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Small-to-mid cap construction players saw a resurgence of buying interest recently following the stronger earnings performances as well as the surprise RM1.46b Pan Borneo highway contract win by KIMLUN and ZECON last Wednesday (see KIMLUN company update dated 11 March). In this report, we are highlighting SUNCON, which saw its share price surging 9.0 sen (6.5%) last Friday to a fresh all-time high of RM1.48. Fundamentally, we like SUNCON for its excellent track records in three major urban public transportation projects, namely LRT, MRT and BRT and we reckon that the group will benefit from the up-and-coming infrastructure projects under 11MP. As it stands, SUNCON already has a solid orderbook of RM3.6-3.7b, and with potential new job wins to the tune of RM5.6b according to media reports.

Furthermore, our technical analysis suggests that SUNCON is poised for further gains towards RM1.63 over the next 1-2 months and this implies 10.1% upside from Friday's closing price. Traders who wish to gain a leveraged exposure may consider SUNCON-CC (strike RM1.45) which offers an effective gearing of 3.91x. For this structured warrant, a 10.1% increase in the underlying price would translate to approximately 39.1% gain in SUNCON-CC.

Daily Charting – Sunway Construction Group Bhd (SUNCON) – TP: RM1.63, SL: RM1.36



Technical Ratings
Name : Sunway Construction Group Berhad
Bursa Code : SUNCON

Key Resistance and Support Levels
R2 : RM 1.63 (138.2% Fib. Projection)
R1 : RM 1.56 (123.6% Fib. Projection)
Closing : RM 1.48
S1 : RM 1.42 (Resistance-turned-support)
S2 : RM 1.34 (Congestion zone support)

Theoretical Warrants Price (SUNCON-CC)
TWR 2 : RM0.20
TWR 1 : RM0.17
Closing : RM0.14/0.145
TWS 1 : RM0.12
TWS 2 : RM0.09

Last Friday, SUNCON broke out above the RM1.34-RM1.45 consolidation zone following a three-month long period of sideways trading. With sustained buying throughout the day, SUNCON has also formed a "Marubozu" candlestick while the MACD has crossed above its Signal line. Taken as a combination, it indicates that SUNCON is poised to resume its longer-term uptrend. From here, expect bullish momentum to carry the share price towards RM1.56 (R1) and RM1.63 (R2) next. Traders may buy now, or on any weakness towards the RM1.42-RM1.45 (S1) resistance-turned-support. Further support is located at RM1.34 (S2).

Source: Bloomberg, Kenanga Research

Structured Warrant Strategy:

Traders who wish to gain a leveraged exposure have three Call Warrants to choose from - all three are trading close-to-the-money. Since we expect SUNCON to climb steadily to the RM1.63 (+10.1%) target over the coming 1-2 months, traders should consider longer-dated Call Warrants which are less sensitive to time decay. We would avoid SUNCON-CA (strike RM1.40) for now, primarily due to the shorter time to maturity and poorer liquidity (bid-ask spreads tend to be wide on occasion, e.g. RM0.11/RM0.12).

Conversely, we like SUNCON-CB (strike RM1.45) and SUNCON-CC (strike RM1.45) which offer similar terms on maturity date (7 months) and exercise price. While SUNCON-CB was popular among traders on Friday, (1.1m shares changing hands), SUNCON-CC in-fact offers the best value at just 46.6% implied volatility. SUNCON-CC also offers comparatively high effective gearing of 3.91x. For this Call Warrant, an anticipated 10.1% increase in the underlying price to RM1.63 should translate to approximately 39.1% gain in SUNCON-CC to RM0.20. This general estimate is applicable to the other Call Warrants as well.

Table 1: Warrant Parameters

Name	Issuer	Warrant Price (RM)	Expiry	Exercise Price (RM)	Effective Gearing (x)	Premium (%)	Implied Vol (%)
SUNCON-CA	MIBB	0.115	28-Jul-16	1.40	3.92	10.5	60.2
SUNCON-CB	RHB	0.098	7-Oct-16	1.45	3.44	14.9	56.7
SUNCON-CC	KIBB	0.143	28-Oct-16	1.45	3.91	12.8	46.6

14 March 2016

Table 2: Kenanga Structured Warrants (Call Warrants)

No.	Name	Underlying Spot Price	Warrant Price	Expiry	Exercise Price (RM)	Effective Gearing (x)	Premium (%)	Implied Vol (%)
1	FBMKLCI-C14	1695.22	0.498	17-Mar-16*	1500.00	8.2	0.2	82.8
2	FBMKLCI-C15	1695.22	0.315	17-Mar-16*	1575.00	12.2	0.3	64.5
3	FBMKLCI-C16	1695.22	0.195	17-Mar-16*	1625.00	17.3	0.4	49.8
4	FBMKLCI-C17	1695.22	0.098	17-Mar-16*	1675.00	27.5	1.1	45.0
5	SOP-CD	4.71	0.095	28-Apr-16	1.18	3.8	8.6	93.1
6	AIRASIAC26	1.73	0.573	18-Jul-16	0.90	1.8	2.0	102.1
7	BJAUTO-CJ	2.19	0.088	18-Jul-16	2.40	4.0	21.9	71.1
8	CIMB-C8	4.62	0.098	18-Jul-16	5.00	5.2	16.8	52.9
9	GENTINGC25	8.85	0.423	18-Jul-16	7.00	3.5	3.1	46.4
10	INARI-CJ	3.29	0.25	18-Jul-16	2.64	3.2	4.4	57.2
11	JTIASA-CE	1.4	0.203	18-Jul-16	1.10	2.8	7.2	75.2
12	MALAKOF-CJ	1.62	0.165	18-Jul-16	1.40	3.6	7.1	54.5
13	MAYBANKC16	8.8	0.163	18-Jul-16	8.90	5.4	10.3	48.4
14	PBBANK-C7	18.56	0.128	18-Jul-16	18.10	9.2	4.5	21.5
15	PCHEM-C1	6.79	0.23	18-Jul-16	6.00	4.4	5.4	42.8
16	PMETAL-CN	2.51	0.488	18-Jul-16	1.60	2.2	2.6	79.2
17	PUNCAK-CH	1.04	0.008	18-Jul-16	1.77	7.0	71.3	60.9
18	SKPETRO-C20	2.11	0.268	18-Jul-16	1.60	2.5	7.8	81.3
19	TENAGA-C24	13.36	0.253	18-Jul-16	12.00	4.1	6.8	50.8
20	YINSON-CK	2.79	0.098	18-Jul-16	2.85	5.2	12.9	47.4
21	AIRASIA-C32	1.73	0.198	30-Sep-16	1.50	2.4	15.7	80.5
22	ARMADA-C13	0.8	0.063	30-Sep-16	1.00	3.0	40.2	82.4
23	GENM-C13	4.26	0.138	30-Sep-16	4.30	4.3	13.8	46.3
24	GTRONIC-CG	5.38	0.082	30-Sep-16	6.30	4.5	26.1	49.7
25	IHH-CY	6.46	0.093	30-Sep-16	6.70	6.0	12.3	32.0
26	INARI-CP	3.29	0.123	30-Sep-16	3.70	3.3	27.2	66.7
27	JTIASA-CH	1.4	0.118	30-Sep-16	1.60	3.1	30.7	72.5
28	MAXIS-CR	6.39	0.158	30-Sep-16	6.70	4.1	17.1	50.4
29	MPI-CC	7.69	0.088	30-Sep-16	10.00	3.8	40.1	67.1
30	SKPRES-CA	1.27	0.098	30-Sep-16	1.50	3.2	33.0	71.6
31	TAANN-CF	4.84	0.093	30-Sep-16	5.50	4.7	23.4	50.5
32	TM-C11	6.55	0.128	30-Sep-16	6.80	5.2	13.7	38.7
33	UEMS-C26	1.04	0.138	30-Sep-16	1.10	2.8	25.1	79.1
34	UNISEM-CO	2.25	0.108	30-Sep-16	2.40	2.9	26.1	76.5
35	WCT-CW	1.61	0.183	30-Sep-16	1.70	2.6	27.9	85.4
36	AXIATA-C5	5.98	0.113	28-Oct-16	6.50	5.3	16.4	38.4
37	DIALOG-C9	1.57	0.093	28-Oct-16	1.65	4.4	16.6	42.7
38	DIGI-C10	4.95	0.093	28-Oct-16	5.70	5.1	22.8	42.2
39	DSONIC-CM	1.31	0.128	28-Oct-16	1.50	2.4	39.5	93.6
40	GAMUDA-C25	4.68	0.123	28-Oct-16	4.70	3.8	16.0	49.5
41	HARTA-CR	4.7	0.057	28-Oct-16	6.10	4.2	38.3	55.4
42	IJM-CY	3.37	0.093	28-Oct-16	3.50	4.6	15.1	40.2
43	JCY-CW	0.725	0.073	28-Oct-16	0.92	3.0	42.5	80.7
44	KAREX-CM	3.87	0.128	28-Oct-16	4.00	3.5	19.7	54.5
45	MISC-C4	8.8	0.128	28-Oct-16	9.50	4.6	18.4	42.7
46	MYEG-CV	2.07	0.133	28-Oct-16	2.25	3.3	25.1	60.1
47	PCHEM-C5	6.79	0.123	28-Oct-16	7.30	4.6	18.3	42.7
48	SUNCON-CC	1.47	0.143	28-Oct-16	1.45	3.9	12.8	46.6
49	SUPERMX-C11	2.76	0.118	28-Oct-16	3.30	2.9	36.9	75.7
50	TOPGLOV-CZ	5.42	0.128	28-Oct-16	6.90	3.2	41.3	71.6
51	WPRTS-CO	3.99	0.118	28-Oct-16	4.15	4.5	15.7	42.5

14 March 2016

Table 3: Kenanga Structured Warrants (Put Warrants)

No.	Name	Underlying Spot Price	Warrant Price	Expiry	Exercise Price (RM)	Effective Gearing	Premium (%)	Implied volatility (%)
1	FBMKLCI-H19	1695.22	0.028	17-Mar-16*	1675.00	-51.2	1.9	32.5
2	FBMKLCI-H7	1695.22	0.015	17-Mar-16*	1500.00	-23.2	11.9	100.4
3	FBMKLCI-H8	1695.22	0.013	17-Mar-16*	1575.00	-34.6	7.4	66.2
4	FBMKLCI-H9	1695.22	0.018	17-Mar-16*	1625.00	-40.7	4.6	50.4

*Denotes Structured Warrants with less than 1 month until expiry

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