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Stock:	SCGB MK
Name:	Sunway Construction Group
Price:	RM2.32 (At 14:22, 24 August 2017 GMT)
Recommendation:	Outperform
12mth price target:	RM2.50
12-month TSR:	10.6%
Volatility index:	Low
Market Cap (m):	RM3,000
Market Cap (m):	US$701
Free float:	24%
Current valuation (PER):	RM1.80 - 2.65

Event

- Sunway Construction (SunCon) reported its 2Q17 results on 24 August 2017. Overall, results were in-line with MQ and consensus with 1H17 adjusted PAT at RM71.4mn (+18.4% YoY), tracking in-line with MQ and consensus full year estimates at 44% and 46%, respectively. Revenue in 1H17 dropped marginally to RM836.8mn (-2.1% YoY), tracking behind MQ and consensus full-year estimates at 35% and 38%, respectively.
- 1H17 earnings were backed by stronger margins from its construction division, with the division's EBIT margin expanded to 9.1% from 5.8% in 1H16. The lower revenue in 1H17 was mainly due to reduction in revenue from the precast segment. The group reported better margin mainly due to higher contribution from the construction segment.
- Other highlights: **(i)** 2Q17 revenue was at RM417.2mn (-3.0% YoY, -1.7% QoQ); **(ii)** 2Q17 adjusted PAT was at RM36.8mn (+17.7% YoY, +26.6% QoQ); and **(iii)** backed by slower order from its precast division, EBIT margins for the division dropped to 21% in 1H17 from 24.2% in 1H16. However, we understand that precast division EBIT margins can be volatile (20% to 25%) depending on the orders received from its main client - Singapore HDB.

Impact

- **Construction:** In 1H17, the construction division reported revenue of RM737.9mn (+0.5% YoY) however stronger margins have driven its PBT to RM64.8mn (+37.2% YoY). Margins expanded significantly as SunCon no longer has the loss-making project KVMRT1 in its order book.
- **Precast:** In 1H17, the precast division reported revenue of RM98.9mn (-17.8% YoY) and PBT of RM22.1mn (-22.2% YoY). The stronger results from the precast division in 1H16 as compared to 1H17 were mainly due to a finalization of accounts, which also took into account the variation orders from the client. While the division's margins have shrunk, we believe it is still within the acceptable range for the business.
- The increase in steel prices could be one of the main factors for margin decline going forward. As for the KVMRT2 project, SunCon clarified that the building material prices are on a cost plus basis agreement with the government, which means any price movements from building materials will be absorbed by the government. However, SunCon added that for LRT3, the building material costs could not be passed on to the government.
- We have imputed an orderbook replenishment of RM2bn for SunCon, backed by the LRT3 and KL-Klang BRT projects. YTD SunCon has secured close to RM1bn of new orders. SunCon is also poised to get more internal jobs from its parent company, Sunway Berhad, as the group is looking to monetize the five new land banks it has purchased in the near term.

Action and recommendation

- Maintain Outperform.

December		2016A	2017E	2018E	2019E
Revenue	m	1,788.8	2,377.6	2,483.4	2,294.4
Adjusted profit	m	123.5	161.2	177.6	156.0
Capex	m	19.0	46.9	52.1	57.8

EPS rep	sen	9.6	12.5	13.7	12.1
EPS rep growth	%	-2.9	30.5	10.2	-12.2
EPS adj	sen	9.6	12.5	13.7	12.1
EPS adj growth	%	-2.9	30.5	10.2	-12.2
PER rep	x	24.3	18.6	16.9	19.2
PER adj	x	24.3	18.6	16.9	19.2
Total DPS	sen	6.5	6.2	6.9	4.1
Total div yield	%	2.8	2.7	3.0	1.7
ROA	%	9.7	11.8	11.5	9.6
ROE	%	26.2	30.2	28.7	22.2
EV/EBITDA	x	14.1	10.7	9.8	10.7
Net debt/equity	%	-66.9	-72.7	-74.8	-76.9
P/BV	x	6.1	5.2	4.5	4.0
EBITDA	m	188.6	248.3	273.3	248.7
Net Debt/EBITDA	x	-1.8	-1.7	-1.8	-2.3
Payout ratio	%	68.0	50.0	50.0	33.6
FCF Yield	%	2.0	6.5	5.6	5.1

*All values are in MYR unless otherwise stated.
Source: Company data, Macquarie Research, Aug 2017.

SCGB MK rel KLCI performance, & rec history

Note: Recommendation timeline - if not a continuous line, then there was no Macquarie coverage at the time or there was an embargo period.
Source: FactSet, Macquarie Research, August 2017
(all figures in MYR unless noted)

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