

## Wins MRT2 viaduct contract

### Quick Note

#### SunCon awarded MYR1.2bn MRT Line 2 viaduct contract

- As per a news article ([link](#)), SunCon was awarded a viaduct package for MRT line 2 yesterday, with a contract value of MYR 1.2bn.
- The scope of the contract is to construct the viaduct guideway for a 4.9km distance of the MRT line 2 elevated portion from Sungai Buloh to Persiaran Dagang.
- This is in line with our expectations; recall that we had expected SunCon to be a front-runner for a viaduct package in our note on March 17 ([Malaysia Construction - And the award goes to...](#)).
- This is the second viaduct contract award for MRT Line 2 after Ahmad Zaki (AZR MK, not rated) won the first viaduct package last Friday (see fig 1). The project value of the package was MYR 1.44bn ([link](#)).

#### Implications for SunCon

- The project increases SunCon's orderbook (internal + external) to ~MYR5bn, as per our estimates (see fig 2), which implies an earnings visibility of ~2-2.5 years, in our view.
- We had built in MYR 2bn of new contracts for SunCon for FY16F, vs YTD awards of MYR 1.2bn. As a result this package is already in our numbers.
- However, the strong share price movement in the last month (+19%, vs KLCI up +2%) has already captured this award, in our view. SunCon is currently trading at 16x CY16F P/E (EPS: 10sen), slightly above the historical average (~15x) of large-cap Construction stocks on Bursa Malaysia like IJM (IJM MK, Buy) and Gamuda (GAM MK, Reduce). We think the current trading multiple is fair and reiterate Neutral.
- Note that the viaduct package value includes ~MYR 200mn which corresponds to the respective stations along the viaduct. This might or might not be sub-contracted to another contractor at a later stage.

Fig. 1: MRT line 2 major awards tracker

Major contracts awarded				
Package	Award date	Location of works	Award value (MYR bn)	Awarded to
V202 - viaduct	25-Mar-16	Persiaran Dagang to Jinjang	1.44	Ahmad Zaki (AZR MK)
V201 - viaduct	28-Mar-16	Sungai Buloh to Persiaran Dagang	1.21	SunCon (SCGB MK)

Major contracts remaining
8 Viaduct packages
Underground works contract
10 station work packages
15 multi-storey park and ride work packages

Source: MRT Corp, The Star, Nomura research

## Global Markets Research

29 March 2016

Rating Remains	<b>Neutral</b>
Target Price Remains	MYR 1.50
Closing price 28 March 2016	MYR 1.67

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**Fig. 2: SunCon: Outstanding orderbook**

MYR mn	Contract Sum	Outstanding order book
<b>Infrastructure</b>		
MRT Package V4 (Sec 17 to Semantan)	1,173	320
LRT Kelana Jaya Line Extension (Package B)	569	41
MRT Line 2 package V201	1,210	1,210
<b>Johor</b>		
Urban Wellness Centre	283	15
Coastal Highway Southern Link	170	99
<b>Others</b>		
Putrajaya Parcel F	1,609	1,382
KLCC NEC	304	199
KLCC Package 2 (Piling & Substructure)	222	129
KLCC package 2a	120	111
Others	83	31
<b>Internal</b>		
Sunway Velocity 2 Mall	350	102
Sunway Geo Retail Shops & Flexi Suites	153	93
Sunway Medical Centre Phase 3	167	118
Sunway Iskandar - Citrine Service Apts	213	128
Sunway Geo Retail Shops & Flexi Suites 2	244	222
Sunway Lenang Phase 1A	96	53
Sunway Iskandar - Linked/cluster and Semi D	175	137
Others	615	69
<b>Singapore</b>		
Precast	848	416
<b>Total</b>	<b>8,604</b>	<b>4,875</b>
<b>Orderbook burn rate (FY15, including internal)</b>		<b>2,462</b>
<b>Implied earnings visibility (years)</b>		<b>2.0</b>

Source: Company data, Nomura research

# Appendix A-1

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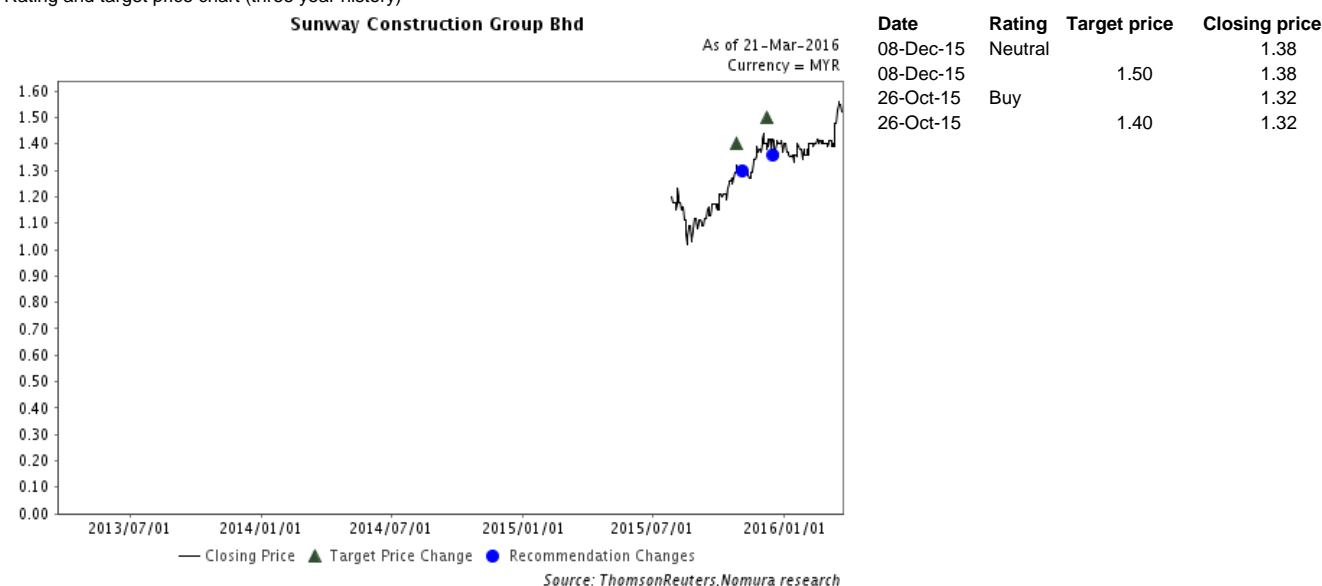
### Materially mentioned issuers

Issuer	Ticker	Price	Price date	Stock rating	Sector rating	Disclosures
Gamuda	GAM MK	MYR 4.93	28-Mar-2016	Reduce	N/A	
IJM Corp	IJM MK	MYR 3.48	28-Mar-2016	Buy	N/A	
Sunway Construction Group Bhd	SCGB MK	MYR 1.67	28-Mar-2016	Neutral	N/A	

### Sunway Construction Group Bhd (SCGB MK)

MYR 1.67 (28-Mar-2016) Neutral (Sector rating: N/A)

Rating and target price chart (three year history)



For explanation of ratings refer to the stock rating keys located after chart(s)

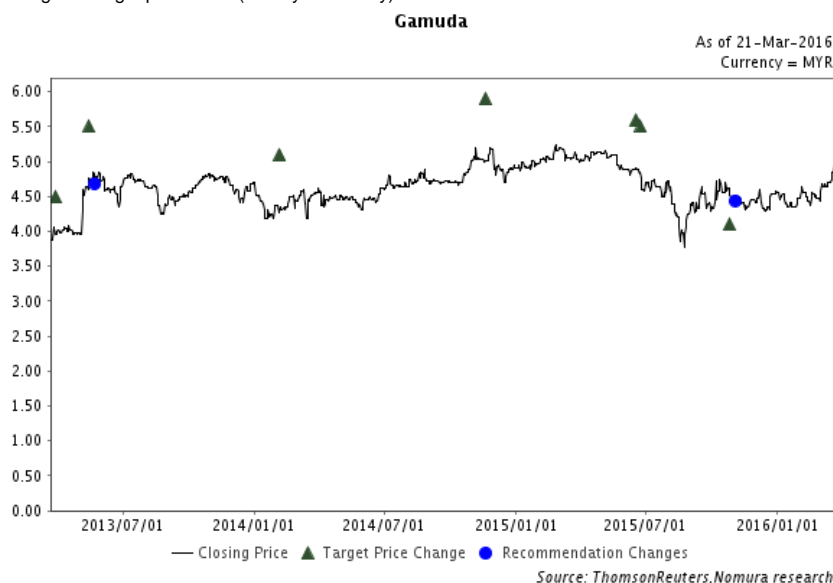
**Valuation Methodology** We value SCGB based on CY16F target P/E of 15x which is higher than the average P/E of Malaysian listed contractors but in-line with the valuations of large-caps like IJM and GAM. We believe the premium is justified due to SCGB's exposure to Singapore's growing precast market. Using our fully diluted EPS forecast of 10sen for CY16F and target multiple of 15x, we arrive at our target price of MYR1.50. The benchmark index for the stock is MSCI Malaysia.

**Risks that may impede the achievement of the target price** Downside risks to our view: 1) Delay in construction project awards; 2) lower-than-expected margins; 3) Singapore housing units not growing as expected; 4) lower-than-expected orderbook inflows. Upside risks: 1) Higher than expected project wins; 2) Higher-than-expected margins.

**Gamuda (GAM MK)**

**MYR 4.93 (28-Mar-2016)** Reduce (Sector rating: N/A)

Rating and target price chart (three year history)



Date	Rating	Target price	Closing price
26-Oct-15	Reduce		4.523
26-Oct-15		4.10	4.523
24-Jun-15		5.50	4.856
18-Jun-15		5.60	4.914
19-Nov-14		5.90	5.022
05-Feb-14		5.10	4.298
15-May-13	Buy		4.767
15-May-13		5.50	4.767
29-Mar-13		4.50	3.955

For explanation of ratings refer to the stock rating keys located after chart(s)

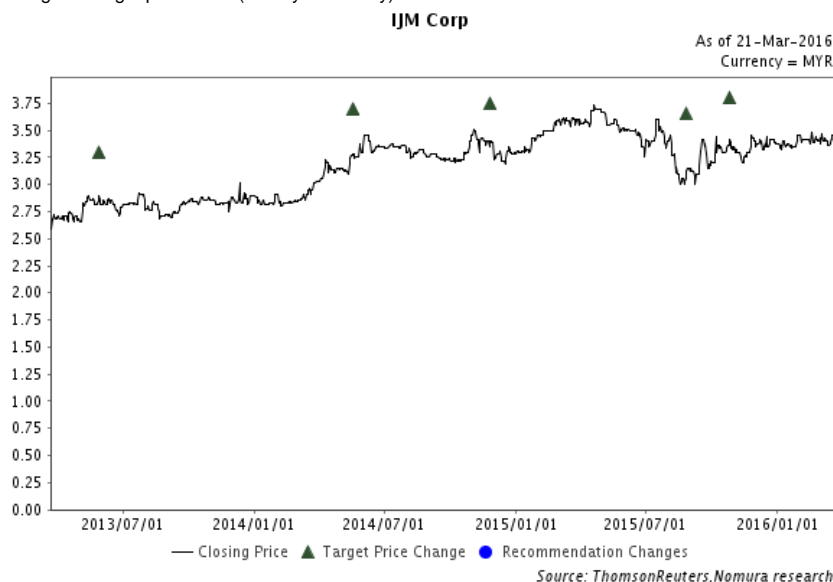
**Valuation Methodology** In valuing Gamuda, we ascribe a target P/E of 15x, in line with the long-term historical average. Using our fully diluted EPS forecast of 27sen for CY16F, we arrive at our target price of MYR4.10. The benchmark index for the stock is the MSCI Malaysia.

**Risks that may impede the achievement of the target price** Upside risks: 1) rapid approvals of MRT Line 3 and the Penang Transport Master Plan by the federal government, with Gamuda winning the turnkey role at highly value-accretive terms and with minimal balance-sheet risk; 2) unexpected project awards from other projects like the LRT 3 and Pan Borneo Highway; 3) a surprise special dividend after the sale of SPLASH (management has already guided that none is planned); and 4) sharp recovery in Malaysia property sales, especially in Iskandar Malaysia, which is currently in a slowdown.

**IJM Corp (IJM MK)**

**MYR 3.48 (28-Mar-2016)** Buy (Sector rating: N/A)

Rating and target price chart (three year history)



Date	Rating	Target price	Closing price
26-Oct-15		3.80	3.42
26-Aug-15		3.65	3.05
26-Nov-14		3.75	3.405
19-May-14		3.70	3.282
29-May-13		3.30	2.893

For explanation of ratings refer to the stock rating keys located after chart(s)

**Valuation Methodology** We value IJM based on a CY16F target P/E of 17x which is close to +1SD of its historical valuation. Using our fully diluted EPS forecast of 22sen for CY16F and target multiple of 17x, we arrive at our target price of MYR3.80. The benchmark index for the stock is the MSCI Malaysia.

**Risks that may impede the achievement of the target price** Risks include: 1) lower-than-expected margins from construction and property development; 2) lower-than-expected orderbook inflows or property sales; 3) lower CPO or building material prices; and 4) unexpected cancellation of projects.

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