

Headline	AmBank initiates coverage on Sunway Construction		
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# AmBank initiates coverage on Sunway Construction

**KUALA LUMPUR** — AmBank Research has initiated coverage with a “hold call” on Sunway Construction Bhd (SunCon) with a fair value of RM2.01 based on 15x its FY18 earnings per share.

This is in line with its benchmark forward price-to-earnings (PE) ratio of 14x to 16x for large cap construction listed stocks.

AmBank Research said it projected SunCon’s FY17/FY18 earnings to grow between 13% and 25% respectively, underpinned by its strong outstanding order book of RM4.6 billion; strong earnings visibility over the long term with the continued flow of diversified civil and construction work from mega infrastructure projects such as rail, buildings, property and pre-cast; and its position as the leading construction pure play with a proven track record which enables it to continue bidding for large-scale projects from existing and potential clients.

The research house said that being the largest construction pure play, SunCon is poised to be the preferred contractor to undertake mega and scalable projects domestically and internationally.

SunCon’s positive earnings growth is expected to continue, driven by the fact that it is a wholly integrated construction company with a strong and diversified order book that currently stands at RM4.6 billion. Additionally, it has an exceptional track record on both the local and international front.

AmBank Research said that apart

from being known as a capable construction solutions provider, SunCon also has strong relationships with its customers which benefits it in terms of bagging new tenders from existing clients.

“Embracing sustainability, SunCon is a constituent company in the FTSE-4Good Index Series since June 2015, a status that has been reaffirmed in December 2016 in FTSE4Good Index review.

“Currently, SunCon is the only construction company among FTSE-4Good Index constituents,” AmBank Research said

As subsidiary of Sunway Group, SunCon is seen to have many advantages including the ability to tap into the combined resources and access its Sunway Group’s invaluable experience and expertise and financial strength. It will also be able to reliably source materials and services from companies within the group.

AmBank Research sees the synergy with Sunway Group bolstering SunCon’s capabilities, giving it the advantage in terms of competitive pricing, assured quality and shorter project completion periods.

In terms of risk, AmBank Research opined that uncertain steel prices may have a significant impact to SunCon’s bottom line.

Steel prices have, thus far, been stable in 2017 as a result of the ongoing measures by the Chinese government to cut down on supply in China as well the imposition of safeguard duties by the Ministry of International

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### Trade and Industry.

However, AmBank Research opined that steel prices may trend upwards if demand rises due to rapid infrastructure development with limited supply; and production is halved by manufacturers due to the high cost of production and unfavourable business conditions which will impact the steel players' bottom line.

It added that SunCon faces the risk of fluctuation in foreign currency exchange (FX) rate as it imports goods such as special lightings, furnishing and façade components from overseas.

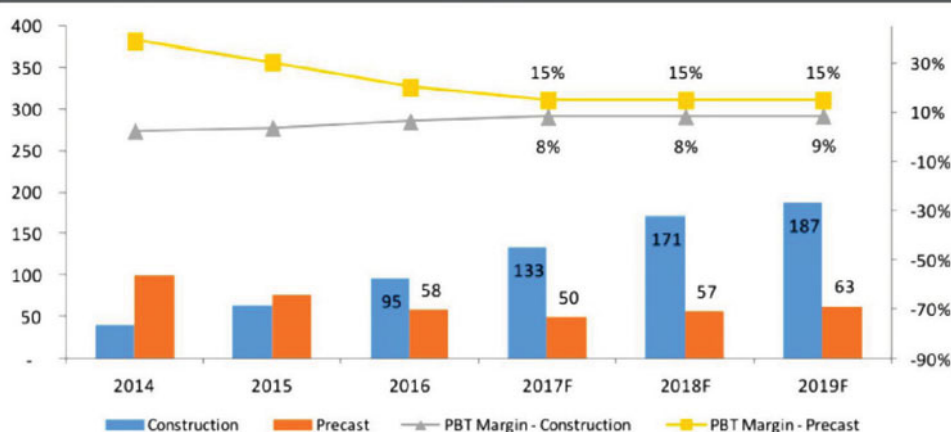
AmBank Research said that fluctuating FX will impact the company's bottom line.

"In mitigating this risk, SunCon currently adopts FX hedge once the design and bill of quantity are confirmed," it said.

An additional risk concerned the foreign workers' levy which may be increased due to government policies and will add to SunCon's cost of doing business.

In view of this, AmBank Research said that SunCon has to factor in the levy cost in new tenders and ensure that foreign workers are managed efficiently.

**Graph 1 (Exhibit 10): Sunway Construction profit before tax (PBT) by segment (RM million)**



Source: AmInvestment Bank, Sunway Construction