

25 August 2017 | 6MFY17 Results Review

## Sunway Construction Group Berhad

### Weak Pre-Cast Starts to Cast a Shadow of Doubt

**Maintain NEUTRAL**

Target Price (TP): RM2.03


#### INVESTMENT HIGHLIGHTS

- Results slightly below the line
- Earnings could be better but pre-cast segment numbers came in unexpectedly weaker
- Earnings forecast unvaried
- Altogether, we maintain our **NEUTRAL** recommendation with an adjusted TP of RM2.03 per share

**Results slightly below the line.** 6MFY17 earnings of RM71.4m (+18%YoY) slightly below expectations. Its net profit accounted for 43.6% and 46.4% of ours and consensus' full-year forecasts respectively. SCGB's 1HFY17's total revenue of RM836.7m (-2.0%YoY) stagnated as a result of sluggish construction revenue of RM737.9m (+0.5%YoY). The stagnant total revenue was caused by lower support from precast segment which only contributed RM98.9m (-17.8%YoY).

**Earnings could be better but pre-cast segment numbers came in unexpectedly weaker.** Although, earnings grew to RM71.4m, the results could be better if it is not influenced by the drop in pre-cast segment accounting for RM22.1m (-22.0%YoY, or 25.4% of TPBT\* as opposed to 37.8% for 1QFY17). That's why; we reckon that the construction segment is experiencing a stumbling block due to its dismal PBT of RM64.8m (+34%YoY, or 74.5% of TPBT) on the back of 8.8% PBT margin. Despite winning jobs such as the MRT Viaduct package worth RM1.2bn from Sg. Buloh to Persiaran Dagang, Sri Damansara, we are not convinced that it will impact earnings favourably as the duration of the contract is 5-years. Hence, margin will be compressed due to stretched costs and lack of scale. To-date SCGB has secured RM4.6bn worth of jobs but as we mentioned earlier it must win smaller jobs with shorter duration to support earnings growth for its construction segment. Moreover, it should not be over-reliant on jobs from Housing Development Board of Singapore (HDB) as the property mart across the Straits could experience structural shifts such as higher land acquisition prices despite 5,291 new flats were launched in early August alone.

**Earnings forecast unvaried.** We make no changes in our earnings estimates; we will strongly consider revising our valuation if the prospect of sales for pre-cast segment continues to suppress in next quarter. We are not overly concern about the construction segment as we believe SCGB will stand a strong chance in clinching projects such as the LRT3 and BRT KL-Klang to reach its RM2.0bn revenue target. We will be induced to change our view on valuation should the BRT project comes into fruition and revenue for pre-cast segment improved at least by >20.0% or RM120m and its pre-cast PBT achieves >30.0% of TPBT.

**Recommendation.** Altogether, we maintain our **NEUTRAL** recommendation with an SOP-based target price of RM2.03 per share. 

RETURN STATS	
Price (24 Aug 2017)	RM2.32
Target Price	RM2.03
Expected Share Price Return	-14.2%
Expected Dividend Yield	+1.1%
<b>Expected Total Return</b>	<b>-13.1%</b>

STOCK INFO	
KLCI	1,775
Bursa / Bloomberg	5263/ SCGB MK
Board / Sector	Main / Construction
Syariah Compliant	No
Issued shares (mil)	1292
Market cap. (RM'm)	2998.01
Price over NA	5.62
52-wk price Range	RM1.56– RM2.41
Beta (against KLCI)	0.42
3-mth Avg Daily Vol	1.41m
3-mth Avg Daily Value	RM2.94m
Major Shareholders (%)	
Sunholdings	54.42
Sungei Way Corp S/B	10.1
True Paragon	3.9
EPF	3.6

\*TR=Total Revenue, TPBT=Total Profit Before Tax

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## INVESTMENT STATISTICS

FYE Dec	FY14	FY15	FY16	FY17F
Revenue (RM'm)	1,662.2	1,854.1	1,788.8	1,874.0
EBIT (RM'm)	202.4	335.6	149.5	347.9
Pre-tax Profit (RM'm)	151.1	256.2	153.6	226.8
Normalised PATAMI (RM'm)	111.1	216.6	123.5	163.4
EPS (sen)	10.1	18.1	9.6	14.8
EPS growth (%)	-26.6	78.9	-35.9	27.0
PER(x)	18.9	8.8	18.8	12.1
Net Dividend (sen)	2.5	5.0	1.8	1.8
Net Dividend Yield (%)	1.2	3.5	1.0	1.0

Source: Bloomberg, MIDFR

## SOP VALUATION

Segments	Basis	Revenue(RM'm)	Value (RM'm)	Per share (RM)
<b>Building and Civil Infrastructure</b>	PER of 14x		2,674	2.07
<b>Foundation and Geotechnical Services</b>			77	0.06
		<b>100</b>		
<b>MEP</b>			12	0.01
		<b>15</b>		
<b>Precast Concrete</b>				
		<b>359</b>	441	0.34
<b>Others</b>	FY16 PER of 12x			
Ongoing works		<b>86</b>	66	0.05
<b>Total SOP</b>		746.3	3,269.9	2.53
Net debt		-641.1	-641.1	-0.50
<b>Total Net SOP</b>				<b>2.03</b>
Enlarged share capital (mil)				1,293

Source: Bloomberg, MIDFR

## DAILY PRICE CHART



Source: Bloomberg, MIDFR

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## 6MFY17 Results

	2Q17	1Q17	2Q16	YoY Chg	QoQ Chg	6M17	6M16	YoY Chg
<b>Revenue</b>	<b>417.2</b>	<b>419.5</b>	<b>430.2</b>	<b>-3%</b>	<b>-1%</b>	<b>836.7</b>	<b>854.6</b>	<b>-2%</b>
Operating Expenses	-380.5	-380.1	-401.0	-5%	0%	-760.6	-802	-5%
Other income	4.9	2.6	9.1	-46%	88%	7.6	19.40	-61%
Interest income	2.3	3.2	1.8	28%	-28%	5.5	4.7	17%
Finance cost	-1.26	-1.1	-1.3	3%	-15%	-2.3	-2.1	11%
<b>Operating profit</b>	<b>41.7</b>	<b>42.1</b>	<b>37.6</b>	<b>11%</b>	<b>-1%</b>	<b>83.7</b>	<b>72.9</b>	<b>15%</b>
<b>Pre-tax profit</b>	<b>42.7</b>	<b>44.1</b>	<b>38.1</b>	<b>12%</b>	<b>-3%</b>	<b>86.9</b>	<b>75.6</b>	<b>15%</b>
Taxation	-6.1	-9.5	-6.8	-11%	-36%	-15.5	-15.2	2%
<b>PATAMI</b>	<b>36.7</b>	<b>34.6</b>	<b>31.2</b>	<b>18%</b>	<b>6%</b>	<b>71.4</b>	<b>60.3</b>	<b>18%</b>
EPS (sen)	2.8	2.7	2.40	18%	5%	5.5	4.7	17%
	2Q17	1Q17	2Q16	Pts (+/-)	Pts (+/-)	6M17	6M16	Pts
Operating margin	10%	10%	8.7%	0.01	0.00	10.0%	8.5%	1.5%
Pre-tax margin	10%	11%	8.9%	0.01	0.00	10.4%	8.8%	1.5%
PATAMI margin	9%	8%	7.3%	0.02	0.01	8.5%	7.1%	1.5%
Effective tax rate	-1%	-2%	-1.6%	0.00	0.01	-1.9%	-1.8%	-0.1%
<b>Revenue</b>	2Q17	1Q17	2Q16	YoY Chg	QoQ Chg	6M17	6M16	YoY Chg
Construction	387.2	350.7	430	-10%	10%	737.9	734.3	0.5%
Pre Cast Concrete	30.1	68.7	38.1	-21%	-56%	98.9	120.3	-17.8%
<b>TOTAL</b>	<b>417.3</b>	<b>419.5</b>	<b>430.3</b>	<b>-3%</b>	<b>-1%</b>	<b>836.8</b>	<b>854.6</b>	<b>-2%</b>
<b>PBT</b>	2Q17	1Q17	2Q16	YoY Chg	QoQ Chg	6M17	6M16	YoY Chg
Construction	36.4	21.50	21.2	71.7%	69%	64.8	47.2	37%
Pre Cast Concrete	6.30	13.10	16.9	-62.7%	-52%	22.1	28.4	-22%
<b>TOTAL</b>	<b>42.7</b>	<b>34.6</b>	<b>38.1</b>	<b>12%</b>	<b>23%</b>	<b>86.9</b>	<b>75.6</b>	<b>15%</b>
<b>PBT Margin</b>	2Q17	1Q17	2Q16	Pts (+/-)	Pts (+/-)	6M17	6M16	Pts (+/-)
Construction	9%	6%	4.9%	0.04	-0.97	8.8%	6.4%	2.4%
Pre Cast Concrete	21%	19%	44.4%	-0.23	-0.98	22.3%	23.6%	-1.3%

Source: Bloomberg, MIDFR

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### MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

#### STOCK RECOMMENDATIONS

BUY	Total return is expected to be >15% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >15% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -15% and +15% over the next 12 months.
SELL	Total return is expected to be <-15% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >15% 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.

