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SUNWAY CONSTRUCTION GROUP BHD

By Hong Leong Investment Bank

Buy (maintained)

Target price: RM2.59

HONG LEONG Investment Bank (HLIB) is positive on Sunway Construction Group Bhd (SunCon) and its partner Taisei-Sunway Joint Venture's recent RM139.83mil contract win to build a warehouse for Nippon Express in Shah Alam, Selangor.

The research house said accounting for SunCon's 50% stake in the JV, this would bring its effective share of the contract to RM69.9mil.

SunCon's year-to-date (YTD) job win now stood at a record RM3.7bil (excluding the mass rapid transit 2 stations, which are already accounted for as part of the main viaduct line). This sum, according to HLIB, has exceeded management's initial RM2bil guidance earlier this year.

To recap, over the past three months, SunCon has managed to secure two sizeable jobs, which include light rail transit 3 (RM2.2bil) and 1Malaysia Civil Servants Housing Project (RM582mil).

Coupled with several other smaller contracts announced, SunCon's orderbook surged by more than 50% to an all-time high of RM6.8bil.

This implies a strong cover of 3.8 times on financial year 2016 (FY16) revenue, providing strong earnings visibility over the next three years.

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

"Our forecast is unchanged as YTD job wins of RM3.7bil has met our full-year assumption. Any further job wins for FY17 would provide upside to our earnings forecast," HLIB said.

The brokerage has kept a "buy" rating on SunCon with an unchanged target price of RM2.59. This is based on a 20 times price-to-earnings multiple tagged to FY18 earnings.

"We reckon that our premium valuation yardstick for SunCon is justified, given its superior return on equity of 27%, which is more than double its peers average and healthy balance sheet with net cash position of RM364mil (28 sen per share).

Sunway Construction

