

# Sunway Construction Group (SCGB MK)

## Awaiting next catalyst

# HOLD

[Prior:BUY]

Share Price MYR 2.62  
 12m Price Target MYR 2.63 (+0%)  
 Previous Price Target MYR 2.63

### D/G to HOLD

Continuous job wins in FY17 have seen SCG's outstanding orderbook hit a record high of MYR6.8b. Share price has done well, up 52% since the beginning of 2017, from the euphoria of orderbook replenishment. With share price having reached our TP of MYR2.63, pegged to 16x FY18 PER, we downgrade SCG to a HOLD. Stronger-than-expected earnings delivery and/or job wins in FY18 could be a further re-rating catalyst.

### Superb year for orderbook replenishment

SCG had a phenomenal year, securing MYR4b of new jobs (including precast) to bring its outstanding orderbook to a record high of MYR6.8b as at end-Sep 2017 (including KVLRT 3). Its single largest job win was the KVLRT 3 package GS07-08 worth MYR2.2b, awarded in Oct 2017. Moving into 2018, SCG has set an internal target of MYR2b of job wins. We believe this could come from TRX and property developments within the Sunway Group. SCG has also teamed up with IJM (IJM MK, BUY, TP: MYR3.40) and another 2 private contractors to bid for the PDP role for the KL-SG HSR civil infrastructure works (Malaysian portion).

### Earnings in focus

After the euphoria of orderbook replenishment in 2017, translation of orderbook to net profit growth will be in focus in FY18. Based on our current forecast, we expect YoY net profit growth of 45% in FY18 (3Y-CAGR of 19% from FY15-18E). We have assumed a conservative MYR1.5b of job wins for FY18E.

### Valuations are fair

With SCG currently trading at 15.9x FY18 PER (+1.5 SD), we believe valuations are fair. With share price having reached our TP of MYR2.63 pegged to 16x FY18 PER, we downgrade SCG to a HOLD. We continue to like the stock for its strong construction delivery track record; we await the next catalyst.

### Company Description

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

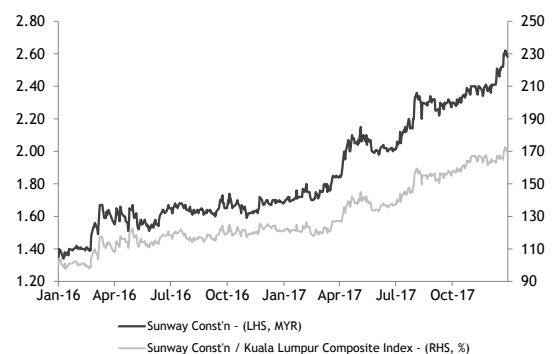
### Statistics

Shariah status	Yes
52w high/low (MYR)	2.62/1.68
3m avg turnover (USDm)	1.0
Free float (%)	26.8
Issued shares (m)	1,293
Market capitalisation	MYR3.4B USD853M

### Major shareholders:

Sunway Bhd.	54.4%
Active Equity Sdn. Bhd.	10.1%
Permodalan Nasional Bhd.	4.0%

### Price Performance



	-1M	-3M	-12M
Absolute (%)	9	13	55
Relative to index (%)	4	9	43

Source: FactSet

FYE Dec (MYR m)	FY15A	FY16A	FY17E	FY18E	FY19E
Revenue	1,917	1,789	2,347	2,814	3,272
EBITDA	178	188	211	293	302
Core net profit	127	124	146	213	220
Core EPS (sen)	9.8	9.6	11.3	16.4	17.0
Core EPS growth (%)	11.4	(2.9)	18.4	45.4	3.5
Net DPS (sen)	4.0	5.0	4.0	5.8	6.0
Core P/E (x)	26.6	27.4	23.2	15.9	15.4
P/BV (x)	7.5	6.9	5.8	4.7	3.9
Net dividend yield (%)	1.5	1.9	1.5	2.2	2.3
ROAE (%)	32.4	26.2	27.0	32.4	27.6
ROAA (%)	9.5	8.2	8.0	9.4	8.2
EV/EBITDA (x)	8.7	9.9	13.2	8.9	8.0
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Consensus net profit	-	-	146	189	213
MKE vs. Consensus (%)	-	-	0.1	12.5	3.6

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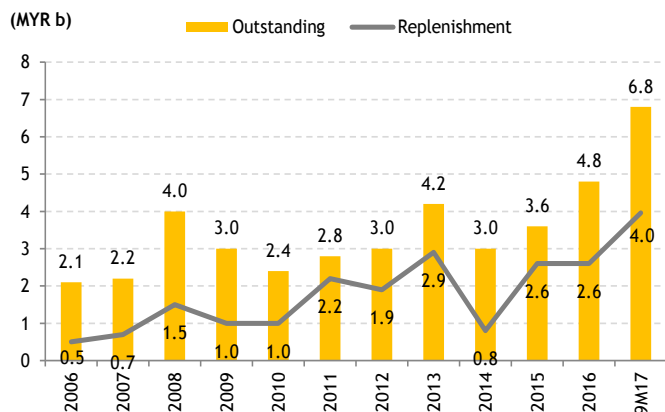
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Sunway Construction: 2017 new wins

	Contract value (MYR m)
<b>Infrastructure</b>	
KVLRT 3 : Package GS07-08	2,178
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
Ahmad Zaki - Substructure works	75
<b>Building</b>	
Gas District Cooling (Plant 1)	152
PPA1M project in Kota Bahru	582
Warehouse in Shah Alam	70
<b>Internal</b>	
Sunway Serene - Kelana Jaya Condo	449
Sunway South Quay - CP3 Walkway	4
<b>Precast</b>	
	163
<b>TOTAL</b>	<b>3,962</b>

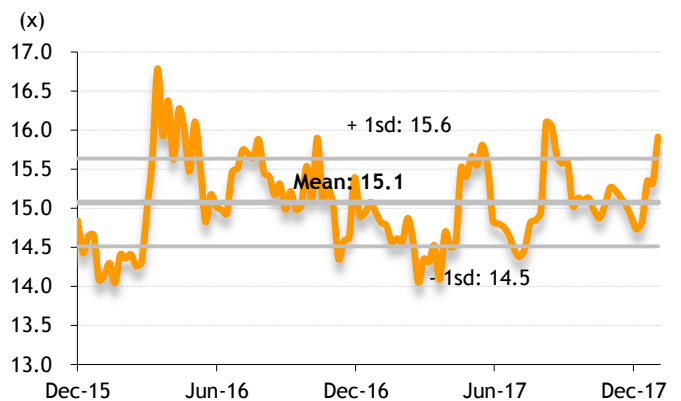
# Contract sum is part of MRT V201 Package - MYR1.213b  
 Source: Company

Outstanding orderbook as of end-Sept 2017 (inc KVLRT 3)



Including precast; End-Sept job wins (inc KVLRT 3) for construction and precast stand at MYR3.8b and MYR163m respectively (totalling MYR4.0b)  
 Source: Company data, Maybank Kim Eng

12M forward PER



Source: Company data, Maybank Kim Eng

FYE 31 Dec	FY15A	FY16A	FY17E	FY18E	FY19E
<b>Key Metrics</b>					
P/E (reported) (x)	12.6	16.5	23.2	15.9	15.4
Core P/E (x)	26.6	27.4	23.2	15.9	15.4
P/BV (x)	7.5	6.9	5.8	4.7	3.9
P/NTA (x)	7.5	6.9	5.8	4.7	3.9
Net dividend yield (%)	1.5	1.9	1.5	2.2	2.3
FCF yield (%)	6.4	2.0	9.4	7.4	8.4
EV/EBITDA (x)	8.7	9.9	13.2	8.9	8.0
EV/EBIT (x)	11.4	12.5	15.7	10.2	9.2
<b>INCOME STATEMENT (MYR m)</b>					
Revenue	1,916.9	1,788.8	2,347.4	2,814.4	3,271.7
Gross profit	388.4	379.0	424.8	514.2	529.9
EBITDA	178.2	188.3	211.2	293.3	302.4
Depreciation	(41.9)	(39.1)	(33.2)	(35.9)	(40.2)
EBIT	136.3	149.2	178.0	257.4	262.2
Net interest income / (exp)	4.5	4.4	8.6	15.5	20.1
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	272.9	282.3
Income tax	(13.0)	(30.0)	(40.3)	(60.3)	(62.1)
Minorities	(0.6)	(0.1)	0.0	0.0	0.0
Reported net profit	127.2	123.5	146.2	212.6	220.1
Core net profit	127.2	123.5	146.2	212.6	220.1
Preferred Dividends	0.0	0.0	0.0	0.0	0.0
<b>BALANCE SHEET (MYR m)</b>					
Cash & Short Term Investments	390.5	465.8	732.5	907.9	1,117.0
Accounts receivable	717.1	938.4	1,123.8	1,318.2	1,508.8
Inventory	17.3	24.0	26.3	31.5	37.6
Property, Plant & Equip (net)	161.8	138.4	149.8	167.3	189.3
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
<b>Total assets</b>	<b>1,397.4</b>	<b>1,597.3</b>	<b>2,063.2</b>	<b>2,455.7</b>	<b>2,883.5</b>
ST interest bearing debt	136.8	136.5	136.5	136.5	136.5
Accounts payable	795.6	955.0	1,325.8	1,580.1	1,864.9
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
<b>Total Liabilities</b>	<b>945.8</b>	<b>1,103.5</b>	<b>1,474.4</b>	<b>1,728.7</b>	<b>2,013.4</b>
Shareholders Equity	451.0	493.0	588.1	726.3	869.4
Minority Interest	0.6	0.8	0.8	0.8	0.8
<b>Total shareholder equity</b>	<b>451.7</b>	<b>493.8</b>	<b>588.8</b>	<b>727.0</b>	<b>870.1</b>
Perpetual securities	0.0	0.0	0.0	0.0	0.0
<b>Total liabilities and equity</b>	<b>1,397.4</b>	<b>1,597.3</b>	<b>2,063.2</b>	<b>2,455.7</b>	<b>2,883.5</b>
<b>CASH FLOW (MYR m)</b>					
Pretax profit	140.8	153.7	186.5	272.9	282.3
Depreciation & amortisation	41.9	39.1	33.2	35.9	40.2
Adj net interest (income)/exp	4.5	4.4	8.6	15.5	20.1
Change in working capital	64.9	(58.7)	183.1	54.8	88.1
Cash taxes paid	(29.6)	(26.5)	(40.3)	(60.3)	(62.1)
Other operating cash flow	17.0	(26.4)	(8.6)	(15.5)	(20.1)
Cash flow from operations	239.6	85.6	362.5	303.3	348.4
Capex	(23.7)	(17.0)	(44.6)	(53.5)	(62.2)
Free cash flow	215.9	68.7	317.9	249.9	286.2
Dividends paid	(70.0)	(84.0)	(51.2)	(74.4)	(77.0)
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
<b>Net cash flow</b>	<b>122.3</b>	<b>76.0</b>	<b>266.7</b>	<b>175.4</b>	<b>209.1</b>

FYE 31 Dec	FY15A	FY16A	FY17E	FY18E	FY19E
<b>Key Ratios</b>					
<b>Growth ratios (%)</b>					
Revenue growth	1.9	(6.7)	31.2	19.9	16.2
EBITDA growth	17.9	5.7	12.2	38.9	3.1
EBIT growth	24.4	9.5	19.2	44.6	1.9
Pretax growth	(7.0)	9.2	21.4	46.3	3.4
Reported net profit growth	1.9	(2.9)	18.4	45.4	3.5
Core net profit growth	11.4	(2.9)	18.4	45.4	3.5
<b>Profitability ratios (%)</b>					
EBITDA margin	9.3	10.5	9.0	10.4	9.2
EBIT margin	7.1	8.3	7.6	9.1	8.0
Pretax profit margin	7.3	8.6	7.9	9.7	8.6
Payout ratio	40.7	52.3	35.0	35.0	35.0
<b>DuPont analysis</b>					
Net profit margin (%)	6.6	6.9	6.2	7.6	6.7
Revenue/Assets (x)	1.4	1.1	1.1	1.1	1.1
Assets/Equity (x)	3.1	3.2	3.5	3.4	3.3
ROAE (%)	32.4	26.2	27.0	32.4	27.6
ROAA (%)	9.5	8.2	8.0	9.4	8.2
<b>Liquidity &amp; Efficiency</b>					
Cash conversion cycle	(45.8)	(51.6)	(50.7)	(66.7)	(66.1)
Days receivable outstanding	136.6	166.6	158.1	156.2	155.5
Days inventory outstanding	4.4	5.3	4.7	4.5	4.5
Days payables outstanding	186.9	223.5	213.5	227.4	226.2
Dividend cover (x)	2.5	1.9	2.9	2.9	2.9
Current ratio (x)	1.3	1.3	1.3	1.3	1.3
<b>Leverage &amp; Expense Analysis</b>					
Asset/Liability (x)	1.5	1.4	1.4	1.4	1.4
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	0.5
Capex/revenue (%)	1.2	0.9	1.9	1.9	1.9
Net debt/ (net cash)	(253.6)	(329.3)	(595.9)	(771.4)	(980.5)

Source: Company; Maybank

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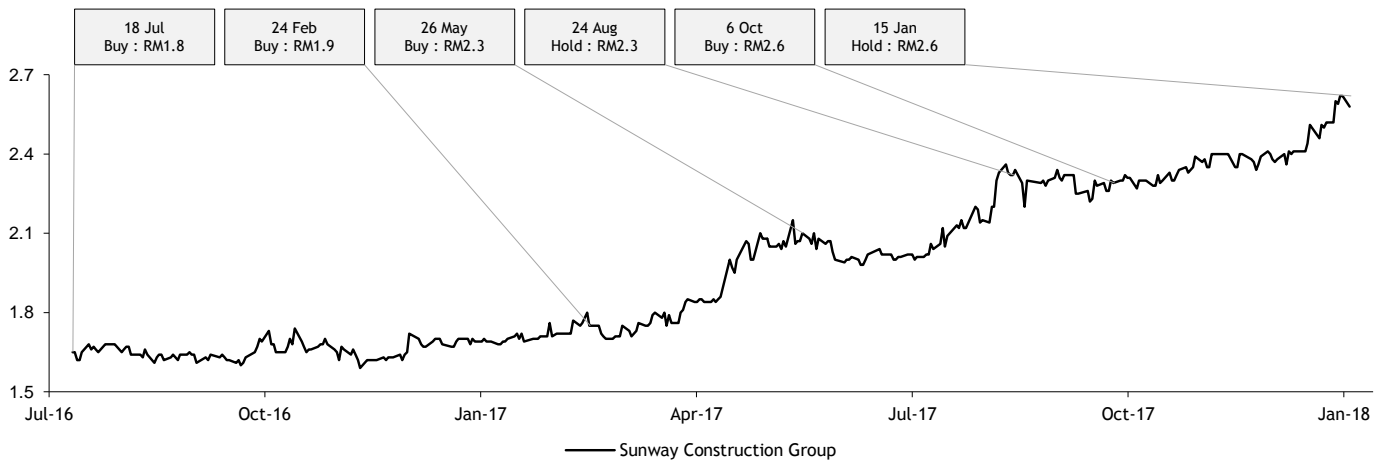
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## Historical recommendations and target price: Sunway Construction Group (SCGB MK)



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