

26 August 2016 | 6MFY16 Results Update

## Sunway Construction Group Berhad

### *Positive Impact of Prudent Cost Management*

#### INVESTMENT HIGHLIGHTS


- **6MFY16 earnings within expectations**
- **Earnings influenced by prudent cost management**
- **Earnings trajectory intact**
- **Reiterate NEUTRAL recommendation with TP of RM1.74 per share**

**6MFY16 Earnings within expectations.** SCGB's 6MFY16 earnings of RM60.3m (-16%yoy) met ours and consensus' expectations at 46% and 51% of full year estimates respectively. Despite the on-year drop, its half-year results met expectations due to conservative estimates of SCGB earnings in FY16 against the backdrop of fallow period of project completion.

**Earnings influenced by cost management.** SCGB's earnings were also positively influenced by prudent cost management with its segmental pre-tax margin for construction grew by +2.3ppts to 6.4% in 6MFY16 from 4.1% in 6MFY15 and margin for precast increased by +6.7ppts to 23.6% in 6MFY16 from 16.9% in 6MFY15.

**Earnings trajectory intact.** Earnings forecasts intact based on peak orderbook of RM4.9bn, or approximately 36 months backlog (3x FY15 construction revenue cover). Furthermore, SCGB orderbook is well supported by ample working capital with FY15 working capital/net income cover of 1.3x and productive working capital/orderbook cover of 0.5x. Key driver of earnings for FYE16 and FYE17 will remain to be construction as evidenced from its segmental pre-tax profit of RM47.2m which is higher than FY15's RM44.8m (+5%yoy).

**Job prospects for higher marginal projects.** Moving forward, we expect SCGB to focus more on higher marginal projects such as foundation, geotechnics and urban transit construction.

**Recommendation.** Altogether, we reiterate our Neutral stance with an SOP-based target price of RM1.74 per share. 

**Maintain NEUTRAL**  
Unchanged Target Price (TP): RM1.74

RETURN STATS	
Price (25 Aug 2016)	RM1.64
Target Price	RM1.74
Expected Share Price Return	6.1%
Expected Dividend Yield	+1.1%
<b>Expected Total Return</b>	<b>+7.2%</b>

STOCK INFO	
KLCI	1,680
Bursa / Bloomberg	5263/ SCGB MK
Board / Sector	Main / Construction
Syariah Compliant	Yes
Issued shares (mil)	1292.9
Par Value (RM)	1.00
Market cap. (RM'm)	2120
Price over NA	4.7
52-wk price Range	RM0.98– RM1.72
Beta (against KLCI)	N/A
3-mth Avg Daily Vol	2.42m
3-mth Avg Daily Value	RM3.85m
Major Shareholders (%)	
Sunholdings	54.42
Sungei Way Corp Bhd.	10.06
Norges Bank Investment	1.82
Amanah Mutual Berhad	1.08

## SOP VALUATION

Segments	Basis	Value (RM'm)	Per share (RM)
<b>Building and Civil Infrastructure</b>	DCF of 8.6%	2,446	1.89
Sunway Velocity Shopping Mall			
KLCC North East Car Park			
KLCC Package 2			
Sunway Pyramid Phase 3			
Afiniti Medini mixed development project			
Sunway Geo Retail and Flexi Suites			
Sunway Medical Center Phase 3			
Citrine Mixed Development, Sunway Iskandaar			
Coastal Highway Southern Link			
BRT-Sunway Line			
Sunway University new academic block			
Urban Wellness Center			
Various Projects			
Putrajaya Presint 1 Parcel F			
Sunway Iskandar			
<b>Foundation and Geotechnical Services</b>	DCF of 8.6%		
Mengkuang Dam expansion			
Sunway Velocity tunneling			
Sunway South Quay Commercial Precinct 3			
<b>Total</b>		77	0.06
<b>MEP</b>	DCF of 8.6%		
Pasar Seni MRT Station			
Gas District Cooling Plant			
		12	0.01
<b>Precast Concrete</b>	DCF of 8.6%		
Supplying to Singapore and other projects		296	0.23
<b>Others</b>	FY16 PER of 12x		
Ongoing works		66	0.05
<b>Total SOP</b>		2,897.0	2.24
Net debt		-641.1	-0.50
<b>Total Net SOP</b>			<b>1.74</b>
Enlarged share capital (mil)			1,293

Source: MIDFR

## INVESTMENT STATISTICS

FYE Dec	FY13	FY14	FY15	FY16F	FY17F
Revenue (RM'm)	1,655.0	1,662.2	1,854.1	1,940.0	1,874.5
EBIT (RM'm)	302.7	202.4	335.6	191.4	347.9
Pre-tax profit (RM'm)	254.2	151.1	256.2	172.2	226.8
Normalised PATAMI (RM'm)	153.8	111.1	216.6	128.6	163.4
FD EPS (sen)	13.7	10.1	18.1	11.7	14.8
EPS growth (%)	-8.2	-26.6	78.9	-35.3	27.0
PER (x)	14.8	18.9	8.8	13.1	10.3
Dividend (sen)	6.8	2.5	5.0	1.8	1.8
Dividend Yield (%)	2.9	1.2	3.5	1.1	1.2

Source: MIDFR

## DAILY PRICE CHART



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Source: Bloomberg, MIDFR

## 6MFY16 RESULTS SUMMARY

	2Q16	1Q16	2Q15	YoY Chg	QoQ Chg	6MFY16	6MFY15	YoY Chg
<b>Revenue</b>	<b>430.90</b>	<b>424.00</b>	<b>500.0</b>	<b>-14%</b>	<b>2%</b>	<b>854.6</b>	<b>996.0</b>	<b>-14%</b>
Operating Expenses	-401.80	-399.20	<b>-462.0</b>	<b>-13%</b>	<b>1%</b>	-801.0	-922.9	<b>-13%</b>
Other income	0.90	10.20	3.3	<b>-73%</b>	<b>-91%</b>	19.4	7.3	<b>166%</b>
Interest income	1.87	2.80	1.5	<b>25%</b>	<b>-33%</b>	4.7	2.9	<b>62%</b>
Finance cost	-1.30	0.70	-1.2	<b>13%</b>	<b>-286%</b>	-2.0	-2.2	<b>-7%</b>
<b>Operating profit</b>	<b>38.10</b>	<b>35.30</b>	<b>41.5</b>	<b>-8%</b>	<b>8%</b>	<b>75.6</b>	<b>80.6</b>	<b>-6%</b>
<b>Pre-tax profit</b>	<b>38.10</b>	<b>37.50</b>	<b>41.5</b>	<b>-8%</b>	<b>2%</b>	<b>75.6</b>	<b>81.1</b>	<b>-7%</b>
Taxation	-6.80	-8.40	-3.7	<b>84%</b>	<b>-19%</b>	-15.2	-9.0	<b>69%</b>
<b>PATAMI</b>	<b>31.20</b>	<b>29.00</b>	<b>37.8</b>	<b>-17%</b>	<b>8%</b>	<b>60.3</b>	<b>72.1</b>	<b>-16%</b>
EPS (sen)	2.42	2.25	2.9	<b>-17%</b>	<b>8%</b>	4.7	5.6	<b>-16%</b>
	2Q16	1Q16	2Q15	Pts (+/-)	Pts (+/-)	6MFY16	6MFY15	Pts
Operating margin	-93%	8%	8.3%	-1.02	-1.02	8.8%	8.1%	0.8%
Pre-tax margin	9%	9%	8.3%	0.01	0.00	8.8%	8.1%	0.7%
PATAMI margin	7%	7%	7.6%	0.00	0.00	7.1%	7.2%	-0.2%
Effective tax rate	-18%	-22%	8.9%	-0.27	0.05	-20.1%	11.0%	-31.1%
	2Q16	1Q16	2Q15	YoY Chg	QoQ Chg	6MFY16	6MFY15	YoY Chg
Construction	360.50	479.8	554.0	-0.3	-0.2	734.3	1,082.0	-32%
Pre Cast Concrete	69.80	59.8	85.0	-0.2	0.2	120.3	179.0	-33%
<b>TOTAL</b>	<b>430.30</b>	<b>424.3</b>	<b>500.0</b>	-0.1	0.0	<b>854.6</b>	<b>996.0</b>	-14%
	2Q16	1Q16	2Q15	YoY Chg	QoQ Chg	6MFY16	6MFY15	YoY Chg
Construction	21.20	26.00	27.3	-0.2	-0.2	47.2	44.8	5%
Pre Cast Concrete	16.90	11.50	4.3	2.9	0.5	28.4	30.3	-6%
<b>TOTAL</b>	<b>38.10</b>	<b>29.1</b>	<b>10.8</b>	2.5	0.3	<b>75.6</b>	<b>81.2</b>	-7%
	2Q16	1Q16	2Q15	Pts (+/-)	Pts (+/-)	6MFY16	6MFY15	Pts (+/-)
Construction	6%	5%	4.9%	0.01	-1.00	6.4%	4.1%	2.3
Pre Cast Concrete	24%	19%	5.1%	0.19	-0.95	23.6%	16.9%	6.7

Source: MIDFR

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### MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

#### STOCK RECOMMENDATIONS

BUY	Total return is expected to be >15% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >15% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -15% and +15% over the next 12 months.
SELL	Total return is expected to be <-15% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >15% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

#### SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.