

Sunway Construction (BUY↔; EPS↔)

INDUSTRY: OVERWEIGHT

NEWSBREAK

28 June 2016

Price Target: RM1.84 (↔)

Share price: RM1.55

Wins smallish job
News

- **Secures smallish job.** SunCon has been awarded a RM66.3m contract by Zecon Medicare involving electrical services, air conditioning and mechanical ventilation system for the Children's Specialist Hospital at University Kebangsaan Malaysia in Cheras. The job is scheduled for completion on 30 April 2018.

Comments

- **Job wins building up.** With this recent job in the bag, SunCon's YTD job wins currently stands at RM2.1bn. Despite being only at the mid-year, YTD job wins have already made up 79% of the full year sum recorded in FY15 (RM2.6bn). We estimate SunCon's orderbook to stand at RM5.1bn, translating to a healthy cover ratio of 2.7x on FY15 revenue.
- **Gunning for more.** Management is upbeat that it can secure RM2.5bn worth of new contracts this year (82% achieved YTD). It has tendered for the Pan Borneo Highway which should rake in at least another RM300m based on a 30% stake at a conservative RM1bn contract sum. Apart from that, it has been prequalified for the SUKE (RM4bn) and DASH (RM4bn) and is undergoing prequalification for the LRT3 (RM9bn). There are also several private sector jobs including those from its parent-co, Sunway, which could possibly contribute another RM300-400m.

Risks

- Orderbook replenishment coming below its burn rate.

Forecasts

- As YTD job wins of RM2.1bn 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

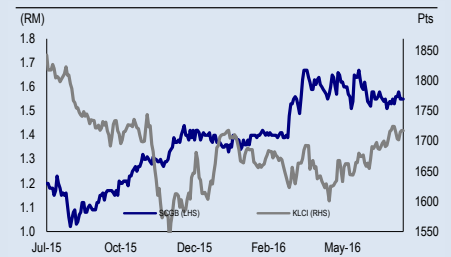
- Our TP of RM1.84 is based on an 18x P/E multiple applied to mid-CY17 earnings. We continue to like SunCon for its superior ROE (FY16f: 23%) and healthy balance sheet with a net cash position of RM298m (RM0.23/ share).

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KLCI	1629.5
Expected share price return	18.7%
Expected dividend return	2.8%
Expected total return	21.5%

Share price

Information

Bloomberg Ticker	SCGB MK
Bursa Code	5263
Issued Shares (m)	1,293
Market cap (RM m)	2,004
3-mth avg. volume ('000)	3,890
SC Shariah-compliant	Yes

Price Performance

	1M	3M	12M
Absolute	2.0	-7.2	NA
Relative	2.5	-3.0	NA

Major shareholders

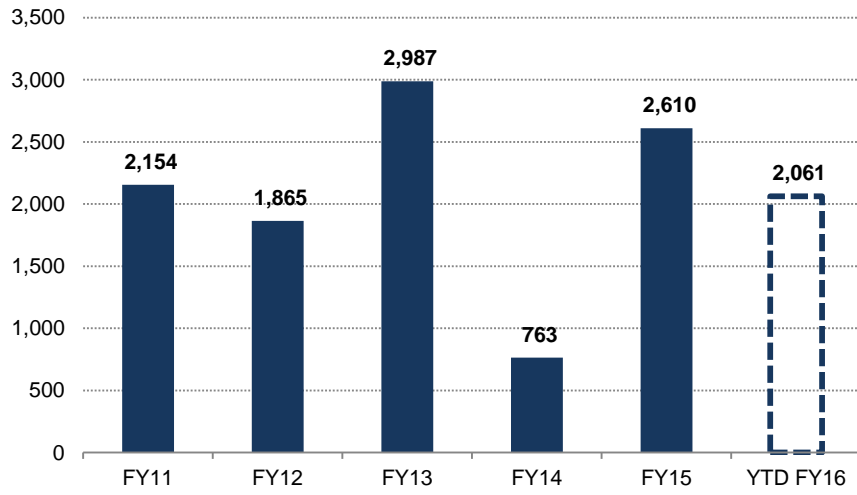
Sunholdings	54.4%
Sungei Way Corp Sdn Bhd	7.0%
Norges Bank Investment Mgmt	1.8%

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)	(14)
Core EPS (sen)	8.9	9.7	10.7	11.1
P/E (x)	17.5	15.9	14.4	13.9
Net DPS (sen)	4.0	4.4	4.8	5.0
Net DY (%)	2.6	2.8	3.1	3.2
BV per share	0.35	0.40	0.46	0.52
P/B (x)	4.4	3.9	3.4	3.0
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

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)	12.3	17.5	15.9	14.4	13.9
EV/EBITDA (x)	10.6	10.3	8.5	7.7	7.4
DPS (sen)	2.0	4.0	4.4	4.8	5.0
Dividend yield	1.3%	2.6%	2.8%	3.1%	3.2%
BVPS (RM)	0.29	0.35	0.40	0.46	0.52
P/B (x)	5.3	4.4	3.9	3.4	3.0
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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Equity rating definitions

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.
UNDERWEIGHT	The sector, based on weighted market capitalization, is expected to have absolute return of less than -5% over 12-months.