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SunCon bags surprise RM2.2b LRT3 job

| ▶ SUNWAY CONSTRUCTION GROUP BHD | | | | |
|---------------------------------|-------|-------|-------|-------|
| FYE DEC | FY16 | FY17E | FY18F | FY19F |
| REVENUE (RM mil) | 1,789 | 2,024 | 2,632 | 3,015 |
| CORE PATAMI (RM mil) | 105 | 142 | 167 | 192 |
| CORE EPS (sen) | 8.1 | 11.0 | 12.9 | 14.8 |
| PE (x) | 28.4 | 21.0 | 17.8 | 15.5 |

▶ Recommendation:
Buy
TARGET Price: RM2.59
 by Hong Leong Investment Bank Bhd (Oct 6)

News
 SUNWAY Construction Group Bhd (SunCon) was awarded a RM2.2b contract from Prasarana Malaysia Bhd for Package GS07-GS08 of the Light Rail Transit Line 3 (LRT3).
 The contract entails 9.2km of viaduct works, six stations, one iconic bridge over the Klang River, two park and ride facilities and a centralised labour quarter at Johan Setia, Klang. The contract duration is for 36 months.

Comments
 We have always advocated SunCon as one of the top contenders for the LRT3 by virtue of its track record with the LRT extension, bus rapid transit and Mass Rapid Transit Line 1 (MRT1).
 However, the sheer size of this

recent contract win was certainly above what we had anticipated in the tune of c.RM1b.
Pushing orderbook to a new high. With the LRT3 in the bag, coupled with RM582m 1Malaysia Civil Servants Housing job secured last month, SunCon's orderbook has increased significantly by 47% to an all-time high of RM6.3b (compared to RM4.3b as of 2QFY17).
Job wins surpass target. SunCon's YTD job wins now total a record RM3.5b (excluding the MRT2 stations which are already accounted for as part of the main viaduct line). This amount has surpassed management's initial guidance of RM2b and our assumption of RM2.5b.

Risks
 With its all-time high orderbook, execution would be the key risk to watch out for.

Forecasts
 As YTD job wins of RM3.5b has exceeded our full-year tar-

get of RM2.5b, we adjust our orderbook replenishment assumption to reflect this.
 Consequently, our FY18-FY19 earnings forecast are raised by 11% and 14% respectively.

Rating Upgrade to 'Buy'
 SunCon continues to surprise us positively with its contract winning capability.
 We like SunCon as a well-managed contractor with strong execution ability. With stronger than expected job wins leading to a strong boost in orderbook, we upgrade our rating from 'Hold' to 'Buy'.
 Following our earnings upgrade, our target price is raised from RM2.33 to RM2.59 which is still based on an unchanged 20x P/E multiple tagged to FY18 earnings.
 We reckon that our premium valuation yardstick for SunCon is justified given: i) Its superior ROE of 27% which is more than double of its peer's average; and ii) healthy balance with net cash position of RM364m.