

Sunway Construction (BUY↔; EPS↔)

INDUSTRY: OVERWEIGHT

NEWSBREAK

27 September 2016

Price Target: RM1.84 (↔)

Share price: RM1.61

Several job wins
News

- **More from MRT2...** SunCon has been awarded a RM52.2m contract from the MMC-Gamuda JV for the advanced construction works of viaduct guideway between Kg Muhibbah and Serdang Raya for the MRT2. The works involve construction of 19 nos pile caps, 122 bored piles, realignment of Sg Midah and temporary decking to be completed by Sept 2017.

Comments

- **...and LOI from parent co.** Separately, SunCon also received 2 Letter of Intents (LOI) for contracts in Medini, Johor from its parent-co, Sunway. The LOIs consist (i) 88 units of office shop lots for RM56.5m over 20 months and (ii) a retail complex worth RM100m for a period of 13 months.

- **Surpassing its target.** With these recent contracts, SunCon's YTD job wins currently stands at RM2.6bn, surpassing management's earlier target of RM2.5bn. This sum has matched the full year orderbook replenishment for FY15 and is closing in on the previous high of RM3bn achieved in FY13. SunCon's orderbook currently stands at a record RM5bn, implying a healthy cover of 2.6x on FY15 revenue.

- **Jobs are still flowing.** Although SunCon did not manage to secure any packages of the SUKE and DASH and has dropped out of the Pan Borneo Highway bids in Sarawak, these recent contract wins indicate that its job flow pipeline continues to remain healthy. Looking ahead, SunCon has been prequalified for the LRT3 and we reckon that it has a decent chance to secure the job given its experience with the LRT extension and MRT1.

Risks

- Given its all-time high orderbook, execution is a potential risk area to watch out for.

Forecasts

- As YTD job wins of RM2.6bn is within our full year replenishment target of RM2.8bn, we retain our earnings forecast.

Rating
Maintain BUY, TP: RM1.84

- SunCon is a well-managed company with commendable execution capability, putting it in a polar position to ride on the robust flow of mega contracts expected this year.

Valuation

- Our TP of RM1.84 is based on an 18x P/E multiple applied to mid-CY17 earnings. We continue to like SunCon for its superior ROE (FY16f: 23%) and healthy balance sheet with a net cash position of RM316m (RM0.24/ share).

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KLCI	1669.5
Expected share price return	14.3%
Expected dividend return	2.7%
Expected total return	17.0%

Share price

Information

Bloomberg Ticker	SCGB MK
Bursa Code	5263
Issued Shares (m)	1,293
Market cap (RM m)	2,082
3-mth avg. volume ('000)	2,110
SC Shariah-compliant	Yes

Price Performance	1M	3M	12M
Absolute	-0.6	3.9	37.6
Relative	0.2	1.4	33.1

Major shareholders

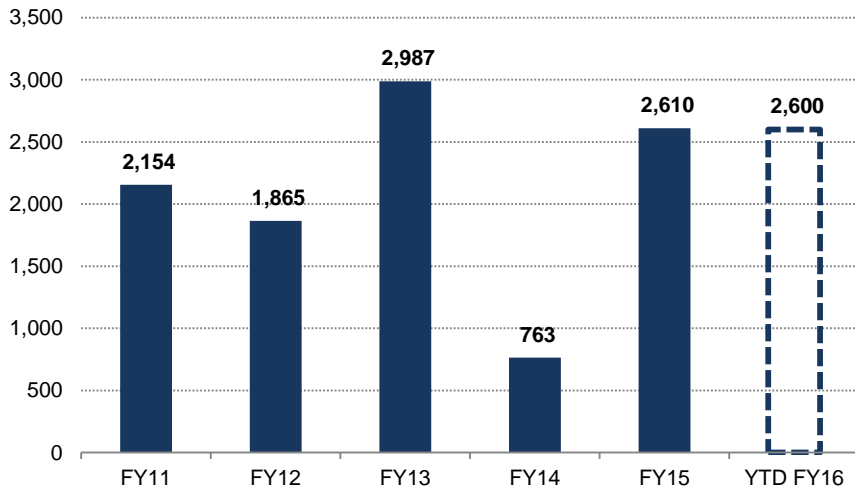
Sunholdings	54.4%
Sungei Way Corp Sdn Bhd	10.1%
Norges Bank	1.8%

Summary Earnings Table

FYE Dec (RM m)	FY15	FY16F	FY17F	FY18F
Revenue	1,917	2,103	2,312	2,479
EBITDA	166	202	221	231
EBIT	124	159	176	182
Profit Before Tax	128	163	179	186
Core PATAMI	115	126	139	144
vs Consensus (%)		(10)	(14)	(15)
Core EPS (sen)	8.9	9.7	10.7	11.1
P/E (x)	18.1	16.5	15.0	14.5
Net DPS (sen)	4.0	4.4	4.8	5.0
Net DY (%)	2.5	2.7	3.0	3.1
BV per share	0.35	0.40	0.46	0.52
P/B (x)	4.6	4.0	3.5	3.1
ROE (%)	30.8	23.1	22.2	20.9
Net Gearing (%)	CASH	CASH	CASH	CASH

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Figure #1 Annual orderbook replenishment (RM m)



Company

Figure #2 Work area for the recent MRT2 contract



Company

Financial Projections for Sunway Construction Group

Balance Sheet

FYE Dec (RM m)	FY14	FY15	FY16F	FY17F	FY18F
Cash	292	468	515	552	667
Receivables	719	627	749	887	951
Inventories	20	17	23	25	27
PPE	176	162	144	123	95
Others	118	123	123	123	123
Assets	1,324	1,397	1,554	1,710	1,862
Debits	135	137	147	152	157
Payables	766	742	819	895	962
Others	43	67	67	67	67
Liabilities	944	946	1,033	1,114	1,186
Shareholder's equity	380	451	520	597	676
Minority interest	0	1	-	-	-
Equity	380	452	520	597	676

Cash Flow Statement

FYE Dec (RM m)	FY14	FY15	FY16F	FY17F	FY18F
Profit before taxation	139	128	163	179	186
Depreciation & amortisation	45	42	43	46	48
Changes in working capital	342	71	(50)	(64)	2
Share of JV profits	(22)	0	-	-	-
Taxation	(26)	(13)	(37)	(40)	(42)
Others	(187)	11	(1)	(0)	0
Operating cash flow	291	240	118	120	194
Net capex	(34)	(11)	(25)	(25)	(20)
Others	296	(53)	-	-	-
Investing cash flow	263	(64)	(25)	(25)	(20)
Changes in borrowings	45	2	10	5	5
Issuance of shares	-	14	-	-	-
Dividends paid	(25)	(51)	(57)	(63)	(65)
Others	(437)	(33)	-	-	-
Financing cash flow	(418)	(68)	(47)	(58)	(60)
Net cash flow	136	107	46	38	114
Forex	(0)	5	-	-	-
Others	1	65	-	-	-
Beginning cash	156	292	468	515	552
Ending cash	292	468	515	552	667

Income Statement

FYE Dec (RM m)	FY14	FY15	FY16F	FY17F	FY18F
Revenue	1,881	1,917	2,103	2,312	2,479
EBITDA	162	166	202	221	231
EBIT	117	124	159	176	182
Net finance income/ (cost)	1	5	4	4	3
Associates & JV	22	(0)	-	-	-
Profit before tax	139	128	163	179	186
Tax	(26)	(13)	(37)	(40)	(42)
Net profit	113	115	126	139	144
Discontinued operations	50	-	-	-	-
Minority interest	(0)	(1)	-	-	-
Core earnings	163	115	126	139	144
Exceptional items	-	12	-	-	-
Reported earnings	163	127	126	139	144

Valuation & Ratios

FYE Dec (RM m)	FY14	FY15	FY16F	FY17F	FY18F
Core EPS (sen)	12.6	8.9	9.7	10.7	11.1
P/E (x)	12.8	18.1	16.5	15.0	14.5
EV/EBITDA (x)	10.9	10.7	8.8	8.0	7.7
DPS (sen)	2.0	4.0	4.4	4.8	5.0
Dividend yield	1.2%	2.5%	2.7%	3.0%	3.1%
BVPS (RM)	0.29	0.35	0.40	0.46	0.52
P/B (x)	5.5	4.6	4.0	3.5	3.1
EBITDA margin	8.6%	8.7%	9.6%	9.6%	9.3%
EBIT margin	6.2%	6.5%	7.6%	7.6%	7.4%
PBT margin	7.4%	6.7%	7.7%	7.8%	7.5%
Net margin	8.7%	6.0%	6.0%	6.0%	5.8%
ROE	30.3%	30.8%	23.1%	22.2%	20.9%
ROA	8.7%	9.9%	7.8%	7.7%	7.6%
Net gearing	CASH	CASH	CASH	CASH	CASH

Assumptions

FYE Dec (RM m)	FY14	FY15	FY16F	FY17F	FY18F
Construction	759	2,294	2,500	2,500	2,000
Precast	4	317	250	300	300
Total new job wins	763	2,610	2,750	2,800	2,300

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BUY	Positive recommendation of stock under coverage. Expected absolute return of more than +10% over 12-months, with low risk of sustained downside.
TRADING BUY	Positive recommendation of stock not under coverage. Expected absolute return of more than +10% over 6-months. Situational or arbitrage trading opportunity.
HOLD	Neutral recommendation of stock under coverage. Expected absolute return between -10% and +10% over 12-months, with low risk of sustained downside.
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NOT RATED	No research coverage and report is intended purely for informational purposes.

Industry rating definitions

OVERWEIGHT	The sector, based on weighted market capitalization, is expected to have absolute return of more than +5% over 12-months.
NEUTRAL	The sector, based on weighted market capitalization, is expected to have absolute return between -5% and +5% over 12-months.
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