

INITIATE COVERAGE

Sunway Construction Group (SCGB MK)

An Infrastructure Development Proxy

We initiate coverage on SunCon with a HOLD rating and target price of RM1.40. We like SunCon for its: a) its diverse construction capabilities (able to handle both general and specialist jobs), b) its good track record in handling mega construction jobs, and c) its relatively strong outstanding orderbook. SunCon is one of the key beneficiaries of high infrastructure development spending in Malaysia, primarily on the construction of new rail lines. Our target price of RM1.40 is pegged to a 13x sector average PE based on its 2016F EPS of 10.8 sen. Entry price: RM1.25.

- An industry veteran with a strong track record.** Sunway Construction Group (SunCon) is the largest pure-play construction company listed on Bursa Malaysia, with extensive experience in handling both public and private infrastructure jobs. It prides itself in having been able to complete a number of large construction jobs, including expressways in Malaysia and India, buildings and the ongoing Mass Rapid Transit 1 (MRT1) and Light Rail Transit (LRT) Kelana Jaya extension works. Since its inception, the company has completed and delivered over RM10b in construction jobs.
- Earnings visibility assured by a heavy construction orderbook.** We expect SunCon to deliver RM140m in net profit in 2016, driven by its thriving construction business. Its construction business is backed by a revenue cover of more than 2.3x its historical 2014 construction revenue which includes the recently-won Putrajaya Parcel F building job (RM1.6b) and the ongoing MRT1 construction and LRT extension jobs worth a total of RM439m. Ytd, the company has secured about RM2.6b in new orderbook replenishments, including internal jobs worth RM541m from its parent, Sunway Bhd.
- In the running for major rail infrastructure jobs.** SunCon would be one of the major beneficiaries of the government's drive to further expand railroad connectivity within the Klang Valley via the construction of MRT and LRT systems. Given its experience in handling these jobs, SunCon could again emerge as one of the key contractors for this project. In mid-16, we expect the roll-out of the MRT2 and LRT3 contracts with total construction values of RM28b and RM9b respectively.
- Initiate coverage with a HOLD rating and target price of RM1.40,** as we believe the share price has priced in the anticipated contract wins. Our target price is based on a 13x 2016F EPS of 10.8 sen, on par with the average sector PE valuation. The stock would also continue to be supported by positive newsflow, and a dividend yield of 2.7% based on its targeted 35% payout. Entry price: RM1.25.

KEY FINANCIALS

Year to 31 Dec (RMm)	2013	2014	2015F	2016F	2017F
Net Turnover	1,840	1,881	2,157	2,273	2,500
EBITDA	71	149	198	213	218
Operating Profit	28	107	154	162	164
Net Profit (Reported/Actual)	67	125	130	140	142
Net Profit (Adjusted)	67	114	130	140	142
EPS (sen)	5.2	8.8	10.1	10.8	11.0
PE (x)	27.0	15.9	13.9	12.9	12.7
P/B (x)	2.9	4.5	3.7	3.1	2.7
EV/EBITDA (x)	22.5	10.8	8.1	7.5	7.4
Dividend Yield (%)	0.0	0.0	2.5	2.7	2.7
Net Margin (%)	3.6	6.6	6.0	6.2	5.7
Net Debt/(Cash) to Equity (%)	(10.7)	(38.5)	(41.4)	(40.1)	(55.2)
ROE (%)	10.9	24.5	29.1	26.1	22.6
Consensus Net Profit	-	-	130	136	142
UOBKH/Consensus (x)	-	-	1.00	1.03	1.00

Source: SunCon, Bloomberg, UOB Kay Hian

HOLD

Share Price	RM1.40
Target Price	RM1.40
Upside	0.0%

COMPANY DESCRIPTION

Sunway Construction Group provides construction and engineering services. The company offers its services throughout Malaysia.

STOCK DATA

GICS sector	Industrials
Bloomberg ticker	SCGB MK
Shares issued (m)	1,292.9
Market cap (RMm)	1,810.1
Market cap (US\$m)	429.4
3-mth avg daily turnover (US\$m)	1.0

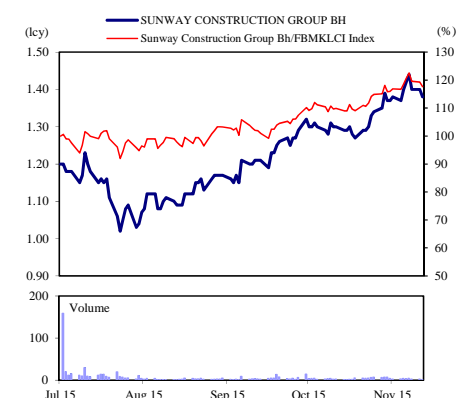
Price Performance (%)

52-week high/low	RM1.44/RM1.02			
1mth	3mth	6mth	1yr	YTD
7.7	27.3	n.a.	n.a.	n.a.

Major Shareholders

Sunway Bhd	54.4
FY14 NAV/Share (RM)	0.38
FY15 Net Debt/Share (RM)	0.16

PRICE CHART



Source: Bloomberg

ANALYST

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Investment Highlights

An integrated construction player. SunCon is an integrated construction company which provides products and services catering to the different phases of construction, from project design to completion. Its specialities include: a) building and civil works infrastructure construction, b) foundation and geotechnical engineering services, and c) mechanical, electrical and plumbing services. It is also involved in the manufacturing and sale of precast concrete products in Malaysia and Singapore. In terms of revenue and PBT breakdown, the construction and precast division accounted for about 86% and 14% of revenue and 47% and 53% of EBIT respectively in 9M15.

In the running for major rail-related infrastructure jobs. Presently, SunCon is one of the key contractors involved in the construction of both the LRT extension and MRT systems. We think that the government's continued focus on further expansion of railroad connectivity within the Klang Valley via the construction of further MRT and LRT lines would benefit SunCon given its position as one of the largest key infrastructure contractors in the country. Key rail-related construction jobs that are expected to be rolled out in the near term (around 1H16) include the RM28b MRT Line 2 as well as the RM9b LRT Line 3.

Pioneer in the development of the BRT. Back in Mar 13, SunCon was awarded the first Bus Rapid Transit (BRT) construction job in Malaysia. The first line was built within the Bandar Sunway development, a large-scale mixed development undertaken by its parent. Being the pioneer contractor in building Malaysia's first BRT line, we think that SunCon would be one of the key candidates for other transport lines in the country. According to media reports, there are a total of 11 new BRT projects being planned for development, set to stretch over 215km within pockets of the Klang Valley. Assuming that these BRT projects have a construction cost similar to Sunway BRT Line's project cost of RM102m/km, the total project value for the remaining lines spanning 215km could be valued at a whopping RM22b. In the near term, the government will focus on the development of two lines in the Klang Valley (stretching from Kuala Lumpur to Klang) and a line in Kota Kinabalu, both valued at about RM1b and RM1.5b respectively.

Operates a highly profitable precast concrete manufacturing business. Aside from its bread and butter construction business, SunCon is also involved in the manufacturing of precast concrete products, which are mainly used for building construction, particularly for high-rise residential properties. The company currently operates two precast manufacturing plants in Tampines, Singapore and Senai, Johore with total combined capacity of 200,000m³. It is also in the midst of expanding its precast facility in Iskandar Malaysia, which would add about 51,000m³ to its capacity. Historically, in 9M15, the precast division accounted for about 14% of total revenue, with a EBIT margin of about 28.5%.

Continued support from its parent, Sunway Bhd. SunCon's parent company is one of the largest property developers in the country, with a total local landbank of about 2,234 acres which is expected to generate about RM32.5b in GDV. Aside from the development of residential properties, Sunway Bhd has also ventured into the development of shopping malls, office towers, hotels and theme parks. We understand that Sunway Bhd would continue to appoint SunCon as the key contractor for its strategic property development projects with a yearly replenishment rate of about RM500m-800m.

Extensive list of recurring clientele. SunCon has built a strong rapport with its key clients because of its proven track record in handling mega construction jobs. Thus far, the group has managed to secure multi orders from companies like Putrajaya Holdings, KLCC Group of Companies and Syarikat Prasarana Negara with combined value exceeding RM5b. Some of the key jobs that it has undertaken from these clients include the construction of the KLCC Convention Centre and the Prince Court Medical Centre with both projects linked to Petronas. Aside from that, we expect MRT Corp to be the latest addition to its list of recurring clients in the near future, particularly for the upcoming MRT Line 2 jobs.

Valuation

Initiate coverage with a HOLD rating and target price of RM1.40, based on a 13x 2016F EPS of 10.8 sen, on par with the mid-cap construction companies' average PE valuations. We ascribe a multiple of 13x to its 2016F EPS based on:

- The average forward sector PE of 13x.
- A discount to 17x PE of large-cap construction companies comprising of IJM Corporation and Gamuda.
- A premium to small-mid cap construction companies like Kimlun Corporation and Gadang Holdings with forward PE of 4.8-7.4x.

The stock would also continue to be supported by positive newsflow on the anticipated major railway contract awards next year, as well as a dividend yield of about 2.7%, based on management's 35% payout.

FIGURE 1: PEER COMPARISON

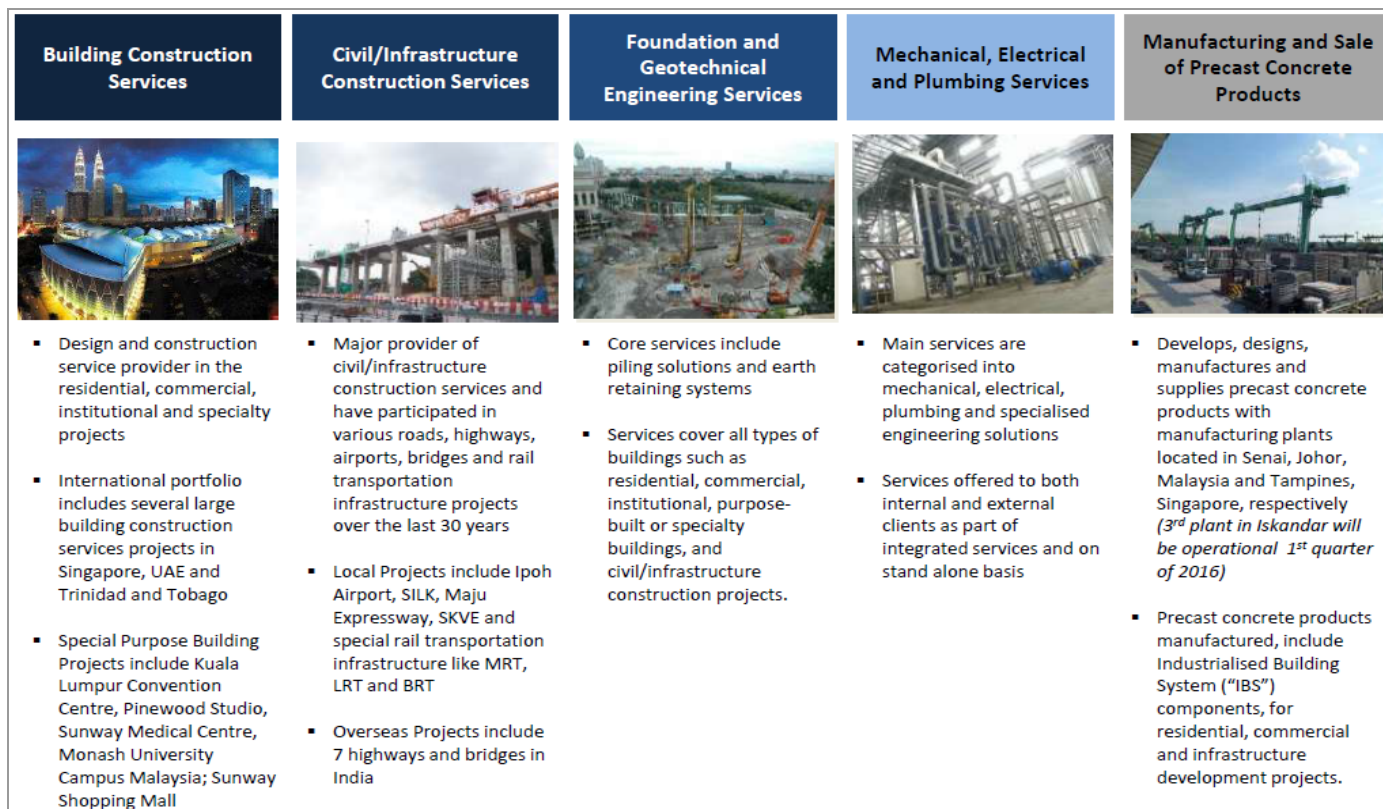
Company	Tickers	Rec	Share Price 7 Dec 15 (RM)	Target Price (RM)	Market Cap (US\$m)	PE (x)			P/BV (x)		Div Yield 2015F (%)
						2014	2015F	2016F	2014	2015F	
IJM Corporation	IJM MK	BUY	3.39	3.95	2,874	10.4	17.6	15.1	0.6	1.3	2.0
Gamuda	GAM MK	HOLD	4.70	5.00	2,683	16.2	17.2	15.4	1.7	1.7	3.0
WCT Holdings	WCTHG MK	BUY	1.49	1.80	422	20.1	21.5	13.8	0.8	0.9	1.5
Hock Seng Lee	HSL MK	NOT RATED	1.92	n.a.	540	13.7	13.6	12.0	11.3	1.6	1.7
Kimlun Corporation	KICB MK	NOT RATED	1.33	n.a.	193	8.7	7.4	7.4	7.5	0.9	2.8
Gadang Holdings	GADG MK	NOT RATED	1.402	n.a.	193	5.0	4.8	5.6	0.7	0.7	2.1
Average						12.4	13.7	11.5	3.8	1.2	2.2
Sunway Construction	SCGB MK	HOLD	1.40	1.40	429	15.9	13.9	12.9	4.5	3.7	2.5

Source: Bloomberg, UOB Kay Hian

AN INTEGRATED AND AWARD-WINNING CONTRACTOR

Business overview. As an integrated construction company, SunCon is able to offer its clients a comprehensive range of construction services, from designing, foundation and geotechnical services to construction. SunCon has a strong track record of delivering high quality products to its clients and raking in decent profit margins at the same time. Figure 2 is a snapshot of its key business segments within the construction space. SunCon is also registered as a “Grade 7” (the highest classification) contractor with the Construction Industry Development Board, which allows the company to bid for contracts of any value range in Malaysia.

FIGURE 2: CORE BUSINESS SEGMENTS



Source: SunCon, UOB Kay Hian

An award-winning contractor. SunCon’s excellent track record in handling both local and overseas construction jobs has earned it several awards by both the governmental and non-governmental organisations, including: a) the Export Excellence Award by the Ministry of International Trade and Industry in 2011, b) the Malaysia Best Contractor Award 2014 from the Electrical and Electronics Association, and c) Best Electrical Contractor from the ASEAN Federation of Electrical Engineering Contractors in 2015.

Armed with experience and size. SunCon is the largest pure-play construction company listed on Bursa Malaysia, with extensive experience in handling both public and private infrastructure jobs. It prides itself in having been able to complete a number of large construction jobs, including expressways in Malaysia and India, buildings and the ongoing Mass Rapid Transit 1 (MRT1) and Light Rail Transit (LRT) Kelana Jaya extension works. Since its inception, the company has completed and delivered more than RM10b in construction jobs.

Incorporates technology to improve construction services. Its construction business is further strengthened by the use of design technology, where its building and infrastructure design capabilities are enhanced by the usage of a Virtual Design and Construction (VDC) method, in which computer-aided design and modelling technology enhances operational efficiencies in the design and construction stage, thereby reducing execution risks.

Also in the running for major local transport infrastructure jobs. We believe SunCon would be one of the primary beneficiaries of the government's drive to further expand railroad connectivity within the Klang Valley via the construction of MRT and LRT systems. Given its experience in handling these jobs, SunCon could again emerge as one of the key contractors for this project. In mid-16, we expect the roll-out of the MRT2 and LRT3 contracts, with construction value of RM28b and RM9b respectively, to begin.

FIGURE 3: KEY TRANSPORT RELATED JOBS

Project	Value (RMb)	Potential Beneficiaries
Mass Rapid Transit 2	28.0	Gamuda, IJM Corporation, Sunway Construction, Gadang Holdings, Muhibbah Engineering, TRC Synergy, Ahmad Zaki
Light Rail Transit 3	9.0	Gamuda, IJM Corporation, Sunway Construction, WCT Holdings, MRCB, Muhibbah Engineering, TRC Synergy, George Kent
Pan Borneo Highway	28.9	Hock Seng Lee, Cahya Mata Sarawak, Naim Holdings, Gamuda, IJM Corporation, Sunway Construction, Ahmad Zaki
West Coast Expressway	2.2	IJM Corporation*, WCT Holdings*, Sunway Construction
Sungai Besi – Ulu Kelang Expressway (SUKÉ)	5.3	Gamuda, IJM Corporation, Sunway Construction, WCT Holdings, Ahmad Zaki
Damansara – Shah Alam Highway	4.2	Gamuda, IJM Corporation, Sunway Construction, WCT Holdings, Ahmad Zaki
East Klang Valley Expressway	1.6	Gamuda, IJM Corporation, Sunway Construction, WCT Holdings, Ahmad Zaki
KL – Klang Bus Rapid Transit	1.0	Sunway Construction
Kota Kinabalu Bus Rapid Transit	1.5	Sunway Construction, East Malaysian contractors
Total	81.7	

* Already winners
Source: Media, UOB Kay Hian

A proven track record in handling overseas projects. Without doubt, SunCon is regarded as a top-tier contractor within the local construction industry. It has also participated and completed construction jobs in several other countries including the United Arab Emirates (Abu Dhabi), India, Trinidad and Tobago. From 2001-10, SunCon's overseas construction jobs included the construction of residential properties, office buildings and roadworks totalling about RM4.6b (UAE – RM3.2b, India – RM1.2b, and Trinidad and Tobago – RM213m).

FIGURE 4: KEY OVERSEAS JOBS EXECUTED

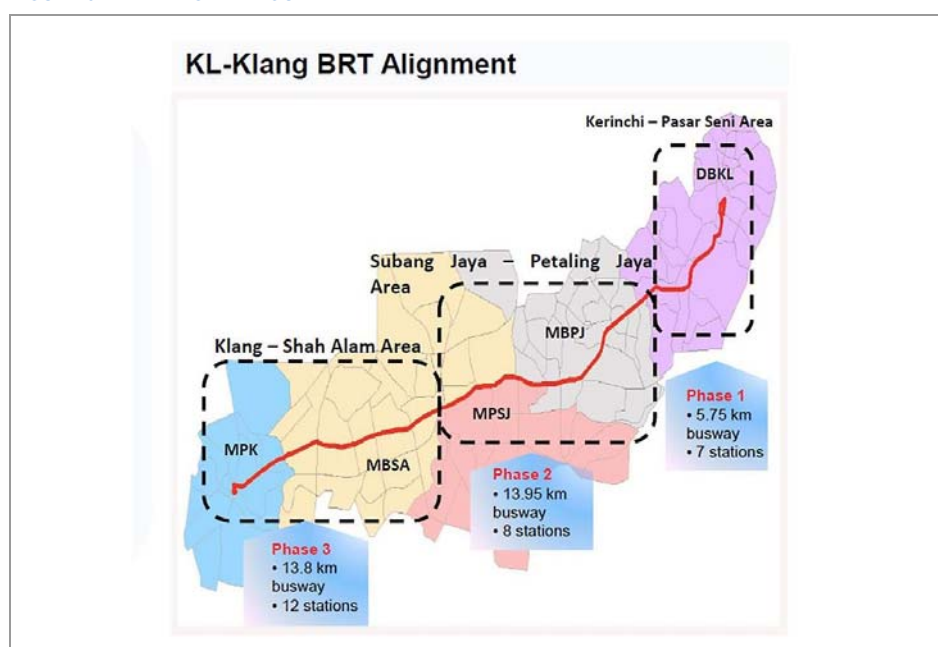
Project	Location	Client	Contract Period	Project Value (RMm)
Phase 1, Plot 1, Zone C of Al-Reem Island	Abu Dhabi, UAE	Tamaouh Investments LLC	Oct 2006 - Apr 2009	1,323.1
Phase 1A, Plot H of Rihan Heights Project	Abu Dhabi, UAE	Mubadala Capitaland Real Estate LLC	Nov 2008 - Nov 2010	1,865.3
Belgaum Bypass	Karnataka, India	NHAI	Jun 2001 - Dec 2003	56.1
Roadworks Package 5-C	India	NHAI	Sep 2001 - Mar 2005	172.3
Dharwad – Belgaum Package 3	Karnataka, India	NHAI	Apr 2002 - Oct 2004	117.8
Grand trunk road	India	NHAI	Apr 2002 - Apr 2005	228.0
East – West Corridor roadworks	Rajasthan, India	NHAI	Jul 2005 - Jan 2008	164.8
East – West Corridor roadworks	Uttar Pradesh, India	NHAI	Jul 2005 - Jan 2008	238.6
Cochin Port connectivity	Cochin, India	NHAI	Aug 2007 - Feb 2010	189.4
Ministry of Legal Affairs Tower	Trinidad and Tobago	The Urban Development Corporation of Trinidad & Tobago		213.0
Total				4,568.4

Source: SunCon, UOB Kay Hian

Pioneer to the Bus Rapid Transit System (BRT) job. Back in Mar 13, SunCon was awarded the contract to develop Malaysia's first BRT system. We think that given its first mover advantage, SunCon would be able to secure some of the key upcoming construction jobs. According to media reports, there are a total of 11 new BRT projects that are being planned. The remaining 11 BRT lines altogether stretch over 215km in pockets of areas in the Klang Valley. Assuming that these BRT projects have a construction cost similar to Sunway BRT Line's project cost of RM102m/km, the total project value for the remaining lines spanning 215km could be valued at a whopping RM22b.

Potential winner for the newly-announced BRT job? In the recent Budget 2016 announcement, the government had allocated about RM2.5b to build two BRT systems in the Klang Valley (RM1b) and Kota Kinabalu (RM1.5b). Though no further details were revealed, we think that SunCon could be one of the primary beneficiaries given its experience. The new line would link KL to Klang, which could span up to 33.5km, passing through major satellite cities including Petaling Jaya, Subang Jaya, Shah Alam and Klang.

FIGURE 5: KL-KLANG BRT ROUTE MAP



Source: Media

Extensive list of returning clientele. SunCon has built a strong rapport with its key clients because of its proven track record in handling mega construction jobs. Thus far, the group has managed to secure multiple orders from companies like Putrajaya Holdings, KLCC Group of Companies and Syarikat Prasarana Negara with combined values in excess of RM5b. Some of the key jobs that it has undertaken from these clients include the construction of the KLCC Convention Centre and the Prince Court Medical Centre with both projects linked to Petronas. Aside from that, we expect MRT Corp to be the latest addition to its list of returning clients in the near future, particularly for the upcoming MRT Line 2 jobs.

FIGURE 6: REPEAT CLIENTELE LIST

Company	Putrajaya Holdings	Sunway Bhd	KLCC Group of Companies	IDR Asset	Syarikat Prasarana Negara	Iskandar Malaysia Studios
Number of Major Projects	7	>8	5	>2	3	1
Total Value of Major Projects	>RM2.9b	>RM1.7b	>RM1.3b	>RM300m	>RM1b	>RM300m
Job Scope	Building & Infrastructure	Building & Infrastructure	Building & Infrastructure	Infrastructure	Rail-related Infrastructure	Building & Infrastructure

Source: SunCon, UOB Kay Hian

Continued support from its parent, Sunway Bhd. Presently, Sunway Bhd effectively owns about 2,234 acres of land which is expected to generate about RM32.5b in GDV over the next couple of years. Aside from being a major shareholder of SunCon, Sunway Bhd would continue to appoint SunCon as the key contractor for its strategic property development projects, which includes the development of shopping malls, education campuses, theme parks and hotels. We understand that SunCon is targeting to clinch about RM500m-800m in new construction orders from its parent on a yearly basis.

FIGURE 7: LIST OF SUNWAY BHD LOCAL DEVELOPMENTS

Developments	Effective GDV (RMm)	Effective Landbank (acre)
Selangor/KL		
Sunway South Quay	1,852.0	24.1
Kelana Jaya	1,800.0	17.0
Sunway Velocity	1,791.8	11.4
Sunway Damansara	1,014.8	9.2
Sunway Resort City	660.1	14.9
Sunway Semenyih	510.0	278.7
Sunway Tower KL 1	240.0	1.0
Sg Long	221.6	88.8
Casa Kiara III	168.0	2.3
Mont Putra, Rawang	156.0	163.0
Sunway Duta	72.0	1.9
Bangi	59.0	3.0
Sunway Montana	55.5	2.0
Melawati	43.0	2.0
Sunway Monterez	22.8	2.6
Sunway Cheras	16.8	6.0
Perak		
Sunway City Ipoh	684.4	286.3
Penang		
Paya Terubong	1,500.0	24.5
Sunway Hills	849.0	80.7
Sunway Wellesley, Bukit Mertajam	725.5	58.8
Sunway Betong, Balik Pulau	110.0	19.9
Sunway Cassia, Batu Maung	74.0	6.6
Sunway Tunas, Balik Pulau	60.0	9.0
Johor		
Pendas	10,800.0	647.4
Medini	6,567.1	384.5
Bukit Lenang	558.8	51.8
Total	32,499.3	2,234.5

Source: SunCon, UOB Kay Hian

Targets a RM2b orderbook replenishment rate. SunCon is also targeting to achieve a construction orderbook replenishment of at least RM2b on a yearly basis which we think would be sustainable given the number of mega projects that are planned to be rolled out. In addition, the company's orderbook would also be decently supported by its parent, which is poised to award construction jobs worth RM500m-800m yearly to SunCon.

Earnings are backed by a strong orderbook backlog. As at Sep 15, SunCon had an outstanding construction orderbook of about RM4.3b (pr 2.3x its 2014 revenue). Its orderbook includes the recently-won Putrajaya Parcel F building job (RM1.6b) and ongoing MRT and LRT jobs valued at a total of RM439m. Ytd, the company has secured about RM2.6b worth of new jobs, including RM541m which was awarded by its parent, Sunway Bhd.

FIGURE 8: KEY OUTSTANDING CONSTRUCTION ORDERBOOK

	Contract Sum (RMm)	Outstanding Orderbook (RMm)
Infrastructure		
MRT Package V4 (sec 17 to Semantan)	1,173	373
LRT Kelana Jaya Line Extension (Package B)	569	66
Johor		
Urban Wellness Centre	283	39
Coastal Highway Southern Link	170	133
Others		
Putrajaya Parcel F	1,610	1,610
KLCC NEC	304	206
KLCC Package 2 (Piling & Substructure)	222	134
KLCC Package 2A	120	120
Others	74	30
Internal		
Sunway Velocity 2 Mall	350	136
Sunway Pyramid 3	193	43
Sunway Geo Retail Shops & Flexi Suites	153	112
Sunway Medical Centre Phase 3 (Subs and Superstructure)	167	134
Sunway Iskandar – Citrine Service Apartment (Sub & Superstructure)	213	146
Sunway Geo Retail Shops & Flexi Suites Phase 2	244	244
Sunway Lenang Phase 1A	96	68
Sunway Iskandar Emerald Residences	175	141
Others	622	98
Singapore		
Precast	873	466
Grand Total	7,611	4,299

Source: SunCon, UOB Kay Hian

PRECAST DIVISION BOOSTS OVERALL MARGINS

Operates a highly profitable precast concrete manufacturing business. Aside from its bread and butter construction business, SunCon is also involved in the manufacturing of precast concrete products, which are mainly used for building construction, particularly for high-rise residential properties. The company currently operates two precast manufacturing plants in Tampines, Singapore and Senai, Johore with a total combined capacity of 200,000 m³. It is also in the midst of expanding its precast facility in Iskandar Malaysia, which would add about 51,000m³ to its total capacity.

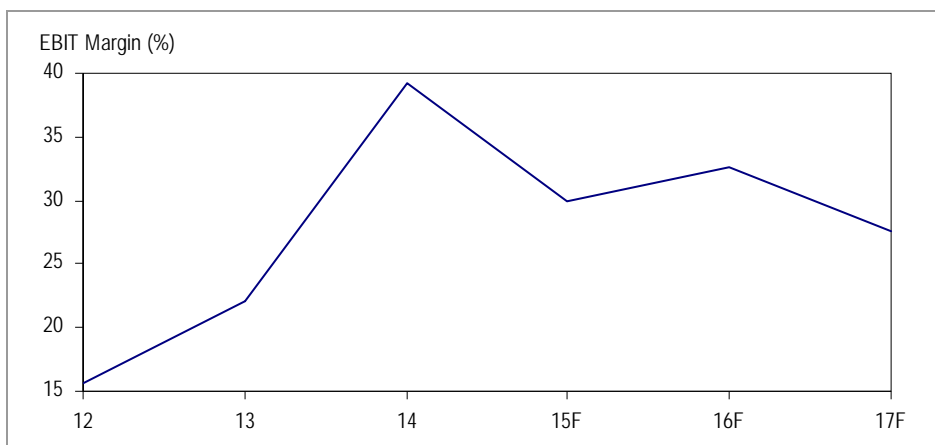
FIGURE 9: PRECAST CAPACITY

Plant	Area (sq. ft.)	Maximum Capacity Jan-Aug15 (m ³)	Actual Production Volume Jan-Aug15 (m ³)	Utilisation rate 2015 (%)	Utilisation rate 2014 (%)	Main Products	No. of lines
Tampines Plant (rented)	Built up area : N/A Land area : 163,772.9	82,800 (Annual: 124,000)	58,336	70.5	73.1	Columns, facades, walls, civil defence shelters, multi-storey car park planks, water tanks	12 production lines
Senai Plant (own) <i>Commenced Oct 2012</i>	Built up area : 262,231 Land area : 475,409	51,060 (Annual: 76,000)	21,706	42.5	39.6	Prestressed planks for residential projects, service ducts, refuse chutes, parapet, air conditioner ledges	6+3 production lines
Iskandar Plant (rented) <i>Operational 1Q 2016</i>	Land area : 718,500	Annual 51,000	To commence in 1 st quarter of 2016			Manufacture facades, non-prestressed planks, beams, columns, household shelters	5 production lines

Source: SunCon

Precast division would be able to hold up margins for the group. Thus far, in 9M15, the precast division accounted for about 16% of total revenues, with a EBIT margin of about 28.5%. We expect contributions from this segment to be flattish from hereon as the company will be focusing on the expected influx of strong orders from the construction division.

FIGURE 10: PRECAST MARGIN



Source: SunCon, UOB Kay Hian

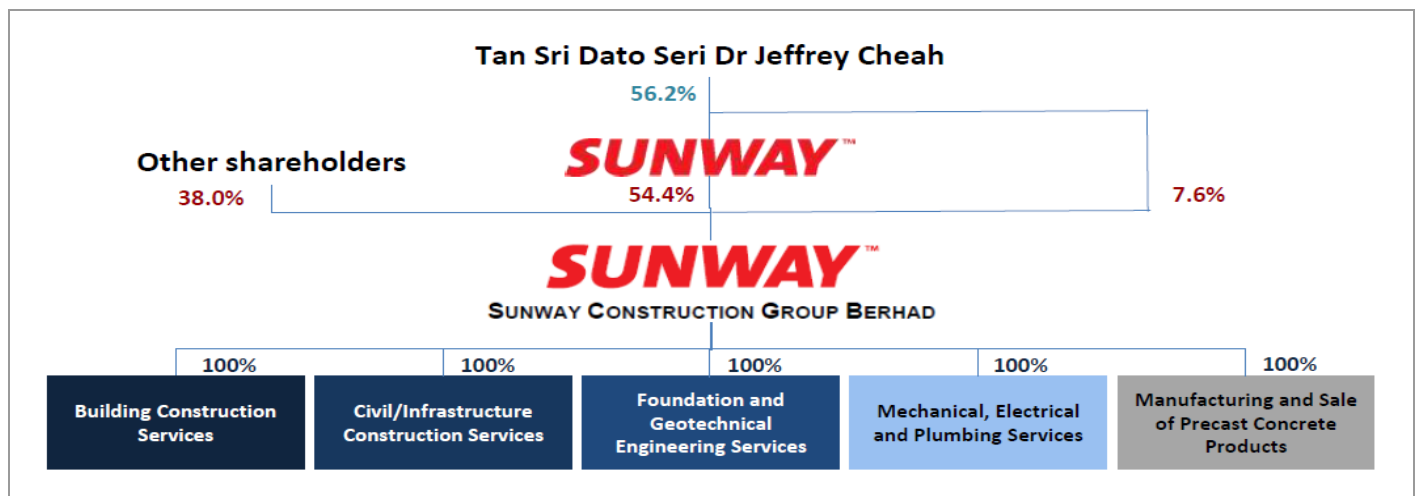
Expanding its capacity for its precast manufacturing business. SunCon is on track to open its third precast manufacturing plant in Iskandar Malaysia by 1Q16. The new plant is expected to add about 51,000m³ in additional capacity to this division and could see SunCon's role in the supply of precast for the construction of the HDB flats in Singapore strengthen further.

Strong foothold in the Singapore HDB market. SunCon's precast business in Singapore primarily manufactures and supplies precast concrete components for the construction of public housing in Singapore. In 2013, SunCon supplied precast components for a total of 2,498 HDB units, out of which 77,436 units were built in the city state, representing a market share of just over 3.2%.

Company Background

SunCon's parent company, Sunway Bhd proposed the listing of Sunway Construction back in 2014. A new company, Sunway Construction Group Bhd (SunCon) was incorporated by its parent. The listing was set to take place on 28 Jul 15, with the retail offering price set at RM1.20. The offer for sale raised about RM478m in cash, which was eventually returned back to shareholders of Sunway Bhd via a special dividend payout. The total IPO shares of 398.7m shares comprised of 327.6m shares which was offered to institutional investors, while the remaining 71.1m shares were allocated to retail investors.

FIGURE 11: GROUP STRUCTURE



Source: SunCon

FIGURE 12: KEY MILESTONES

Year	Event
Prior to 1997	Sungei Way Quarry Sdn Bhd was incorporated in Malaysia as a private limited company and subsequently changed its name to Sungei Way Quarry & Construction Sdn Bhd and Sungei Way Construction Sdn Bhd on 3 Mar 1981 and 11 Jun 1984 respectively.
1997	Sungei Way Construction was converted into a private limited company with the name Sungei Way Construction Berhad and listed on the Main Board of Kuala Lumpur Stock Exchange.
1999	Sungei Way Construction Berhad changed its name to Sunway Construction Bhd.
2000-01	Secured first batch of Putrajaya Construction jobs.
2003	Sunway Construction Bhd was privatized by its parent, Sunway Holdings Incorporated Bhd for RM2.73 per share, which implies a market capitalization of RM505.1m.
2004	Sunway Construction Bhd was delisted.
2004-10	Sunway Construction undertook various projects that further established its track record locally and overseas including India, Trinidad & Tobago and UAE.
2011	Secured an LRT Line Extension package and Iskandar Malaysia construction jobs.
2012	Secured the Klang Valley MRT Line 1 job.
2013	Secured the Sunway BRT Line job.

Source: SunCon, UOB Kay Hian

FIGURE 13: KEY MANAGEMENT

Name	Position	Years of Experience	
		Construction Industry	Years in SunCon
Mr Chung Soo Kiong	Managing Director	Over 20 years	18
Mr Evan Cheah	Non-Independent Non-Executive Director	Over 14 years	14
Ms Ng Bee Lien	Chief Financial Officer	Over 16 years	10
Mr Thomas Samuel	Executive Director of Sunway Geotechnics	Over 32 years	Recent Joiner
Mr Richard Wong	Senior General Manager, Building Division	Over 27 years	15
Mr Liew Kok Wing	Senior General Manager, Civil Division	Over 20 years	17
Mr Eric Tan Chee Hin	Senior General Manager, MEP Division	Over 18 years	14
Mr Kwong Tzyy En	Senior General Manager, Precast Division	Over 20 years	13

Source: SunCon, UOB Kay Hian

Financials

FIGURE 14: HEADLINE NUMBERS

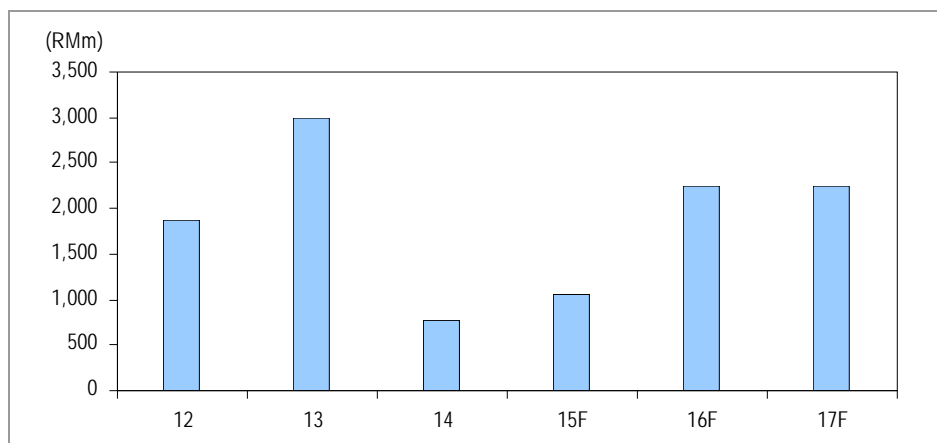
	2012	2013	2014	2015F	2016F	2017F
Revenue (RMm)	1,448.5	1,839.6	1,880.7	2,157.3	2,272.8	2,499.6
Net Profit (RMm)	54.8	66.9	113.8	130.4	139.7	141.8
Orderbook Replenishment (RMm)	1,865	2,987	763	1,000	2,250	2,250
Margins (%)						
PBT	5.7	4.9	8.0	7.7	7.8	7.2
PATMI	3.8	3.6	6.1	6.0	6.1	5.7

Source: SunCon, UOB Kay Hian

Historical earnings have been on an upward trajectory. From 2012-14, SunCon's revenue and earnings have been growing at a 3-year CAGR of 9.1% and 23.4% respectively. Earnings were mainly driven by the recognition of ongoing construction jobs which include the LRT Line Extension, MRT Line 1, Sunway BRT Line, Pinewood Iskandar Studios and KLCC-related projects.

Flattish earnings growth for the next three years. We expect SunCon to post flattish earnings growth for the next couple of years mainly due to the high-base effect from 2014. Net profit is projected to grow at a modest 7.7% over the next three years, mainly from the recognition of its current outstanding orderbook as well as a construction orderbook replenishment rate of about RM2.25b for 2016-17. We expect margins to expand from 2016, as the tail-end billings for MRT1 and LRT extension projects are recognised. Thereafter in 2017, we expect margins to contract as new project orders would be in the early stages of billings.

FIGURE 15: YEARLY ORDERBOOK REPLENISHMENT



Source: SunCon, UOB Kay Hian

Sector Outlook

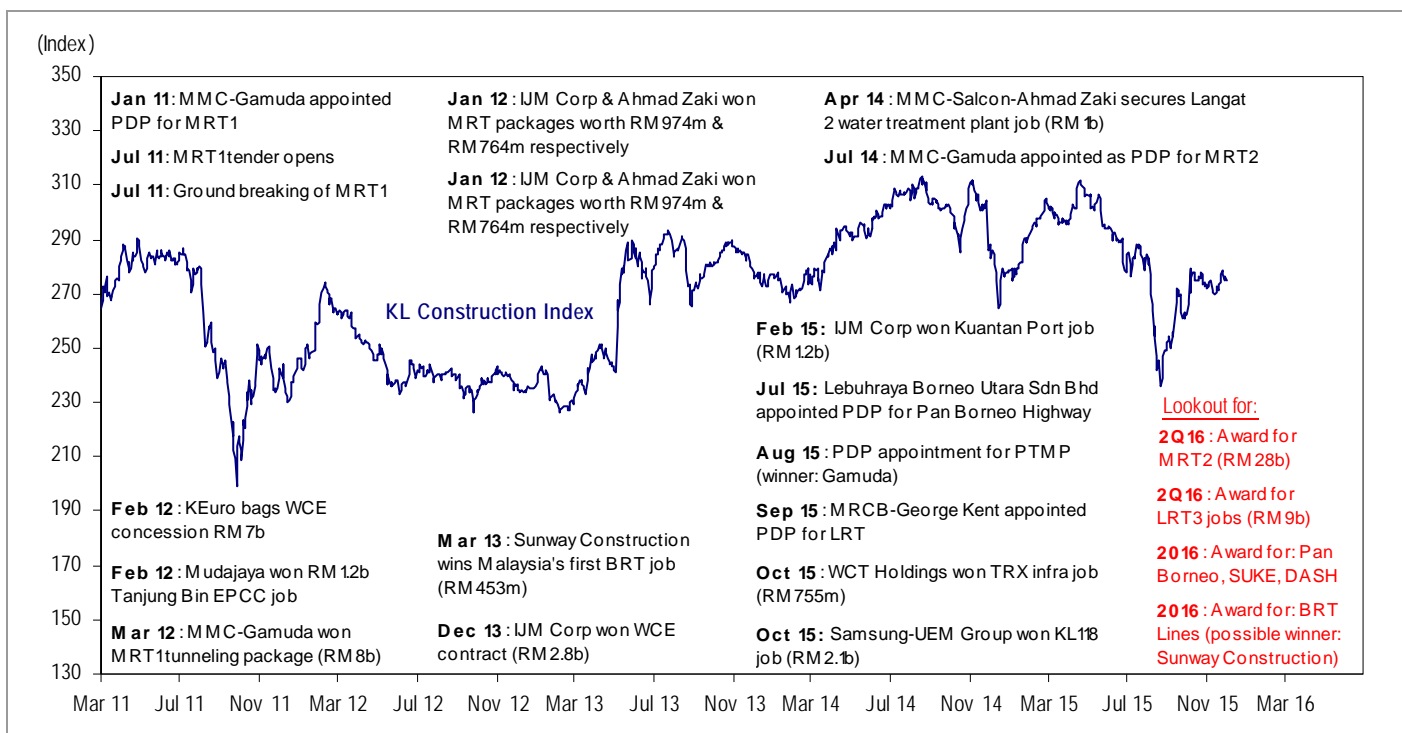
Multiple events unfolded within the sector. Notable events during the last couple of months included: a) the appointment of Gamuda as one of the project delivery partners (PDP) for the Penang Transport Masterplan, b) the appointment of Malaysian Resources Corporation (MRCB) and George Kent (Malaysia) as the PDP for LRT Line 3, and c) the appointment of Lebuhraya Utara Borneo Sdn Bhd as the PDP for the 1,090-km stretch of the Sarawak side of the Pan Borneo Highway.

RM50b for the sector in Budget 2016. Under Budget 2016, the government has allocated RM50b in gross development expenditure, up 5.4% yoy. In spite of lower oil prices (oil is the primary source of government revenue), the government is still investing heavily in the sector, which further cements the importance of the sector going forward.

Key projects are mostly transportation related. These include the mass rapid transit line 2 (RM28b), the Pan Borneo Highway (RM28.9b), light rail transit line 3 (RM9b), several other highways that are worth more than RM13.3b combined, and RM2.5b for two new Bus Rapid Transit (BRT) lines for the Klang Valley and Kota Kinabalu.

Still ample catalysts for the sector. The Budget 2016 announcement indicates that the construction sector would continue to be the focus for the government, particularly to fulfil part of the Economic Transformation Programme (ETP). These major contracts are large enough to support earnings growth in the sector for at least another 3-4 years. Also, most of the key companies within our coverage still have ample orderbooks, which can still sustain earnings should the award of these projects be delayed.

FIGURE 16: TIMELINE OF ANTICIPATED EVENTS



Source: Media reports, UOB Kay Hian

Strong construction orderbook cover would sustain earnings. We expect construction companies under our coverage to report 11-13% earnings growth in 2016, underpinned by healthy construction books (Figure 17). So far, outstanding orderbooks for each company stand at healthy levels of RM1b-7b, implying 0.9-4.1x of their respective last financial-year revenues.

FIGURE 17: ORDERBOOK

Company	As at	Orderbook (RMb)	Orderbook Cover (to last financial year's) (x)
IJM Corporation	Sep 15	7.0	3.2
Gamuda	Jul 15	1.0*	0.9
WCT Holdings	Sep 15	5.0	4.1

* Excludes PDP for MRT2

Source: Respective companies, UOB Kay Hian

MRT2 expected to kick off in 2Q16. The MMC-Gamuda JV has been appointed the PDP for the project. The next step is the opening up of tenders, which is already ongoing with the first batch of contract awards to begin as early as 2Q16, which is when the MRT Line 1 is poised to be at its tail end of construction. Construction cost for the second line is expected at around RM28b. The obvious mega winners for the job would be the usual names, which include the MMC-Gamuda JV (for the tunnelling portion), Sunway Construction, IJM Corporation, Mudajaya Corporation, Ahmad Zaki Resources and Naim Holdings.

LRT3 jobs could be out as early as 2Q16 too. Similar to MRT2, the LRT3 would take the PDP route in terms of project delivery. Thus far, the PDP role has been awarded to the MRCB-George Kent JV, with an expected construction cost of RM9b (excluding land acquisition of RM1b). We expect tenders for this project to open as soon as 1Q16, while contract awards to begin 3-6 months later. The 36km line would span from Bandar Utama to Klang.

The private sector is driving the sector as well. Although the bulk of construction spending is government-funded, the private sector still plays a somewhat prominent role. A few notable projects are expected to kick off soon, which would further provide the sector with near-term job catalyst. Note that funding for these projects is largely via privately-owned companies and not from the government's coffers. An example is the most recent award for the construction of the outer ring road at the Tun Razak Exchange, which was awarded to WCT Holdings for RM754m, while MRCB was awarded the job for Kwasa Damansara for RM3.1b.

FIGURE 18: MEGA DEVELOPMENTS

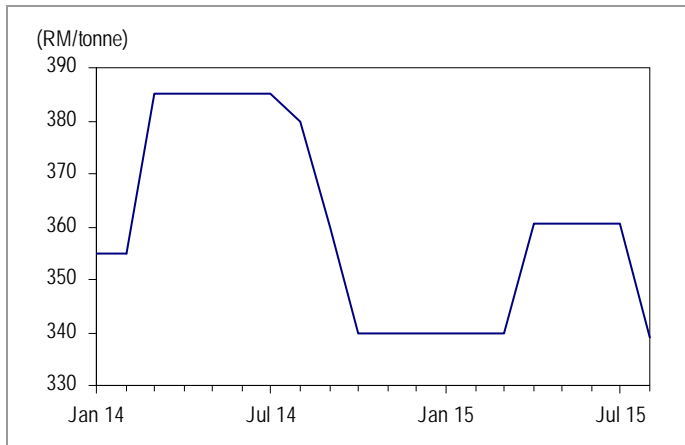
Project	Developer	GDV (RMb)	Potential Beneficiaries
Bandar Malaysia	1MDB Real Estate	150	All contractors, particularly WCT Holdings
Tun Razak Exchange	1MDB Real Estate	40	WCT Holdings*
Bukit Bintang City Centre	EcoWorld-EPF-Uda Land JV	10	All contractors
Kwasa Damansara	Kwasa Land	50	MRCB*, WCT Holdings, Gadang Holdings
KL118	Permodalan Nasional Bhd	5	Samsung-UEM Group appointed as main contractor
RAPID	Petronas	60	WCT Holdings*, Gadang Holdings*, Mitrajaya Holdings*, Muhibbah Engineering*
Total		315	

* Already winners

Source: Media, UOB Kay Hian

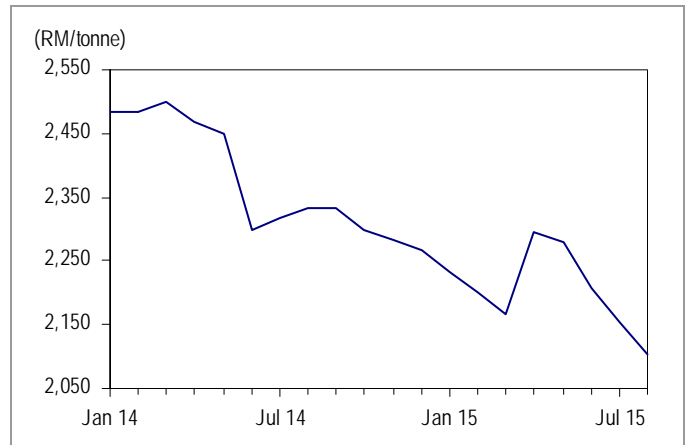
Look out for possible expansion in construction margins. We expect construction companies to see marginal improvement in their margins going forward, given the significant drop in prices of construction raw materials. For example, prices of cement and steel have dropped 12% yoy and 11% yoy respectively in Aug 15. Note that the bulk of construction orders were awarded when prices of raw materials were significantly higher, while physical jobs started when raw materials prices have slumped, thereby creating a “bonus” between budgeted and actual construction costs.

FIGURE 19: CEMENT PRICES



Source: CIDB

FIGURE 20: STEEL BAR PRICES



Source: CIDB

Financial Statement

FIGURE 21: PROFIT & LOSS

Year to 31 Dec (RMm)	2013	2014	2015F	2016F	2017F
Revenue, Net	1,840	1,881	2,157	2,273	2,500
Operating Expenses	(1,811)	(1,773)	(2,004)	(2,111)	(2,336)
EBIT	28	107	154	162	164
Other Non-operating Income	14	13	13	13	13
Associate Contributions	45	30	0	0	0
Net Interest Income/(Expense)	2	1	1	1	2
Exceptional Items	0	0	0	0	0
Pre-tax Profit	90	151	167	176	179
Tax	(24)	(26)	(37)	(36)	(37)
Minorities	1	0	0	0	0
Net Profit (Reported/Actual)	67	125	130	140	142
Net Profit (Adjusted)	67	114	130	140	142
Depreciation & Amortisation	43	42	45	51	54
EBITDA	71	149	198	213	218
Per Share Data (sen)					
EPS – Diluted	5.2	8.8	10.1	10.8	11.0
Reported EPS – Diluted	5.2	9.7	10.1	10.8	11.0
Book Value Per Share (BVPS)	47.5	31.4	38.0	45.0	52.2
Dividend Per Share	0.0	0.0	3.5	3.8	3.8

Source: SunCon, UOB Kay Hian

FIGURE 22: BALANCE SHEET

Year to 31 Dec (RMm)	2013	2014	2015F	2016F	2017F
Cash/Near Cash Equivalent	156	292	339	369	507
Accounts Receivable/Debtors	1,020	790	846	812	862
Stocks	26	20	29	31	34
Other Current Assets	5	9	44	108	9
Current Assets	1,208	1,110	1,258	1,319	1,412
Investments	203	203	211	216	215
Other Financial Assets	28	7	7	7	7
Intangible Assets	4	4	4	4	4
Total Non-current Assets	234	214	222	228	226
Total Assets	1,442	1,324	1,480	1,546	1,638
Accounts Payable/Creditors	731	765	836	812	806
Short-term Debt/Borrowings	75	135	135	135	135
Other Current Liabilities	9	13	13	13	18
Current Liabilities	815	914	985	960	959
Long-term Debt	15	0	0	0	0
Deferred Tax Liability	2	4	4	4	4
Total Non-current Liabilities	17	4	4	4	4
Total Liabilities	832	918	989	964	964
Minority Interest – Accumulated	(4)	0	0	0	0
Shareholders' Equity	614	406	491	582	674
Liabilities and Shareholders' Funds	1,442	1,324	1,480	1,546	1,638

Source: SunCon, UOB Kay Hian

FIGURE 23: CASH FLOW

Year to 31 Dec (RMm)	2013	2014	2015F	2016F	2017F
Operating cashflows	83	184	307	129	239
Pre-tax Profit	85	162	167	176	179
Tax	(20)	(28)	(37)	(36)	(37)
Depreciation & Amortisation	43	42	45	51	54
Working Capital Changes	(24)	14	136	(57)	48
Others	(1)	(5)	(5)	(5)	(5)
Cash from Investing activities	(69)	349	(50)	(50)	(50)
Capex (Growth)	(49)	(46)	(50)	(50)	(50)
Investments	(57)	373	0	0	0
Proceeds from Sale of Assets	9	8	0	0	0
Others	28	14	0	0	0
Cash from financing activities	10	(382)	(196)	(49)	(50)
Dividend Payments	(14)	(428)	(46)	(49)	(50)
Issue of Shares	0	0	0	0	0
Proceeds from Borrowings	55	281	0	0	0
Loan Repayment	(21)	(235)	(150)	0	0
Others/Interest Paid	(10)	(1)	0	0	0
Net Cash Inflow (Outflow)	24	151	61	30	139
Beginning Cash & Cash Equivalent	94	126	278	339	369
Changes Due to Forex Impact	38	15	n.a.	n.a.	n.a.
Ending Cash & Cash Equivalent	156	292	339	369	507

Source: SunCon, UOB Kay Hian

FIGURE 24: KEY METRICS

Year to 31 Dec (%)	2013	2014	2015F	2016F	2017F
Profitability					
EBITDA Margin	3.9	7.9	9.2	9.4	8.7
Pre-tax Margin	4.9	8.0	7.7	7.7	7.1
Net Margin	3.6	6.6	6.0	6.2	5.7
ROE	10.9	24.5	29.1	26.1	22.6
ROA	4.6	9.0	9.3	9.3	8.9
Growth					
Turnover	n.a.	2.2	14.7	5.4	10.0
EBITDA	n.a.	108.9	33.1	7.5	2.1
Pre-tax Profit	n.a.	68.4	10.5	5.4	1.4
Net Profit	n.a.	86.5	4.4	7.5	1.4
Net Profit (Adjusted)	n.a.	70.1	14.5	7.5	1.4
EPS	n.a.	70.1	14.5	7.5	1.4
Leverage					
Debt to Total Capital	12.9	25.0	21.6	18.8	16.7
Debt to Equity	14.7	33.3	27.5	23.2	20.0
Net Debt/(Cash) to Equity	(10.7)	(38.5)	(41.4)	(40.1)	(55.2)

Source: SunCon, UOB Kay Hian

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