

Outthink. Outperform.

## More to come

Sunway Construction (Suncon) was awarded the RM1.2bn Klang Valley MRT Line 2 (MRT2) project on 29 March 2016. This lifts its order book to RM4.8bn, equivalent to 2.5x FY15 revenue, improving earnings visibility. We see prospects for more contract wins as Suncon has submitted tenders worth RM18bn for highway and building projects. We lift our RNAV-based target price to RM1.98 from RM1.74 to reflect a higher sustainable construction earnings assumption. Suncon remains our top BUY in the construction sector.

### MRT2 in the bag

Suncon won the tender for Viaduct Guideway Package V201 (Sungai Buloh-Persiaran Dagang stretch) of MRT2 for RM1,213m due to its competitive price and strong technical capabilities. Suncon expects a 10% PBT margin for this project and construction period is five years. It plans to bid for the station works worth about RM300m within the package to improve its profit margin from this project.

### More projects in the pipeline

Suncon has submitted tenders for SUKE and DASH civil work packages. We gather that the indicative value is over RM1bn for one of the packages. Few contractors can execute the work due to the complexity of the high elevated highway section, and thus we see less competition. Suncon and its local joint venture (JV) partner KTS will also bid for the upcoming Pan-Borneo Highway package in Sibu worth about RM1.7bn. KTS owns a quarry in Sibu, improving the JVs competitiveness for the upcoming tender.

### Fine-tuning earnings forecasts

Suncon has clinched RM1.36bn worth of new contracts in 1Q16, increasing its order book to RM4.8bn from RM3.7bn at end-2015. We fine-tune our earnings forecasts (+1%/-2%/+3% for 2016/2017/2018). Besides, we revise up our 2016 new contract assumption to RM3bn from RM2bn previously as implementation of major public infrastructure projects accelerate. We also raise our PBT margin assumption to 10% from 8% previously with a longer five-year construction period for the MRT2 project.

### Top sector BUY

We believe Suncon's current ex-cash 2016E PER of 12x is attractive compared to its peer average of 18x. Maintain BUY. Key risks are public infrastructure project implementation delays and cost overruns.

### Earnings & Valuation Summary

FYE 31 Dec	2014	2015	2016E	2017E	2018E
Revenue (RMm)	1,880.7	1,916.9	1,765.4	2,276.2	2,185.2
EBITDA (RMm)	172.3	187.3	207.1	254.2	282.9
Pretax profit (RMm)	151.3	140.8	170.9	218.2	248.4
Net profit (RMm)	124.8	127.2	143.0	169.6	188.2
EPS (sen)	9.7	9.8	11.1	13.1	14.6
PER (x)	16.1	15.8	14.0	11.8	10.6
Core net profit (RMm)	135.3	136.2	143.0	169.6	188.2
Core EPS (sen)	10.5	10.5	11.1	13.1	14.6
Core EPS growth (%)	31.9	0.7	5.0	18.6	10.9
Core PER (x)	14.8	14.7	14.0	11.8	10.6
Net DPS (sen)	0.0	4.0	5.5	6.5	7.0
Dividend Yield (%)	0.0	2.6	3.5	4.2	4.5
EV/EBITDA (x)	10.8	9.3	8.2	6.2	5.1
Chg in EPS (%)			1.0	(1.8)	3.0
Affin/Consensus (x)			1.0	1.1	1.1

Source: Company, Affin Hwang forecasts, Bloomberg

Affin Hwang Investment Bank Bhd (14389-U)  
(Formerly known as HwangDBS Investment Bank Bhd)

## Company Update

# Sunway Construction

SCGB MK  
Sector: Construction

RM1.55 @ 18 April 2016

**BUY (maintain)**

Upside 28%

Price Target: RM1.98

Previous Target: RM1.74



## Price Performance

	1M	3M	12M
Absolute	0.0%	+14.8%	N/A
Rel to KLCI	-0.1%	+8.5	N/A

## Stock Data

Issued shares (m)	1,292.9
Mkt cap (RMm)/(US\$m)	2004/511.1
Avg daily vol - 6mth (m)	3.3
52-wk range (RM)	0.98-1.72
Est free float	37.9%
BV per share (RM)	0.35
P/BV (x)	4.44
Net cash/ (debt) (RMm) (4Q15)	253.6
ROE (2016F)	29.1%
Derivatives	Nil
Shariah Compliant	Yes

## Key Shareholder

Sunway Bhd	54.4%
------------	-------

Source: Affin Hwang, Bloomberg

Loong Chee Wei CFA  
(603) 2146 7548  
cheewei.loong@affinhwang.com

Outthink. Outperform.

**RM1.36bn new contracts secured year-to-date**

Besides winning the MRT2 package, Suncon won contracts to supply precast concrete products worth RM60m from the Housing Development Board (HDB) of Singapore, RM62m piling and substructure works and RM20m for Sunway Velocity Link Bridge. This brings new contracts secured to RM1.36bn in 1Q16 and outstanding order book to RM4.8bn. Suncon is targeting to secure RM300m worth of new contracts to supply precast concrete products to the HDB in 2016. We believe the prospects are good as the HDB is planning to launch 18k units of HDB flats in 2016, an increase from the 16k units launched in 2015.

**Fig 1: Order book as at 31 December 2015**

Project	Contract value (RMm)	Outstanding value (RMm)
<b>Infrastructure</b>		
MRT Package V4 (Sec 17 to Semantan)	1,173	320
LRT Kelana Jaya Line Extension (Package B)	569	41
	<b>1,742</b>	<b>361</b>
<b>Johor</b>		
Urban Wellness centre	283	15
Coastal Highway Southern Link	170	99
	<b>453</b>	<b>114</b>
<b>Others</b>		
Putrajaya Parcel F	1,609	1,382
KLCC NEX	304	199
KLCC Package 2 (Piling & Substructure)	222	129
KLCC Package 2a	120	111
Others	83	31
	<b>2,338</b>	<b>1,852</b>
<b>Internal</b>		
Sunway Velocity 2 Mall	350	102
Sunway Geo Retail Shops & Flexi Suites	153	93
Sunway Medical Centre Phase 3 (Subs and Superstructure)	167	118
Sunway Iskandar - Citrine Swc Apt (Sub & Superstructure)	213	128
Sunway Geo Retail Shops & Flexi Suites Phase 2	244	222
Sunway Lenang Phase 1A	96	53
Sunway Iskandar - Emerald Residences	175	137
Others	615	69
	<b>2,013</b>	<b>922</b>
<b>Singapore</b>		
Precast	848	416
<b>Grand total</b>	<b>7,394</b>	<b>3,665</b>

Source: Company

Outthink. Outperform.

**Fig 2: New contracts secured 1Q16**

Project	Contract value (RMm)
MRT Package V202 (Sg Buloh to Persiaran Dagang)	1,213
Precast concrete in Singapore	60
Piling and substructure	62
Sunway Velocity Link Bridge	20
<b>Total</b>	<b>1,355</b>

Source: Company

**Raising RNAV and target price**

We raise our RNAV/share estimate for Suncon to RM2.20 from RM1.93 previously. We have fine-tuned our segmental RNAV breakdown by revising up the sustainable earnings assumption for its construction division but reducing the sustainable earnings assumption for its precast concrete division. Total sustainable earnings assumption has increased to RM185m from RM160m previously. Based on the same 10% discount to RNAV, we raise our target price to RM1.98 from RM1.74. Suncon remains our top BUY in the construction sector.

**Fig 3: RNAV and target price**

Segments	Stake (%)	RNAV (RMm)
Construction @ PE 14x avg earnings of RM120m	100	1,680
Pre-cast concrete @ PE 14x avg earnings of RM65m	100	910
Net cash/(debt)		254
<b>RNAV</b>		<b>2,844</b>
No. of shares (m shrs)		1,293
<b>RNAV/share (RM)</b>		<b>2.20</b>
<b>Target price at 10% discount to RNAV/share</b>		<b>1.98</b>

Source: Company, Affin Hwang

**Fig 4: Malaysian construction company valuations**

Stock	Bbg	Rating	Sh Pr (RM)	TP (RM)	Mkt cap (RMbn)	Core PER (x)		Core EPS gr (%)		P/BV (x)	ROE (%)		DY (%)
						CY16E	CY17E	CY16E	CY17E	CY16E	CY16E	CY16E	CY16E
IJM Corp	IJM MK	BUY	3.54	3.76	12.7	19.9	16.3	18.2	22.3	1.1	5.8	3.0	
Gamuda	GAM MK	BUY	4.88	5.70	11.8	20.1	18.0	(7.3)	11.5	1.7	10.1	2.5	
MRCB	MRC MK	BUY	1.22	1.46	2.2	31.1	24.0	200.7	29.8	1.0	2.8	2.0	
WCT Hldgs	WCTHG MK	BUY	1.68	1.90	2.1	16.3	11.0	87.8	47.9	0.7	5.4	3.6	
Suncon	SCGB MK	BUY	1.55	1.98	2.0	14.0	11.8	5.0	18.6	3.8	29.4	3.5	
Eversendai	EVSD MK	BUY	0.71	0.84	0.5	8.4	7.3	25.0	15.1	0.6	6.2	5.7	
Benalec	BHB MK	HOLD	0.52	0.56	0.4	8.4	7.0	104.9	19.3	0.7	8.6	4.9	
Gabungan AQRS	AQRS MK	SELL	0.84	0.70	0.3	10.7	8.6	(402.8)	24.2	1.0	9.2	1.8	
<b>Weighted average</b>						<b>17.7</b>	<b>14.7</b>	<b>24.9</b>	<b>20.0</b>	<b>1.2</b>	<b>6.9</b>	<b>2.6</b>	

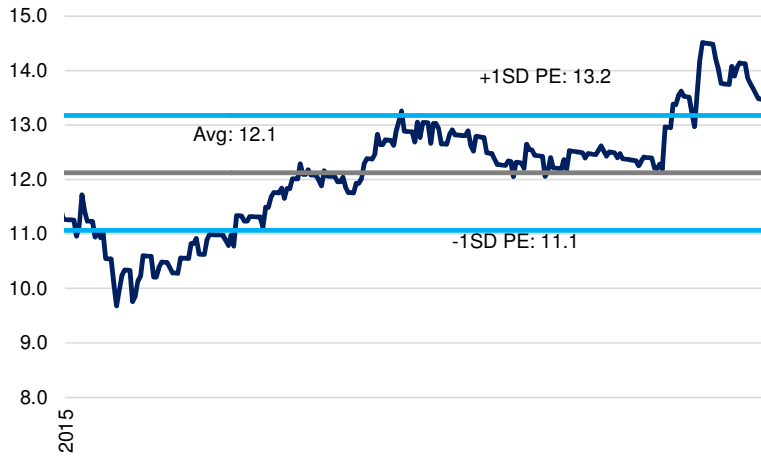
Source: Company, Affin Hwang estimates, Bloomberg; prices as of 18 April 2016

**Trading below historical long-term average PER**

Suncon (SCGB MK) only has a short trading history as it was re-listed in July 2015. Hence, the historical PER bands based on the short history does not provide a meaningful comparison. But Suncon's historical PER bands prior to its de-listing in 2005 (SGWY MK) has a longer trading history, with a 6-year historical mean PER of 15.8x. The current PER of 14x looks attractive as it is trading below the historical mean in the current construction sector upcycle.

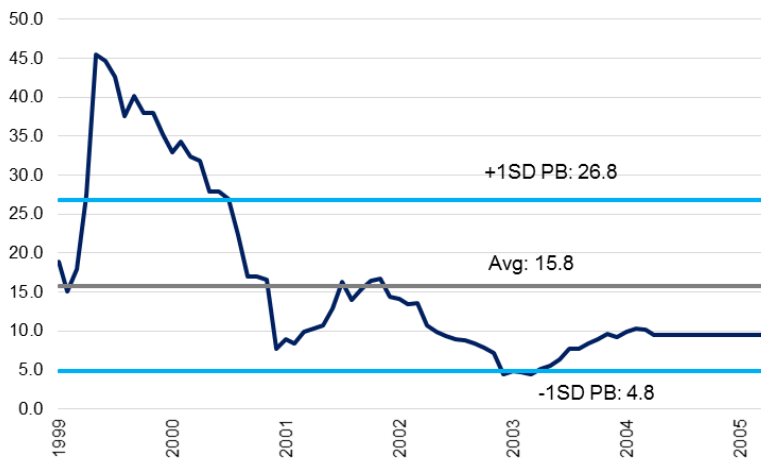
Outthink. Outperform.

**Fig 5: Historical 12-month forward PER for SCGB MK**



Source: Company, Affin Hwang, Bloomberg

**Fig 6: Historical 12-month forward PER for SGWY MK**



Source: Company, Affin Hwang, Bloomberg

# Sunway Construction - FINANCIAL SUMMARY

## Profit & Loss Statement

FYE 31 Dec (RMm)	2014	2015	2016E	2017E	2018E
<b>Revenue</b>	<b>1,880.7</b>	<b>1,916.9</b>	<b>1,765.4</b>	<b>2,276.2</b>	<b>2,185.2</b>
Operating expenses	(1,708.5)	(1,729.6)	(1,558.3)	(2,022.0)	(1,902.3)
<b>EBITDA</b>	<b>172.3</b>	<b>187.3</b>	<b>207.1</b>	<b>254.2</b>	<b>282.9</b>
Depreciation	(41.6)	(41.9)	(44.4)	(46.9)	(49.4)
<b>EBIT</b>	<b>130.6</b>	<b>145.4</b>	<b>162.6</b>	<b>207.3</b>	<b>233.5</b>
Net int income/(expense)	0.7	4.5	8.3	11.0	14.9
Associates' contribution	30.4	(0.1)	0.0	0.0	0.0
Forex gain/(loss)	(5.2)	(2.9)	0.0	0.0	0.0
Exceptional gain/(loss)	(5.3)	(6.2)	0.0	0.0	0.0
<b>Pretax profit</b>	<b>151.3</b>	<b>140.8</b>	<b>170.9</b>	<b>218.2</b>	<b>248.4</b>
Tax	(26.5)	(13.0)	(27.3)	(48.0)	(59.6)
Minority interest	0.1	(0.6)	(0.6)	(0.6)	(0.6)
<b>Net profit</b>	<b>124.8</b>	<b>127.2</b>	<b>143.0</b>	<b>169.6</b>	<b>188.2</b>

## Balance Sheet Statement

FYE 31 Dec (RMm)	2014	2015	2016E	2017E	2018E
<b>Fixed assets</b>	<b>178.7</b>	<b>162.5</b>	<b>168.1</b>	<b>171.2</b>	<b>171.8</b>
Other long term assets	35.3	17.7	17.7	17.7	17.7
<b>Total non-current assets</b>	<b>214.0</b>	<b>180.2</b>	<b>185.8</b>	<b>188.9</b>	<b>189.4</b>
Cash and equivalents	277.6	390.5	436.1	540.8	650.5
Stocks	20.2	17.3	17.2	27.3	15.5
Debtors	639.8	684.7	583.5	1,051.6	518.1
Other current assets	172.6	242.5	242.5	242.5	242.5
<b>Total current assets</b>	<b>1,110.2</b>	<b>1,334.9</b>	<b>1,279.3</b>	<b>1,862.2</b>	<b>1,426.6</b>
Creditors	601.9	658.0	502.3	993.7	442.5
Short term borrowings	135.1	136.8	136.8	109.5	87.6
Other current liabilities	202.6	264.5	297.7	333.5	373.2
<b>Total current liabilities</b>	<b>939.6</b>	<b>1,059.4</b>	<b>936.8</b>	<b>1,436.7</b>	<b>903.3</b>
Long term borrowings	0.1	0.0	0.0	0.0	0.0
Other long term liabilities	4.3	4.1	4.1	4.1	4.1
<b>Total long term liabilities</b>	<b>4.4</b>	<b>4.1</b>	<b>4.1</b>	<b>4.1</b>	<b>4.1</b>
<b>Shareholders' Funds</b>	<b>380.2</b>	<b>451.0</b>	<b>522.9</b>	<b>608.5</b>	<b>706.2</b>
<b>Minority interests</b>	<b>0.1</b>	<b>0.6</b>	<b>1.2</b>	<b>1.8</b>	<b>2.4</b>

## Cash Flow Statement

FYE 31 Dec (RMm)	2014	2015	2016E	2017E	2018E
<b>EBIT</b>	<b>130.6</b>	<b>136.3</b>	<b>162.6</b>	<b>207.3</b>	<b>233.5</b>
Depreciation & amortisation	41.6	41.9	44.4	46.9	49.4
Working capital changes	14.1	111.7	(54.4)	13.2	(5.8)
Cash tax paid	(28.5)	(29.6)	(27.3)	(48.0)	(59.6)
Others	25.3	(24.4)	33.1	35.8	39.8
<b>Cashflow from operation</b>	<b>183.2</b>	<b>236.0</b>	<b>158.5</b>	<b>255.2</b>	<b>257.2</b>
Capex	(37.8)	(24.3)	(50.0)	(50.0)	(50.0)
Disposal/(purchases)	372.7	(40.2)	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0	0.0
<b>Cash flow from investing</b>	<b>334.9</b>	<b>(64.5)</b>	<b>(50.0)</b>	<b>(50.0)</b>	<b>(50.0)</b>
Debt raised/(repaid)	44.7	1.6	0.0	(27.4)	(21.9)
Equity raised/(repaid)	0.0	0.0	0.0	0.0	0.0
Net interest income/(exp)	0.7	4.5	8.3	11.0	14.9
Dividends paid	(428.6)	(70.0)	(71.1)	(84.0)	(90.5)
Others	(16.7)	0.0	0.0	0.0	0.0
<b>Cash flow from financing</b>	<b>(399.9)</b>	<b>(63.8)</b>	<b>(62.8)</b>	<b>(100.4)</b>	<b>(97.5)</b>
<b>Free Cash Flow</b>	<b>145.4</b>	<b>211.7</b>	<b>108.5</b>	<b>205.2</b>	<b>207.2</b>

## Key Financial Ratios and Margins

FYE 31 Dec (RMm)	2014	2015	2016E	2017E	2018E
<b>Growth</b>					
Revenue (%)	2.2	1.9	(7.9)	28.9	(4.0)
EBITDA (%)	42.6	3.5	16.2	22.8	11.3
Core net profit (%)	31.9	0.7	5.0	18.6	10.9
<b>Profitability</b>					
EBITDA margin (%)	9.2	9.3	11.7	11.2	12.9
PBT margin (%)	8.0	7.3	9.7	9.6	11.4
Net profit margin (%)	6.6	6.6	8.1	7.5	8.6
Effective tax rate (%)	17.5	9.2	16.0	22.0	24.0
ROA (%)	4.2	4.2	4.5	4.6	4.9
Core ROE (%)	27.2	32.8	29.4	30.0	28.6
ROCE (%)	33.2	62.6	77.3	103.4	145.7
Dividend payout ratio (%)	0.0	40.7	49.7	49.5	48.1
<b>Liquidity</b>					
Current ratio (x)	1.2	1.3	1.4	1.3	1.6
Op. cash flow (RMm)	183.2	236.0	158.5	255.2	257.2
Free cashflow (RMm)	145.4	211.7	108.5	205.2	207.2
FCF/share (sen)	11.2	16.4	8.4	15.9	16.0
<b>Asset management</b>					
Debtors turnover (days)	124.2	130.4	120.6	168.6	86.5
Stock turnover (days)	3.9	3.3	3.6	4.4	2.6
Creditors turnover (days)	116.8	125.3	103.9	159.3	73.9
<b>Capital structure</b>					
Net gearing (%)	(37.5)	(56.2)	(57.2)	(70.9)	(79.7)
Interest cover (x)	51.6	50.8	NA	NA	NA

## Quarterly Profit & Loss

FYE 31 Dec (RMm)	1Q15	2Q15	3Q15	4Q15
<b>Revenue</b>	<b>496.1</b>	<b>500.2</b>	<b>450.3</b>	<b>470.3</b>
Operating expenses	(444.2)	(446.7)	(413.2)	(425.8)
<b>EBITDA</b>	<b>51.8</b>	<b>53.5</b>	<b>37.1</b>	<b>44.5</b>
Depreciation	(9.9)	(9.5)	(9.2)	(13.3)
<b>EBIT</b>	<b>41.9</b>	<b>44.1</b>	<b>27.9</b>	<b>31.1</b>
Net int income/(expense)	0.4	0.4	1.9	1.8
Associates' contribution	0.0	(0.1)	0.0	0.0
Forex gain/(loss)	(2.1)	(0.6)	1.4	(1.7)
Exceptional items	(0.6)	(2.2)	(1.1)	(1.9)
<b>Pretax profit</b>	<b>39.6</b>	<b>41.6</b>	<b>30.1</b>	<b>29.4</b>
Tax	(5.2)	(3.8)	(4.9)	(1.0)
Minority interest	(0.0)	0.0	(0.5)	(1.0)
<b>Net profit</b>	<b>34.4</b>	<b>37.8</b>	<b>24.7</b>	<b>27.4</b>
<b>Core net profit</b>	<b>37.1</b>	<b>40.6</b>	<b>24.4</b>	<b>31.0</b>
<b>Margins (%)</b>				
EBITDA	10.4	10.7	8.2	9.5
PBT	8.0	8.3	6.7	6.3
Net profit	6.9	7.6	5.5	5.8

**Equity Rating Structure and Definitions**


---

<b>BUY</b>	Total return is expected to exceed +10% over a 12-month period
<b>HOLD</b>	Total return is expected to be between -5% and +10% over a 12-month period
<b>SELL</b>	Total return is expected to be below -5% over a 12-month period
<b>NOT RATED</b>	Affin Hwang Investment Bank Berhad does not provide research coverage or rating for this company. Report is intended as information only and not as a recommendation

*The total expected return is defined as the percentage upside/downside to our target price plus the net dividend yield over the next 12 months.*

<b>OVERWEIGHT</b>	Industry, as defined by the analyst's coverage universe, is expected to outperform the KLCI benchmark over the next 12 months
<b>NEUTRAL</b>	Industry, as defined by the analyst's coverage universe, is expected to perform inline with the KLCI benchmark over the next 12 months
<b>UNDERWEIGHT</b>	Industry, as defined by the analyst's coverage universe is expected to under-perform the KLCI benchmark over the next 12 months

---

This report is intended for information purposes only and has been prepared by Affin Hwang Investment Bank Berhad (14389-U) (formerly known as HwangDBS Investment Bank Berhad) ("the Company") based on sources believed to be reliable. However, such sources have not been independently verified by the Company, and as such the Company does not give any guarantee, representation or warranty (express or implied) as to the adequacy, accuracy, reliability or completeness of the information and/or opinion provided or rendered in this report. Facts, information, views and/or opinion presented in this report have not been reviewed by, may not reflect information known to, and may present a differing view expressed by other business units within the Company, including investment banking personnel. Reports issued by the Company, are prepared in accordance with the Company's policies for managing conflicts of interest arising as a result of publication and distribution of investment research reports. Under no circumstances shall the Company, its associates and/or any person related to it be liable in any manner whatsoever for any consequences (including but are not limited to any direct, indirect or consequential losses, loss of profit and damages) arising from the use of or reliance on the information and/or opinion provided or rendered in this report. Any opinions or estimates in this report are that of the Company, as of this date and subject to change without prior notice. Under no circumstances shall this report be construed as an offer to sell or a solicitation of an offer to buy any securities. The Company and/or any of its directors and/or employees may have an interest in the securities mentioned therein. The Company may also make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report.

Comments and recommendations stated here rely on the individual opinions of the ones providing these comments and recommendations. These opinions may not fit to your financial status, risk and return preferences and hence an independent evaluation is essential. Investors are advised to independently evaluate particular investments and strategies and to seek independent financial, legal and other advice on the information and/or opinion contained in this report before investing or participating in any of the securities or investment strategies or transactions discussed in this report.

Third-party data providers make no warranties or representations of any kind relating to the accuracy, completeness, or timeliness of the data they provide and shall not have liability for any damages of any kind relating to such data.

The Company's research, or any portion thereof may not be reprinted, sold or redistributed without the consent of the Company.

The Company, is a participant of the Capital Market Development Fund-Bursa Research Scheme, and will receive compensation for the participation.

This report is printed and published by:  
 Affin Hwang Investment Bank Berhad (14389-U)  
 (formerly known as HwangDBS Investment Bank Berhad)  
 A Participating Organisation of Bursa Malaysia Securities Bhd  
 Chulan Tower Branch,  
 3rd Floor, Chulan Tower,  
 No 3, Jalan Conlay,  
 50450 Kuala Lumpur.  
 www.affinhwang.com  
 Email : research@affinhwang.com  
 Tel : + 603 2143 8668  
 Fax : + 603 2145 3005