

Sunway Construction Group (SCGB MK)

Secures MYR582m PPA1M contract

Maintain HOLD

SCG's latest job win positively lifts its outstanding orderbook to MYR4.7b, enhancing medium-term earnings visibility. We raise our job win assumption for FY17 to MYR2b (from MYR1b) with SCG having already secured MYR1.57b YTD 2017. Assuming the additional MYR1b of job wins only contribute to earnings from FY18 onwards, our FY18/FY19 earnings forecasts are raised by 14%/34%. SCG remains a HOLD with unchanged TP of MYR2.30 pegged to lower 16x (+1 SD) FY18 PER (from 18x).

Secures MYR582m PPA1M contract

Sunway Construction S/B, a 100%-subsidiary, had on 14 Sept 2017, accepted an award from Lizzy Standaco Sdn Bhd for the proposed construction and completion of 2,160 units, across 6 blocks of 29-storey Perumahan Penjawat Awam 1Malaysia (PPA1M) apartments, located at Mukim Kg Sireh, Jajahan Kota Bharu, Kelantan for MYR582m. The construction period is 30 months with the construction expected to be completed by 1Q20.

Raise our job win target for FY17 to MYR2b

This latest contract win lifts SCG's outstanding construction orderbook to MYR4.7b from MYR4.3b as of end-June 2017. Assuming an 8% pretax margin, we estimate a net profit contribution of MYR35m (2.7sen EPS) over the construction period, into FY20. With the latest job award, SCG's YTD orderbook replenishment has hit MYR1.57b, closing in on its MYR2b internal target for FY17. Having only assumed MYR1b of job wins, we raise our conservative job win assumption for FY17 to MYR2b. Our FY17 earnings forecast is unchanged, assuming the additional MYR1b of job wins to begin to contribute only from FY18. Our FY18/FY19 earnings are raised by 14%/34% respectively.

A record year for its orderbook?

We believe SCG's MYR2b target is achievable with SCG still eyeing for jobs from KVLRT 3, TRX and the KL-Klang BRT. Another sizeable win in FY17 would see SCG hit a new record high outstanding orderbook value (high was MYR4.9b as of end-Mar 2017). However, we believe the positives have been priced in to an extent and strong earnings delivery in 2018 could be a further re-rating catalyst for the stock.

FYE Dec (MYR m)	FY15A	FY16A	FY17E	FY18E	FY19E
Revenue	1,917	1,789	2,347	2,413	2,460
EBITDA	178	188	211	258	229
Core net profit	127	124	146	186	165
Core EPS (sen)	9.8	9.6	11.3	14.4	12.7
Core EPS growth (%)	11.4	(2.9)	18.4	27.1	(11.4)
Net DPS (sen)	4.0	5.0	4.0	5.0	4.5
Core P/E (x)	23.4	24.1	20.3	16.0	18.1
P/BV (x)	6.6	6.0	5.1	4.2	3.6
Net dividend yield (%)	1.7	2.2	1.7	2.2	1.9
ROAE (%)	32.4	26.2	27.0	28.6	21.6
ROAA (%)	9.5	8.2	8.0	8.7	7.2
EV/EBITDA (x)	8.7	9.9	11.3	8.8	9.4
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Consensus net profit	-	-	151	169	180
MKE vs. Consensus (%)	-	-	(2.9)	9.9	(8.8)

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HOLD

Share Price MYR 2.30
12m Price Target MYR 2.30 (+0%)
Previous Price Target MYR 2.30

Company Description

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

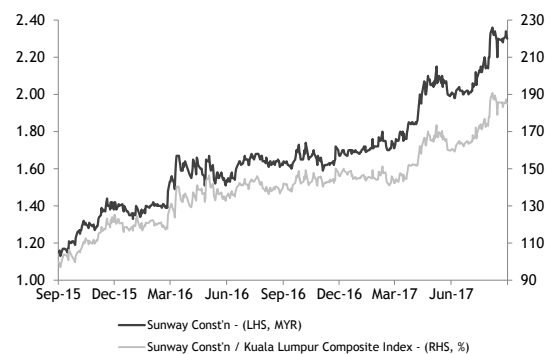
Statistics

Shariah status	Yes
52w high/low (MYR)	2.36/1.59
3m avg turnover (USDm)	0.9
Free float (%)	24.2
Issued shares (m)	1,293
Market capitalisation	MYR3.0B USD707M

Major shareholders:

Sunway Bhd.	54.4%
Active Equity Sdn. Bhd.	10.1%
True Paragon Sdn. Bhd.	3.9%

Price Performance



	-1M	-3M	-12M
Absolute (%)	7	15	42
Relative to index (%)	7	16	32

Source: FactSet

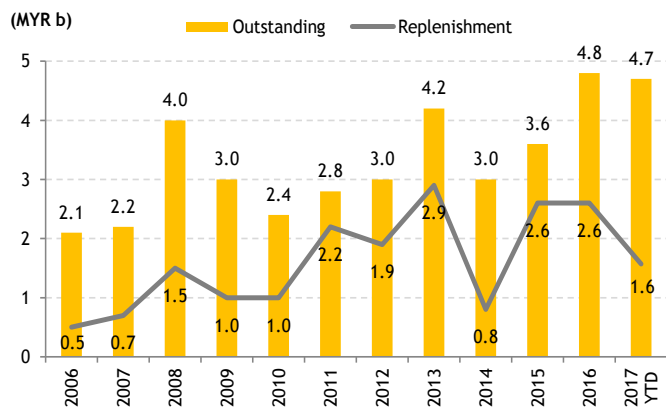
Sunway Construction: 2017 new awards

	Contract value (MYR m)
Infrastructure	
MRT S201: 3 Elevated Stations#	212
SUKE - Cheras to Ulu Kelang - Bore Piling #	18
DASH - Puncak Perdana to Kota Damansara - Bore Piling #	16
BBCC - Piling Work	34
Mega Capital - Piling Work	9
Building	
Gas District Cooling (Plant 1) #	152
PPA1M project in Kota Bahru	582
Internal	
Sunway Serene - Kelana Jaya Condo #	449
Sunway South Quay - CP3 Walkway	4
Precast	
	97
TOTAL	1,573

Contract sum is part of MRT V201 Package - MYR1.213b

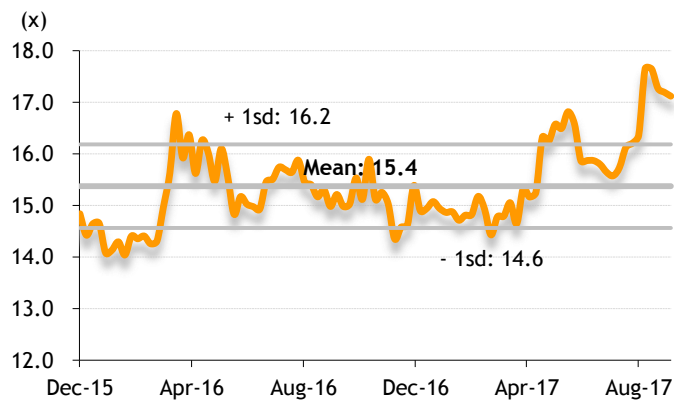
Source: Company

Outstanding orderbook YTD 2017



Source: Company data, Maybank Kim Eng

Forward PER Chart



Source: Company data, Maybank Kim Eng

FYE 31 Dec	FY15A	FY16A	FY17E	FY18E	FY19E
Key Metrics					
P/E (reported) (x)	12.6	16.5	20.3	16.0	18.1
Core P/E (x)	23.4	24.1	20.3	16.0	18.1
P/BV (x)	6.6	6.0	5.1	4.2	3.6
P/NTA (x)	6.6	6.1	5.1	4.2	3.7
Net dividend yield (%)	1.7	2.2	1.7	2.2	1.9
FCF yield (%)	7.3	2.3	10.7	5.5	5.9
EV/EBITDA (x)	8.7	9.9	11.3	8.8	9.4
EV/EBIT (x)	11.4	12.5	13.4	10.3	11.3
INCOME STATEMENT (MYR m)					
Revenue	1,916.9	1,788.8	2,347.4	2,413.4	2,459.9
Gross profit	388.4	379.0	424.8	478.9	456.3
EBITDA	178.2	188.3	211.2	258.0	228.8
Depreciation	(41.9)	(39.1)	(33.2)	(35.9)	(38.3)
EBIT	136.3	149.2	178.0	222.1	190.5
Net interest income / (exp)	4.5	4.4	8.6	15.5	18.1
Associates & JV	(0.1)	0.0	0.0	0.0	0.0
Exceptionals	0.0	0.0	0.0	0.0	0.0
Pretax profit	140.8	153.7	186.5	237.5	208.5
Income tax	(13.0)	(30.0)	(40.3)	(51.8)	(44.0)
Minorities	(0.6)	(0.1)	0.0	0.0	0.0
Reported net profit	127.2	123.5	146.2	185.8	164.5
Core net profit	127.2	123.5	146.2	185.8	164.5
Preferred Dividends	0.0	0.0	0.0	0.0	0.0
BALANCE SHEET (MYR m)					
Cash & Short Term Investments	390.5	465.8	732.5	831.2	950.2
Accounts receivable	717.1	938.4	1,123.8	1,151.1	1,170.5
Inventory	17.3	24.0	26.3	26.5	27.4
Property, Plant & Equip (net)	161.8	138.4	149.8	159.7	168.1
Intangible assets	0.7	2.3	2.3	2.3	2.3
Investment in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other assets	110.1	28.5	28.5	28.5	28.5
Total assets	1,397.4	1,597.3	2,063.2	2,199.3	2,347.1
ST interest bearing debt	136.8	136.5	136.5	136.5	136.5
Accounts payable	795.6	955.0	1,325.8	1,341.2	1,382.0
LT interest bearing debt	0.0	0.0	0.0	0.0	0.0
Other liabilities	13.0	12.0	12.0	12.0	12.0
Total Liabilities	945.8	1,103.5	1,474.4	1,489.7	1,530.6
Shareholders Equity	451.0	493.0	588.1	708.8	815.8
Minority Interest	0.6	0.8	0.8	0.8	0.8
Total shareholder equity	451.7	493.8	588.8	709.6	816.5
Perpetual securities	0.0	0.0	0.0	0.0	0.0
Total liabilities and equity	1,397.4	1,597.3	2,063.2	2,199.3	2,347.1
CASH FLOW (MYR m)					
Pretax profit	140.8	153.7	186.5	237.5	208.5
Depreciation & amortisation	41.9	39.1	33.2	35.9	38.3
Adj net interest (income)/exp	4.5	4.4	8.6	15.5	18.1
Change in working capital	64.9	(58.7)	183.1	(12.1)	20.5
Cash taxes paid	(29.6)	(26.5)	(40.3)	(51.8)	(44.0)
Other operating cash flow	17.0	(26.4)	(8.6)	(15.5)	(18.1)
Cash flow from operations	239.6	85.6	362.5	209.6	223.4
Capex	(23.7)	(17.0)	(44.6)	(45.9)	(46.7)
Free cash flow	215.9	68.7	317.9	163.7	176.6
Dividends paid	(70.0)	(84.0)	(51.2)	(65.0)	(57.6)
Change in Debt	1.6	(0.3)	0.0	0.0	0.0
Other invest/financing cash flow	(25.3)	91.7	0.0	0.0	0.0
Net cash flow	122.3	76.0	266.7	98.7	119.1

FYE 31 Dec	FY15A	FY16A	FY17E	FY18E	FY19E
Key Ratios					
Growth ratios (%)					
Revenue growth	1.9	(6.7)	31.2	2.8	1.9
EBITDA growth	17.9	5.7	12.2	22.2	(11.3)
EBIT growth	24.4	9.5	19.2	24.8	(14.2)
Pretax growth	(7.0)	9.2	21.4	27.4	(12.2)
Reported net profit growth	1.9	(2.9)	18.4	27.1	(11.4)
Core net profit growth	11.4	(2.9)	18.4	27.1	(11.4)
Profitability ratios (%)					
EBITDA margin	9.3	10.5	9.0	10.7	9.3
EBIT margin	7.1	8.3	7.6	9.2	7.7
Pretax profit margin	7.3	8.6	7.9	9.8	8.5
Payout ratio	40.7	52.3	35.0	35.0	35.0
DuPont analysis					
Net profit margin (%)	6.6	6.9	6.2	7.7	6.7
Revenue/Assets (x)	1.4	1.1	1.1	1.1	1.0
Assets/Equity (x)	3.1	3.2	3.5	3.1	2.9
ROAE (%)	32.4	26.2	27.0	28.6	21.6
ROAA (%)	9.5	8.2	8.0	8.7	7.2
Liquidity & Efficiency					
Cash conversion cycle	(45.8)	(51.6)	(50.7)	(73.6)	(69.9)
Days receivable outstanding	136.6	166.6	158.1	169.7	169.9
Days inventory outstanding	4.4	5.3	4.7	4.9	4.8
Days payables outstanding	186.9	223.5	213.5	248.1	244.7
Dividend cover (x)	2.5	1.9	2.9	2.9	2.9
Current ratio (x)	1.3	1.3	1.3	1.4	1.4
Leverage & Expense Analysis					
Asset/Liability (x)	1.5	1.4	1.4	1.5	1.5
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)	0.8	0.7	0.6	0.5	0.6
Capex/revenue (%)	1.2	0.9	1.9	1.9	1.9
Net debt/ (net cash)	(253.6)	(329.3)	(595.9)	(694.7)	(813.7)

Source: Company; Maybank

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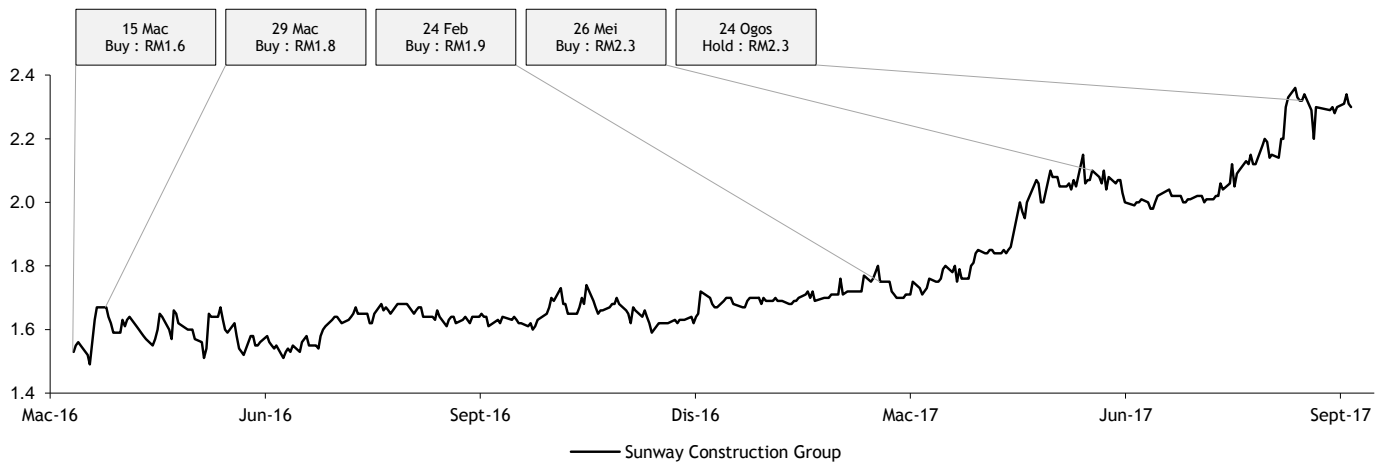
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