

Sunway Construction Group

Bagged International School Contract

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Yesterday, SUNCON announced that they have bagged a RM268m contract for the construction of the International School of Kuala Lumpur located at Ampang, KL from The Society of International School KL. We are NEUTRAL on this award as it is within our FY16E replenishment target of RM2.9b. Hence, we make no changes to our earnings estimates. Maintain OP with an unchanged TP of RM1.81.

New contract. Yesterday, SUNCON announced they have secured a RM268m contract from The Society of International School KL for the construction of the International School of Kuala Lumpur at Ampang, Kuala Lumpur. The scope of works includes construction of five teaching facilities and a main building comprising various facilities and fittings for 2,500 students. The project is targeted to complete in 22 months.

NEUTRAL on the award. We are neutral on the award as it is within our FY16E order book replenishment target of RM2.9b. Year-to-date, SUNCON has secured RM2.4b worth of contracts representing 83% of our target with a remainder of RM500m to be achieved. Assuming 8% PBT margin, this contract is expected to contribute c.RM8.8m to bottom line per annum.

Outlook. Post-award win, SUNCON's outstanding order book stands at RM4.9b providing earnings visibility for the next 2-3 years. We believe our FY16E replenishment target of RM2.9b is highly achievable underpinned by anticipated project wins from LRT3, which is expected by year-end or beginning of 2017.

Earnings unchanged. We make no changes to our FY16-17E earnings forecasts as the award is within our FY16E replenishment target.

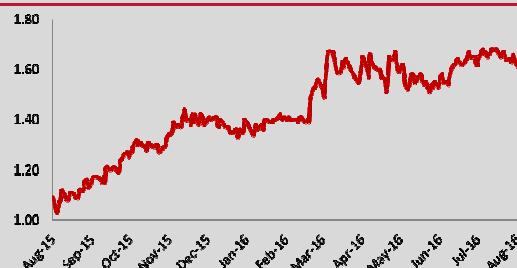
Maintain OUPERFORM. We maintain our OUTPERFORM call on our Top Pick with an unchanged TP of RM1.81 based on SoP valuations. Considering SUNCON's strong job flows and light balance sheet against other big cap peers, we feel our valuation is fair as our SoP derived TP of RM1.81 implies FY17E PER of 15.7x which is slightly below our big caps' targeted PER range of 16-18x.

Risks to our call include: (i) lower-than-expected margins/order book replenishment, (ii) delay in construction works, and (iii) cut or delay in government spending on infrastructure and affordable housing projects.

OUTPERFORM ↔

Price: RM1.61
Target Price: RM1.81 ↔

Share Price Performance



KLCI	1,691.07
YTD KLCI chg	-0.1%
YTD stock price chg	15.0%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	SCGB MK Equity
Market Cap (RM m)	2,081.6
Issued shares	1,292.9
52-week range (H)	1.72
52-week range (L)	0.98
3-mth avg daily vol:	2,425,224
Free Float	34%
Beta	n.a.

Major Shareholders

SUNHOLDINGS	54.4%
SUNGEI WAY CORP SDN	10.1%
NORGES BANK INVESTME	1.8%

Summary Earnings Table

FY Dec (RM'm)	2015A	2016E	2017E
Turnover	1,916.9	2,175.3	2,422.3
EBIT	133.0	174.0	193.3
PBT	140.8	177.7	198.7
Net Profit (NP)	127.2	133.2	149.0
Core net profit	127.2	133.2	149.0
Consensus (NP)	n.a.	139.5	159.8
Earnings Revision	n.a.	n.a.	n.a.
Basic EPS	9.8	10.3	11.5
EPS growth (%)	-22%	5%	12%
DPS (sen)	4.0	3.6	4.0
Basic PER (x)	16.4	15.6	14.0
BVPS (RM)	0.35	0.42	0.49
Net Gearing (x)	n.c.	n.c.	n.c.
Dividend Yield (%)	2.5%	2.2%	2.5%



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Table 1: Sum-of-parts valuation

14x FY17E PER on existing business (RM m)	2094.6
50% of FY17E cash pile (RM m)	247.2
Fair Value (RM m)	2341.8
Shares Outstanding (m)	1292.9
Target Price (RM)	1.81
Implied FY17E PER (x)	15.7

Source: Kenanga Research

Income Statement					Financial Data & Ratios				
FY Dec (RMm)	2014A	2015A	2016E	2017E	FY Dec (RMm)	2014A	2015A	2016E	2017E
Revenue	1,880.7	1,916.9	2,175.3	2,422.3	Growth				
EBITDA	156.9	175.0	218.7	247.1	Turnover (%)	2%	2%	13%	11%
Depreciation	-44.7	-41.9	-44.7	-53.8	EBITDA (%)	76%	11%	25%	13%
Operating Profit	112.3	133.0	174.0	193.3	Operating Profit (%)	141%	19%	31%	11%
Other Income	4.6	14.1	0.0	0.0	PBT (%)	55%	1%	26%	12%
Interest Exp	-0.8	3.4	3.6	5.4	Net Profit (%)	144%	-22%	5%	12%
Associate	0.0	0.0	0.0	0.0	Profitability (%)				
Exceptional Items	0.0	0.0	0.0	0.0	EBITDA Margin	8%	9%	10%	10%
PBT	139.3	140.8	177.7	198.7	Operating Margin	6%	7%	8%	8%
Taxation	-26.6	-13.0	-44.4	-49.7	PBT Margin	7%	7%	8%	8%
Minority Interest	0.0	-0.6	0.0	0.0	Net Margin	9%	7%	6%	6%
Net Profit	163.1	127.2	133.2	149.0	Effective Tax Rate	19%	9%	25%	25%
Core Net Profit	163.1	127.2	133.2	149.0	ROA	12%	9%	9%	9%
Balance Sheet					ROE	43%	28%	25%	23%
FY Dec (RMm)	2014A	2015A	2016E	2017E	DuPont Analysis				
PPE	176.1	162.1	182.8	191.4	Net Margin (%)	9%	7%	6%	6%
Intangible Assets	0.0	0.0	0.0	0.0	Assets Turnover (x)	1.4	1.4	1.4	1.5
Other FA	37.9	18.2	18.2	18.2	Leverage Factor (x)	3.5	3.1	2.9	2.5
Inventories	20.2	17.3	56.7	63.5	ROE (%)	43%	28%	25%	23%
Receivables	691.8	579.2	655.6	730.0	Leverage				
Other CA	230.3	230.3	230.3	230.3	Debt/Asset (x)	0.3	0.3	0.3	0.3
Cash	390.5	421.3	369.3	416.0	Debt/Equity (x)	0.9	0.7	0.7	0.7
Total Assets	1,324.2	1,397.4	1,564.8	1,602.6	Net Cash/(Debt)	255	284.5	232	416
Payables	601.9	604.7	685.4	763.2	Net Debt/Equity (x)	-0.7	-0.6	-0.4	-0.7
ST Borrowings	135.1	136.8	136.8	0.0	Valuations				
Other ST Liability	202.6	200.1	200.1	200.1	Core EPS (sen)	12.6	9.8	10.3	11.5
LT Borrowings	0.1	0.0	0.0	0.0	DPS (sen)	0.0	4.0	3.6	4.0
Other LT Liability	4.3	4.1	4.1	4.1	PER (x)	12.8	16.4	15.6	14.0
Minorities Int.	0.1	0.6	0.7	0.7	Net Div. Yield (%)	0.0%	2.5%	2.2%	2.5%
Net Assets	380.2	451.0	537.6	634.5	BVPS	0.29	0.35	0.42	0.49
Share Capital	232.5	258.6	258.6	258.6	P/B (x)	5.5	4.6	3.9	3.3
Reserves	147.7	192.5	279.1	375.9					
Total Equity	380.2	451.0	537.6	634.5					
Cashflow Statement									
FY Dec (RMm)	2014A	2015A	2015E	2016E					
Operating CF	98.5	284.5	139.2	194.1					
Investing CF	262.6	-64.0	-65.4	-62.5					
Financing CF	-418.5	-63.6	-43.0	-183.6					
Change In Cash	-57.4	156.9	30.8	-52.0					
Free CF	81.4	275.4	118.2	181.3					

Source: Kenanga Research

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Peer Comparison

CORE COVERAGE																
NAME	Price (22/8/16)	Mkt Cap	PER (x)			Est. Div. Yld.	Est. ROE	P/BV	Net Profit (RMm)			1 Yr Fwd NP Growth (%)	2 Yr Fwd NP Growth (%)	Target Price	Rating	YTD (%)
	(RM)	(RMm)	Actual	1 Yr Fwd	2 Yr Fwd	(%)	(%)	(x)	Actual	1 Yr Fwd	2 Yr Fwd	(%)	(%)	(RM)		
EVERSENDAI CORP BHD	0.47	359.9	7.6	7.0	6.6	0.1	5.5	0.4	47.5	51.5	54.2	8.4	5.2	0.70	Outperform	-39.22
GAMUDA BHD	4.89	11831.5	16.8	18.1	16.2	2.5	13.5	2.4	687.2	636.8	709.7	-7.3	11.4	4.67	Market Perform	4.94
IJM CORP BHD	3.39	12208.7	24.2	19.1	17.3	2.1	6.8	1.3	499.9	634.2	700.8	26.9	10.5	3.66	Market Perform	1.19
KIMLUN CORP BHD	1.86	577.1	8.7	8.0	6.7	3.3	13.7	1.1	64.4	70.0	83.8	8.7	19.7	2.10	Outperform	34.78
MUHIBBAH ENGINEERING (M) BHD	2.20	1056.7	11.3	10.8	9.6	2.3	9.0	1.0	88.9	92.9	104.9	4.5	12.9	2.53	Outperform	-0.45
HOCK SENG LEE BERHAD	1.75	961.7	12.6	13.6	10.8	1.5	9.9	1.3	76.2	70.9	89.2	-7.0	25.8	1.79	Market Perform	-7.41
NAIM HOLDINGS BERHAD	1.82	431.2	196.0	16.3	8.9	1.5	2.0	0.3	2.2	26.4	48.3	1100.0	83.0	1.83	Underperform	-26.02
WCT HOLDINGS BHD	1.62	2023.8	55.0	19.8	14.3	2.7	4.3	0.8	49.3	137.1	190.2	178.1	38.7	1.58	Market Perform	0.62
MMC CORP BHD	2.28	6942.7	58.4	27.6	21.9	0.0	2.7	0.8	118.8	251.6	316.6	111.8	25.8	2.67	Outperform	16.33
MITRAJAYA HOLDINGS BHD	1.41	942.8	12.1	10.1	9.3	3.0	19.7	2.0	87.7	105.7	114.4	20.5	8.2	1.79	Outperform	17.50
SUNWAY CONSTRUCTION GROUP	1.61	2081.6	16.4	15.6	13.9	2.2	24.6	3.8	127.2	133.2	149.0	5.0	12.1	1.81	Outperform	15.00
<i>Average</i>			38.1	15.1	12.3											
NOT RATED/ON OUR RADAR																
NAME	Price	Mkt Cap	PER (x)			Est. Div. Yld.	Est. ROE	P/BV	Net Profit (RMm)			1 Yr Fwd NP Growth (%)	2 Yr Fwd NP Growth (%)	Target Price	Rating	YTD (%)
	(RM)	(RMm)	Actual	1 Yr Fwd	2 Yr Fwd	(%)	(%)	(x)	Actual	1 Yr Fwd	2 Yr Fwd	(%)	(%)	(RM)		
MUDAJAYA	1.14	613.8	-431.1	18.9	11.1	2.9	2.9	0.6	-1.4	32.7	55.3	-2386.4	69.4	n.a.	Not Rated	-3.39
PROTASCO	1.56	527.4	7.9	6.4	n.a.	n.a.	n.a.	n.a.	66.2	81.4	n.a.	22.9	n.a.	2.25	Trading Buy	-3.11
PINTARAS JAYA	3.60	588.7	11.2	23.9	12.2	4.0	7.1	1.7	51.9	24.3	47.5	-53.2	95.3	4.20	Trading Buy	9.09
GABUNGAN AQRS	1.06	413.9	-41.7	9.8	9.3	1.4	n.a.	n.a.	-9.9	42.0	44.4	-524.8	5.7	n.a.	Not Rated	27.71
GADANG HOLDINGS	2.65	685.4	6.5	7.1	6.9	2.5	16.6	1.2	94.2	86.3	89.4	-8.4	3.7	2.44	Not Rated	25.00
AZRB	0.67	320.6	14.1	n.a.	n.a.	n.a.	n.a.	n.a.	22.9	n.a.	n.a.	n.a.	n.a.	n.a.	Not Rated	4.72
TRC SYNERGY	0.46	218.6	7.1	11.3	6.6	2.2	5.0	0.6	30.7	19.4	33.3	-36.8	71.4	n.a.	Not Rated	22.97
BINA PURI	0.39	94.4	24.9	6.5	5.4	5.1	n.a.	n.a.	3.3	12.6	15.1	282.3	19.8	n.a.	Not Rated	-9.30
KERJAYA PROSPEK GROUP BHD	2.27	1150.8	76.0	12.9	10.7	2.2	15.2	2.0	16.1	94.7	114.1	488.4	20.4	2.62	Trading Buy	39.26
<i>Average</i>			-59.3	12.9	8.6											

Source: Kenanga Research

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Stock Ratings are defined as follows:**Stock Recommendations**

OUTPERFORM	:A particular stock's Expected Total Return is MORE than 10% (an approximation to the 5-year annualised Total Return of FBMKLCI of 10.2%).
MARKET PERFORM	:A particular stock's Expected Total Return is WITHIN the range of 3% to 10%.
UNDERPERFORM	:A particular stock's Expected Total Return is LESS than 3% (an approximation to the 12-month Fixed Deposit Rate of 3.15% as a proxy to Risk-Free Rate).

Sector Recommendations***

OVERWEIGHT	:A particular sector's Expected Total Return is MORE than 10% (an approximation to the 5-year annualised Total Return of FBMKLCI of 10.2%).
NEUTRAL	:A particular sector's Expected Total Return is WITHIN the range of 3% to 10%.
UNDERWEIGHT	:A particular sector's Expected Total Return is LESS than 3% (an approximation to the 12-month Fixed Deposit Rate of 3.15% as a proxy to Risk-Free Rate).

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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