	-0.4	-2.7	-83%
Pretax profit	38.1	37.5	2%	41.6	-8%	75.6	81.2	-7%
Taxation	-6.8	-8.5	-20%	-3.8	79%	-15.3	-9.0	69%
Deferred tax	0.0	0.0	n.m.	0.0	n.m.	0.0	0.0	n.m.
Profit after tax	31.3	29.1	8%	37.8	-17%	60.4	72.2	-16%
Minority interest	0.0	0.0	n.m.	0.0	n.m.	0.0	0.0	165%
PATAMI	31.3	29.1	8%	37.8	-17%	60.3	72.2	-16%
Core PATAMI	31.8	30.0	6%	38.4	-17%	61.8	76.0	-19%
EBIT margin	9%	9%		9%		17%	18%	
Pretax margin	9%	9%		8%		18%	16%	
CNP margin	7%	7%		8%		14%	15%	
EPS (sen)	2.4	2.2		2.9		4.7	5.6	
Core EPS(sen)	2.5	2.3		3.0		4.8	5.9	
BV/share (RM)	0.4	0.4		0.3		0.4	0.3	
Net gearing (x)	n.c.	n.c.		n.c.		n.c.	n.c.	
Effective tax	18%	23%		9%		18%	9%	

Source: Company, Kenanga Research

Segmental Breakdown

	2Q16	1Q16	QoQ	2Q15	YoY	1H16	1H15	YoY-Ytd
Turnover Segmentation								
Construction	360.5	373.8	-4%	421.0	-14%	734.3	852.4	-14%
Pre-cast	69.8	50.5	38%	75.1	-7%	120.3	143.9	-16%
Total	430.3	424.4	1%	496.1	-13%	854.6	996.3	-14%
Construction	21.2	26.0	-18%	17.6	21%	47.2	44.9	5%
Pre-cast	16.9	11.5	46%	22.0	-23%	28.4	36.3	-22%
Total	38.1	37.5	2%	39.6	-4%	75.6	81.2	-7%
Pre-tax margins								
Construction	6%	7%		4%		6%	5%	
Pre-cast	24%	23%		29%		24%	25%	

Source: Company, Kenanga Research

Table 1: Sum-of-parts valuation

14x FY17E PER on existing business (RM m)	2094.6
50% of FY17E cash pile (RM m)	247.2
Fair Value (RM m)	2341.8
Shares Outstanding (m)	1292.9
Target Price (RM)	1.81
Implied FY17E PER (x)	15.7

Source: Kenanga Research

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Peer Comparison

CORE COVERAGE																
NAME	Price (25/8/16)	Mkt Cap	PER (x)			Est. Div. Yld.	Est. ROE	P/BV	Net Profit (RMm)			1 Yr Fwd NP Growth	2 Yr Fwd NP Growth	Target Price	Rating	YTD (%)
	(RM)	(RMm)	Actual	1 Yr Fwd	2 Yr Fwd	(%)	(%)	(x)	Actual	1 Yr Fwd	2 Yr Fwd	(%)	(%)	(RM)		
EVERSENDAI CORP BHD	0.44	340.5	7.2	6.6	6.3	1.1	5.5	0.4	47.5	51.5	54.2	8.4	5.2	0.70	Outperform	-42.48
GAMUDA BHD	4.89	11834.6	16.8	18.1	16.2	2.5	13.5	2.4	687.2	636.8	709.7	-7.3	11.4	4.67	Market Perform	4.94
IJM CORP BHD	3.43	12352.8	24.5	22.3	20.0	1.8	5.9	1.3	499.9	549.5	612.0	9.9	11.4	3.51	Market Perform	2.38
KIMLUN CORP BHD	1.86	577.1	8.7	8.0	6.7	3.3	13.7	1.1	64.4	70.0	83.8	8.7	19.7	2.10	Outperform	34.78
MUHIBBAH ENGINEERING (M) BHD	2.26	1085.5	11.6	11.1	9.9	2.2	9.0	1.0	88.9	92.9	104.9	4.5	12.9	2.53	Outperform	2.26
HOCK SENG LEE BERHAD	1.75	961.7	12.6	13.6	10.8	1.5	9.9	1.3	76.2	70.9	89.2	-7.0	25.8	1.79	Market Perform	-7.41
NAIM HOLDINGS BERHAD	1.80	426.5	193.9	16.2	8.8	1.6	2.0	0.3	2.2	26.4	48.3	1100.0	83.0	1.83	Underperform	-26.83
WCT HOLDINGS BHD	1.60	1998.8	54.3	19.5	14.1	2.1	5.7	1.1	49.3	137.1	190.2	178.1	38.7	1.58	Market Perform	-0.62
MMC CORP BHD	2.28	6942.7	58.4	18.7	14.1	1.5	4.0	0.7	118.8	371.5	491.6	212.7	32.3	2.70	Outperform	16.33
MITRAJAYA HOLDINGS BHD	1.38	923.0	11.9	9.8	9.1	3.0	19.7	1.9	87.7	105.7	114.4	20.5	8.2	1.79	Outperform	15.00
SUNWAY CONSTRUCTION GROUP	1.64	2120.4	16.7	15.9	14.2	2.2	24.6	3.9	127.2	133.5	149.6	5.0	12.1	1.81	Outperform	17.14
<i>Average</i>			37.9	14.5	11.8											
NOT RATED/ON OUR RADAR																
NAME	Price	Mkt Cap	PER (x)			Est. Div. Yld.	Est. ROE	P/BV	Net Profit (RMm)			1 Yr Fwd NP Growth	2 Yr Fwd NP Growth	Target Price	Rating	YTD (%)
	(RM)	(RMm)	Actual	1 Yr Fwd	2 Yr Fwd	(%)	(%)	(x)	Actual	1 Yr Fwd	2 Yr Fwd	(%)	(%)	(RM)		
MUDAJAYA	1.14	613.8	-431.1	18.9	11.1	2.9	2.9	0.6	-1.4	32.7	55.3	-2386.4	69.4	n.a.	Not Rated	-3.39
PROTASCO	1.56	527.4	7.9	6.4	n.a.	n.a.	n.a.	n.a.	66.2	81.4	n.a.	22.9	n.a.	2.25	Trading Buy	-3.11
PINTARAS JAYA	3.61	590.4	11.2	24.0	12.3	4.0	7.1	1.7	51.9	24.3	47.5	-53.2	95.3	4.20	Trading Buy	9.39
GABUNGAN AQRS	1.03	402.1	-40.5	9.5	9.0	1.5	n.a.	n.a.	-9.9	42.0	44.4	-524.8	5.7	n.a.	Not Rated	24.10
GADANG HOLDINGS	2.60	672.4	6.4	7.0	6.7	2.6	16.6	1.2	94.2	86.3	89.4	-8.4	3.7	2.44	Not Rated	22.64
AZRB	0.65	310.9	13.6	n.a.	n.a.	n.a.	n.a.	n.a.	22.9	n.a.	n.a.	n.a.	n.a.	n.a.	Not Rated	1.57
TRC SYNERGY	0.43	204.2	6.7	10.5	6.1	2.4	5.0	0.5	30.7	19.4	33.3	-36.8	71.4	n.a.	Not Rated	14.86
BINA PURI	0.39	93.2	24.6	6.4	5.4	5.2	n.a.	n.a.	3.3	12.6	15.1	282.3	19.8	n.a.	Not Rated	-10.47
KERJAYA PROSPEK GROUP	2.24	1135.6	75.0	12.7	10.6	2.2	15.2	1.9	16.1	94.7	114.1	488.4	20.4	2.62	Trading Buy	37.42
<i>Average</i>			-59.3	12.7	8.4											

Source: Kenanga Research

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Stock Ratings are defined as follows:

Stock Recommendations

OUTPERFORM	:A particular stock's Expected Total Return is MORE than 10% (an approximation to the 5-year annualised Total Return of FBMKLCI of 10.2%).
MARKET PERFORM	:A particular stock's Expected Total Return is WITHIN the range of 3% to 10%.
UNDERPERFORM	:A particular stock's Expected Total Return is LESS than 3% (an approximation to the 12-month Fixed Deposit Rate of 3.15% as a proxy to Risk-Free Rate).

Sector Recommendations***

OVERWEIGHT	:A particular sector's Expected Total Return is MORE than 10% (an approximation to the 5-year annualised Total Return of FBMKLCI of 10.2%).
NEUTRAL	:A particular sector's Expected Total Return is WITHIN the range of 3% to 10%.
UNDERWEIGHT	:A particular sector's Expected Total Return is LESS than 3% (an approximation to the 12-month Fixed Deposit Rate of 3.15% as a proxy to Risk-Free Rate).

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

