

Sunway Construction Group (SCGB MK)

Job wins piling up - adds on MYR210m

Maintain BUY

SCG has won an additional advance work package for KVMRT 2 from MMC-Gamuda worth MYR53m. Additionally, it also accepted a Letter of Intent from Sunway Iskandar Sdn Bhd to take on 1) construction of 88 units of office shop lots utilizing precast (MYR57m) and 2) design and build of a proposed commercial retail complex (MYR100m) in the Medini area. YTD job wins of MYR2.6b has lifted its outstanding orderbook to MYR5b. We keep our earnings having imputed MYR3.0b job wins for 2016. Reiterate BUY with an unchanged TP of MYR1.80 pegged to 14x 2017 PER.

Awarded advance work package for KVMRT 2

MMC-Gamuda has awarded an additional KVMRT 2 advance work package to SCG worth MYR53m. The package entails the construction of 19 nos pile caps, 122 nos bored piles, re-alignment of Sg Midah, temporary decking as well as other associated works between the Kampung Muhibbah to Serdang Raya stretch. The works are expected to be completed by Sept 2017. Assuming a net margin of 5%, we forecast a net profit contribution of MYR2.7m (20sen EPS) into 2017.

Internal jobs continue to boost orderbook

SCG has also accepted a Letter of Intent from Sunway Iskandar Sdn Bhd for 1) construction of 88 units of office shop lots utilizing precast (MYR57m) and 2) earthworks and main building works for a proposed commercial retail complex development (MYR100m). Both the 88 units of shop lots and retail complex are located in the Medini (Johor) region and works are slated to begin on 1 Oct 2016 and are expected to be completed in 20 months/13 months respectively. Assuming a similar net margin of 5%, we forecast MYR7.9m net profit contribution (60sen EPS).

Impressive YTD job wins of MYR2.6b

SCG's outstanding orderbook remains robust at MYR5b. Total job wins YTD of MYR2.6b has also exceeded its internal target of MYR2.5b for 2016 (2015: MYR2.6b). We keep our earnings estimates having imputed MYR3.0b of job wins for 2016. SCG will continue to eye for jobs from KVLRT 3, TRX and Gemas-JB double track rail. Sunway Bhd's property development projects will also support SCG's forward orderbook.

FYE Dec (MYR m)	FY14A	FY15A	FY16E	FY17E	FY18E
Revenue	1,881	1,917	2,359	2,511	2,425
EBITDA	151	178	204	242	251
Core net profit	114	128	135	165	173
Core EPS (sen)	8.8	9.9	10.4	12.8	13.4
Core EPS growth (%)	20.9	11.9	5.7	22.1	4.9
Net DPS (sen)	30.5	4.0	3.7	4.5	4.7
Core P/E (x)	18.2	16.3	15.4	12.6	12.0
P/BV (x)	6.2	4.6	3.9	3.2	2.7
Net dividend yield (%)	19.0	2.5	2.3	2.8	2.9
ROAA (%)	8.4	9.2	8.5	9.4	9.3
EV/EBITDA (x)	na	8.7	8.4	6.6	6.0
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Consensus net profit	-	-	135	159	176
MKE vs. Consensus (%)	-	-	0.0	3.8	(1.7)

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BUY

Share Price MYR 1.61
12m Price Target MYR 1.80 (+12%)
Previous Price Target MYR 1.80

Company Description

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

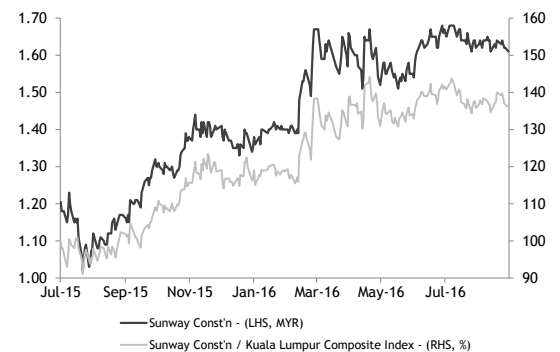
Statistics

52w high/low (MYR) 1.68/1.15
3m avg turnover (USDm) 0.8
Free float (%) 38.2
Issued shares (m) 1,293
Market capitalisation MYR2.1B
USD504M

Major shareholders:

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

Price Performance



	-1M	-3M	-12M
Absolute (%)	(1)	4	38
Relative to index (%)	0	2	33

Source: FactSet

Sunway Construction: Orderbook

At end-Jun 2016	Contract value (MYR m)	Outstanding (MYR m)
Infrastructure		
KVMRT 1, V4 (Sec 17 to Semantan)	1,173	18
KVMRT 2, V201 (Sg Buloh-Persiaran Dagang) #	1,213	1,199
Coastal Highway Southern Link	170	46
KVMRT 2, V201 (Advance works) #	53	53
Building		
Putrajaya Parcel F	1,610	1,292
KLCC (NEC + Package 2 & 2a)	646	349
HUKM (MEP works) #	66	66
International School of KL #	268	268
Others	93	26
Internal		
Sunway Velocity 2 Mall & Link Bridge	370	67
Sunway Velocity Hotel & Office #	113	64
Sunway Velocity Medical Centre #	185	160
Sunway Geo Retail Shops & Flexi Suites	153	24
Sunway medical Centre 3 (sub & superstructure)	167	65
Sunway Medical Centre 4 (2 towers) #	428	422
Sunway Iskandar - Citrine Svc Apt	213	71
Sunway Geo Retail Shops & Flexi Suites Phase 2	244	198
Sunway Lenang Phase 1A	96	13
Sunway Iskandar - Emerald Residences	175	152
Sunway Iskandar - 88 units shoplots #	57	57
Sunway Iskandar - Retail complex #	100	100
Others	135	46
Precast	888	380
TOTAL	8,604	4,969

Secured in 2016 YTD

Source: Company

FYE 31 Dec	FY14A	FY15A	FY16E	FY17E	FY18E
Key Metrics					
P/E (reported) (x)	16.7	16.3	15.4	12.6	12.0
Core P/E (x)	18.2	16.3	15.4	12.6	12.0
P/BV (x)	6.2	4.6	3.9	3.2	2.7
P/NTA (x)	6.3	4.7	3.9	3.2	2.8
Net dividend yield (%)	19.0	2.5	2.3	2.8	2.9
FCF yield (%)	6.6	10.2	7.9	7.9	7.0
EV/EBITDA (x)	na	8.7	8.4	6.6	6.0
EV/EBIT (x)	na	11.4	10.4	8.0	7.3
INCOME STATEMENT (MYR m)					
Revenue	1,880.7	1,916.9	2,359.0	2,511.2	2,424.8
Gross profit	395.4	403.0	433.4	480.5	494.3
EBITDA	151.2	178.2	204.0	241.8	251.0
Depreciation	(41.6)	(41.9)	(39.0)	(40.4)	(42.2)
EBIT	109.6	136.3	165.0	201.4	208.8
Net interest income / (exp)	0.7	4.5	6.6	9.6	12.4
Associates & JV	30.4	(0.1)	0.0	0.0	0.0
Exceptionals	10.6	0.0	0.0	0.0	0.0
Pretax profit	151.3	140.8	171.6	211.1	221.3
Income tax	(26.5)	(13.0)	(36.6)	(46.2)	(48.3)
Minorities	0.1	0.0	0.0	0.0	0.0
Reported net profit	124.8	127.7	135.0	164.9	173.0
Core net profit	114.2	127.7	135.0	164.9	173.0
BALANCE SHEET (MYR m)					
Cash & Short Term Investments	291.6	390.5	507.9	615.2	701.2
Accounts receivable	737.9	834.8	860.0	903.6	877.8
Inventory	20.2	17.3	26.4	27.8	26.4
Property, Plant & Equip (net)	178.7	162.5	168.3	175.7	179.6
Intangible assets	3.6	3.6	3.6	3.6	3.6
Investment in Associates & JVs	24.2	0.0	0.0	0.0	0.0
Other assets	16.0	106.4	106.4	106.4	106.4
Total assets	1,272.2	1,515.1	1,672.6	1,832.3	1,895.1
ST interest bearing debt	135.1	136.8	136.8	136.8	136.8
Accounts payable	791.3	913.3	983.0	1,035.5	985.8
LT interest bearing debt	0.1	0.0	0.0	0.0	0.0
Other liabilities	17.0	13.0	13.0	13.0	13.0
Total Liabilities	943.9	1,063.5	1,133.2	1,185.7	1,136.0
Shareholders Equity	333.5	451.0	538.8	646.0	758.4
Minority Interest	(5.2)	0.6	0.6	0.6	0.6
Total shareholder equity	328.3	451.7	539.4	646.6	759.0
Total liabilities and equity	1,272.2	1,515.1	1,672.6	1,832.3	1,895.1
CASH FLOW (MYR m)					
Pretax profit	151.3	140.8	171.6	211.1	221.3
Depreciation & amortisation	41.6	41.9	39.0	40.4	42.2
Adj net interest (income)/exp	0.7	4.5	6.6	9.6	12.4
Change in working capital	14.1	111.7	35.5	7.4	(22.5)
Cash taxes paid	(28.5)	(29.6)	(36.6)	(46.2)	(48.3)
Other operating cash flow	4.7	(33.4)	(6.6)	(9.6)	(12.4)
Cash flow from operations	183.9	236.0	209.5	212.7	192.6
Capex	(45.7)	(24.3)	(44.8)	(47.7)	(46.1)
Free cash flow	138.2	211.7	164.7	165.0	146.6
Dividends paid	(428.0)	(70.0)	(47.3)	(57.7)	(60.5)
Change in Debt	46.5	1.6	0.0	0.0	0.0
Other invest/financing cash flow	394.3	(25.3)	0.0	0.0	0.0
Net cash flow	151.0	118.0	117.4	107.3	86.0

FYE 31 Dec	FY14A	FY15A	FY16E	FY17E	FY18E
Key Ratios					
Growth ratios (%)					
Revenue growth	2.2	1.9	23.1	6.4	(3.4)
EBITDA growth	34.2	17.9	14.5	18.5	3.8
EBIT growth	56.8	24.4	21.1	22.0	3.7
Pretax growth	68.4	(7.0)	21.9	23.0	4.8
Reported net profit growth	86.5	2.3	5.7	22.1	4.9
Core net profit growth	20.9	11.9	5.7	22.1	4.9
Profitability ratios (%)					
EBITDA margin	8.0	9.3	8.6	9.6	10.4
EBIT margin	5.8	7.1	7.0	8.0	8.6
Pretax profit margin	8.0	7.3	7.3	8.4	9.1
Payout ratio	nm	40.5	35.0	35.0	35.0
DuPont analysis					
Net profit margin (%)	6.6	6.7	5.7	6.6	7.1
Revenue/Assets (x)	1.5	1.3	1.4	1.4	1.3
Assets/Equity (x)	3.8	3.4	3.1	2.8	2.5
ROAE (%)	na	na	na	na	na
ROAA (%)	8.4	9.2	8.5	9.4	9.3
Liquidity & Efficiency					
Cash conversion cycle	(10.6)	(50.5)	(43.9)	(47.7)	(51.2)
Days receivable outstanding	168.3	147.7	129.3	126.4	132.2
Days inventory outstanding	5.5	4.5	4.1	4.8	5.1
Days payables outstanding	184.4	202.7	177.3	178.9	188.5
Dividend cover (x)	0.3	2.5	2.9	2.9	2.9
Current ratio (x)	1.1	1.3	1.3	1.4	1.5
Leverage & Expense Analysis					
Asset/Liability (x)	1.3	1.4	1.5	1.5	1.7
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Net gearing (%) (excl. perps)	net cash	net cash	net cash	net cash	net cash
Net interest cover (x)	na	na	na	na	na
Debt/EBITDA (x)	0.9	0.8	0.7	0.6	0.5
Capex/revenue (%)	2.4	1.3	1.9	1.9	1.9
Net debt/ (net cash)	(156.4)	(253.6)	(371.1)	(478.3)	(564.4)

Source: Company; Maybank

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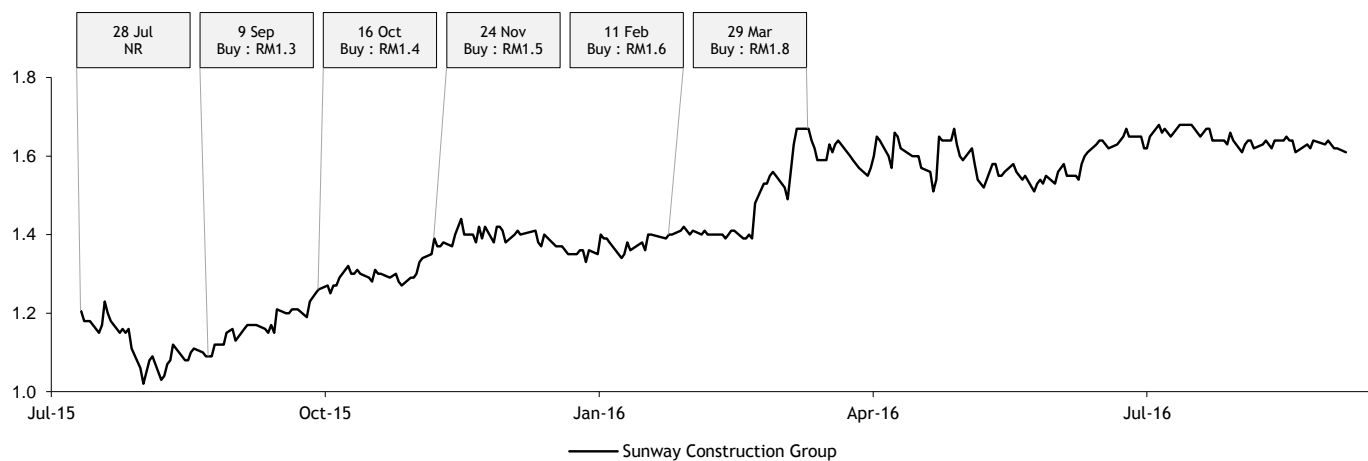
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