

Sunway Construction Group (SCGB MK)

2Q17: Results in line

HOLD

[Prior:BUY]

Share Price MYR 2.32
 12m Price Target MYR 2.30 (-1%)
 Previous Price Target MYR 2.30

Done well; D/G to HOLD

SCG's 1H17 net profit of MYR71m was in line with ours but below consensus forecast. Growth in the construction segment from higher work progress helped offset the weaker-than-expected precast earnings. We make no change to our earnings forecasts. SCG's share price has gained 37% YTD; the stock is now a HOLD due to its limited upside to our unchanged TP of MYR2.30, pegged to 18x FY18E earnings.

Construction works continue to accelerate

2Q17 net profit of MYR37m (+18% YoY, +6% QoQ) brought 1H17 net profit to MYR71m (+18% YoY), meeting 49%/46% of ours/consensus full-year forecasts. Construction revenue grew in 2Q17, up 7% YoY (+10% QoQ) on the back of higher work progress from external building projects. Construction EBIT was up a higher 71% YoY (+35% QoQ) supported by EBIT margin expansion of 3.4ppts YoY (+1.7ppts QoQ) from higher margin projects and reversal of a doubtful debt reported within the quarter.

Weaker show from precast in 2Q17

2Q17 precast revenue fell 57% YoY (-56% QoQ) to MYR30m due to slower progress at site by the main contractors. However, EBIT margin only contracted by 3.1ppts YoY (-1.9ppts QoQ) due to a one-off reduction in operational cost after the closure of its Tampines Plant. Management cautions that the translation of launches (of new HDB units) to physical construction will take time - this may affect FY17's precast revenue.

No change to earnings forecasts

SCG's outstanding construction orderbook of MYR4.3b as of end-June 2017 will support earnings growth in FY17 and help offset the potentially weaker precast earnings in 2H17. Management has set a MYR2b internal job win target for FY17, of which it has already secured MYR991m as of June 2017. Additionally, it is still eyeing for jobs from KVLRT 3, TRX, and KL-Klang BRT. Its precast outstanding order was at MYR251m end-June 2017, or about one year of revenue.

FYE Dec (MYR m)	FY15A	FY16A	FY17E	FY18E	FY19E
Revenue	1,917	1,789	2,347	2,219	2,127
EBITDA	178	188	211	227	173
Core net profit	127	124	146	162	122
Core EPS (sen)	9.8	9.6	11.3	12.6	9.5
Core EPS growth (%)	11.4	(2.9)	18.4	11.1	(24.6)
Net DPS (sen)	4.0	5.0	4.0	4.4	3.3
Core P/E (x)	23.6	24.3	20.5	18.5	24.5
P/BV (x)	6.7	6.1	5.1	4.3	3.9
Net dividend yield (%)	1.7	2.2	1.7	1.9	1.4
ROAE (%)	32.4	26.2	27.0	25.3	16.7
ROAA (%)	9.5	8.2	8.0	7.9	5.8
EV/EBITDA (x)	8.7	9.9	11.4	10.3	13.1
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Consensus net profit	-	-	150	168	180
MKE vs. Consensus (%)	-	-	(2.8)	(3.1)	(32.1)

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Company Description

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

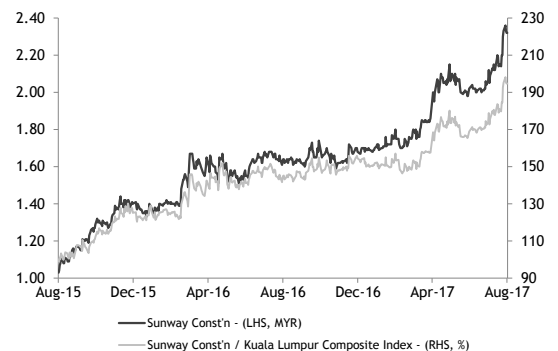
Statistics

Shariah status	Yes
52w high/low (MYR)	2.36/1.59
3m avg turnover (USDm)	0.7
Free float (%)	24.2
Issued shares (m)	1,293
Market capitalisation	MYR3.0B USD701M

Major shareholders:

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

Price Performance



	-1M	-3M	-12M
Absolute (%)	13	12	41
Relative to index (%)	12	12	34

Source: FactSet

Results summary table

FY Dec (RM m)	Quarterly results					Cumulative		
	2Q17	2Q16	% YoY	1Q17	% QoQ	1H17	1H16	% YoY
Turnover	417.2	430.3	(3.0)	419.5	(0.5)	836.8	854.6	(2.1)
EBIT	41.7	37.6	11.0	42.1	(0.8)	83.8	73.0	14.8
Net interest	1.0	0.5	103.9	2.1	(50.6)	3.2	2.6	19.3
Pre-tax profits	42.8	38.1	12.2	44.2	(3.2)	86.9	75.6	14.9
Tax	(6.1)	(6.8)	(10.8)	(9.5)	(36.2)	(15.6)	(15.3)	2.1
Minority Interests	0.1	(0.0)	NM	0.0	NM	0.1	(0.0)	NM
Net profit	36.8	31.3	17.6	34.7	6.1	71.4	60.3	18.4
	2Q17	2Q16	+/- ppt	1Q17	+/- ppt	1H17	1H16	+/- ppt
EBIT margin (%)	10.0	8.7	1.3	10.0	(0.0)	10.0	8.5	1.5
Pretax margin (%)	10.3	8.9	1.4	10.5	(0.3)	10.4	8.8	1.5
Tax rate (%)	14.2	17.9	(3.7)	21.6	(7.4)	17.9	20.2	(2.3)
Revenue	2Q17	2Q16	% YoY	1Q17	% QoQ	1H17	1H16	% YoY
Construction	387.1	360.5	7.4	350.7	10.4	737.9	734.3	0.5
Precast concrete	30.1	69.8	(56.9)	68.8	(56.2)	98.9	120.3	(17.8)
Total	417.2	430.3	(3.0)	419.5	(0.5)	836.8	854.6	(2.1)
EBIT								
Construction	35.4	20.7	70.7	26.3	34.8	61.7	44.6	38.2
Precast concrete	6.3	16.9	(62.5)	15.8	(59.9)	22.1	28.4	(22.1)
Total	41.7	37.6	11.0	42.1	(0.8)	83.8	73.0	14.8
EBIT margin (%)	2Q17	2Q16	+/- ppt	1Q17	+/- ppt	1H17	1H16	+/- ppt
Construction	9.1	5.8	3.4	7.5	1.7	8.4	6.1	2.3
Precast concrete	21.0	24.2	(3.1)	22.9	(1.9)	22.4	23.6	(1.2)
Total	10.0	8.7	1.3	10.0	(0.0)	10.0	8.5	1.5

Source: Maybank Kim Eng, Company

Sunway Construction: Outstanding orderbook of MYR4.3b

At end-June 2017	Contract value (MYR m)	Outstanding (MYR m)
Infrastructure		
KVMRT 2, V201 (Sg Buloh-Persiaran Dagang)	1,213	974
KVMRT 2, V201 - Advance Works	53	32
SUKE + DASH Bore Piling #	34	30
BBCC (Bore Piling) #	16	16
Mega Capital #	9	9
Building		
Putrajaya Parcel F	1,610	1,064
KLCC (NEC + Package 2 & 2a)	646	170
HUKM (MEP works)	66	63
International School of KL	268	202
Gas District Cooling (Plant 1) #	152	148
Others	196	4
Internal		
Sunway Velocity Hotel & Office	101	19
Sunway Velocity Medical Centre	185	143
Sunway Medical Centre 4 (2 towers)	428	394
Sunway Iskandar - Citrine Svc Apt	213	13
Sunway Geo Retail Shops & Flexi Suites Phase 2	244	62
Sunway Iskandar 88 Units Shoplots	57	36
Sunway Iskandar - Emerald Residences	175	89
Sunway Iskandar - Retail Complex	100	79
Sunway Property - Kelana Jaya Condo #	449	449
Others	50	12
Precast	757	251
TOTAL	7,022	4,259

Secured in 2017; Source: Company

FYE 31 Dec	FY15A	FY16A	FY17E	FY18E	FY19E
Key Metrics					
P/E (reported) (x)	12.6	16.5	20.5	18.5	24.5
Core P/E (x)	23.6	24.3	20.5	18.5	24.5
P/BV (x)	6.7	6.1	5.1	4.3	3.9
P/NTA (x)	6.7	6.1	5.1	4.3	3.9
Net dividend yield (%)	1.7	2.2	1.7	1.9	1.4
FCF yield (%)	7.2	2.3	10.6	3.9	4.1
EV/EBITDA (x)	8.7	9.9	11.4	10.3	13.1
EV/EBIT (x)	11.4	12.5	13.5	12.2	16.7
INCOME STATEMENT (MYR m)					
Revenue	1,916.9	1,788.8	2,347.4	2,219.0	2,126.5
Gross profit	388.4	379.0	424.8	448.2	400.8
EBITDA	178.2	188.3	211.2	227.3	173.3
Depreciation	(41.9)	(39.1)	(33.2)	(35.9)	(37.4)
EBIT	136.3	149.2	178.0	191.4	135.8
Net interest income / (exp)	4.5	4.4	8.6	15.5	17.1
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	206.9	152.9
Income tax	(13.0)	(30.0)	(40.3)	(44.4)	(30.4)
Minorities	(0.6)	(0.1)	0.0	0.0	0.0
Reported net profit	127.2	123.5	146.2	162.4	122.5
Core net profit	127.2	123.5	146.2	162.4	122.5
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	793.8	873.8
Accounts receivable	717.1	938.4	1,123.8	1,070.1	1,031.6
Inventory	17.3	24.0	26.3	24.3	23.6
Property, Plant & Equip (net)	161.8	138.4	149.8	156.0	159.0
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	2,074.9	2,118.8
ST interest bearing debt	136.8	136.5	136.5	136.5	136.5
Accounts payable	795.6	955.0	1,325.8	1,232.0	1,196.2
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	1,380.5	1,344.8
Shareholders Equity	451.0	493.0	588.1	693.6	773.3
Minority Interest	0.6	0.8	0.8	0.8	0.8
Total shareholder equity	451.7	493.8	588.8	694.4	774.0
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	2,074.9	2,118.8
CASH FLOW (MYR m)					
Pretax profit	140.8	153.7	186.5	206.9	152.9
Depreciation & amortisation	41.9	39.1	33.2	35.9	37.4
Adj net interest (income)/exp	4.5	4.4	8.6	15.5	17.1
Change in working capital	64.9	(58.7)	183.1	(38.0)	3.4
Cash taxes paid	(29.6)	(26.5)	(40.3)	(44.4)	(30.4)
Other operating cash flow	17.0	(26.4)	(8.6)	(15.5)	(17.1)
Cash flow from operations	239.6	85.6	362.5	160.3	163.3
Capex	(23.7)	(17.0)	(44.6)	(42.2)	(40.4)
Free cash flow	215.9	68.7	317.9	118.2	122.9
Dividends paid	(70.0)	(84.0)	(51.2)	(56.9)	(42.9)
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	61.3	80.0

FYE 31 Dec	FY15A	FY16A	FY17E	FY18E	FY19E
Key Ratios					
Growth ratios (%)					
Revenue growth	1.9	(6.7)	31.2	(5.5)	(4.2)
EBITDA growth	17.9	5.7	12.2	7.6	(23.8)
EBIT growth	24.4	9.5	19.2	7.5	(29.0)
Pretax growth	(7.0)	9.2	21.4	10.9	(26.1)
Reported net profit growth	1.9	(2.9)	18.4	11.1	(24.6)
Core net profit growth	11.4	(2.9)	18.4	11.1	(24.6)
Profitability ratios (%)					
EBITDA margin	9.3	10.5	9.0	10.2	8.1
EBIT margin	7.1	8.3	7.6	8.6	6.4
Pretax profit margin	7.3	8.6	7.9	9.3	7.2
Payout ratio	40.7	52.3	35.0	35.0	35.0
DuPont analysis					
Net profit margin (%)	6.6	6.9	6.2	7.3	5.8
Revenue/Assets (x)	1.4	1.1	1.1	1.1	1.0
Assets/Equity (x)	3.1	3.2	3.5	3.0	2.7
ROAE (%)	32.4	26.2	27.0	25.3	16.7
ROAA (%)	9.5	8.2	8.0	7.9	5.8
Liquidity & Efficiency					
Cash conversion cycle	(45.8)	(51.6)	(50.7)	(76.9)	(70.4)
Days receivable outstanding	136.6	166.6	158.1	178.0	177.9
Days inventory outstanding	4.4	5.3	4.7	5.1	5.0
Days payables outstanding	186.9	223.5	213.5	260.0	253.3
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	1.6
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	0.6	0.8
Capex/revenue (%)	1.2	0.9	1.9	1.9	1.9
Net debt/ (net cash)	(253.6)	(329.3)	(595.9)	(657.3)	(737.3)

Source: Company; Maybank

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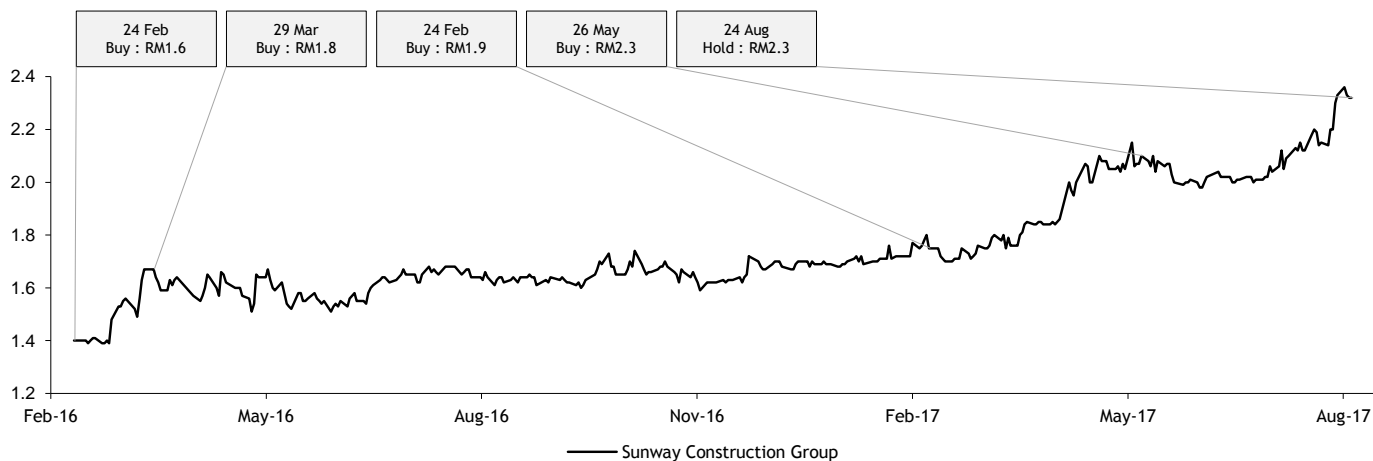
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Historical recommendations and target price: Sunway Construction Group (SCGB MK)

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