

# Sunway Construction Group

## New PPA1M Project in the Bag

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SUNCON announced that they have bagged a PPA1M project worth RM581.7m for the construction of 6 blocks of 29-storey PPA1M apartment in Kelantan. We are **NEUTRAL** on the award as YTD wins of RM1.6b is still within our FY17E replenishment target of RM2.0b. No change to our earnings estimates. Maintain **UP** with an unchanged TP of RM2.00.

**New PPA1M project.** Yesterday, SUNCON announced that they have secured a PPA1M project worth RM581.7m from Liziz Standaco S/B. The project comprises construction works for 6 blocks of 29-storey PPA1M apartment at Kota Bharu, Kelantan slated for delivery in 1Q 2020 (30 months).

**NEUTRAL on contract.** We remain **NEUTRAL** on this contract given that YTD wins of RM1.6b (comprising 9 projects) is still within our FY17E replenishment target of RM2.0b – accounting for 80% with a remainder of RM400m to be achieved. Assuming pre-tax margin assumption of 8%, the contract will contribute c.RM14.0m to SUNCON's bottom-line/annum.

**Outlook.** Currently, SUNCON's outstanding order-book stands at RM4.7b providing earnings visibility for the next 2-3 years. We believe SUNCON is on track to meet their and our orderbook replenishment targets of RM2.0b, given that it has already secured RM1.6b worth of jobs YTD excluding its MRT2 station works, which is expected to be lumpy. We are also expecting SUNCON to at least bag a package of civil works from LRT3.

**Earnings unchanged.** Post award, we make no changes to our FY17-18E earnings.

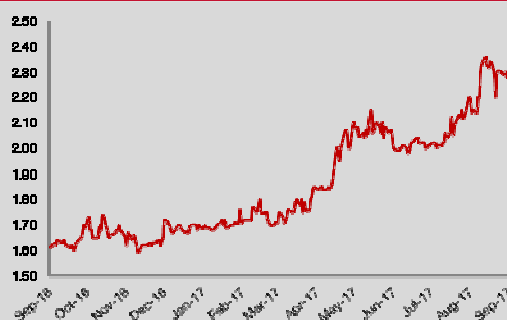
**Maintaining UNDERPERFORM.** We note that while we like SUNCON for its pure exposure to the construction industry and ability to secure big-ticket infrastructure projects, its share price had rallied by 38% since the beginning of the year leading to steep valuation levels of FY18 PER of 20.2x vs big-cap peers' average of 18.0-20.0x or FBMKLCI FY18 PER of 16.4x. Hence, we maintain our **UP** call with an unchanged SoP-derived TP of RM2.00 post award. That being said, we shall relook and to upgrade the stock should any fresh catalysts emerge in the mid-to-near term or if there are share price retracements as we remain confident of the group's prospects.

**Risks to our call include:** (i) higher-than-expected margins/order book replenishment, and (ii) higher government spending on infrastructure and affordable housing projects.

# UNDERPERFORM ↔

Price : **RM2.30**  
Target Price : **RM2.00** ↔

### Share Price Performance



KLCI	1,781.37
YTD KLCI chg	8.5%
YTD stock price chg	35.3%

### Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	SCGB MK Equity
Market Cap (RM m)	2,972.2
Issued shares	1,292.2
52-week range (H)	2.41
52-week range (L)	1.56
3-mth avg daily vol:	1,747,774
Free Float	32%
Beta	0.4

### Major Shareholders

Sunway Holdings Sdn Bhd	54.4%
Sungei Wang Corp Sdn Bhd	10.1%
True Paragon Sdn Bhd	3.9%

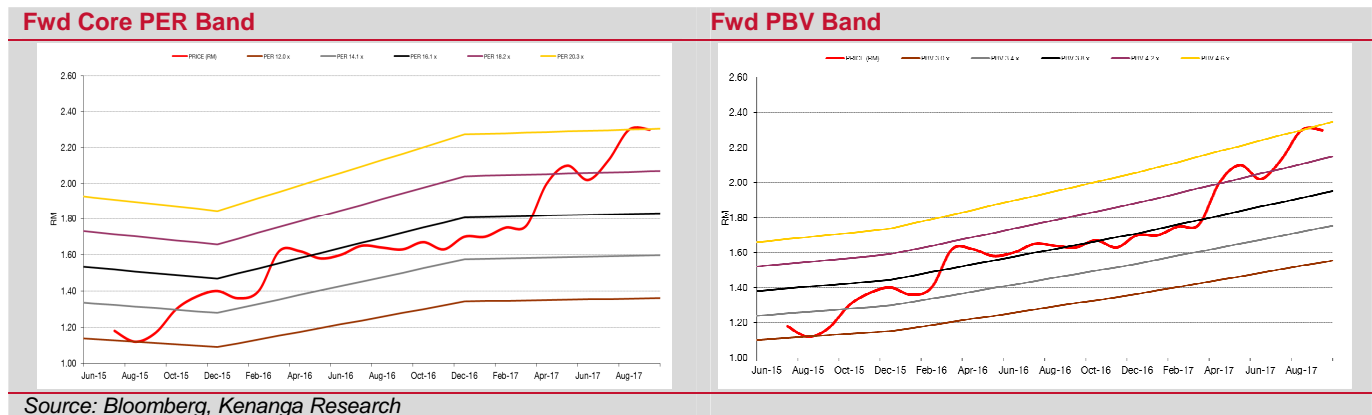
### Summary Earnings Table

FYE Dec (RM m)	2016A	2017E	2018E
Turnover	1,788.8	2,339.0	2,414.3
EBIT	149.6	185.3	185.7
PBT	153.7	193.7	195.9
<b>Net Profit (NP)</b>	<b>123.5</b>	<b>145.2</b>	<b>146.9</b>
<b>Core NP</b>	<b>117.7</b>	<b>145.2</b>	<b>146.9</b>
Consensus (CNP)	n.a.	150.6	170.0
Earnings Revision	n.a.	n.a.	n.a.
Basic EPS (sen)	9.1	11.2	11.4
EPS growth %	-3%	18%	1%
NDPS (sen)	5.0	3.9	4.0
Basic PER (x)	25.3	20.5	20.2
BV/Share (RM)	0.38	0.45	0.53
Net Gearing (x)	-0.7	-0.9	-0.7
Dividend Yield (%)	2.2%	1.7%	1.7%

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<b>Sum-of-parts valuation</b>	
16x FY18E PER on existing business (RM m)	2349.7
50% of FY17E cash pile (RM m)	238.7
<b>Fair Value (RM m)</b>	<b>2588.4</b>
Shares Outstanding (m)	1292.9
<b>Target Price (RM)</b>	<b>2.00</b>
<b>Implied FY18E PER (x)</b>	<b>17.6</b>

Source: Kenanga Research



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<b>Income Statement</b>						<b>Financial Data &amp; Ratios</b>					
<b>FY Dec (RMm)</b>	<b>2014A</b>	<b>2015A</b>	<b>2016A</b>	<b>2017E</b>	<b>2018E</b>	<b>FY Dec (RMm)</b>	<b>2014A</b>	<b>2015A</b>	<b>2016A</b>	<b>2017E</b>	<b>2018E</b>
Revenue	1,880.7	1,916.9	1,788.8	2,339.0	2,414.3	<b>Growth</b>					
EBITDA	156.9	175.0	188.6	230.2	236.2	Turnover (%)	-	2%	-7%	31%	3%
Depreciation	-44.7	-41.9	-39.1	-44.9	-50.5	EBITDA (%)	-	11%	8%	22%	3%
Operating Profit	112.3	133.0	149.6	185.3	185.7	Operating Profit (%)	-	19%	12%	24%	0%
Other Income	4.6	14.1	35.7	0.0	0.0	PBT (%)	-	1%	9%	26%	1%
Interest Exp	-0.8	3.4	4.1	8.4	10.1	Net Profit (%)	-	-22%	-3%	18%	1%
Associate	0.0	0.0	0.0	0.0	0.0						
Exceptionals	0.0	0.0	5.8	0.0	0.0	<b>Profitability (%)</b>					
PBT	139.3	140.8	153.7	193.7	195.9	EBITDA Margin	8%	9%	11%	10%	10%
Taxation	-26.6	-13.0	-30.0	-48.4	-49.0	Operating Margin	6%	7%	8%	8%	8%
Minority Interest	0.0	-0.6	-0.1	0.0	0.0	PBT Margin	7%	7%	9%	8%	8%
Net Profit	163.1	127.2	123.5	145.2	146.9	Net Margin	9%	7%	7%	6%	6%
Core Net Profit	163.1	127.2	117.7	145.2	146.9	Effective Tax Rate	19%	9%	20%	25%	25%
						ROA	12%	9%	8%	9%	8%
						ROE	43%	28%	24%	25%	21%
						<b>DuPont Analysis</b>					
<b>Balance Sheet</b>						Net Margin (%)	9%	7%	7%	6%	6%
<b>FY Dec (RMm)</b>	<b>2014A</b>	<b>2015A</b>	<b>2016A</b>	<b>2017E</b>	<b>2018E</b>	Assets Turnover (x)	1.4	1.4	1.1	1.4	1.3
PPE	176.1	162.1	134.6	140.8	101.7	Leverage Factor (x)	3.5	3.1	3.2	2.9	2.7
Intangible Assets	0.0	0.0	3.6	3.6	3.6	ROE (%)	43%	28%	24%	25%	21%
Other FA	37.9	18.2	11.5	11.5	11.5						
Inventories	20.2	17.3	24.0	39.0	107.2	<b>Leverage</b>					
Receivables	691.8	579.2	911.5	981.2	1,133.1	Debt/Asset (x)	0.3	0.2	0.1	0.0	0.0
Other CA	119.8	230.3	16.3	16.3	16.3	Debt/Equity (x)	0.9	0.8	0.3	0.0	0.0
Cash	278.4	390.5	465.8	506.1	444.3	Net Cash/(Debt)	143.2	253.6	329.3	506.1	444.3
Total Assets	1,324.2	1,397.4	1,567.3	1,698.6	1,817.8	Net Debt/Equity (x)	-0.4	-0.6	-0.7	-0.9	-0.7
Payables	601.9	604.7	924.8	1,098.1	1,121.9						
ST Borrowings	135.1	136.8	136.5	0.0	0.0	<b>Valuations</b>					
Other ST Liability	202.6	200.1	11.4	11.4	11.4	Core EPS (sen)	12.6	9.8	9.1	11.2	11.4
LT Borrowings	0.1	0.0	0.0	0.0	0.0	DPS (sen)	0.0	4.0	5.0	3.9	4
Other LT Liability	4.3	4.1	0.6	0.6	0.6	PER (x)	18.3	23.5	25.3	20.5	20.2
Minorities Int.	0.1	0.6	0.8	0.8	0.8	Net Div. Yield (%)	0.0%	1.7%	2.2%	1.7%	1.7%
<b>Net Assets</b>	<b>380.2</b>	<b>451.0</b>	<b>493.2</b>	<b>587.6</b>	<b>683.1</b>	BVPS	0.30	0.30	0.38	0.45	0.53
Share Capital	232.5	258.6	258.6	258.6	258.6	P/B (x)	7.7	7.7	6.1	5.1	4.3
Reserves	147.7	192.5	234.6	329.0	424.5						
<b>Total Equity</b>	<b>380.2</b>	<b>451.0</b>	<b>493.2</b>	<b>587.6</b>	<b>683.1</b>						
<b>Cashflow Statement</b>											
<b>FY Dec (RMm)</b>	<b>2014A</b>	<b>2015A</b>	<b>2016A</b>	<b>2017E</b>	<b>2018E</b>						
Operating CF	98.5	284.5	87.0	270.4	-9.1						
Investing CF	262.6	-64.0	-8.7	-51.1	-11.5						
Financing CF	-418.5	-63.6	-55.8	-179.0	-41.3						
Change In Cash	-57.4	156.9	22.6	40.4	-61.8						
Free CF	81.4	275.4	105.4	267.7	28.4						

Source: Kenanga Research

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## Peer Comparison

CORE COVERAGE																
NAME	Price (14/9/17)	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	0.96	745	-5.3	12.6	10.6	2%	6%	0.8	-140.3	58.9	70.0	-142%	19%	0.75	Underperform	67.0
GAMUDA BHD	5.37	13176	30.3	21.3	20.4	2%	10%	1.8	499.3	709.5	741.7	42%	5%	5.45	Market Perform	12.3
IJM CORP BHD	3.34	12117	22.4	20.6	18.4	2%	6%	1.2	539.1	585.8	656.1	9%	12%	3.48	Market Perform	4.4
KIMLUN CORP BHD	2.16	690	8.2	9.5	8.6	3%	12%	1.1	81.9	70.7	78.3	-14%	11%	2.27	Market Perform	3.8
MUHIBBAH ENGINEERING (M) BHD	2.88	1383	17.0	14.7	14.0	1%	11%	1.5	87.7	101.5	106.2	16%	5%	2.94	Market Perform	29.1
HOCK SENG LEE BERHAD	1.47	808	14.3	16.4	11.7	1%	7%	1.1	56.5	49.4	69.0	-13%	40%	1.40	Market Perform	-8.1
WCT HOLDINGS BHD	1.80	2532	35.5	20.2	17.8	2%	5%	1.1	84.8	149	169.4	76%	14%	1.83	Market Perform	4.7
MITRAJAYA HOLDINGS BHD	1.11	765	8.6	11.9	10.4	5%	10%	1.2	97.3	70.5	80.5	-28%	14%	1.20	Market Perform	-11.9
SUNWAY CONSTRUCTION GROUP	2.30	2972	25.3	20.5	20.2	2%	25%	5.1	117.7	145.2	146.9	23%	1%	2.00	Underperform	35.3
KERJAYA PROSPEK GROUP BHD	3.88	2184	21.9	17.3	14.8	1%	16%	2.7	100	126.7	148.1	27%	17%	3.30	Underperform	78.8
<i>Average</i>			17.8	16.5	14.7											
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	1.07	576	-2.2	15.0	10.9	n.a.	n.a.	n.a.	-264.9	38.5	52.9	-115%	37%	n.a.	Not Rated	17.6
PROTASCO	1.04	441	8.5	7.5	7.3	6%	14%	1.1	51.8	58.5	60.1	13%	3%	1.52	Trading Buy	-8.0
PINTARAS JAYA	3.88	640	35.7	15.1	12.6	5%	12%	1.8	17.8	42.2	50.6	137%	20%	4.2	Trading Buy	10.2
GABUNGAN AQRS	1.69	726	29.2	17.7	8.5	1%	11%	2.0	22.6	37.2	77.9	65%	109%	1.6	Not Rated	86.7
GADANG HOLDINGS	1.27	835	8.7	9.5	9.1	2%	14%	1.4	94.2	86.8	90.8	-8%	5%	2.44	Not Rated	21.0
AZRB	1.17	622	20.8	9.9	7.7	n.a.	15%	1.5	27.2	57.4	73	111%	27%	1.35	Trading Buy	84.3
TRC SYNERGY	0.84	404	13.5	12.3	15.3	2%	8%	0.9	29.9	32.9	26.3	10%	-20%	n.a.	Not Rated	121.1
BINA PURI	0.37	99	88.2	5.9	5.9	n.a.	n.a.	n.a.	1	14.9	14.9	1390%	0%	n.a.	Not Rated	-14.9
GKENT	2.81	1583	15.6	16.9	14.9	3%	21%	3.5	101.4	93.8	106	-7%	13%	2.8	Trading Buy	38.7
PESONA	0.60	397	19.5	11.0	8.0	4%	22%	2.5	20	35.3	48.5	77%	37%	0.485	Take Profit	-1.7
JAKS	1.35	651	0.8	9.6	6.9	0%	12%	1.1	736	61.933	85.433	-92%	38%	1.54	Not Rated	32.4
<i>Average</i>			21.7	11.8	9.7											

Source: Bloomberg, 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%  
MARKET PERFORM : A particular stock's Expected Total Return is WITHIN the range of -5% to 10%  
UNDERPERFORM : A particular stock's Expected Total Return is LESS than -5%

**Sector Recommendations\*\*\***

OVERWEIGHT : A particular sector's Expected Total Return is MORE than 10%  
NEUTRAL : A particular sector's Expected Total Return is WITHIN the range of -5% to 10%  
UNDERWEIGHT : A particular sector's Expected Total Return is LESS than -5%

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

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