

27 May 2016 | 1QFY16 Results Update

Sunway Construction Group Berhad

Expect Jobs Influx Albeit Marginal Pressure

Maintain BUY

Adjusted Target Price (TP): RM1.74
(From RM1.32)

INVESTMENT HIGHLIGHTS


- **1QFY16 results within expectations**
- **Results buoyed by construction projects**
- **Earnings revised**
- **Maintain BUY with adjusted TP of RM1.74**

1QFY16 results within expectations. Sunway Construction Group Berhad (SCGB) 1QFY16 PATAMI of RM29m is within expectation meeting 23% and 21% our and consensus forecasts respectively. The key catalyst for current quarter results is buoyed by the precast materials segment and steady influx of construction jobs awards.

Results buoyed by construction projects. The current results reflect strong contribution from construction projects such building and civil engineering packages. The current marginal profile of the projects is still sustainable albeit a compression in infrastructure jobs due to competitive bids during the tender period. SCGB recorded cash/near cash items of RM390m and total retained earnings of RM217m illustrating the strong need to stabilize its revenue stream through undertaking concessions or forming consortia to undertake larger projects. Hence, marginal erosions of 2- to 3-ppts on infrastructure specific projects will continue in upcoming quarters.

Strong orderbook level. The current orderbook of SCGB stands at RM4.07bn providing earnings visibility of 36 months. The largest constituents of the order book includes TRX Infrastructure works worth c. RM700m and Putrajaya Bina project worth c. RM1.6bn for recent awards. We surmise that the orderbook level will expand to 10% amounting to RM400m by Q4FY16 and potential BRT packages especially from Klang To Kuala Lumpur which amounts to RM3.0bn.

Earnings revised. We revise lower our earnings estimate for FY16 by -20% as we reckon that the MRT packages will be announced only in Q2FY16 and to be recognized mostly in Q3/Q4FY17. Our assumption also imputes a more conservative margin of 7.0% (from 11.0%) for MRT2 packages to illustrate the current marginal profiles of MRT1 and 2 projects for companies under our coverage.

Recommendation. However, the DCF sum of our SOP valuation is raised with the imputation of additional future billings for projects such Putrajaya Bina and TRX jobs. Hence we reaffirm our BUY recommendation with an SOP-based adjusted target price of RM1.74 per share. 

RETURN STATS	
Price (26 May 2015)	RM1.53
Target Price	RM1.74
Expected Share Price Return	+13.7%
Expected Dividend Yield	+1.4%
Expected Total Return	+15.1%

STOCK INFO	
KLCI	1,631.09
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)	1978
Price over NA	4.38
52-wk price Range	RM0.98-RM1.72
Beta (against KLCI)	N/A
3-mth Avg Daily Vol	3.98m
3-mth Avg Daily Value	RM6.29m
Major Shareholders (%)	
Sunholdings S/B	54.42
Sungei Way Corp	7.02
Norges Bank	1.82
Amanah Mutual	0.95

VALUATION

Segments	Basis	Value (RM'm)	Per share (RM)
<u>Building and Civil Infrastructure</u>	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			
<u>Foundation and Geotechnical Services</u>	DCF of 8.6%		
Mengkuang Dam expansion			
Sunway Velocity tunneling			
Sunway South Quay Commercial Precinct 3			
Total		77	0.06
<u>MEP</u>	DCF of 8.6%		
Pasar Seni MRT Station			
Gas District Cooling Plant			
		12	0.01
<u>Precast Concrete</u>	DCF of 8.6%		
Supplying to Singapore and other projects		296	0.23
<u>Others</u>	FY16 PER of 12x		
Ongoing works		66	0.05
Total SOP		2,897.0	2.24
Net debt		-641.1	-0.50
Total Net SOP			1.74
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

1QFY16 RESULTS

FYE Dec (RM'm)	1Q16	4Q15	3Q15	2Q15	1Q15	6MFY15	9MFY15	12MFY15
Revenue	424.00	470.00	450.0	500.0	496.0	996	1446	1916
Operating Expenses	-399.20	-457.00	-424.0	-462.0	-460.9	-922.9	-1346.9	-1805
Other income	10.20	14.70	2.3	3.3	4.0	7.3	9.6	24.5
Interest income	2.80	2.30	2.6	1.5	1.4	2.9	5.5	8
Finance cost	0.70	-0.50	-0.7	-1.2	-1.0	-2.15	-2.85	-3
Operating profit	35.30	27.50	28.4	41.5	39.1	80.6	109	136.2
Pre-tax profit	37.50	29.30	30.1	41.5	39.6	81.1	111.2	140.7
Taxation	-8.40	-0.97	-4.9	-3.7	-5.2	-8.9	-13.8	-13
Minority interest	-	1.00	0.4	0.0	0.02	0.02	0.42	0.5
PATAMI	29.00	29.60	25.1	37.8	34.3	72.1	97.2	141.4
EPS (sen)	2.25	2.20	2.0	2.9	2.7	5.58	7.56	9.84
			3Q15	2Q15	1Q15	6MFY15	9MFY15	
Operating margin	8%	5.9%	6.3%	8.3%	7.9%	8.1%	8%	7.1%
Pre-tax margin	9%	6.2%	6.7%	8.3%	8.0%	8.1%	8%	7.3%
PATAMI margin	7%	6.3%	5.6%	7.6%	6.9%	7.2%	7%	7.4%
Effective tax rate	-22%	-3.3%	16.3%	8.9%	13.1%	11%	-1%	-0.7%

Source: MIDFR

DAILY PRICE CHART



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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.