

2 November 2018

Construction & Engineering | Construction

Sunway Construction

Buy (Maintained)

Target Price: MYR2.00

Price: MYR1.49

Market Cap: USD469m

Bloomberg Ticker: SCGB MK

Ground Checks: Business As Usual At Project Sites

Maintain BUY with revised TP of MYR2 from MYR2.30, offering 34% upside plus 5% 2019F yield. At our recent site visits, we were pleasantly surprised to learn that MRT2 is now 69% complete, while LRT3 has progressed to 13% as of Oct 2018 despite reviews to reduce the project cost and a change in the project's structure from Project Delivery Partner (PDP) to turnkey. In view of the more advanced stage of completion for its MRT2 package, we believe any reduction in contract value will be limited. For LRT3, Suncon was spared from the MOF's cancellation of stations. However, it could see a reduction in the construction scope for the iconic bridge, which if it materialises, could result in a 1-2% cut to our FY18-20 earnings estimates. Looking forward, we believe Suncon can continue to capitalise on opportunities from the private sector, and ride out the era of low public sector jobs relatively unscathed.

Sunway Construction's (Suncon) share price has fallen by 39% YTD, underperforming the FBM KLCI (-5% YTD) by a wide margin. On 11 Oct 2018, following the Government's announcement of a 23% reduction in the above ground (AG) cost for the Mass Rapid 2 (MRT2) project, the stock fell to an intraday low of MYR1.30, just 8% shy of its 2015 IPO price of MYR1.20. We understand from Suncon's management that the selloff could have precipitated from foreign selling, as foreign shareholding has decreased from 8% at the start of 2018 to 4.7% in Aug 2018. Amid concerns on the progress and potential revisions to contract values of Suncon's MRT2 and Light Rail Transit 3 (LRT3) projects, we sought clarification and latest progress updates from Suncon's management.

MRT2 now 69% complete (from 52% in 2Q18). We gather that progress for Suncon's MYR1.2bn Sungai Buloh-to-Persiaran Dagang (Bandar Sri Damansara) viaduct and station package has reached advanced stages, with more than two thirds of work completed. As such, management expects minimal reductions to its MRT2 contract value. While it has not received any formal notifications of changes, management believes any reductions in scope would arise from architectural finishes for stations. In any case, we note that the revised MRT2 AG cost firmed up by the Government of MYR17.42bn is actually higher than the MYR16.53bn sum of AG packages awarded by MRT Corp in 2016-2017, indicating that concerns over a significant reduction in its contract value could be overblown.

LRT3 progressed 8% despite project reviews. We were pleasantly surprised to learn that progress for Suncon's MYR2.1bn 37km Bandar Utama-to-Johan Setia (Klang) LRT3 package advanced 8% between Jun-Oct 2018. Works for the package is now 13% complete (from 5% in Jun 2018), after progressing at a sluggish pace (only 5%) from Oct 2017 to Jun 2018.

Suncon's LRT3 package could see a reduction of MYR270-300m. On 9 Oct 2018, the Government determined a total cost of MYR16.6bn for LRT3, of which we estimate that MYR11.8bn would be allocated for construction works – a figure higher than the MYR9bn we assumed when the project was awarded to the PDP, MRCB-GK in 2015. Six stations under Suncon's LRT3 package, Kawasan 17, Pasar Besar Klang, Jalan Meru, Klang, Taman Selatan and Sri Andalas are expected to remain, according to a Ministry of Finance (MOF) media release in Jul 2018. In our view, possible changes to its scope could be in the range of MYR270-300m, involving the construction of an iconic bridge across the Klang river. If this materialises, our FY18-20F earnings could see a reduction of 1-2%.

On track to achieve its MYR1.5bn target for FY18. Suncon has secured MYR854m worth of new orders in 2018. In our view, Suncon remains on track to achieve its MYR1.5bn new order bookings for FY18, with outstanding tenders worth more than MYR4bn. In the near term, projects such as the Menara Dayabumi redevelopment, Phase 2 of Tenaga Nasional Headquarters and Sunway Velocity Two could provide new job replenishment opportunities for Suncon, in our view.

Maintain BUY. We leave our earnings forecasts unchanged. However, we reduce our TP to MYR2 from MYR2.30, now pegging our target ex-cash FY18F P/E to 14x (from 16x), -1SD below its 3-year mean. Suncon is scheduled to release its 3Q18 earnings on 19 Nov 2018, and we expect the company to report earnings of MYR30-40m, in line with expectations. We like the company premised on its ability to secure both external and internal private sector jobs, to make up for the lack of public sector infrastructure projects. In addition, Suncon has net cash amounting to MYR457m, placing it in a better position to weather any potential slowdown in payments.

Forecasts and Valuations	Dec-16	Dec-17	Dec-18	Dec-19	Dec-20
Total turnover (MYRm)	1,789	2,076	2,145	2,301	2,449
Reported net profit (MYRm)	124	138	147	164	176
Recurring net profit (MYRm)	124	138	147	164	176
Recurring net profit growth (%)	0.1	11.7	6.7	11.3	7.7
Recurring EPS (MYR)	0.10	0.11	0.11	0.13	0.14
DPS (MYR)	0.05	0.07	0.07	0.08	0.08
Recurring P/E (x)	15.6	14.0	13.1	11.8	10.9
P/B (x)	3.91	3.48	3.36	3.01	2.71
P/CF (x)	4.14	3.95	3.06	2.72	2.44
Dividend Yield (%)	3.4	4.7	4.6	5.1	5.5
EV/EBITDA (x)	8.50	7.78	5.90	5.14	4.43
Return on average equity (%)	26.2	26.4	26.1	27.0	26.2
Net debt to equity (%)	net cash	net cash	net cash	net cash	net cash
Our vs consensus EPS (adjusted) (%)			(3.3)		

Source: Company data, RHB

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Figure 1: Suncon's contract wins in 2018

Company	Date	Project	Amount (MYRm)
Sunway Construction	26/2/2018	Sunway GEOLake	223.0
Sunway Construction	27/2/2018	Sunway Carnival Shopping Mall	286.0
Sunway Construction	14/5/2018	Sunway Medical Centre Penang	180.0
Sunway Construction	23/5/2018	BBC piling	46.3
Sunway Construction	23/5/2018	TNB Bangsar	23.2
Sunway Construction	16/8/2018	Other in house	40.5
Sunway Construction	na	Precast	55.0
Total			854.0

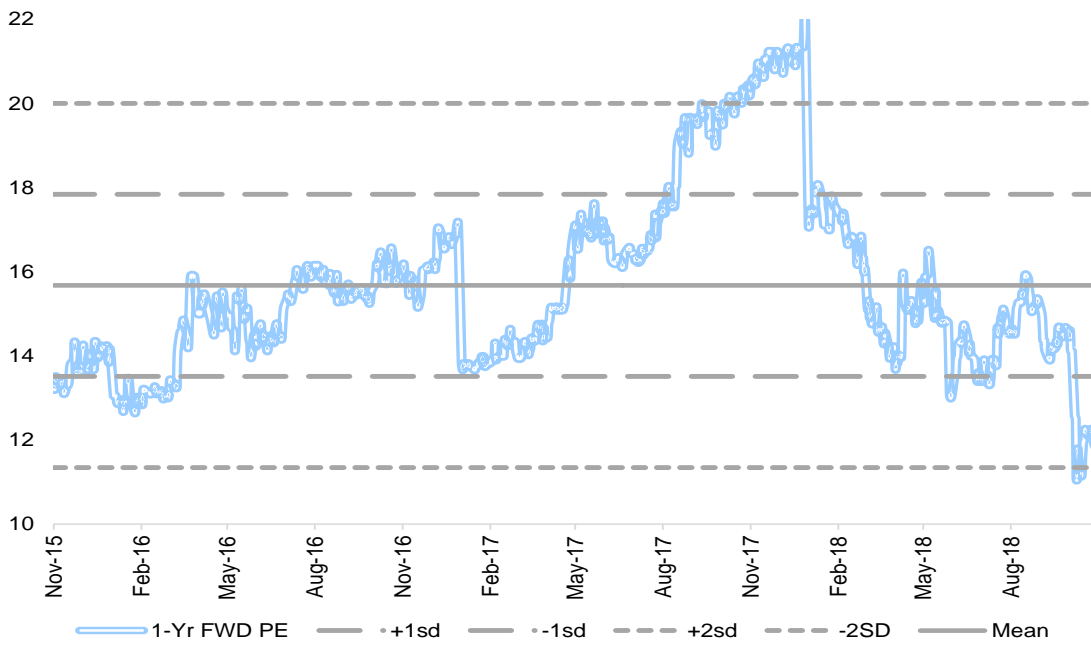
Source: Company data, RHB

Figure 2: Suncon's outstanding orderbook as of Jun 2018

Project	Completion date	Contract sum	O/s works	Completion %
External building				
Putrajaya Parcel F	1Q19	1,610.0	421.0	74%
KLCC	3Q18	646.0	43.0	93%
HUKM	2Q19	66.0	26.0	61%
ISKL	4Q18	268.0	36.0	87%
GDC (Plant 1)	4Q18	152.0	50.0	67%
PPA1M Kota Bharu	1Q20	582.0	420.0	28%
Nippon Express	4Q19	70.0	68.0	3%
M&E Works	4Q18	10.0	10.0	0%
Velocity Ecodeck	4Q18	11.0	11.0	0%
Infrastructure/piling				
MRT2 V201 + S201	2Q21	1,213.0	587.0	52%
MRT2 V201 Advance Works	3Q18	53.0	7.0	87%
SUKE + DASH (Bore piling)	3Q18	34.0	11.0	68%
BBC	4Q18	88.0	42.0	52%
LRT3 GS07-08	2Q21	2,178.0	2,067.0	5%
Other piling works	3Q18	75.0	74.0	1%
Internal				
Velocity Medical Centre	1Q19	185.0	95.0	49%
Sunway Medical Centre 4	2Q19	512.0	456.0	11%
Emerald Residences	4Q18	175.0	12.0	93%
Big Box - Iskandar	3Q19	170.0	130.0	24%
Sunway Serene	4Q20	449.0	357.0	20%
Sunway Geo Lake	1Q21	223.0	210.0	6%
Carnival Mall extension	4Q29	286.0	277.0	3%
SMC Seberang Jaya	4Q29	180.0	180.0	0%
Others	Various	13.0	12.0	8%
Singapore				
Precast	Various	330.0	128.0	61%
Precas - new orders 2018	Various	55.0	55.0	0%
Grand total		9,634.0	5,785.0	40%

Source: Company data, RHB

Figure 3: Suncon's 3-year forward P/E chart



Source: RHB, Bloomberg

Figure 4: MRT2 Damansara Damai Station (Jun 2018)



Source: Company, RHB

Figure 5: MRT2 Damansara Damai Station (Oct 2018)



Source: Company, RHB

Figure 6: MRT2 Sri Damansara East Station (Jun 2018)



Source: MRT Corp, RHB

Figure 7: MRT2 Sri Damansara East Station (Aug 2018)



Source: MRT Corp, RHB

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