

Sunway Construction (BUY ↑; EPS ↑)

INDUSTRY: OVERWEIGHT

NEWSBREAK

6 October 2017

Price Target: RM2.59 (↑)

Share price: RM2.30

Sizable chunk of the LRT3
News

- **Wins LRT3 contract.** SunCon was awarded a RM2.2bn contract (excluding GST) from Prasarana for Package GS07-08 of the LRT3. The contract entails 9.2km of viaduct works, 6 stations, 1 iconic bridge over the Klang River, 2 park & ride facilities and a centralised labour quarter at Johan Setia. The contract duration is for 36 months.

Comments

- **Positive surprise on size.** We have always advocated SunCon as one of the top contenders for the LRT3 by virtue of its track record with the LRT ext, BRT and MRT1. However, the sheer size of this recent contract win was certainly above what we had anticipated in the tune of c.RM1bn.
- **Pushing orderbook to a new high.** With the LRT3 in the bag, coupled with RM582m PPA1M job secured last month, SunCon's orderbook has increased significantly by 47% to an all-time high of RM6.3bn (compared to RM4.3bn as of 2QFY17). This implies a strong cover of 3.5x on FY16 revenue, providing strong earnings visibility over the next 3 years.
- **Job wins surpass target.** SunCon's YTD job wins now total a record RM3.5bn (excluding the MRT2 stations which are already accounted for as part of the main viaduct line). This amount has surpassed management's initial guidance of RM2bn and our assumption of RM2.5bn.

Risks

- With its all-time high orderbook, execution would be the key risk to watch out for.

Forecasts

- As YTD job wins of RM3.5bn has exceeded our full year target of RM2.5bn, we adjust our orderbook replenishment assumption to reflect this. Consequently, our FY18-19 earnings forecast are raised by 11% and 14% respectively (FY17 unchanged).

Rating
Upgrade to BUY, TP: RM2.59

- SunCon continues to surprise us positively with its contract winning capability. We like SunCon as a well-managed contractor with strong execution ability. With stronger than expected job wins leading to a strong boost in orderbook, we upgrade our rating from Hold to BUY.

Valuation

- Following our earnings upgrade, our TP is raised from RM2.33 to RM2.59 which is still based on an unchanged 20x P/E multiple tagged to FY18 earnings.
- We reckon that our premium valuation yardstick for SunCon is justified given (i) its superior ROE of 27% which is more than double of its peer's average and (ii) healthy balance with net cash position of RM364m (RM0.28/ share).

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KLCI	1759.1
Expected share price return	12.6%
Expected dividend return	2.4%
Expected total return	15.0%

Share price

Information

Bloomberg Ticker	SCGB MK
Bursa Code	5263
Issued Shares (m)	1,292
Market cap (RM m)	2,972
3-mth avg. volume ('000)	1,712
SC Shariah-compliant	Yes

Price Performance

	1M	3M	12M
Absolute	0.0	14.4	35.3
Relative	0.8	15.2	28.2

Major shareholders

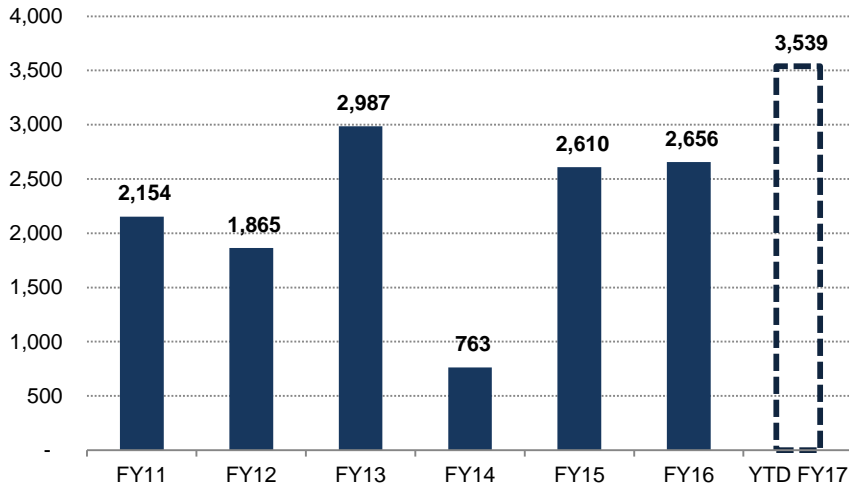
SUNHOLDINGS	54.4%
SUNGEI WAY CORP SB	10.1%
TRUE PARAGON SB	3.9%

Summary Earnings Table

FYE Dec (RM m)	FY16	FY17E	FY18F	FY19F
Revenue	1,789	2,024	2,632	3,015
EBITDA	169	217	250	284
EBIT	130	178	211	243
Profit Before Tax	135	183	216	248
Core PATAMI	105	142	167	192
vs Consensus (%)		(8)	(1)	11
Core EPS (sen)	8.1	11.0	12.9	14.8
P/E (x)	28.4	21.0	17.8	15.5
Net DPS (sen)	5.0	5.5	6.5	7.4
Net DY (%)	2.2	2.4	2.8	3.2
BV per share	0.38	0.44	0.50	0.58
P/B (x)	6.0	5.3	4.6	4.0
ROE (%)	22.2	26.8	27.6	27.6
Net Gearing (%)	CASH	CASH	CASH	CASH

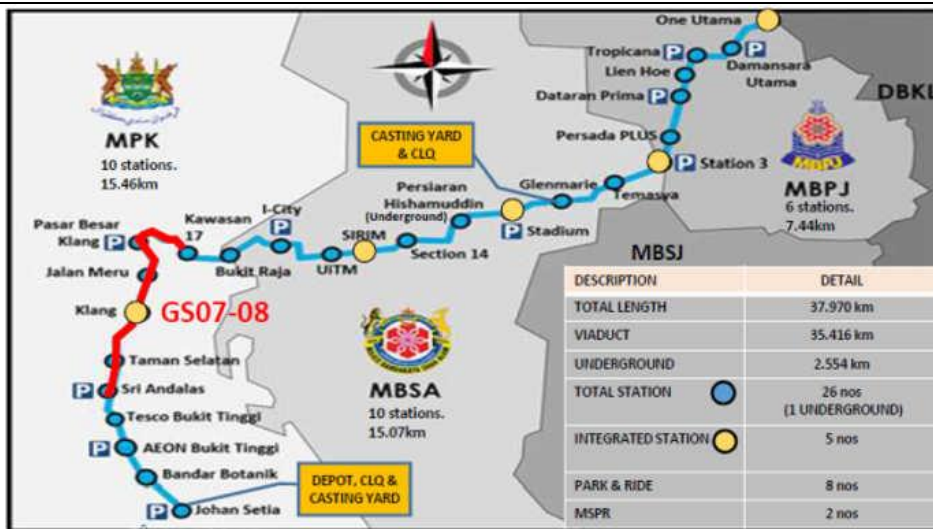
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Figure #1 Annual orderbook replenishment (RM m)



Company

Figure #2 Alignment of SunCon's LRT3 package



Company

Financial Projections for Sunway Construction Group**Balance Sheet**

FYE Dec (RM m)	FY15	FY16	FY17F	FY18F	FY19F
Cash	468	466	463	583	714
Receivables	627	764	804	1,046	1,198
Inventories	17	24	22	28	33
PPE	162	138	119	95	69
Others	123	205	205	205	205
Assets	1,397	1,597	1,614	1,957	2,218
Debits	137	137	137	137	137
Payables	742	872	818	1,078	1,243
Others	67	95	95	95	95
Liabilities	946	1,104	1,050	1,309	1,475
Shareholder's equity	451	493	564	648	744
Minority interest	1	1	-	-	-
Equity	452	494	564	648	744

Cash Flow Statement

FYE Dec (RM m)	FY15	FY16	FY17F	FY18F	FY19F
Profit before taxation	128	135	183	216	248
Depreciation & amortisation	42	39	39	39	41
Changes in working capital	71	(14)	(92)	11	9
Share of JV profits	0	-	-	-	-
Taxation	(13)	(30)	(41)	(49)	(56)
Others	11	(44)	(1)	-	0
Operating cash flow	240	86	89	218	242
Net capex	(11)	(5)	(20)	(15)	(15)
Others	(53)	78	-	-	-
Investing cash flow	(64)	73	(20)	(15)	(15)
Changes in borrowings	2	(0)	-	-	-
Issuance of shares	26	-	-	-	-
Dividends paid	(51)	(65)	(71)	(84)	(96)
Others	(45)	(19)	-	-	-
Financing cash flow	(68)	(84)	(71)	(84)	(96)
Net cash flow	107	74	(2)	120	131
Forex	5	2	-	-	-
Others	65	(78)	-	-	-
Beginning cash	292	468	466	463	583
Ending cash	468	466	463	583	714

Income Statement

FYE Dec (RM m)	FY15	FY16	FY17F	FY18F	FY19F
Revenue	1,917	1,789	2,024	2,632	3,015
EBITDA	166	169	217	250	284
EBIT	124	130	178	211	243
Net finance income/ (cost)	5	4	5	5	5
Associates & JV	(0)	-	-	-	-
Profit before tax	128	135	183	216	248
Tax	(13)	(30)	(41)	(49)	(56)
Net profit	115	105	142	167	192
Minority interest	(1)	(0)	-	-	-
Core earnings	115	105	142	167	192
Exceptional items	12	19	-	-	-
Reported earnings	127	124	142	167	192

Valuation & Ratios

FYE Dec (RM m)	FY15	FY16	FY17F	FY18F	FY19F
Core EPS (sen)	8.9	8.1	11.0	12.9	14.8
P/E (x)	25.9	28.4	21.0	17.8	15.5
EV/EBITDA (x)	15.7	15.4	12.0	10.4	9.2
DPS (sen)	4.0	5.0	5.5	6.5	7.4
Dividend yield	1.7%	2.2%	2.4%	2.8%	3.2%
BVPS (RM)	0.35	0.38	0.44	0.50	0.58
P/B (x)	6.6	6.0	5.3	4.6	4.0
EBITDA margin	8.7%	9.5%	10.7%	9.5%	9.4%
EBIT margin	6.5%	7.3%	8.8%	8.0%	8.0%
PBT margin	6.7%	7.5%	9.0%	8.2%	8.2%
Net margin	6.0%	5.8%	7.0%	6.4%	6.4%
ROE	27.6%	22.2%	26.8%	27.6%	27.6%
ROA	8.4%	7.0%	8.8%	9.4%	9.2%
Net gearing	CASH	CASH	CASH	CASH	CASH

Assumptions

FYE Dec (RM m)	FY15	FY16	FY17F	FY18F	FY19F
Construction	2,294	2,541	3,500	2,500	2,500
Precast	317	115	175	200	200
Total new job wins	2,610	2,656	3,675	2,700	2,700

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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.
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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.