

# Sunway Construction Group

## Bagged Three New Contracts

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**OUTPERFORM** ↔

Price: **RM1.61**  
Target Price: **RM1.81** ↔

Yesterday, SUNCON announced that they have bagged three new contracts cumulatively worth RM209m from: (i) MMC-Gamuda for advanced MRT2 works and (ii) SUNWAY for construction works in Medini Iskandar Johor Bahru. We are **NEUTRAL** as these contracts are within our FY16E replenishment target of RM2.9b. Hence, we make no changes to our earnings estimates. Maintain OP with an unchanged TP of RM1.81.

**Three new contracts.** Yesterday, SUNCON announced three new contracts cumulatively worth RM209m from MMC Gamuda and SUNWAY. The MMC Gamuda job entails MRT2 advance works in package V201 worth RM52.5m slated for completion in September 2017 while the SUNWAY contracts at Medini Iskandar includes: (i) precast construction of 88 units of shoplots, 1 block of office and mosque, 1 block of garbage storage and two TNB substations worth RM56.5m slated for completion in April 2018, and (ii) earthworks and main building works for a commercial development worth RM100m slated for completion in Oct 2017.

**NEUTRAL on the awards.** We are neutral on the awards which are within our FY16E order book replenishment target of RM2.9b. Year-to-date, SUNCON has secured RM2.6b worth of contracts representing 90% of our target with a remainder of c.RM300m to be achieved. Assuming 6% PBT margin, these contracts are expected to contribute c.RM6.6m to bottom line per annum.

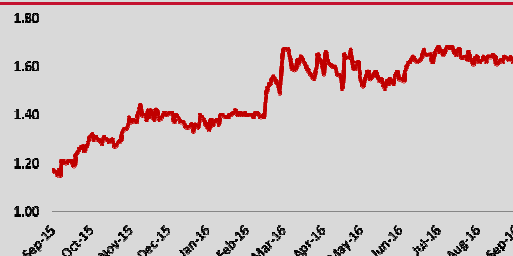
**Outlook.** Post-award win, SUNCON's outstanding order book stands at RM5.0b providing earnings visibility for the next 2-3 years. We believe our FY16E replenishment target of RM2.9b is highly achievable underpinned by anticipated project wins from LRT3, which is expected by year-end or beginning of 2017.

**Earnings unchanged.** We make no changes to our FY16-17E earnings forecasts as these awards are within our FY16E replenishment target.

**Maintain OUTPERFORM.** We maintain our OUTPERFORM call on SUNCON with an unchanged TP of RM1.81 based on SoP valuation. Considering SUNCON's strong job flows and light balance sheet against other big cap peers, we feel our valuation is fair as our SoP-derived TP of RM1.81 implies FY17E PER of 15.7x which is slightly below our big caps' targeted PER range of 16-18x.

Risks to our call include: (i) lower-than-expected margins/order book replenishment, (ii) delay in construction works, and (iii) cut or delay in government spending on infrastructure and affordable housing projects.

### Share Price Performance



KLCI	1,669.50
YTD KLCI chg	-1.4%
YTD stock price chg	15.0%

### Stock Information

Shariah Compliant	No
Bloomberg Ticker	SCGB MK Equity
Market Cap (RM m)	2,081.6
Issued shares	1,292.9
52-week range (H)	1.72
52-week range (L)	1.14
3-mth avg daily vol:	2,109,697
Free Float	34%
Beta	n.a.

### Major Shareholders

Sunway Holdings Sdn Bhd	54.4%
Sungei Way Corp Sdn Bhd	10.1%
Norges Bank	1.8%

### Summary Earnings Table

FY Dec (RM'm)	2015A	2016E	2017E
Turnover	1,916.9	2,175.3	2,422.3
EBIT	133.0	174.0	193.3
PBT	140.8	177.7	198.7
<b>Net Profit (NP)</b>	<b>127.2</b>	<b>133.2</b>	<b>149.0</b>
<b>Core net profit</b>	<b>127.2</b>	<b>133.2</b>	<b>149.0</b>
Consensus (NP)	n.a.	135.8	157.6
Earnings Revision	n.a.	n.a.	n.a.
Basic EPS	9.8	10.3	11.5
EPS growth (%)	-22%	5%	12%
DPS (sen)	4.0	3.6	4.0
Basic PER (x)	16.4	15.6	14.0
BVPS (RM)	0.35	0.42	0.49
Net Gearing (x)	n.c.	n.c.	n.c.
Dividend Yield (%)	2.5%	2.2%	2.5%





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### Peer Comparison

#### CORE COVERAGE

NAME	Price (26/9/16)	Mkt Cap	PER (x)			Est. Div. Yld.	Est. ROE	P/BV	Net Profit (RMm)			1 Yr Fwd NP Growth (%)	2 Yr Fwd NP Growth (%)	Target Price (RM)	Rating	YTD (%)
	(RM)		(RMm)	Actual	1 Yr Fwd				2 Yr Fwd	Actual	1 Yr Fwd					
EVERSENDAI CORP BHD	0.50	386.9	8.1	6.4	7.1	0.0	6.1	0.4	47.5	60.4	54.2	27.2	-10.3	0.63	Outperform	-34.64
GAMUDA BHD	4.89	11838.2	16.8	18.1	16.2	2.5	13.5	2.4	687.2	636.8	709.7	-7.3	11.4	4.67	Market Perform	4.94
IJM CORP BHD	3.37	12136.9	24.1	21.9	19.7	1.8	5.9	1.3	499.9	549.5	612.0	9.9	11.4	3.51	Market Perform	0.59
KIMLUN CORP BHD	2.24	695.0	10.5	8.6	8.0	2.9	15.1	1.3	64.4	78.7	83.8	22.2	6.5	2.51	Outperform	62.32
MUHIBBAH ENGINEERING (M) BHD	2.34	1124.0	12.1	11.5	10.2	2.1	9.0	1.0	88.9	92.9	104.9	4.5	12.9	2.53	Outperform	5.88
HOCK SENG LEE BERHAD	1.75	961.7	12.6	13.6	10.8	1.5	9.9	1.3	76.2	70.9	89.2	-7.0	25.8	1.79	Market Perform	-7.41
NAIM HOLDINGS BERHAD	1.74	412.3	187.4	-35.2	9.5	0.0	-0.9	0.3	2.2	-11.7	43.3	-631.8	-470.1	1.65	Underperform	-29.27
WCT HOLDINGS BHD	1.63	2036.4	55.4	19.9	14.4	2.0	5.7	1.1	49.3	137.1	190.2	178.1	38.7	1.58	Market Perform	1.24
MMC CORP BHD	2.28	6942.7	58.4	18.7	14.1	1.5	4.0	0.7	118.8	371.5	491.6	212.7	32.3	2.70	Outperform	16.33
MITRAJAYA HOLDINGS BHD	1.40	936.4	12.0	10.0	9.2	3.0	19.7	2.0	87.7	105.7	114.4	20.5	8.2	1.79	Outperform	16.67
SUNWAY CONSTRUCTION GROUP	1.61	2081.6	16.4	15.6	14.0	2.2	24.6	3.8	127.2	133.2	149.0	5.0	12.1	1.81	Outperform	15.00
<i>Average</i>			37.6	9.9	12.1											

#### NOT RATED/ON OUR RADAR

NAME	Price	Mkt Cap	PER (x)			Est. Div. Yld.	Est. ROE	P/BV	Net Profit (RMm)			1 Yr Fwd NP Growth (%)	2 Yr Fwd NP Growth (%)	Target Price (RM)	Rating	YTD (%)
	(RM)		(RMm)	Actual	1 Yr Fwd				2 Yr Fwd	Actual	1 Yr Fwd					
MUDAJAYA	1.02	549.2	-385.7	-29.1	12.3	4.4	-1.7	0.5	-1.4	-18.9	45.0	1223.5	-337.8	n.a.	Not Rated	-13.56
PROTASCO	1.55	524.0	7.8	6.4	n.a.	n.a.	n.a.	n.a.	66.2	81.4	n.a.	22.9	n.a.	2.25	Trading Buy	-3.73
PINTARAS JAYA	3.58	585.5	32.8	12.3	10.7	4.1	13.7	1.7	17.8	47.5	54.8	166.6	15.4	4.20	Trading Buy	8.48
GABUNGAN AQRS	0.95	370.9	-37.4	8.8	9.1	1.6	n.a.	n.a.	-9.9	42.0	40.8	-524.8	-2.9	n.a.	Not Rated	14.46
GADANG HOLDINGS	2.89	747.4	7.1	7.8	7.5	2.3	16.6	1.3	94.2	86.3	89.4	-8.4	3.7	2.44	Not Rated	36.32
AZRB	0.63	303.7	13.3	n.a.	n.a.	n.a.	n.a.	n.a.	22.9	n.a.	n.a.	n.a.	n.a.	n.a.	Not Rated	-0.79
TRC SYNERGY	0.41	197.0	6.4	10.2	5.9	2.4	5.0	0.5	30.7	19.4	33.3	-36.8	71.4	n.a.	Not Rated	10.81
BINA PURI	0.41	98.0	25.9	6.6	5.7	4.9	n.a.	n.a.	3.3	13.0	15.0	294.4	15.4	n.a.	Not Rated	-5.81
KERJAYA PROSPEK GROUP BHD	2.36	1196.9	79.0	13.4	11.1	2.1	15.3	2.0	16.1	95.1	114.1	490.5	20.0	2.62	Trading Buy	44.79
<i>Average</i>			-49.0	2.7	8.5											

Source: Kenanga Research

27 September 2016

**Stock Ratings are defined as follows:****Stock Recommendations**

OUTPERFORM	:A particular stock's Expected Total Return is MORE than 10% (an approximation to the 5-year annualised Total Return of FBMKLCI of 10.2%).
MARKET PERFORM	:A particular stock's Expected Total Return is WITHIN the range of 3% to 10%.
UNDERPERFORM	:A particular stock's Expected Total Return is LESS than 3% (an approximation to the 12-month Fixed Deposit Rate of 3.15% as a proxy to Risk-Free Rate).

**Sector Recommendations\*\*\***

OVERWEIGHT	:A particular sector's Expected Total Return is MORE than 10% (an approximation to the 5-year annualised Total Return of FBMKLCI of 10.2%).
NEUTRAL	:A particular sector's Expected Total Return is WITHIN the range of 3% to 10%.
UNDERWEIGHT	:A particular sector's Expected Total Return is LESS than 3% (an approximation to the 12-month Fixed Deposit Rate of 3.15% as a proxy to Risk-Free Rate).

**\*\*\*Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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