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Sunway Construction Group Berhad

“New Goodies from MRT Corp.”

Sunway Construction Group Berhad (SCG) grabbed a new contract wins in FY16 worth RM1.2 billion from MRT Corp., which will boost its outstanding orderbook by 32% to RM4.3 billion. The new contracts may contribute RM108 million to the group’s PBT (i.e. FY16-FY20), based on PBT margin assumption of 9%. Hence, SCG is a BUY with target price of RM1.92.

- **Bags MRT Line 2 job.** According to *The EDGE*, SCG’ unit, Sunway Construction Sdn Bhd has secured RM1.2 billion contract from MRT Corp. to construct the viaduct guideway and other associated works for 4.9km stretch of MRT Sungai Buloh-Serdang-Putrajaya (SSP) line. The viaduct work package (V201) is part of the SSP line’s elevated alignment from Sungai Buloh to Persiaran Dagang. We note that this is the second viaduct work package being awarded to construction player after work package V202 worth RM1.44 billion to Ahmad Zaki Sdn Bhd.
- **Boosting external orderbook by 32%.** We are positive on the new job wins in 2016 which could replenish the group’s outstanding orderbook by 32% to RM4.9 billion (2.6x of FY15 revenue). Hence, we estimate that the RM1.2 billion KVMRT2 contracts may potentially contribute RM108 million to the group’s bottom line, based on conservative PBT margin assumption of 9%. (i.e. FY16-FY20).
- **Outlook remains intact.** Moving forward, we expect the group to emerge as one of the potential beneficiaries to grab some goodies from the LRT3 based on its existing experience and solid track record in developing work package from LRT Kelana Jaya Line Extension. Moreover, SCG is expected to clinch more internal contract powered by strong synergies with its holding company, Sunway, one of the major property companies in Malaysia.

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BUY (TP: RM1.92)

Current Price (RM)	RM1.67
New Target Price (RM)	RM1.92
Previous Target Price (RM)	RM1.70
Previous Recommend.	Buy
Upside To Target Price	15%
Dividend Yield (FY17)	3%

Stock Code

Bloomberg	WCTHG MK
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Stock & Market Data

Listing	MAIN MARKET
Sector	Construction
Shariah Compliance	Yes
Issued Shares (mn)	1,293
Market Cap (RM mn)	2,172
YTD Chg In Share Price	20%
Beta (x)	NA
52-week Hi/Lo (RM)	1.72 0.98
3M Average Volume (shrs)	2.46mn
Estimated Free Float	38%

Major Shareholders

Sunholdings	54%
Sungei Way Corp	7%

- Earnings outlook.** We have done some housekeeping exercise by factoring in the new earnings contribution from KVMRT2 work package which already accounting 48% of management's job wins target of RM2.5 billion for FY16. At this juncture, we expect FY16 and FY17 earnings to grow by 18% y-o-y and 16% y-o-y to be energized by i) acceleration of its major projects including Putrajaya Parcel F and ii) potential fresh major projects awards including LRT3 and Pan Borneo Highway.
- Valuation & recommendation.** We re-value SCG target price at RM1.92 and the stock is a **BUY**. The target price of RM1.92 is based on PER multiple of 14.2x over its FY17 EPS estimate of 14sen. The valuation is pegged to 1+ SD above average mid-cap construction players' PER of 11.3x and justified by 1) strong track record in building and civil/infrastructure construction services; 2) largest pure construction player with market cap of RM2.0 billion; 3) leverage on support from its parent, Sunway Bhd; and 4) robust outlook on construction industry in Malaysia backed by 11MP and Budget 2016 projects.

Table 1: Peers comparison (Calenderised)

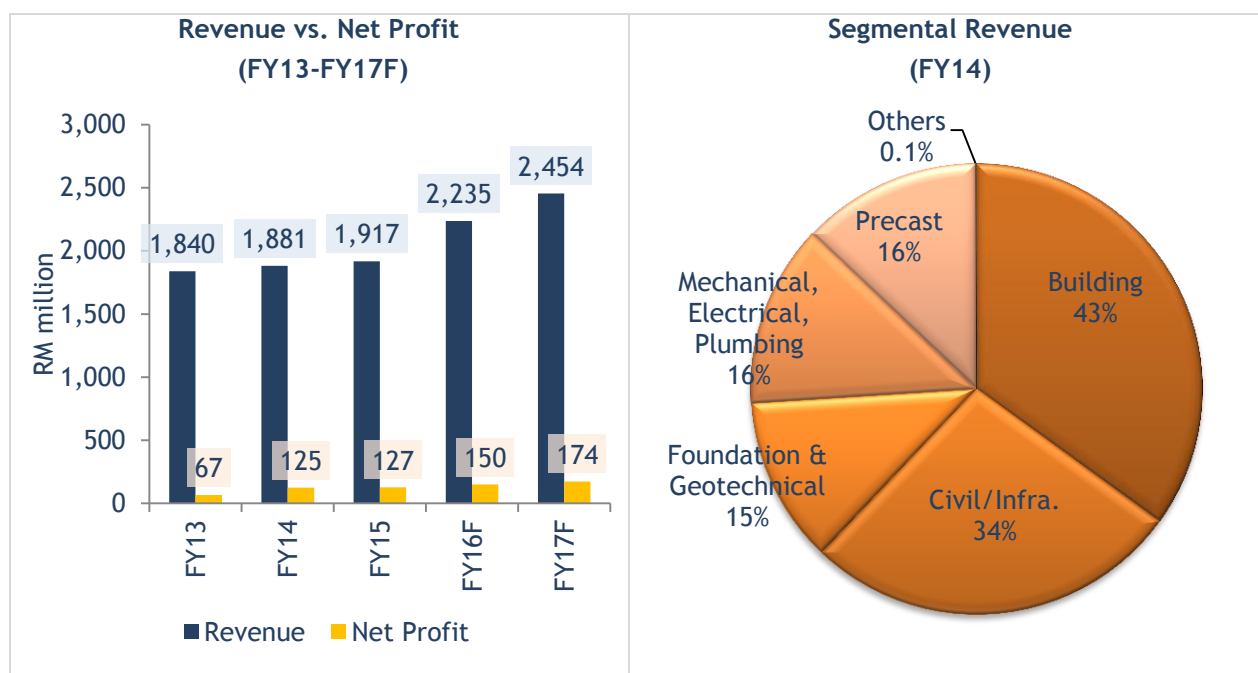
Company	FYE	Price (RM)	EPS (sen)		P/E (X)		P/B (X)		ROE (%)	DY (%)	TP (RM)	Call
			FY16	FY17	FY16	FY17	FY16	FY17				
IJM CORP	Mar	3.54	21	23	15.4	14.0	1.3	1.2	9	3	3.80	Buy
GAMUDA	Jul	4.90	29	32	15.7	13.9	1.6	1.5	11	3	5.80	Buy
WCT	Dec	1.67	11	13	14.9	12.7	0.8	0.8	7	1	1.93	Buy
SCGB	Dec	1.67	11	11	13.0	12.3	3.4	2.9	NA	NA	1.92	Buy
BENALEC	Jun	0.53	7	9.0	8.2	6.2	0.7	0.3	0	1	NR	NR
CREST BUILDER	Dec	0.86	8	NA	11.8	NA	NA	NA	8	4	NR	NR
EVERSENDAL	Dec	0.73	9	10	8.6	7.3	0.6	0.6	7	2	NR	NR
KIMLUN	Dec	1.79	19	19	7.3	7.3	0.8	0.8	14	3	NR	NR
MRCB	Dec	1.22	6	8	22.2	17.2	1.1	1.0	14	2	NR	NR
AZRB	Dec	0.72	NA	NA	NA	NA	NA	NA	6	3	NR	NR
YTL CORP	Jun	1.66	13	14	12.4	11.5	1.1	1.0	7	6	NR	NR
Average					13.0	11.4	1.3	1.1	8	3		

Source: Bloomberg, M&A Securities

Table 2: SCG Profit and Loss (FY13-FY17F)

FYE DEC (RM million)	FY13	FY14	FY15	FY16F	FY17F
Revenue	1,840	1,881	1,917	2,235	2,454
Gross profit	338	395	NA	469	515
EBITDA	85	162	178	191	217
EBIT	42	120	136	147	171
Net Finance cost	7	7	5	5	5
Share of JV	45	30	0	40	44
PBT	90	151	141	192	223
Taxation	(24)	(26)	(13)	(42)	(49)
PAT	66	125	128	150	174
Minority interest	1	0	1	0	0
Net profit	67	125	127	150	174
EPS (sen)	5	10	10	12	14
EBITDA margin	5%	9%	9%	9%	9%
EBIT margin	2%	6%	7%	7%	7%
PBT margin	5%	8%	7%	9%	9%
Net profit margin	4%	7%	7%	7%	7%
PER (x)	NA	NA	14.2	14.4	12.4
P/BV (x)	NA	NA	4.0	4.4	3.6
Dividend (sen)	NA	NA	4	4	5
Dividend yield	NA	NA	3%	2%	3%

Source: M&A Securities, Prospectus



Source: SCG, M&A Securities

M&A Securities

STOCK RECOMMENDATIONS

BUY	Share price is expected to be $\geq +10\%$ over the next 12 months.
TRADING BUY	Share price is expected to be $\geq +10\%$ within 3-months due to positive newsflow.
HOLD	Share price is expected to be between -10% and $+10\%$ over the next 12 months.
SELL	Share price is expected to be $\geq -10\%$ over the next 12 months.

SECTOR RECOMMENDATIONS

OVERWEIGHT	The sector is expected to outperform the FBM KLCI over the next 12 months.
NEUTRAL	The sector is expected to perform in line with the FBM KLCI over the next 12 months.
UNDERWEIGHT	The sector is expected to underperform the FBM KLCI over the next 12 months.

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