

27 February 2018 | FY17 Results Review

Sunway Construction Group Berhad

Results Slightly below the Line

INVESTMENT HIGHLIGHTS

- **FY17 results slightly below the line**
- **But orderbook of RM6.1bn will support assumptions**
- **Reaffirm our projection for FYE18/FYE19**
- **Altogether, we downgrade our recommendation to Neutral with a TP of RM2.67 per share**

FY17 results slightly below the line. SCGB's FY17 PATAMI of RM137.8m (+11.0% YoY) went below ours and consensus' expectations, meeting 84.5% and 100.0% of full year estimates respectively. Compared to FY16's revenue of RM1.78bn, FY17's revenue increased to RM2.38bn (+16.1%YoY). The increase in revenue is influenced still by higher contribution from construction segment due to better work progress of KVMRT V201/V4 (Sg. Buloh to Persiaran Dagang and Section 16 to Semantan Portal) as well as Parcel F in Putrajaya. FY17's construction PBT of RM146.7m (+53.8%YoY) improved due to SCGB's construction activities which are heavily concentrated in Klang Valley hence achieving economies of scale and costs reduction in logistics. The departure of our earnings forecasts compared to Street's is due to our higher estimates for the PPA1M in Kelantan.

But orderbook will support our assumptions in FYE18 despite pre-cast slowdown. SCGB's pre-cast segment is expected to show dovish signal as take-up rate is still soft for Housing Development Board of Singapore units. The pre-cast PBT of RM3.1m (+29.2%YoY) shows improvement but there is an oversupply for for HDB flats in few districts such as D3 (Central South, D5. (South West), D13. (Central East), D.18 (Tampines) and D.19 (Hougang). Thus, it premature to assume that property mart across the causeway is recovering. Thankfully, due to the construction orderbook size of RM6.1bn (36-months duration) SCGB will be able to meet our projections in FYE18/FYE19.

Maintain earnings forecasts. We make no changes to our projections as we believe that SCGB possesses good order book replenishment capabilities. For example, affordable public housing construction such as the Projek Perumahan Penjawat Awam 1Malaysia (PPA1M) and Projek Perumahan Rakyat (PPR) which SCGB can participate and consequently lift its orderbook size.

Recommendation. Nonetheless, we downgrade our recommendation to Neutral due to share price run-up based on SOP-derived TP of RM2.67 per share.



Downgrade to Neutral
Unchanged Target Price (TP): RM2.67

RETURN STATS	
Price (26 Feb 2018)	RM2.46
Target Price	RM2.67
Expected Share Price Return	+7.8%
Expected Dividend Yield	+1.1%
Expected Total Return	+8.9%

STOCK INFO	
KLCI	1,860.08
Bursa / Bloomberg	5263/SCGB MK
Board / Sector	Main / Construction
Syariah Compliant	Yes
Issued shares (mil)	1292.25
Market cap. (RM'm)	3178
Price over NA	5.91
52-wk price Range	RM1.7– RM2.64
Beta (against KLCI)	0.57
3-mth Avg Daily Vol	1.54m
3-mth Avg Daily Value	RM3.82m
Major Shareholders (%)	
Sunholdings	54.44
Sungei Way Corp	10.06
EPF	5.57
True Paragon	3.93

SOP VALUATION

Segments	Basis	Value (RM'm)	Per share (RM)
Building and Civil Infrastructure	DCF@8.0% WACC	3,288	2.54
Precast Concrete	DCF@8.0% WACC	500	0.39
Total SOP		3,788.4	2.93
Net debt		-330	-0.26
Total Net SOP			2.67
Enlarged share capital (mil)			1,293

Source: MIDFR

INVESTMENT STATISTICS

FYE Dec	FY14	FY15	FY16	FY17	FY18F	FY19F
Revenue (RM'm)	1,662.2	1,854.1	1,788.8	2,076.2	2,387.6	2,626.4
EBIT (RM'm)	202.4	335.6	149.5	164.6	189.3	208.2
Pre-tax Profit (RM'm)	151.1	256.2	153.6	174.1	200.2	220.2
Normalised PATAMI (RM'm)	111.1	216.6	123.5	137.8	158.5	174.3
EPS (sen)	10.1	18.1	9.6	10.7	12.3	13.5
EPS growth (%)	-26.6	78.9	-35.9	11.6	15.0	10.0
PER(x)	24.4	13.6	25.8	23.1	20.1	18.2
Net Dividend (sen)	2.5	5.0	1.8	1.8	2.1	2.3
Net Dividend Yield (%)	1.2	3.5	1.0	1.0	0.8	0.9

Source: MIDFR

DAILY PRICE CHART



Source: Bloomberg, MIDFR

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FY17 RESULTS SUMMARY

	4Q17	3Q17	4Q16	YoY Chg	QoQ Chg	12M17	12M16	YoY Chg
Revenue	748.1	491.3	553.1	35%	52%	2,076.2	1,788.8	16%
Operating Expenses	-715.3	-452.9	-525.0	36%	58%	-1,928.9	-1,674.9	15%
Other income	5.6	4.0	8.8	-36%	39%	17.2	35.6	-52%
Interest income	5.3	2.6	2.1	149%	104%	13.4	10.1	33%
Finance cost	-1.77	-1.90	-1.5	18%	-7%	-6.0	-6.1	-1%
Operating profit	38.4	42.4	37.0	4%	-9%	164.6	149.5	10%
Pre-tax profit	44.1	43.0	37.6	17%	3%	174.1	153.6	13%
Taxation	-12.0	-8.6	-5.6	114%	40%	-36.2	-30.4	19%
PATAMI	31.8	34.5	32.0	-1%	-8%	137.8	123.6	11%
EPS (sen)	2.5	2.7	2.5	-1%	-8%	10.7	9.6	12%
	4Q17	3Q17	4Q16	Pts (+/-)	Pts (+/-)	12M17	12M16	Pts
Operating margin	5%	9%	6.7%	-0.02	-0.03	7.9%	8.4%	-0.4%
Pre-tax margin	6%	9%	6.8%	-0.01	-0.03	8.4%	8.6%	-0.2%
PATAMI margin	4%	7%	5.8%	-0.02	-0.03	6.6%	6.9%	-0.3%
Effective tax rate	-2%	-2%	-1.0%	-0.01	0.00	-1.7%	-1.7%	0.0%
Revenue	4Q17	3Q17	4Q16	YoY Chg	QoQ Chg	12M17	12M16	YoY Chg
Construction	721.7	471.7	466.5	55%	53%	1,931.3	1,502.1	28.6%
Pre Cast Concrete	26.5	19.6	86.6	-69%	35%	144.8	286.7	-49.5%
TOTAL	748.2	491.3	553.1	35%	52%	2,076.1	1,788.8	16%
PBT	4Q17	3Q17	4Q16	YoY Chg	QoQ Chg	12M17	12M16	YoY Chg
Construction	41.1	40.7	20.30	102.5%	1%	146.6	95.5	54%
Pre Cast Concrete	3.10	2.40	17.30	-82.1%	29%	27.5	58.2	-53%
TOTAL	44.2	43.1	37.6	18%	3%	174.1	153.7	13%
PBT Margin	4Q17	3Q17	4Q16	Pts (+/-)	Pts (+/-)	12M17	12M16	Pts (+/-)
Construction	6%	9%	4.4%	0.01	-1.03	7.6%	6.4%	1.2%
Pre Cast Concrete	12%	12%	20.0%	-0.08	-1.01	19.0%	20.3%	-1.3%

Source: MIDFR

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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <-10% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.