

21 November 2017

Construction &amp; Engineering | Engineering &amp; Construction

## Sunway Construction Group

**Buy** (Maintained)

Target Price: MYR2.70

Price: MYR2.40

Market Cap: USD745m

Bloomberg Ticker: SCGB MK

### Look Forward To a Busy 2018

Sunway Construction's 9M17 net profit was within our and market expectations. Net profit grew 15.9% YoY, underpinned by ongoing jobs with higher margins. We revise our TP to MYR2.70 (from MYR2.60, 13% upside), based on a 2018F P/E of 16x. We believe the stock deserves to trade at a premium to the construction sector's 3-year average P/E of 14x, mainly due to its MYR6.8bn outstanding orderbook, as well as recurring orders from its parent company and key blue-chip clients. Maintain BUY.

**9M17 earnings are within expectations.** Sunway Construction's 9M17 net profit of MYR106m was within our and market expectations, making up 71% of our and market estimates respectively. Revenue improved 7.5% YoY, mainly due to higher contribution from its construction segment as a result of higher work progress from the Mass Rapid Transit Line 2 (MRT2) project (ie package V201). Net profit grew 15.9% YoY, on higher-margin ongoing construction jobs.

**Maintain BUY.** With its tender book value at more than MYR15bn, we lift our orderbook replenishment target for both FY18 and FY19 to MYR2.2bn (from MYR1.8bn). Having said that, we also upgrade FY18F-19F earnings by 4% respectively. Our higher TP of MYR2.70 is pegged to 2018F P/E of 16x. We believe Sunway Construction deserves to trade above the construction sector's 3-year average P/E of 14x. This is due to its solid MYR6.8bn outstanding orderbook, as well as recurring orders from its parent company and key blue-chip clients comprising Petronas, Khazanah Nasional, MRT Corp and Prasarana Malaysia. Key risks include weaker-than-expected margins and possible cost overruns.

**Figure 1: Sunway Construction's results review**

FYE Dec (MYRm)	3Q16	2Q17	3Q17	QoQ (%)	YoY (%)	9M16	9M17	YoY (%)	Comments
Revenue	381.1	417.2	491.4	17.8	28.9	1,235.7	1,328.1	7.5	Higher contribution from the construction segment, which compensated for the reduction in revenue from the precast segment
EBIT	39.6	41.7	42.4	1.7	7.2	112.5	126.2	12.1	
EBIT Margin (%)	10.4	10.0	8.6			9.1	9.5		
Interest expense	(2.4)	(1.3)	(2.0)	54.7	(19.2)	(4.5)	(4.3)	(4.7)	
Interest income	3.3	2.3	2.6	13.2	(19.8)	8.0	8.1	1.5	
Associates	0.0	0.0	0.0	nm	nm	0.0	0.0	nm	
EI/Others	0.0	0.0	0.0	nm	nm	0.0	0.0	nm	
Pretax profit	40.4	42.8	43.1	0.7	6.6	116.0	130.0	12.0	
Pretax Margin (%)	10.6	10.3	8.8			9.4	9.8		
Tax	(9.1)	(6.1)	(8.6)	41.6	(5.7)	(24.4)	(24.2)	(0.8)	
Effective tax rate (%)	(22.6)	(14.2)	(20.0)			(21.0)	(18.6)		Lower than Malaysia's statutory tax rate of 24%, due to the lower tax rate payable of 17% by the Singapore subsidiary
Minority Interest	(0.1)	0.1	0.1	0.0	0.0	0.0	0.0	0.0	
Net Profit	31.1	36.8	34.6	(6.0)	11.1	91.5	106.0	15.9	Within expectations
Core Profit	31.1	36.8	34.6	(6.0)	11.1	91.5	106.0	15.9	
Core Net Margin (%)	8.2	8.8	7.0			7.4	8.0		Better margin from the construction unit

Source: RHB

Forecasts and Valuations	Dec-15	Dec-16	Dec-17F	Dec-18F	Dec-19F
Total turnover (MYRm)	1,917	1,789	2,238	2,970	3,164
Reported net profit (MYRm)	127	124	153	200	218
Recurring net profit (MYRm)	127	124	153	200	218
Recurring net profit growth (%)	11.4	(2.9)	24.1	30.6	9.1
Recurring EPS (MYR)	0.10	0.10	0.12	0.15	0.17
DPS (MYR)	0.04	0.05	0.04	0.05	0.06
Recurring P/E (x)	24.4	25.1	20.2	15.5	14.2
P/B (x)	6.88	6.29	5.23	4.29	3.59
P/CF (x)	39.0	na	11.6	11.1	11.3
Dividend Yield (%)	1.7	2.1	1.7	2.3	2.4
EV/EBITDA (x)	16.1	14.8	10.7	7.9	6.9
Return on average equity (%)	32.4	26.2	28.2	30.4	27.5
Net debt to equity	net cash	net cash	net cash	net cash	net cash
Our vs consensus EPS (adjusted) (%)			(2.8)	18.2	0.0

Source: Company data, RHB

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