

### COMPANY UPDATE

## Sunway Construction (SCGB MK)

Job Flow Remains Intact

**SunCon expects to replenish its orderbook with another RM500m-600m worth of jobs by year's end, which could lift its order replenishment rate to a record high. Looking forward, the group aims to add about RM2b worth of jobs in 2017, with infrastructure jobs including the LRT3 and Sabah's PBH job as primary targets. We maintain HOLD as we believe new order win catalysts have been priced in with share price trading at 14x 2017F PE. Target price: RM1.55. Entry price: RM1.40.**

### WHAT'S NEW

- **Expect contracts worth RM500m-600m by the year end.** Ytd, Sunway Construction (SunCon) has secured about RM2.4b worth of jobs, and is close to hitting its RM2.5b full-year target. For the rest of the year, the group remains hopeful that it could set a new record in terms of new job inflow, with it expecting to add about RM500m-600m worth of new jobs by the year end. In terms of the incoming jobs, external jobs should be more prominent in value rather than internal jobs.
- **2017 order target would be lower than 2016's.** The group shared its 2017 construction orders target, which stands at about RM2b for the year and includes internal development jobs. We think that its RM2b target is realistic, given that large jobs such as the construction for the Light Rail Transit 3 (LRT3) and the Sabah portion of the Pan Borneo Highway (PBH) are expected to be rolled out. Cumulatively, these two projects alone command a total project value exceeding RM21b (RM9b for LRT3 and RM13b for Sabah PBH). For its internal jobs, the group targets to secure some of the property development jobs undertaken by its parent, Sunway Bhd which is set to launch more developments in the Klang Valley and Johor.
- **Role for HSR?** Though still preliminary, we expect newsflow on the high speed rail (HSR) linking Kuala Lumpur and Singapore to intensify next year and this should benefit a large number of Malaysian contractors. As for SunCon, it shared that its participation in the job, if any, could be for subcontracting works for concrete piling, given its large fleet of boring machines (one of the largest in Malaysia) and expertise in elevated railway construction (ie MRT1). Should the HSR project take off, we think that SunCon stands a good chance of clinching the related project works, given that a large portion (up to 65-75%) of the RM60b estimated total project cost for the HSR would relate to civil infrastructure works.

### KEY FINANCIALS

Year to 31 Dec (RMm)	2014	2015	2016F	2017F	2018F
Net turnover	1,881	1,917	2,273	2,500	2,585
EBITDA	149	154	220	246	243
Operating profit	107	112	169	192	200
Net profit (rep./act.)	125	128	135	154	163
Net profit (adj.)	114	128	135	154	163
EPS (sen)	8.8	9.9	10.5	11.9	12.6
PE (x)	18.6	16.5	15.7	13.8	13.0
P/B (x)	5.2	4.3	3.7	3.1	2.7
EV/EBITDA (x)	12.7	12.3	8.6	7.7	7.8
Dividend yield (%)	0.0	2.1	2.2	2.5	2.7
Net margin (%)	6.6	6.7	6.0	6.2	6.3
Net debt/(cash) to equity (%)	(38.5)	(43.9)	(39.0)	(54.9)	(70.0)
ROE (%)	24.5	28.6	25.4	24.5	22.3
Consensus net profit	-	-	136	158	169
UOBKH/Consensus (x)	-	-	1.00	0.98	0.97

Source: Sunway Construction, Bloomberg, UOB Kay Hian  
n.m. : not meaningful; negative P/E, EV/EBITDA reflected as "n.m."

### HOLD

(Maintained)

Share Price	RM1.64
Target Price	RM1.55
Upside	-5.5%

### COMPANY DESCRIPTION

A leading construction company in Malaysia

### STOCK DATA

GICS sector	Industrials
Bloomberg ticker:	SCGB MK
Shares issued (m):	1,292.9
Market cap (RMm):	2,120.4
Market cap (US\$m):	524.6
3-mth avg daily t'over (US\$m):	0.8

### Price Performance (%)

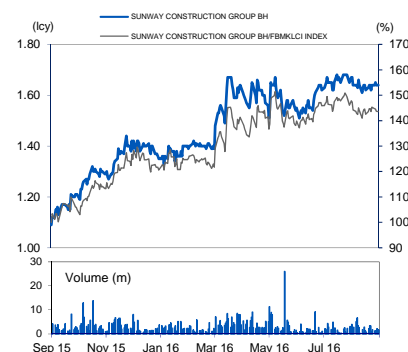
52-week high/low	RM1.68/RM1.09			
<b>1mth</b>	<b>3mth</b>	<b>6mth</b>	<b>1yr</b>	<b>YTD</b>
(0.6)	5.8	18.0	50.5	17.1

### Major Shareholders

Sunway Berhad	54.4
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FY16 NAV/Share (RM)	0.45
FY16 Net Cash/Share (RM)	0.17

### PRICE CHART



Source: Bloomberg

### ANALYST

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### STOCK IMPACT

- **Orderbook of RM4.9b should sustain earnings for the next 2-3 years.** SunCon's outstanding orderbook of over RM4.9b should sustain its earnings growth momentum till 2018. In terms of split of total jobs outstanding, infrastructure accounts for about 26%, buildings account for about 66% while precast accounts for about 8%. While building jobs would carry lower margins of 5-6%, our overall margin expectations for SunCon continues to be in the range of 6-6.3% for 2016-18, as we expect the infrastructure construction division and precast manufacturing division to still record PBT margins of between 7-9% and 20-23% respectively.
- **Precast concrete division's orders to normalise to RM200m/year.** SunCon's precast division primarily caters to HDB flats in Singapore. Historically, its precast manufacturing division secures orders of about RM300m yearly. However, going forward, management expects orders to trend down as: a) prices of precast concrete products have fallen due to lower input costs, b) increasing competition, and c) the roll out of HDB flats in Singapore has been slower than expected
- **Stock:** Its foreign shareholding stands at about 10%. SunCon is also targeting to be reinstated into the shariah compliant list.

### EARNINGS REVISION/RISK

- **No change to our estimates.** However, there could be significant upside to our 2017-18 earnings projections should SunCon claim variation orders (VOs) for the MRT Line 1 construction.
- Key risks include: a) execution risk, b) fluctuation in raw material prices which will impact margins, and c) downscaling of construction project awards by the government

### VALUATION/RECOMMENDATION

- **Maintain HOLD with a target price of RM1.55**, based on a 13x 2017F EPS estimate of 11.5 sen. We think the stock price has reflected any new sizeable contract wins that it may secure but do not discount the possibility of trading opportunities should newsflow on contract wins intensify. A good entry price would be RM1.40.

### SHARE PRICE CATALYST

- Securing more construction jobs.
- Positive newsflow on HSR.
- Inclusion back into the syariah list.

### TARGET PRICE CALCULATION

2017F EPS (sen)	PE (x)	Target Price (RM)
11.9	13	1.55

Source: UOB Kay Hian

### YTD CONTRACT WINS

	(RMm)
MRT Package V201	1,213
Sunway Medical Centre 4 & 5	428
Sunway Bhd related (total)	765
<b>Total</b>	<b>2,419</b>

Source: Sunway Construction, UOB Kay Hian

### OUTSTANDING CONSTRUCTION ORDERBOOK

	(RMm)
Putrajaya Parcel F	1,292
MRT Package V201	1,199
Sunway Medical Centre 3 & 4	487
KLCC	349
International School of Kuala Lumpur	268
Others	1,332
<b>Total</b>	<b>4,927</b>

Source: Sunway Construction, UOB Kay Hian

### PROFIT & LOSS

Year to 31 Dec (RMm)	2015	2016F	2017F	2018F
<b>Net turnover</b>	<b>1,917</b>	<b>2,273</b>	<b>2,500</b>	<b>2,585</b>
EBITDA	154	220	246	243
Deprec. & amort.	42	51	54	43
EBIT	112	169	192	200
Total other non-operating income	25	0	0	0
Associate contributions	0	0	0	0
Net interest income/(expense)	5	2	2	4
<b>Pre-tax profit</b>	<b>141</b>	<b>170</b>	<b>194</b>	<b>204</b>
Tax	(13)	(35)	(40)	(41)
Minorities	1	0	0	0
<b>Net profit</b>	<b>128</b>	<b>135</b>	<b>154</b>	<b>163</b>
Net profit (adj.)	128	135	154	163

### CASH FLOW

Year to 31 Dec (RMm)	2015	2016F	2017F	2018F
<b>Operating</b>	<b>317</b>	<b>108</b>	<b>250</b>	<b>294</b>
Pre-tax profit	141	170	194	204
Tax	(13)	(35)	(40)	(41)
Deprec. & amort.	42	51	54	43
Working capital changes	153	(74)	48	93
Other operating cashflows	(5)	(5)	(5)	(5)
<b>Investing</b>	<b>(50)</b>	<b>(50)</b>	<b>(50)</b>	<b>(60)</b>
Capex (growth)	(50)	(50)	(50)	(60)
Investments	0	0	0	0
Proceeds from sale of assets	0	0	0	0
Others	0	0	0	0
<b>Financing</b>	<b>(195)</b>	<b>(47)</b>	<b>(54)</b>	<b>(57)</b>
Dividend payments	(45)	(47)	(54)	(57)
Issue of shares	0	0	0	0
Proceeds from borrowings	0	0	0	0
Loan repayment	(150)	0	0	0
Others/interest paid	0	0	0	0
<b>Net cash inflow (outflow)</b>	<b>72</b>	<b>11</b>	<b>147</b>	<b>176</b>
<b>Beginning cash &amp; cash equivalent</b>	<b>278</b>	<b>350</b>	<b>361</b>	<b>507</b>
Changes due to forex impact	n.a.	n.a.	n.a.	n.a.
<b>Ending cash &amp; cash equivalent</b>	<b>350</b>	<b>361</b>	<b>507</b>	<b>684</b>

### BALANCE SHEET

Year to 31 Dec (RMm)	2015	2016F	2017F	2018F
Other LT assets	222	228	226	233
Cash/ST investment	350	361	507	684
Other current assets	1,020	954	908	935
<b>Total assets</b>	<b>1,592</b>	<b>1,542</b>	<b>1,642</b>	<b>1,851</b>
ST debt	135	135	135	135
Other current liabilities	963	825	824	928
LT debt	0	0	0	0
Other LT liabilities	4	4	4	4
Shareholders' equity	490	578	678	784
Minority interest	0	0	0	0
<b>Total liabilities &amp; equity</b>	<b>1,592</b>	<b>1,542</b>	<b>1,642</b>	<b>1,851</b>

### KEY METRICS

Year to 31 Dec (%)	2015	2016F	2017F	2018F
<b>Profitability</b>				
EBITDA margin	8.0	9.7	9.8	9.4
Pre-tax margin	7.3	7.5	7.7	7.9
Net margin	6.7	6.0	6.2	6.3
ROA	8.8	8.6	9.7	9.3
ROE	28.6	25.4	24.5	22.3
<b>Growth</b>				
Turnover	1.9	18.6	10.0	3.4
EBITDA	3.1	43.2	11.6	(1.1)
Pre-tax profit	(7.0)	21.0	13.7	5.4
Net profit	2.8	5.6	13.6	6.0
Net profit (adj.)	12.7	5.6	13.6	6.0
EPS	12.7	5.6	13.6	5.9
<b>Leverage</b>				
Debt to total capital	21.6	19.0	16.6	14.7
Debt to equity	27.6	23.4	19.9	17.2
Net debt/(cash) to equity	(43.9)	(39.0)	(54.9)	(70.0)

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