

Sunway Construction (BUY↔; EPS↔)

INDUSTRY: OVERWEIGHT

NEWSBREAK

23 August 2016

Price Target: RM1.84 (↔)

Share price: RM1.61

Awarded school building job
News

- **Secures school contract.** SunCon has been awarded a RM268m contract to build the International School of Kuala Lumpur located off Jln Ampang Hilir. The contract was awarded by The Society for the International School of Kuala Lumpur with contract duration of 22 months.

- **Scope of works.** The school will be a Green Building Index Platinum rated building with 5 teaching facilities, main building with theatre, libraries, gym, kitchen & dining, performing arts centre, swimming pool, track, tennis and basketball court that can accommodate a max capacity of 2,500 students.

Comments

- **Closing in on its target.** With this recent job in the bag, SunCon's YTD job wins stands at RM2.4bn, almost achieving management's full year guidance of RM2.5bn. SunCon's orderbook currently stands at a record RM4.9bn, implying a healthy cover of 2.6x on FY15 revenue.

- **Selective on tenders.** Our checks with management reveal that SunCon is no longer in the running for some of the major highway jobs such as the Pan Borneo, SUKE and DASH. Management felt that the margins on these jobs were not appealing from a risk-to-reward perspective.

- **What's next?** We gather that there are several small to mid-sized contacts on the cards for the remainder of the year. Apart from that, SunCon has also been prequalified for the LRT3 and reckon that it has a decent chance to secure the job given its experience with the LRT extension and MRT1.

Risks

- Orderbook replenishment coming below its burn rate.

Forecasts

- As YTD job wins of RM2.4bn 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.

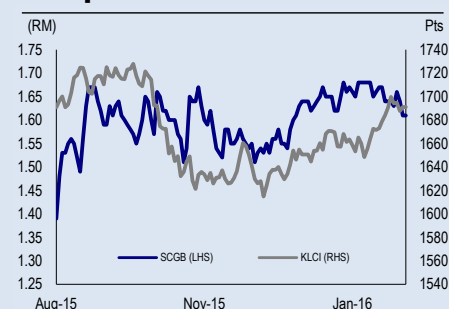
Valuation

- 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	1691.1
Expected share price return	14.3%
Expected dividend return	1.7%
Expected total return	16.0%

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)	2,425
SC Shariah-compliant	Yes

Price Performance	1M	3M	12M
Absolute	-2.4	-0.6	47.7
Relative	-4.4	-3.9	37.5

Major shareholders

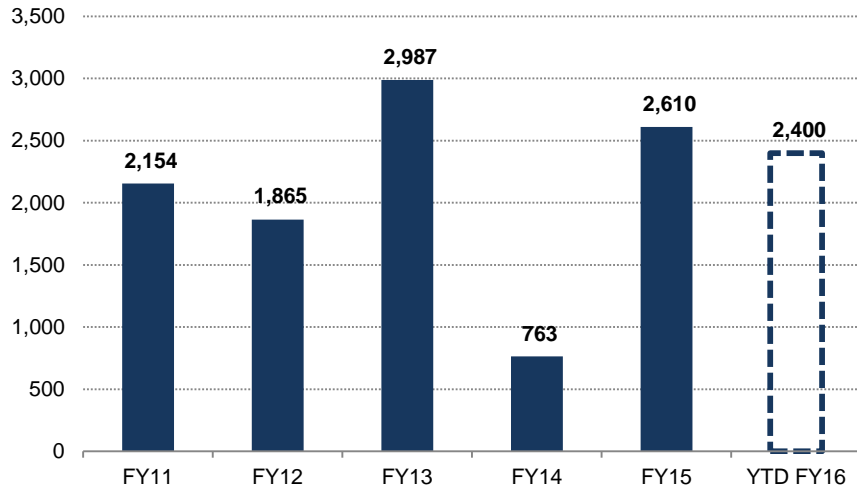
Sunholdings	54.4%
Sungei Way Corp Sdn Bhd	10.1%
Norges Bank	1.82%

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)	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 Artist impression of the International School of KL



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)	11.0	10.8	8.8	8.1	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.
UNDERWEIGHT	The sector, based on weighted market capitalization, is expected to have absolute return of less than -5% over 12-months.