

15 May 2018

Construction & Engineering | Engineering & Construction

Sunway Construction

Buy (Maintained)

Contracts Galore In 2018

 Target Price: MYR2.50
 Price: MYR2.16
 Market Cap: USD707m
 Bloomberg Ticker: SCGB MK

Maintain BUY on Sunway Construction, while our TP remains at MYR2.50, suggesting a 16% upside. The company received a letter of award from its parent company, Sunway, for the construction of the first phase of a medical centre in Penang. The value of the contract is MYR180m with a duration of 31 months. It is the company's fourth medical centre job from its parent, and we expect a few more to be awarded in the not-too-distant future. As the job win is within our forecast, we make no changes to our forecasts. Our checks with management indicate that ongoing infrastructure jobs are progressing as usual. Any weakness in the company's share price is an opportunity to accumulate, in our opinion.

Secures a medical centre job from its parent. Sunway Construction announced on Bursa Malaysia yesterday that its fully-owned subsidiary, Sunway Construction SB, was awarded a contract for the construction of the first phase of the Sunway Medical Centre located at Seberang Jaya, Penang. The contract, valued at MYR180m, was awarded by Alliance Parade SB, wholly-owned by parent company, Sunway (SWB MK, BUY, TP: MYR1.82). The project is scheduled to commence immediately, with the completion date set on 15 Dec 2020 – a duration of 31 months.

Extensive experience in constructing medical centres. The latest contract to build the medical centre in Seberang Jaya is its fourth medical centre job from its parent. The company previously secured three phases of Sunway Medical Centre, Bandar Sunway (completed) and Sunway Medical Centre Velocity (ongoing).

The medical centre in Seberang Jaya has a capacity of 180 beds, and we believe that there could be one or two more larger-scale medical centre jobs in the offing. This is in line with its parent company's plans to complete a 250-bed hospital in Damansara, Selangor and a 200-bed hospital in Ipoh, Perak by 2022 and 2023 respectively.

The job win is within our forecast. With the latest job win – its third in 2018 - the value of Sunway Construction's YTD new contract wins is lifted to MYR0.64bn – in line with our forecasts – equivalent to approximately 30% of our MYR2.2bn new orderbook estimate for FY18. Hence, we make no changes to our earnings forecasts and TP.

Business as usual. Sunway Construction's latest total outstanding orderbook stands at MYR6.3bn, equivalent to over thrice its FY17 construction revenue. Management added that it is business as usual at the construction sites for its ongoing infrastructure projects – such as the Mass Rapid Transit 2 (MRT2), Light Rail Transit 3 (LRT3), Sungai Besi-Ulu Klang Elevated Expressway (SUKE) and Damansara-Shah Alam Elevated Expressway (DASH), as well as build/design and build work scope of various government buildings.

We note that the company's internal MYR1.5-2bn orderbook consists mainly of building-related works and internal jobs, as highlighted in our 3 Apr report titled [Time To Get Back In The Sun](#), and excludes work packages for mega infrastructure projects. We believe that some mega projects might still see the light of day – after reviews by the new Government takes place. As such, we maintain our MYR2.2bn orderbook replenishment forecast for FY18.

Maintain BUY. Sunway Construction's share price saw a steep decline of 9.6% yesterday. The stock closed at MYR2.16 after briefly touching an intraday low of MYR2.00. This follows the 14th general election held last Wednesday, which saw a new government being elected – triggering jitters among investors on uncertainties pertaining to projects initiated earlier. While a large knee-jerk reaction was anticipated, the sell-off was actually less intense than expected, with the company trading at sub-MYR2.00 levels about a month ago. We maintain our MYR2.50 TP, justified on an ex-cash FY18F P/E of 16x.

Forecasts and Valuations	Dec-16	Dec-17	Dec-18F	Dec-19F	Dec-20F
Total turnover (MYRm)	1,789	2,076	2,625	3,083	3,177
Reported net profit (MYRm)	124	138	181	221	233
Recurring net profit (MYRm)	124	138	181	221	233
Recurring net profit growth (%)	(2.9)	11.7	30.9	22.1	5.7
Recurring EPS (MYR)	0.10	0.11	0.14	0.17	0.18
DPS (MYR)	0.05	0.07	0.08	0.09	0.09
Recurring P/E (x)	22.6	20.2	15.5	12.7	12.0
P/B (x)	5.66	5.43	4.76	4.14	3.64
P/CF (x)	na	18.6	8.4	9.9	10.1
Dividend Yield (%)	2.3	3.2	3.7	3.9	4.2
EV/EBITDA (x)	13.1	12.1	8.1	6.5	5.8
Return on average equity (%)	26.2	27.4	32.8	35.0	32.4
Net debt to equity	net cash	net cash	net cash	net cash	net cash
Our vs consensus EPS (adjusted) (%)			6.6		

Source: Company data, RHB

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