

Sunway Construction Group (SCGB MK)

Infrastructure proxy

BUY

Share Price MYR 1.39
 12m Price Target MYR 1.65 (+19%)
 Previous Price Target MYR 1.50

Pure construction play

SCG continues tendering actively in 2016 for both infrastructure and building jobs to enhance its solid orderbook of MYR3.7b. Its potential total job wins is worth up to MYR5.6b. We expect business as usual post the change in MD given SCG's far-sighted succession strategy. We adjust our earnings forecasts and raise our TP to MYR1.65 (+10%). There is potential upside to our 2016 job wins forecast. SCG is our top mid-cap pick as a pure construction play riding on upcoming infrastructure jobs.

Ace-ing infrastructure projects

SCG has secured sizeable job wins of MYR2.6b in 2015. With its strong track record, SCG's job win momentum should persist into 2016. Leveraging on its experience in KVMRT 1, KVLRT 2 and Sunway BRT, it could clinch contracts from KVMRT 2, KVLRT 3 and KL-Klang BRT. SCG was also pre-qualified for major highways construction including Pan Borneo Highway Sarawak, DASH and SUKE. It is also eyeing design-build buildings projects, foundation jobs and Sunway Group's property developments. Total potential job wins could worth up to MYR5.6b in 2016.

Groomed for excellence

SCG's newly appointed MD, Mr Chung Soo Kiong, since 1 Nov 2015, was selected from a group of capable leaders in SCG that were trained in different areas of the business since 10 years ago. Its far-sighted succession planning would ensure smooth transition and uphold its superior execution ability. Meanwhile, the previous MD, Mr Kwan Foh Kwai, would remain on the Board to oversee key business decisions.

Potential upside to job wins estimate

We raise our 2016/17 EPS estimates by 7%/10% after updating for the estimated MYR3.7b outstanding orderbook as of end-2015 while our 2015 EPS is unchanged. Consequently, our TP is raised to MYR1.65 (+10%) on unchanged 13x 2017 PER peg. Our 2016 job wins forecast is MYR2.5b. Every additional MYR100m job win would increase our TP by 3%.

FYE Dec (MYR m)	FY13A	FY14A	FY15E	FY16E	FY17E
Revenue	1,840	1,881	2,350	2,542	2,508
EBITDA	113	151	190	236	247
Core net profit	94	114	121	154	163
Core EPS (sen)	7.3	8.8	9.4	11.9	12.6
Core EPS growth (%)	37.6	20.9	6.1	27.1	6.1
Net DPS (sen)	2.6	30.5	1.6	4.2	4.4
Core P/E (x)	19.0	15.7	14.8	11.7	11.0
P/BV (x)	2.9	5.4	4.9	3.9	3.2
Net dividend yield (%)	1.8	22.0	1.2	3.0	3.2
ROAE (%)	16.1	24.1	34.8	37.2	31.6
ROAA (%)	6.5	8.4	8.9	10.1	9.9
EV/EBITDA (x)	na	na	8.5	6.4	5.7
Net debt/equity (%)	net cash	net cash	net cash	net cash	net cash
Consensus net profit	-	-	126	141	145
MKE vs. Consensus (%)	-	-	(4.0)	9.2	12.5

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Company description

Sunway Construction Group offers integrated construction services and has precast concrete business in Singapore.

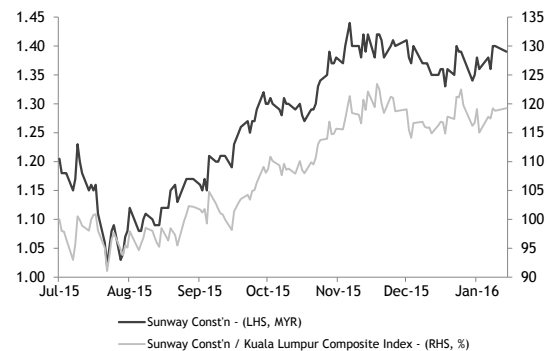
Statistics

Shariah status	Yes
52w high/low (MYR)	na/na
3m avg turnover (USDm)	0.9
Free float (%)	38.2
Issued shares (m)	1,293
Market capitalisation	MYR1.8B USD436M

Major shareholders:

Sunway Bhd.	54.4%
Sungei Way Corp. Sdn. Bhd.	6.8%
CHEAH FOOK LING	0.6%

Price Performance



	-1M	-3M	-12M
Absolute (%)	3	8	na
Relative to index (%)	4	10	na

Source: FactSet

Robust job replenishment prospect

Sizeable job wins in 2015

SCG has clinched MYR2.6b worth of new jobs in 2015, which has exceeded our initial job win estimate of MYR2.3b. Construction job wins accounted for MYR2.3b which are mainly building construction jobs especially the major MYR1.6b Putrajaya buildings contract. Meanwhile, its precast division in Singapore contributed MYR316m new orders. Its estimated outstanding orderbook as of end-2015 was MYR3.7b.

Fig 1: Estimated new job win in 2015

	MYR m
Civil, infrastructure & building	
Sunway Geo Retail Shops & Flexi Suites Phase 2	244
Sunway Lenang Phase 1A, Johor	96
Sunway Iskandar Emerald Residence	175
Parcel F, Precinct 1, Putrajaya	1,610
Sunway Iskandar International School, Johor	27
Substructure works, Lot 176 KLCC	120
Others	34
	2,306
Precast division in Singapore	
Workers' Dormitory CCK	26
Sembawang N3C8	42
Yishun N4C17	39
Estimated other job wins	210
	316
Grand total	2,622

Source: Company

Positive momentum to persist into 2016

SCG's job replenishment prospect in 2016 remains robust with potential job wins from rails, BRT, highways and buildings projects.

Infrastructure projects

With its exceptional track record in KVMRT 1, KVLRT 2 and Sunway BRT, it could win more from the upcoming KVMRT 2, KVLRT 3 and KL-Klang BRT. The pre-qualification for KVMRT 2 has completed and the key awards are expected to be dished out soon. Elsewhere, SCG has also submitted to pre-qualify for the KVLRT 3 project in Dec 2015. As for the major highways, SCG was pre-qualified for Pan Borneo Highway Sarawak, Damansara-Shah Alam Elevated Expressway (DASH) and Sungai Besi-Ulu Kelang Elevated Expressway (Suke). It is now in the midst of submitting tenders for the individual construction packages of the highways.

Building construction jobs

Aside from infrastructure, SCG is also eyeing the building construction contract from Ikea in Tebrau, Johor. Its expertise in precast concrete and existing precast manufacturing plants in Johor would provide it an advantage in bidding for the Ikea project that has a significant precast concrete component. This would also contribute orders to its precast concrete division. Besides, SCG would also bid for jobs from Sunway Group's property development projects. Historically, Sunway Group has contributed for MYR550m-880m jobs p.a..

Up to MYR5.6b potential job wins in 2016

Summing up the potential job wins, SCG could win up to MYR5.6b worth of contracts in 2016 (Fig 2). Our current earnings forecasts are based on 2016 job win forecasts of MYR2.5b. For every MYR100m additional contract win, we estimate that it would raise our 2016/17 EPS estimates by 1.6%/3.0% and subsequently lift our TP by 3.0%.

New MD's profile

Mr Chung Soo Kiong has taken over Mr Kwan Foh Kwai's Managing Director position since 1 Nov 2015. Mr Chung began his career in TAISEI Corporation in 1990 and subsequently joined Sunway Construction (SunCon) in 1997. He has held the Deputy MD position in SCG since 2013 and has over 20 years of experience in the construction sector. Mr. Chung has also worked closely with Mr Kwan since he started his career in TAISEI and continued on in SunCon. The key projects that were under his supervision include the Kuala Lumpur Convention Center, government offices in Putrajaya and SunCon's major projects in Abu Dhabi.

Fig 2: Potential job wins

	Estimated value (MYR m)
KVMRT 2	1,000
KVLRT 3	1,000
KL - Klang BRT	1,500
Pan Borneo Highway Sarawak	300-600
DASH	500
SUKE	500
Sunway Group's projects	500
Total potential job wins	5,300-5,600

Source: Various

Fig 3: Mr. Chung Soo Kiong



Source: Company

FYE 31 Dec	FY13A	FY14A	FY15E	FY16E	FY17E
Key Metrics					
P/E (reported) (x)	26.9	14.4	14.8	11.7	11.0
Core P/E (x)	19.0	15.7	14.8	11.7	11.0
P/BV (x)	2.9	5.4	4.9	3.9	3.2
P/NTA (x)	2.9	5.4	5.0	3.9	3.2
Net dividend yield (%)	1.8	22.0	1.2	3.0	3.2
FCF yield (%)	1.9	7.7	6.7	8.5	8.4
EV/EBITDA (x)	na	na	8.5	6.4	5.7
EV/EBIT (x)	na	na	10.9	7.8	7.0
INCOME STATEMENT (MYR m)					
Revenue	1,839.6	1,880.7	2,349.9	2,542.0	2,508.2
Gross profit	338.0	395.4	411.2	464.9	485.4
EBITDA	112.7	151.2	189.7	235.7	246.8
Depreciation	(42.8)	(41.6)	(42.9)	(43.3)	(44.5)
EBIT	69.9	109.6	146.8	192.4	202.3
Net interest income / (exp)	2.1	0.7	3.5	4.3	6.8
Associates & JV	45.4	30.4	0.0	0.0	0.0
Exceptionals	(27.5)	10.6	0.0	0.0	0.0
Pretax profit	89.8	151.3	150.4	196.6	209.1
Income tax	(23.7)	(26.5)	(29.2)	(42.6)	(45.7)
Minorities	0.8	0.1	0.0	0.0	0.0
Reported net profit	66.9	124.8	121.2	154.0	163.4
Core net profit	94.4	114.2	121.2	154.0	163.4
BALANCE SHEET (MYR m)					
Cash & Short Term Investments	156.1	291.6	320.1	419.6	513.5
Accounts receivable	1,020.5	737.9	872.2	932.4	920.3
Inventory	25.5	20.2	31.9	34.1	33.3
Property, Plant & Equip (net)	180.9	178.7	180.5	185.5	188.6
Intangible assets	3.6	3.6	3.6	3.6	3.6
Investment in Associates & JVs	22.1	24.2	24.2	24.2	24.2
Other assets	33.1	16.0	16.0	16.0	16.0
Total assets	1,441.9	1,272.2	1,448.4	1,615.5	1,699.5
ST interest bearing debt	75.1	135.1	135.1	135.1	135.1
Accounts payable	730.7	791.3	937.5	1,004.5	982.3
LT interest bearing debt	15.4	0.1	0.1	0.1	0.1
Other liabilities	11.0	17.0	17.0	17.0	17.0
Total Liabilities	832.2	943.9	1,090.2	1,157.1	1,134.9
Shareholders Equity	614.2	333.5	363.5	463.6	569.8
Minority Interest	(4.5)	(5.2)	(5.2)	(5.2)	(5.2)
Total shareholder equity	609.7	328.3	358.2	458.3	564.5
Total liabilities and equity	1,441.9	1,272.2	1,448.4	1,615.5	1,699.5
CASH FLOW (MYR m)					
Pretax profit	89.8	151.3	150.4	196.6	209.1
Depreciation & amortisation	42.8	41.6	42.9	43.3	44.5
Adj net interest (income)/exp	2.1	0.7	3.5	4.3	6.8
Change in working capital	(68.3)	14.1	0.2	4.5	(9.2)
Cash taxes paid	(20.1)	(28.5)	(29.2)	(42.6)	(45.7)
Other operating cash flow	36.8	4.7	(3.5)	(4.3)	(6.8)
Cash flow from operations	83.1	183.9	164.3	201.8	198.7
Capex	(49.4)	(45.7)	(44.6)	(48.3)	(47.7)
Free cash flow	33.7	138.2	119.6	153.5	151.1
Dividends paid	(14.5)	(428.0)	(91.2)	(53.9)	(57.2)
Change in Debt	29.2	46.5	0.0	0.0	0.0
Other invest/financing cash flow	(24.8)	394.3	0.0	0.0	0.0
Net cash flow	23.7	151.0	28.4	99.6	93.9

FYE 31 Dec	FY13A	FY14A	FY15E	FY16E	FY17E
Key Ratios					
Growth ratios (%)					
Revenue growth	27.0	2.2	24.9	8.2	(1.3)
EBITDA growth	25.7	34.2	25.5	24.2	4.7
EBIT growth	12.6	56.8	34.0	31.0	5.2
Pretax growth	9.7	68.4	(0.6)	30.8	6.4
Reported net profit growth	22.2	86.5	(2.9)	27.1	6.1
Core net profit growth	37.6	20.9	6.1	27.1	6.1
Profitability ratios (%)					
EBITDA margin	6.1	8.0	8.1	9.3	9.8
EBIT margin	3.8	5.8	6.2	7.6	8.1
Pretax profit margin	4.9	8.0	6.4	7.7	8.3
Payout ratio	49.3	nm	17.5	35.0	35.0
DuPont analysis					
Net profit margin (%)	3.6	6.6	5.2	6.1	6.5
Revenue/Assets (x)	1.3	1.5	1.6	1.6	1.5
Assets/Equity (x)	2.3	3.8	4.0	3.5	3.0
ROAE (%)	16.1	24.1	34.8	37.2	31.6
ROAA (%)	6.5	8.4	8.9	10.1	9.9
Liquidity & Efficiency					
Cash conversion cycle	27.2	(10.6)	(32.3)	(34.8)	(37.8)
Days receivable outstanding	204.5	168.3	123.3	127.8	133.0
Days inventory outstanding	5.7	5.5	4.8	5.7	6.0
Days payables outstanding	183.0	184.4	160.5	168.3	176.8
Dividend cover (x)	2.0	0.3	5.7	2.9	2.9
Current ratio (x)	1.5	1.1	1.1	1.2	1.3
Leverage & Expense Analysis					
Asset/Liability (x)	1.7	1.3	1.3	1.4	1.5
Net debt/equity (%)	net cash	net cash	net cash	net cash	net cash
Net interest cover (x)	na	na	na	na	na
Debt/EBITDA (x)	0.8	0.9	0.7	0.6	0.5
Capex/revenue (%)	2.7	2.4	1.9	1.9	1.9
Net debt/ (net cash)	(65.6)	(156.4)	(184.9)	(284.4)	(378.3)

Source: Company; Maybank

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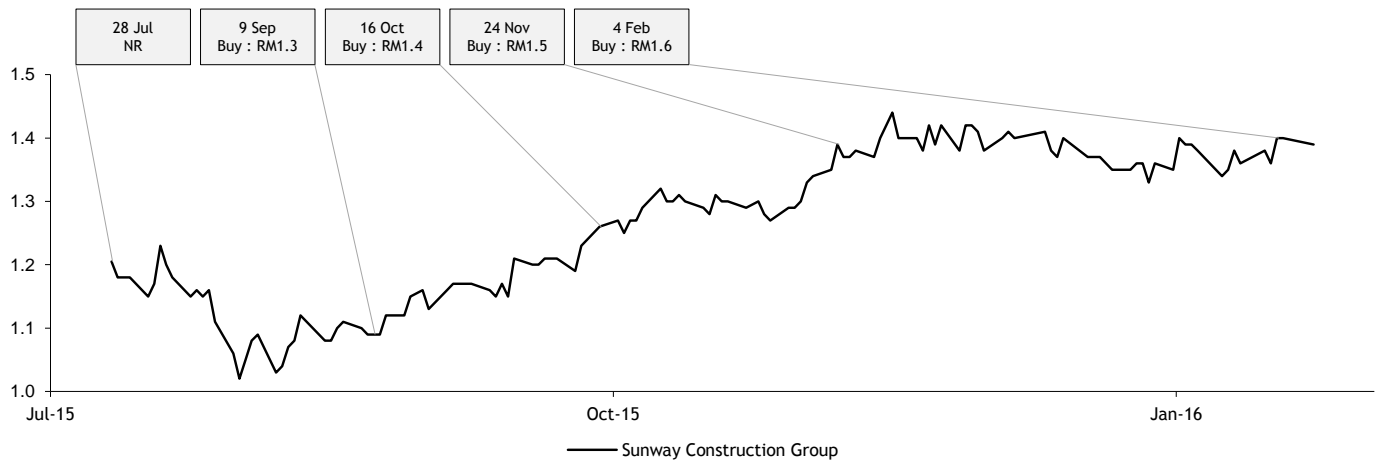
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