

6 October 2017

Construction & Engineering | Engineering & Construction

Sunway Construction Group

Wins MYR2.18bn LRT3 Job

Sunway Construction has announced its acceptance of the MYR2.18bn LRT3 job from Prasarana Malaysia. We are upbeat on this new contract win, the largest secured this year by far, bringing its new orderbook replenishment to MYR3.75bn and outstanding orderbook to MYR6.5bn. We raise our new orderbook replenishment target this year to MYR4bn (from MYR1.85bn) and our FY17F-19F earnings by 1.8-13.5%. Ascribing a 16x target P/E to FY18F earnings, we raise our TP to MYR2.60 (from MYR2.30, 13% upside). Upgrade to BUY (from Neutral).

MYR2.18bn LRT3 contract completion by 4Q20. Sunway Construction's construction contract with Prasarana Malaysia Berhad involves the construction and completion of guideway, stations, iconic bridge, park and rides, ancillary buildings and other associated works for Package GS07-08 for Light Rail Transit Line 3 (LRT3) from Bandar Utama to Johan Setia for a total consideration of MYR2.18bn. The project is expected to complete within a 36 month period, by 4Q20.

Biggest win. Prasarana awarded three LRT3 packages yesterday, with Sunway Construction bagging the biggest. The remaining two packages were awarded to Gabungan AQRS (AQRS MK, NR) and WCT Holdings Bhd (WCTHG MK, NEUTRAL, TP: MYR1.80), worth MYR1.21bn and MYR0.64bn respectively. The scope of the works for Sunway Construction includes – 9.2km of viaduct works; six stations works; one cable-stayed bridge over the Klang River; two park & rides at Pasar Besar Klang and Sri Andalas; and centralised labour quarters at Johan Setia.

Upbeat on the contract won. We are upbeat on the job awarded, given that this is by far the largest contract the company has won this year, after the PPA1M (Perumahan Penjawat Awam 1Malaysia) project in Kota Bharu for MYR582m. This is the ninth contract won by Sunway Construction in FY17, bringing its new orderbook replenishment to MYR3.75bn (vs our initial target of MYR1.85bn). Sunway Construction's outstanding orderbook now stands at MYR6.5bn, of which >90% is from construction that may keep the firm busy for the next three to four years.

Key risks and forecast changes. With a few months to go before year end, we expect Sunway Construction to secure more jobs within this period. Thus, we lift our new orderbook replenishment target this year to MYR4bn (from MYR1.85bn). Having said that, we also raise our FY17F-19F earnings by 1.8-13.5%. Key risks include weaker-than-expected margins and possible cost overrun.

Upgrade to BUY. With the upward revision in earnings we raise our TP to MYR2.60 (from MYR2.30), ascribing an unchanged 16x target P/E to FY18F earnings. We raise our call to BUY (from Neutral) as we believe Sunway Construction deserves to trade above the construction sector's 3-year average P/E of 14x. This is due to recurring orders from its parent company and key blue-chip clients comprising Petronas, Khazanah Nasional, MRT Corp and Prasarana Malaysia.

Buy (from Neutral)

| | |
|-------------------|---------|
| Target Price: | MYR2.60 |
| Price: | MYR2.30 |
| Market Cap: | USD703m |
| Bloomberg Ticker: | SCGB MK |

Share Data

| | |
|------------------------------|-------------|
| Avg Daily Turnover (MYR/USD) | 3.55m/0.83m |
| 52-wk Price low/high (MYR) | 1.59 - 2.36 |
| Free Float (%) | 35 |
| Shares outstanding (m) | 1,293 |
| Estimated Return | 13% |

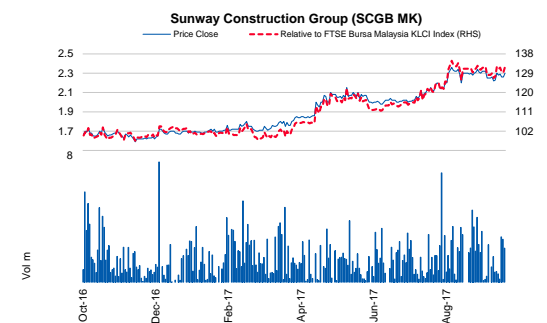
Shareholders (%)

| | |
|-----------------------|------|
| Sunway Bhd | 55.8 |
| Tan Sri Jeffrey Cheah | 7.4 |

Share Performance (%)

| | | | | | |
|----------|------|-----|------|------|------|
| | YTD | 1m | 3m | 6m | 12m |
| Absolute | 35.3 | 0.4 | 15.0 | 27.1 | 37.7 |
| Relative | 28.2 | 1.0 | 15.5 | 26.3 | 31.9 |

Source: Bloomberg



Source: Bloomberg

| Forecasts and Valuations | Dec-15 | Dec-16 | Dec-17F | Dec-18F | Dec-19F |
|-------------------------------------|----------|----------|----------|----------|----------|
| Total turnover (MYRm) | 1,917 | 1,789 | 2,230 | 2,882 | 2,932 |
| Reported net profit (MYRm) | 127 | 124 | 153 | 193 | 197 |
| Recurring net profit (MYRm) | 127 | 124 | 153 | 193 | 197 |
| Recurring net profit growth (%) | 11.4 | (2.9) | 23.7 | 26.3 | 2.1 |
| Recurring EPS (MYR) | 0.10 | 0.10 | 0.12 | 0.15 | 0.15 |
| DPS (MYR) | 0.04 | 0.05 | 0.04 | 0.05 | 0.05 |
| Recurring P/E (x) | 23.4 | 24.1 | 19.5 | 15.4 | 15.1 |
| P/B (x) | 6.59 | 6.03 | 5.02 | 4.14 | 3.52 |
| P/CF (x) | 37.4 | na | 11.2 | 11.0 | 11.9 |
| Dividend Yield (%) | 1.7 | 2.2 | 1.8 | 2.3 | 2.3 |
| EV/EBITDA (x) | 15.4 | 14.1 | 10.2 | 7.8 | 7.2 |
| Return on average equity (%) | 32.4 | 26.2 | 28.1 | 29.4 | 25.2 |
| Net debt to equity | net cash | net cash | net cash | net cash | net cash |
| Our vs consensus EPS (adjusted) (%) | | | (3.2) | 13.9 | 0.0 |

Source: Company data, RHB

Analyst

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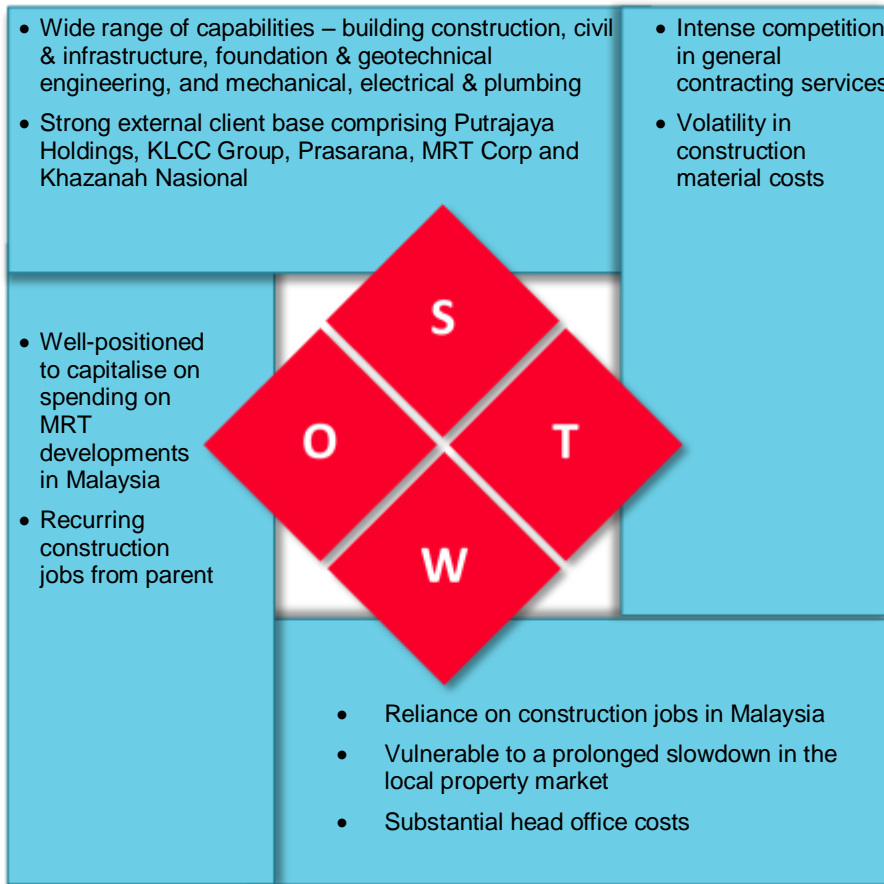
Financial Exhibits

Financial model updated on : 2017-10-05.

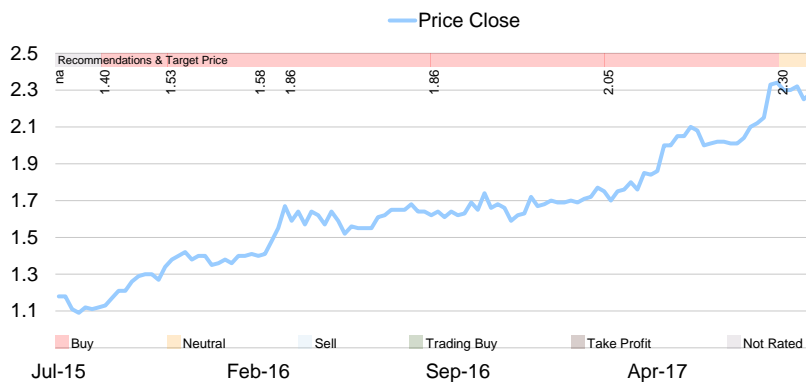
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|--|-------------------------------------|---------------|---------------|----------------|----------------|----------------|
| Asia | Financial summary | Dec-15 | Dec-16 | Dec-17F | Dec-18F | Dec-19F |
| Malaysia | Recurring EPS (MYR) | 0.10 | 0.10 | 0.12 | 0.15 | 0.15 |
| Construction & Engineering | EPS (MYR) | 0.10 | 0.10 | 0.12 | 0.15 | 0.15 |
| Sunway Construction Group | DPS (MYR) | 0.04 | 0.05 | 0.04 | 0.05 | 0.05 |
| Bloomberg SCGB MK | BVPS (MYR) | 0.35 | 0.38 | 0.46 | 0.56 | 0.65 |
| Buy | Weighted avg adjusted shares (m) | 1,293 | 1,293 | 1,293 | 1,293 | 1,293 |
| Valuation basis | Valuation metrics | Dec-15 | Dec-16 | Dec-17F | Dec-18F | Dec-19F |
| We value the company based on 16x FY18F EPS, the higher end of our benchmark upcycle 1-year forward target P/E for mid-cap construction stocks. As its strong cash war chest would also allow the company to gear up for more jobs moving forward, we also added its latest net cash (as at 30 Jun 2016) to our valuation, leading us to derive a TP of MYR2.60. | Recurring P/E (x) | 23.4 | 24.1 | 19.5 | 15.4 | 15.1 |
| | P/E (x) | 23.4 | 24.1 | 19.5 | 15.4 | 15.1 |
| | P/B (x) | 6.59 | 6.03 | 5.02 | 4.14 | 3.52 |
| | FCF Yield (%) | 1.4 | (6.6) | 7.9 | 8.1 | 7.7 |
| | Dividend Yield (%) | 1.7 | 2.2 | 1.8 | 2.3 | 2.3 |
| | EV/EBITDA (x) | 15.4 | 14.1 | 10.2 | 7.8 | 7.2 |
| | EV/EBIT (x) | 20.0 | 17.8 | 12.9 | 9.5 | 8.7 |
| Key drivers | Income statement (MYRm) | Dec-15 | Dec-16 | Dec-17F | Dec-18F | Dec-19F |
| Sunway Construction's earnings are strongly backed by: | Total turnover | 1,917 | 1,789 | 2,230 | 2,882 | 2,932 |
| i. An outstanding order backlog of ~MYR6.5bn, of which >90% is from construction that may keep the firm busy for the next three to four years; | Gross profit | 400 | 401 | 519 | 665 | 673 |
| ii. Recurring orders from its parent company and key blue-chip clients comprising KLCC/Petronas, Khazanah Nasional, Putrajaya Holdings, MRT Corp and Prasarana Malaysia; | EBITDA | 177 | 188 | 241 | 294 | 294 |
| iii. A highly profitable precast operation in Singapore. | Depreciation and amortisation | (41) | (39) | (49) | (53) | (51) |
| | Operating profit | 136 | 149 | 192 | 241 | 243 |
| | Net interest | 5 | 4 | 1 | 1 | 2 |
| | Income from associates & JVs | (0) | 1 | 0 | 0 | 0 |
| | Pre-tax profit | 141 | 154 | 192 | 243 | 246 |
| | Taxation | (13) | (30) | (39) | (50) | (50) |
| | Minority interests | (1) | (0) | 0 | 0 | 1 |
| | Recurring net profit | 127 | 124 | 153 | 193 | 197 |
| Key risks | Cash flow (MYRm) | Dec-15 | Dec-16 | Dec-17F | Dec-18F | Dec-19F |
| Downside risks include possible cost overruns and higher material cost. | Change in working capital | 28 | (72) | 64 | 27 | 5 |
| | Cash flow from operations | 79 | (177) | 266 | 272 | 250 |
| | Capex | (39) | (19) | (30) | (30) | (20) |
| | Cash flow from investing activities | (65) | 79 | (30) | (30) | (20) |
| | Proceeds from issue of shares | 0 | 0 | 0 | 0 | 0 |
| | Dividends paid | (70) | (84) | (53) | (68) | (68) |
| | Cash flow from financing activities | (68) | (84) | (73) | (86) | (85) |
| | Cash at beginning of period | 292 | 390 | 466 | 629 | 784 |
| | Net change in cash | (53) | (183) | 163 | 155 | 145 |
| | Ending balance cash | 234 | 208 | 629 | 784 | 929 |
| Company Profile | Balance sheet (MYRm) | Dec-15 | Dec-16 | Dec-17F | Dec-18F | Dec-19F |
| Sunway Construction is one of the largest construction companies in Malaysia. Apart from the bread and butter building and civil & infrastructure construction services, the company also provides the more specialised: | Total cash and equivalents | 390 | 466 | 629 | 784 | 927 |
| i. Foundation & geotechnical engineering services; | Tangible fixed assets | 163 | 134 | 115 | 92 | 61 |
| ii. Mechanical, electrical & plumbing (MEP) services. | Intangible assets | 4 | 4 | 4 | 4 | 4 |
| In addition, it runs a highly profitable precast concrete products manufacturing operation in Malaysia and Singapore. Aside from fulfilling local requirements, its hose concrete products are supplied largely to Housing & Development Board (HDB) projects in the island republic. | Total investments | 0 | 0 | 0 | 0 | 0 |
| | Total other assets | 14 | 12 | 12 | 12 | 12 |
| | Total assets | 1,515 | 1,567 | 1,861 | 2,311 | 2,447 |
| | Short-term debt | 137 | 137 | 117 | 97 | 77 |
| | Total liabilities | 1,063 | 1,073 | 1,268 | 1,592 | 1,602 |
| | Shareholders' equity | 451 | 493 | 593 | 718 | 845 |
| | Minority interests | 1 | 1 | 1 | 1 | 1 |
| | Total equity | 452 | 494 | 593 | 719 | 845 |
| | Net debt | (254) | (329) | (512) | (688) | (851) |
| | Total liabilities & equity | 1,515 | 1,567 | 1,861 | 2,311 | 2,447 |
| | Key metrics | Dec-15 | Dec-16 | Dec-17F | Dec-18F | Dec-19F |
| | Revenue growth (%) | 1.9 | (6.7) | 24.7 | 29.2 | 1.7 |
| | Recurrent EPS growth (%) | 11.4 | (2.9) | 23.7 | 26.3 | 2.1 |
| | Gross margin (%) | 20.9 | 22.4 | 23.3 | 23.1 | 23.0 |
| | Operating EBITDA margin (%) | 9.2 | 10.5 | 10.8 | 10.2 | 10.0 |
| | Net profit margin (%) | 6.6 | 6.9 | 6.9 | 6.7 | 6.7 |
| | Dividend payout ratio (%) | 40.7 | 52.3 | 35.0 | 35.0 | 34.6 |
| | Capex/sales (%) | 2.0 | 1.1 | 1.3 | 1.0 | 0.7 |
| | Interest cover (x) | 38.9 | 24.5 | 50.5 | 75.5 | 93.7 |

Source: Company data, RHB

SWOT Analysis



Recommendation Chart



Source: RHB, Bloomberg

| Date | Recommendation | Target Price | Price |
|------------|----------------|--------------|-------|
| 2017-08-25 | Neutral | 2.30 | 2.34 |
| 2017-02-24 | Buy | 2.05 | 1.75 |
| 2016-08-26 | Buy | 1.86 | 1.62 |
| 2016-07-24 | Buy | 1.86 | 1.65 |
| 2016-03-29 | Buy | 1.86 | 1.67 |
| 2016-02-26 | Buy | 1.58 | 1.40 |
| 2015-11-25 | Buy | 1.53 | 1.37 |
| 2015-09-17 | Buy | 1.40 | 1.16 |

Source: RHB, Bloomberg

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Neutral: Share price may fall within the range of +/- 10% over the next 12 months

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