

Sunway Construction (BUY↔; EPS↔)

INDUSTRY: OVERWEIGHT

NEWSBREAK

27 March 2017

Price Target: RM2.00 (↑)

Share price: RM1.80

Job wins of to a good start
News

- **Secures Putrajaya contract and...** SunCon was awarded a RM152.4m contract for the EPCC at Gas District Cooling Plant 1, Precinct 1, Putrajaya involving (i) chilled water supply system and (ii) power generation system. The job was awarded by the Putrajaya Group and works will span from March 2017 to Aug 2018.
- **...pilling works for SUKE and DASH.** In a separate award, SunCon also managed to bag the bore pilling works subcontract for SUKE (RM18.1m) and DASH (RM15.8m).

Comments

- **Notable projects bagged.** We are positive on these contract wins as they represent (i) SunCon's 8th project secured from the Putrajaya Group and (ii) subcontract works for SUKE and DASH even though SunCon did not manage to participate in SUKE and DASH at the main contractor level.
- **Job wins coming in strong.** With these 2 jobs in the bag, SunCon's YTD job wins now total RM900m (FY16: RM2.7bn). Management is gunning for RM2bn in new job wins while we remain more optimistic at RM2.5bn, justified by the strong momentum witnessed thus far into the year. Its orderbook currently stands at RM4.9bn, translating to a healthy cover ratio of 2.7x on FY16 revenue.
- **What's in the pipeline?** In terms of upcoming mega projects, we reckon that SunCon is a strong contender to participate in the LRT3 (RM9bn) in which awards are expected to start rolling in from 2Q17 onwards. Apart from that, job flows should continue to be sustained by development projects from its parent-co, Sunway, generally amounting to RM500-800m p.a.

Risks

- Given its all-time high orderbook, execution is a potential risk area to watch out for.

Forecasts

- As YTD job wins of RM900m is within our full year target of RM2.5bn, we maintain our earnings forecast.

Rating
Maintain BUY, TP raised to RM2.00

- SunCon is a well-managed company with commendable execution capability across a wide array of project types, putting it in a polar position to ride on the ongoing robust flow of construction jobs.

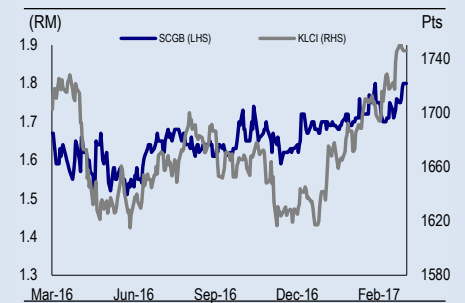
Valuation

- Whilst there are no changes to our earnings forecast, we raise our TP from RM1.84 to RM2.00 as we roll forward our valuation horizon from FY17 to mid-FY18 at an unchanged P/E target of 18x.
- We reckon that our premium valuation yardstick is justified by its (i) healthy balance sheet with net cash at RM0.25/share and (ii) ROE of 24% compared to the industry average of 11%.

Jeremy Goh, CFA
pwgoh@hlib.hongleong.com.my

(603) 2168 1138

| | |
|-----------------------------|---------|
| KLCI | 1,747.0 |
| Expected share price return | 11.1% |
| Expected dividend return | 2.7% |
| Expected total return | 13.8% |

Share price

Information

| | |
|--------------------------|---------|
| Bloomberg Ticker | SCGB MK |
| Bursa Code | 5263 |
| Issued Shares (m) | 1,293 |
| Market cap (RM m) | 2,327 |
| 3-mth avg. volume ('000) | 1,686 |
| SC Shariah-compliant | Yes |

| | | | |
|--------------------------|------|-----|-----|
| Price Performance | 1M | 3M | 12M |
| Absolute | 2.9 | 7.8 | 7.8 |
| Relative | -0.2 | 0.0 | 5.2 |

Major shareholders

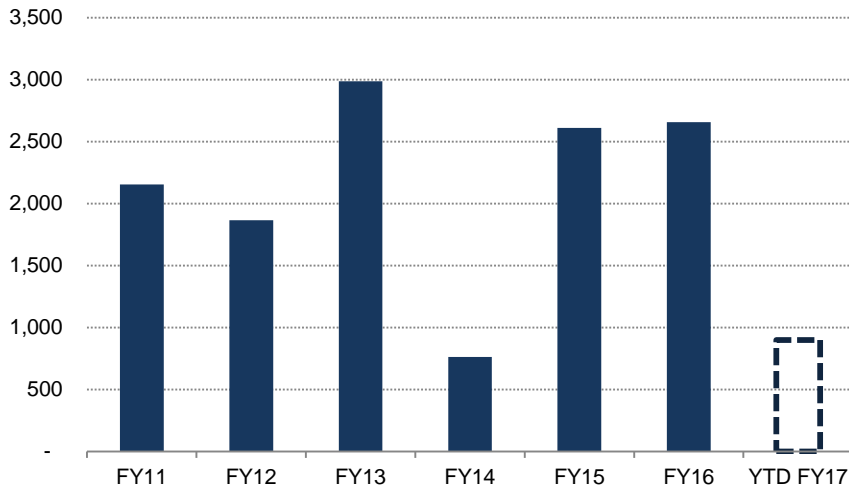
| | |
|--------------------|-------|
| SUNHOLDINGS | 54.4% |
| SUNGEI WAY CORP SB | 10.1% |
| NORGES BANK | 1.9% |

Summary Earnings Table

| FYE Dec (RM m) | FY15 | FY16 | FY17F | FY18F |
|-------------------|-------|-------|-------|-------|
| Revenue | 1,917 | 1,789 | 2,312 | 2,554 |
| EBITDA | 166 | 189 | 221 | 236 |
| EBIT | 124 | 150 | 176 | 188 |
| Profit Before Tax | 128 | 154 | 179 | 191 |
| Core PATAMI | 115 | 124 | 139 | 148 |
| vs Consensus (%) | | | (10) | (11) |
| Core EPS (sen) | 8.9 | 9.6 | 10.7 | 11.5 |
| P/E (x) | 20.3 | 18.8 | 16.8 | 15.7 |
| Net DPS (sen) | 4.0 | 5.0 | 4.8 | 5.2 |
| Net DY (%) | 2.2 | 2.8 | 2.7 | 2.9 |
| BV per share | 0.35 | 0.38 | 0.46 | 0.52 |
| P/B (x) | 5.2 | 4.7 | 3.9 | 3.4 |
| ROE (%) | 30.8 | 24.4 | 22.2 | 21.2 |
| Net Gearing (%) | CASH | CASH | CASH | CASH |

HLIB

Figure #1 Annual orderbook replenishment (RM m)



Company

Disclaimer

The information contained in this report is based on data obtained from sources believed to be reliable. However, the data and/or sources have not been independently verified and as such, no representation, express or implied, is made as to the accuracy, adequacy, completeness or reliability of the info or opinions in the report.

Accordingly, neither Hong Leong Investment Bank Berhad nor any of its related companies and associates nor person connected to it accept any liability whatsoever for any direct, indirect or consequential losses (including loss of profits) or damages that may arise from the use or reliance on the info or opinions in this publication.

Any information, opinions or recommendations contained herein are subject to change at any time without prior notice. Hong Leong Investment Bank Berhad has no obligation to update its opinion or the information in this report.

Investors are advised to make their own independent evaluation of the info contained in this report and seek independent financial, legal or other advice regarding the appropriateness of investing in any securities or the investment strategies discussed or recommended in this report. Nothing in this report constitutes investment, legal, accounting or tax advice or a representation that any investment or strategy is suitable or appropriate to your individual circumstances or otherwise represent a personal recommendation to you.

Under no circumstances should this report be considered as an offer to sell or a solicitation of any offer to buy any securities referred to herein.

Hong Leong Investment Bank Berhad and its related companies, their associates, directors, connected parties and/or employees may, from time to time, own, have positions or be materially interested in any securities mentioned herein or any securities related thereto, and may further act as market maker or have assumed underwriting commitment or deal with such securities and provide advisory, investment or other services for or do business with any companies or entities mentioned in this report. In reviewing the report, investors should be aware that any or all of the foregoing among other things, may give rise to real or potential conflict of interests.

This research report is being supplied to you on a strictly confidential basis solely for your information and is made strictly on the basis that it will remain confidential. All materials presented in this report, unless specifically indicated otherwise, is under copyright to Hong Leong Investment Bank Berhad. This research report and its contents may not be reproduced, stored in a retrieval system, redistributed, transmitted or passed on, directly or indirectly, to any person or published in whole or in part, or altered in any way, for any purpose.

This report may provide the addresses of, or contain hyperlinks to, websites. Hong Leong Investment Bank Berhad takes no responsibility for the content contained therein. Such addresses or hyperlinks (including addresses or hyperlinks to Hong Leong Investment Bank Berhad own website material) are provided solely for your convenience. The information and the content of the linked site do not in any way form part of this report. Accessing such website or following such link through the report or Hong Leong Investment Bank Berhad website shall be at your own risk.

1. As of 27 March 2017, Hong Leong Investment Bank Berhad has proprietary interest in the following securities covered in this report:

(a) -.

2. As of 27 March 2017, the analyst, Jeremy Goh, who prepared this report, has interest in the following securities covered in this report:

(a) -.

Published & Printed by
Hong Leong Investment Bank Berhad (10209-W)
 Level 23, Menara HLA
 No. 3, Jalan Kia Peng
 50450 Kuala Lumpur
 Tel 603 2168 1168 / 603 2710 1168
 Fax 603 2161 3880

Equity rating definitions

| | |
|---------------------|--|
| 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. |
| TRADING SELL | Negative recommendation of stock not under coverage. Expected absolute return of less than -10% over 6-months. Situational or arbitrage trading opportunity. |
| SELL | Negative recommendation of stock under coverage. High risk of negative absolute return of more than -10% over 12-months. |
| 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. |