



Sunway Construction Group Berhad

Affected by Timing Difference in VO Recognition but Offset by Better Performance of Precast Division

TP: RM1.59(+14.4%)

Last traded: RM1.39

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BUY

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Results Review

- The 9M15 net profit of RM97.8mn came in within expectations, accounting for 72.5% and 76.4% of ours and consensus' full-year estimates.
- No dividend was declared in the current quarter.
- QoQ, net profit dropped 32.1% to RM25.7mn as the revenue was 10.0% lower at RM450.3mn. The drop in revenue was due to its civil works projects are coming to tail-end stage. Its PBT margin declined by 1.6% pts to 6.7% in 3Q15 due to timing difference in recognition of variation order as cost was incurred during the reporting quarter without corresponding revenue being recognized, pending certification of the variation order revenue.
- While the construction revenue eased 8.7% to RM394.0mn, the construction net profit plunged 74.4% to RM6.6mn for the reason stated above.
- The precast segment recorded 18.1% drop in revenue to RM56.3mn, but the segmental net profit surged 54.3% to RM18.6mn. This was due to high favourable forex rate from the manufacturing and sales of precast concrete in Singapore, and also from higher recognition of profit from the completed projects as a result of finalization of account.
- No YoY comparison available as SUNCON was just listed on 28 July 2015.

Impact

- Maintained.

Outlook

- Currently the company has an outstanding order book of about RM4.3bn (see Exhibit 1), which translates into 2.3x FY14 revenue. This could provide earning visibility for the next 2 years.
- Going forward, we are positive on the prospects of SUNCON as it is a strong contender for upcoming mega projects such as LRT line 3, KVMRT line 2, and BRT.

Valuation

- No change to target price of **RM1.59**, based on unchanged 14xCY16 EPS. Maintained our **BUY** call on **SUNCON**, given a total potential return of 17.6%, inclusive projected dividend yield of 3.3%.

Share Information

Bloomberg Code	SCGB MK
Bursa	SUNCON
Stock Code	5263
Listing	Main Market
Share Cap (mn)	1292.0
Market Cap (RMmn)	1795.9
Par Value	0.20
52-wk Hi/Lo (RM)	1.39/0.98
12-mth Avg Daily Vol ('000 shrs)	6970.8
Estimated Free Float (%)	37.9
Beta	0.61

Major Shareholders (%)

Sunholdings	- 54.42
Sungei Way Corp Sdn Bhd	- 6.78

Forecast Revision

	FY15	FY16
Forecast Revision (%)	-	-
Net profit (RMm)	134.9	146.6
Consensus	128.0	131.0
TA's / Consensus (%)	105.4	111.9
Previous Rating	Buy (Maintained)	

SCORECARD (%)

vs TA	72.5	Within
vs Consensus	76.4	Wlthin

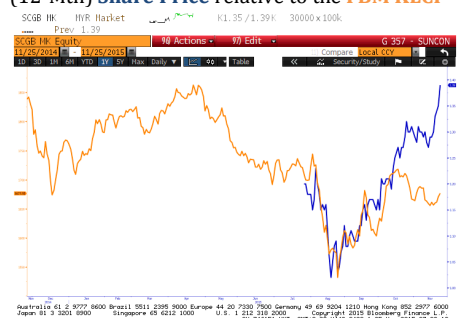
Financial Indicators

	FY15	FY16
Net Debt / Equity (%)	net cash	net cash
CFPS (sen)	4.6	4.8
Price / CFPS (x)	30.0	28.9
ROA (%)	9.8	9.8
NTA/Share (RM)	30.6	37.4
Price/NTA (x)	4.5	3.7

Share Performance (%)

Price Change	SCGB	FBM KLCI
1 mth	7.8	(2.0)
3 mth	35.0	9.5
6 mth	-	(6.2)
12 mth	-	(8.5)

(12-Mth) Share Price relative to the FBM KLCI



Source: Bloomberg

Earnings Summary

FYE Dec (RMmn)	2013	2014	2015F	2016F	2017F
Revenue	1,839.6	1,880.7	2,332.5	2,242.5	2,006.0
Gross profit	338.0	395.4	513.2	482.1	421.3
EBITDA	85.2	161.8	214.3	225.7	198.5
EBITDA margin (%)	4.6	8.6	9.2	10.1	9.9
EBIT	42.4	120.2	171.7	184.2	156.4
PBT	89.8	151.3	172.6	185.5	158.0
PAT	66.9	124.8	134.9	146.6	125.0
Core net profit	94.5	114.1	134.9	146.6	125.0
Core EPS (sen)	7.3	8.8	10.4	11.3	9.7
PER (x)	19.0	15.7	13.3	12.3	14.4
Gross dividend (sen)	na	na	4.2	4.5	3.9
Dividend yield (%)	na	na	3.0	3.3	2.8
ROE (%)	na	na	38.0	33.4	24.0

3Q15 Results Analysis (RMmn)

FYE Dec	3Q14	2Q15	3Q15	QoQ (%)	YoY (%)	6MFY14	9MFY15	YoY(%)
Revenue	na	500.2	450.3	(10.0)	na	0.0	1,446.6	na
Operating profit	na	41.3	28.2	(31.6)	na	0.0	108.7	na
Finance income	na	1.5	2.7	75.7	na	0.0	5.7	na
Finance costs	na	(1.2)	(0.8)	(33.2)	na	0.0	(3.0)	na
Profit before taxation	na	41.6	30.1	(27.5)	na	0.0	111.4	na
Income tax expense	na	(3.8)	(4.9)	30.3	na	0.0	(14.0)	na
Non-controlling interests	na	0.0	(0.5)	na	na	0.0	(0.4)	na
Net profit	na	37.8	25.7	(32.1)	na	0.0	97.8	na
Core net profit	na	37.8	25.7	(32.1)	na	0.0	97.8	na
Reported EPS (sen)	na	2.9	2.0	(32.2)	na	0.0	7.6	na
Core EPS (sen)	na	2.9	2.0	(32.2)	na	0.0	7.6	na
Dividend (sen)	na	0.00	0.00	#DIV/0!	na	0.0	0.0	na
Margin (%):				% pts	% pts			% pts
- Operating	na	8.3	6.3	(2.0)	8.3	na	7.5	na
- PBT	na	8.3	6.7	(1.6)	8.3	na	7.7	na
- PAT	na	7.6	5.6	(2.0)	7.6	na	6.7	na
- Effective tax rate	na	(9.1)	(16.4)	(7.3)	na	na	(12.6)	na

Exhibit 1: Ongoing projects

Project	Contract Value (RMmn)	Outstanding Amount (RMmn)
Infrastructure		
MRT Package V4 (Section 17 to Semantan)	1,173	373
LRT Kelana Jaya Line Extension (Package B)	569	66
Johor		
Urban Wellness Centre	283	39
Coastal Highway Southern Link	170	133
Others		
Putrajaya Parcel F	1,610	1,610
KLCC NEC	304	206
KLCC Package 2 (Piling and Substructure)	222	134
KLCC Package 2A (Substructure)	107	107
Others	87	43
Internal		
Sunway Velocity 2 Mall	350	136
Sunway Pyramid 3	193	43
Sunway Geo Retail Shop & Flexi Suites	153	112
Sunway Medical Centre Phase 3 (Sub & Superstructure)	167	134
Sunway Iskandar – Citrine Service Apartment (Superstructure)	213	146
Sunway Geo Retail Shops & Flexi Suites Phase 2	244	244
Sunway Lenang Phase 1A	96	68
Sunway Iskandar – Emerald Residences	175	141
Others	622	98
Singapore		
Precast	873	466
	7,610	4,298

Source: Company, TA Research

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