

Sunway Construction Group (SCGB MK)

Wins 2nd KVMRT 2 package

BUY

Share Price MYR 1.67
 12m Price Target MYR 1.80 (+8%)
 Previous Price Target MYR 1.65

Reiterate BUY at a higher TP of MYR1.80

SCG won a KVMRT 2 elevated viaduct package worth MYR1.2b, lifting its outstanding orderbook by 46% to MYR3.8b. Given the higher-than-expected contract value and further positive job win prospect, we raise our 2016 job win forecast, resulting in higher 2016/17/18 EPS forecasts by 2%-10%. There is still upside to our revised 2016 job win forecast and DPS. Reiterate BUY with a higher TP of MYR1.80 (+9%).

Bagged a KVMRT 2 MYR1.2b viaduct works

MRT Corp was reported that it has awarded a KVMRT 2 elevated viaduct package worth MYR1.21b to SCG. The contract value is above our expectation of MYR1.0b. The package entails constructing and completing the viaduct guideway and other associated works for a 4.9km stretch of the Sg. Buloh-Serdang-Putrajaya (SSP) Line's elevated alignment from Sg. Buloh to Persiaran Dagang. The works are estimated to complete by 2Q 2020.

Lifts orderbook by 46% to MYR3.8b

This is SCG's first major job win in 2016 boosting its outstanding orderbook by 46% to e.MYR3.8b. Assuming a pretax profit margin of 6%, we forecast a net profit contribution of MYR54m (4.2sen EPS) into 2020. We expect further job wins from the Pan Borneo Highway Sarawak, SUKE, DASH and KVLRT 3. Besides, SCG is eyeing also design-build buildings projects, foundation jobs and Sunway Group's property developments.

Further upside potential

Given SCG's strong job win prospect and the KVMRT 2 package value being above our estimate, we raise our 2016 job win forecast to MYR3.0b (+20%) resulting in higher 2016/17/18 EPS forecasts by +2%/+10%/+10%. Our new TP is MYR1.80 (+9%) on unchanged 13x 2017 PER. There is still upside to our 2016 job win forecast. DPS could also exceed estimate given its growing cash pile. Reiterate BUY.

Company Description

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

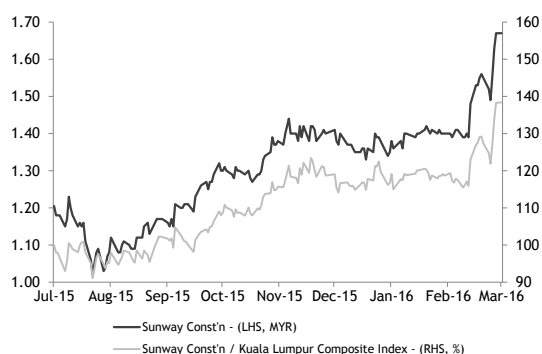
Statistics

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	MYR2.2B USD538M

Major shareholders:

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

Price Performance



	-1M	-3M	-12M
Absolute (%)	19	18	na
Relative to index (%)	17	16	na

Source: FactSet

FYE Dec (MYR m)	FY14A	FY15A	FY16E	FY17E	FY18E
Revenue	1,881	1,917	2,560	2,622	2,556
EBITDA	151	178	231	262	265
Core net profit	114	128	156	180	183
Core EPS (sen)	8.8	9.9	12.0	13.9	14.2
Core EPS growth (%)	20.9	11.9	21.9	15.6	1.8
Net DPS (sen)	30.5	4.0	4.2	4.9	5.0
Core P/E (x)	18.9	16.9	13.9	12.0	11.8
P/BV (x)	6.5	4.8	3.9	3.2	2.7
Net dividend yield (%)	18.3	2.4	2.5	2.9	3.0
ROAE (%)	24.1	32.6	31.0	29.5	25.1
ROAA (%)	8.4	9.2	9.5	9.8	9.4
EV/EBITDA (x)	na	8.7	7.6	6.3	5.9
Net debt/equity (%)	net cash	net cash	net cash	net cash	net cash
Consensus net profit	-	-	142	155	164
MKE vs. Consensus (%)	-	-	10.0	16.5	12.0

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FYE 31 Dec	FY14A	FY15A	FY16E	FY17E	FY18E
Key Metrics					
P/E (reported) (x)	17.3	16.9	13.9	12.0	11.8
Core P/E (x)	18.9	16.9	13.9	12.0	11.8
P/BV (x)	6.5	4.8	3.9	3.2	2.7
P/NTA (x)	6.5	4.8	3.9	3.2	2.8
Net dividend yield (%)	18.3	2.4	2.5	2.9	3.0
FCF yield (%)	6.4	9.8	9.5	7.7	7.5
EV/EBITDA (x)	na	8.7	7.6	6.3	5.9
EV/EBIT (x)	na	11.4	9.1	7.5	7.0
INCOME STATEMENT (MYR m)					
Revenue	1,880.7	1,916.9	2,559.5	2,622.3	2,555.5
Gross profit	395.4	403.0	460.6	500.5	508.3
EBITDA	151.2	178.2	231.3	261.8	265.0
Depreciation	(41.6)	(41.9)	(39.0)	(41.3)	(43.4)
EBIT	109.6	136.3	192.3	220.5	221.6
Net interest income / (exp)	0.7	4.5	6.6	10.5	13.2
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	198.8	230.9	234.8
Income tax	(26.5)	(13.0)	(43.1)	(51.0)	(51.6)
Minorities	0.1	0.0	0.0	0.0	0.0
Reported net profit	124.8	127.7	155.7	180.0	183.2
Core net profit	114.2	127.7	155.7	180.0	183.2
BALANCE SHEET (MYR m)					
Cash & Short Term Investments	291.6	390.5	540.2	643.7	741.4
Accounts receivable	737.9	834.8	920.4	937.1	917.2
Inventory	20.2	17.3	28.8	29.1	28.0
Property, Plant & Equip (net)	178.7	162.5	172.2	180.7	185.9
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	1,771.5	1,900.5	1,982.5
ST interest bearing debt	135.1	136.8	136.8	136.8	136.8
Accounts payable	791.3	913.3	1,068.5	1,080.5	1,043.4
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	1,218.6	1,230.7	1,193.6
Shareholders Equity	333.5	451.0	552.2	669.2	788.3
Minority Interest	(5.2)	0.6	0.6	0.6	0.6
Total shareholder equity	328.3	451.7	552.9	669.9	788.9
Total liabilities and equity	1,272.2	1,515.1	1,771.5	1,900.5	1,982.5
CASH FLOW (MYR m)					
Pretax profit	151.3	140.8	198.8	230.9	234.8
Depreciation & amortisation	41.6	41.9	39.0	41.3	43.4
Adj net interest (income)/exp	0.7	4.5	6.6	10.5	13.2
Change in working capital	14.1	111.7	58.1	(5.0)	(16.1)
Cash taxes paid	(28.5)	(29.6)	(43.1)	(51.0)	(51.6)
Other operating cash flow	4.7	(33.4)	(6.6)	(10.5)	(13.2)
Cash flow from operations	183.9	236.0	252.8	216.3	210.4
Capex	(45.7)	(24.3)	(48.6)	(49.8)	(48.6)
Free cash flow	138.2	211.7	204.2	166.4	161.9
Dividends paid	(428.0)	(70.0)	(54.5)	(63.0)	(64.1)
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	149.7	103.5	97.8

FYE 31 Dec	FY14A	FY15A	FY16E	FY17E	FY18E
Key Ratios					
Growth ratios (%)					
Revenue growth	2.2	1.9	33.5	2.5	(2.5)
EBITDA growth	34.2	17.9	29.8	13.2	1.2
EBIT growth	56.8	24.4	41.1	14.7	0.5
Pretax growth	68.4	(7.0)	41.3	16.1	1.7
Reported net profit growth	86.5	2.3	21.9	15.6	1.8
Core net profit growth	20.9	11.9	21.9	15.6	1.8
Profitability ratios (%)					
EBITDA margin	8.0	9.3	9.0	10.0	10.4
EBIT margin	5.8	7.1	7.5	8.4	8.7
Pretax profit margin	8.0	7.3	7.8	8.8	9.2
Payout ratio	nm	40.5	35.0	35.0	35.0
DuPont analysis					
Net profit margin (%)	6.6	6.7	6.1	6.9	7.2
Revenue/Assets (x)	1.5	1.3	1.4	1.4	1.3
Assets/Equity (x)	3.8	3.4	3.2	2.8	2.5
ROAE (%)	24.1	32.6	31.0	29.5	25.1
ROAA (%)	8.4	9.2	9.5	9.8	9.4
Liquidity & Efficiency					
Cash conversion cycle	(10.6)	(50.5)	(42.6)	(49.9)	(51.1)
Days receivable outstanding	168.3	147.7	123.4	127.5	130.6
Days inventory outstanding	5.5	4.5	3.9	4.9	5.0
Days payables outstanding	184.4	202.7	170.0	182.3	186.7
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 debt/equity (%)	net cash	net cash	net cash	net cash	net cash
Net interest cover (x)	na	na	na	na	na
Debt/EBITDA (x)	0.9	0.8	0.6	0.5	0.5
Capex/revenue (%)	2.4	1.3	1.9	1.9	1.9
Net debt/ (net cash)	(156.4)	(253.6)	(403.4)	(506.8)	(604.6)

Source: Company; Maybank

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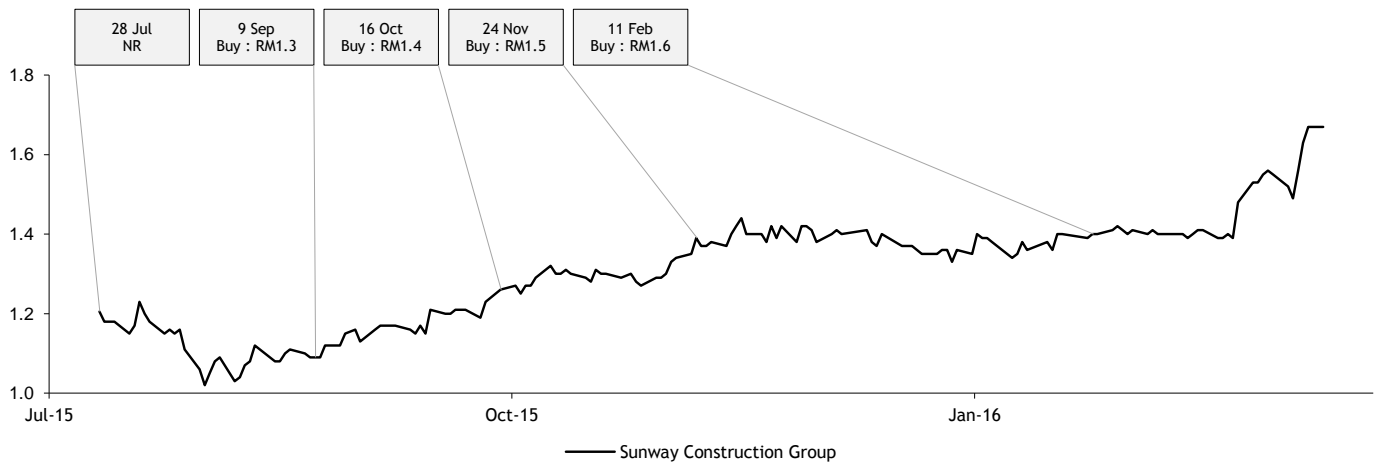
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