



## Sunway Construction Group Berhad

Gaining Momentum in Construction Progress

**TP: RM1.90**(+5.6%)

Last traded: RM1.80

**HOLD**

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Ooi Beng Hooi

Tel: 603-2167-9612

benghooi@ta.com.my

www.taonline.com.my

### Results Review

- Sunway Construction's (SUNCON) FY16 net profit of RM123.5mn came in slightly below our expectation but within consensus estimate, accounting for 94.2% and 97.0% of ours and consensus full-year estimates. The variance was mainly due to lower-than-expected revenue and margin.
- A second interim dividend of 2.5sen/share was proposed, bringing FY16 full-year dividend to 5sen/share, versus 4sen/share a year ago.
- YoY, FY16 net profit was 2.9% lower on the back of lower revenue (-6.7%) and higher taxation. At PBT level, FY16 earnings improved by 9.2% to RM153.7mn with PBT margin improved by 1.2%-pts to 8.6%. Higher construction profit (+24.7%) was offset by lower profit in the precast segment (-29.0%). The lower margin in the precast segment was due to stiffer competition and higher margin recorded in FY15 as a result of finalisation of accounts.
- QoQ, 4Q16 net profit was marginally higher (+2.9%) at RM32.1mn. It achieved record quarterly revenue of RM553.1mn since its listing in July 2015 as some of its projects gathered momentum.
- Its net cash position eased slightly from RM331.6mn a quarter ago to RM329.3mn (25.5sen/share)

### Impact

- We adjust our FY16 order book replenishment figure from RM2.6bn to RM2.7bn to reflect the actual amount of new contracts secured in FY16. As a result, FY17/FY18 earnings were raised by 2.8% and 0.8% respectively.

### Outlook

- The group secured RM2.7bn new orders in FY16. Its outstanding order book stood at RM4.8bn (see Exhibit 1), sufficient to provide earnings visibility for the next 2 to 3 years.
- We expect the group to register strong growth in FY17, backed by strong outstanding order book and acceleration in construction progress.

### Valuation

- Following the earnings revision, we raise our target from RM1.85 to **RM1.90**, based on unchanged 15xCY17 EPS. The closing price of SUNCON at RM1.80 was just one sen away from its historical high. After the recent rally in share price, we downgrade the stock from BUY to **HOLD** as it is trading close to its fair value.

### Share Information

Bloomberg Code	SCGB MK
Bursa	SUNCON
Stock Code	5263
Listing	Main Market
Share Cap (mn)	1292.9
Market Cap (RMmn)	2327.2
Par Value	0.20
52-wk Hi/Lo (RM)	1.81/1.38
12-mth Avg Daily Vol ('000 shrs)	2714.8
Estimated Free Float (%)	35.5
Beta	NA

### Major Shareholders (%)

Sunholdings	- 54.42
Sungei Way Corp Sdn Bhd	- 10.06

### Forecast Revision

	FY17	FY18
Forecast Revision (%)	2.8	0.8
Net profit (RMm)	163.5	162.2
Consensus	154.8	166.1
TA's / Consensus (%)	105.6	97.6
Previous Rating	Buy (Downgraded)	

### SCORECARD (%)

vs TA	94.2	Below
vs Consensus	97.0	Within

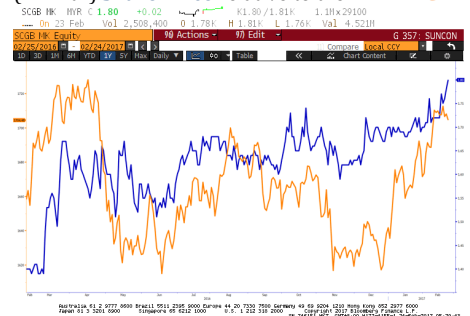
### Financial Indicators

	FY17	FY18
Net Debt / Equity (%)	net cash	net cash
CFPS (sen)	7.9	5.5
Price / CFPS (x)	22.8	32.7
ROA (%)	9.1	8.5
NTA/Share (sen)	47.2	54.2
Price/NTA (x)	3.8	3.3

### Share Performance (%)

Price Change	SUNCON	FBM KLCI
1 mth	4.7	1.4
3 mth	11.1	4.9
6 mth	9.8	1.3
12 mth	28.6	2.4

### (12-Mth) Share Price relative to the FBM KLCI



Source: Bloomberg

**Earnings Summary**

<b>FYE Dec (RMmn)</b>	<b>2015</b>	<b>2016</b>	<b>2017F</b>	<b>2018F</b>	<b>2019F</b>
Revenue	1,916.9	1,788.8	2,336.0	2,170.0	2,409.7
Gross profit	388.4	418.5	490.6	455.7	506.0
EBITDA	178.2	206.0	247.2	245.5	265.4
EBITDA margin (%)	9.3	11.5	10.6	11.3	11.0
EBIT	136.3	149.6	205.1	203.4	224.9
PBT	140.8	153.7	206.7	205.0	228.3
PAT	127.1	123.6	163.5	162.2	180.4
Core net profit	127.1	123.5	163.5	162.2	180.4
Core EPS (sen)	9.8	9.6	12.6	12.5	13.9
PER (x)	18.3	18.8	14.2	14.4	12.9
Gross dividend (sen)	4.0	5.0	5.5	5.5	6.0
Dividend yield (%)	2.2	2.8	3.1	3.1	3.3
ROE (%)	30.6	26.2	29.0	24.7	24.0

**4Q16 Results Analysis (RMmn)**

<b>FYE Dec</b>	<b>4Q15</b>	<b>3Q16</b>	<b>4Q16</b>	<b>QoQ (%)</b>	<b>YoY (%)</b>	<b>FY15</b>	<b>FY16</b>	<b>YoY(%)</b>
Revenue	470.3	381.1	553.1	45.2	17.6	1,916.9	1,788.8	(6.7)
Operating profit	27.6	39.6	37.0	(6.4)	34.4	136.3	149.6	9.8
Finance income	2.4	3.3	2.1	(34.5)	(9.8)	8.0	10.1	26.0
Finance costs	(0.5)	(2.4)	(1.5)	(36.5)	>(100.0)	(3.5)	(6.1)	72.6
Profit before taxation	29.4	40.4	37.6	(6.8)	28.0	140.8	153.7	9.2
Income tax expense	1.0	(9.1)	(5.7)	(38.0)	<(100.0)	(13.0)	(30.0)	>(100.0)
Non-controlling interests	1.0	0.1	(0.1)	<(100.0)	<(100.0)	0.6	0.1	(78.3)
Net profit	29.3	31.1	32.1	2.9	9.2	127.2	123.5	(2.9)
Core net profit	29.3	31.1	32.1	2.9	9.2	127.2	123.5	(2.9)
Reported EPS (sen)	2.3	2.4	2.5	2.9	9.3	9.8	9.6	(2.7)
Core EPS (sen)	2.3	2.4	2.5	2.9	9.3	9.8	9.6	(2.7)
Dividend (sen)	4.00	0.0	2.5	na	(37.5)	4.0	5.0	25.0
Margin (%):				% pts	% pts			% pts
- Operating	5.86	10.4	6.7	(3.7)	0.8	7.1	8.4	1.3
- PBT	6.3	10.6	6.8	(3.8)	0.6	7.3	8.6	1.2
- PAT	6.5	8.2	5.8	(2.4)	(0.7)	6.6	6.9	0.3
- Effective tax rate	3.3	(22.6)	(15.0)	7.5	(18.3)	(9.2)	(19.5)	(10.3)

**Exhibit 1: Ongoing projects**

Project	Contract Value (RMmn)	Outstanding Amount (RMmn)
<b>Infrastructure</b>		
MRT Package V4 (Section 17 to Semantan)	1,173	16
MRT Package V201 (Sungai Buloh– Persiaran Dagang)	1,213	1,141
MRT Package V201 – Advance Works	53	50
<b>Johor</b>		
Coastal Highway Southern Link	170	31
<b>Buildings</b>		
Putrajaya Parcel F	1,610	1,198
KLCC (NEC + Package 2 & 2a)	646	231
HUKM (MEP works)	66	66
International School of KL	268	242
Others	45	8
<b>Internal</b>		
Sunway Velocity 2 Mall + Link Bridge	370	15
Sunway Velocity Hotel + Office	101	51
Sunway Velocity Medical Centre	185	154
Sunway Medical Centre Phase 3 (Sub & Superstructure)	167	31
Sunway Medical Centre Phase 4 (2 towers)	428	401
Sunway Iskandar – Citrine Service Apartment	213	32
Sunway Geo Retail Shops & Flexi Suites Phase 2	244	137
Sunway Iskandar – Emerald Residences	175	118
Sunway Iskandar – 88 units shoplots	57	57
Sunway Iskandar – Retail Complex	100	100
Sunway Property – Kelana Jaya Condo	449	449
Others	239	8
<b>Singapore</b>		
Precast	956	245
	<b>8,925</b>	<b>4,780</b>

Source: Company, TA Research

**Stock Recommendation Guideline**

- BUY** : Total return within the next 12 months exceeds required rate of return by 5%-point.  
**HOLD** : Total return within the next 12 months exceeds required rate of return by between 0-5%-point.  
**SELL** : Total return is lower than the required rate of return.  
**Not Rated:** The company is not under coverage. The report is for information only.

**Total Return** is defined as expected share price appreciation plus gross dividend over the next 12 months.

**Required Rate of Return** of 7% is defined as the yield for one-year Malaysian government treasury plus assumed equity risk premium.

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Kaladher Govindan – Head of Research