

# Sunway Construction Group

## LRT3 in the Bag

By Adrian Ng | [adrian.ng@kenanga.com.my](mailto:adrian.ng@kenanga.com.my)

Yesterday, SUNCON bagged RM2.2b contract award from LRT3 bringing its year-to-date win to RM3.5b (excluding MRT2 S201) surpassing our FY17 order-book replenishment of RM2.0b by 75%. FY17E earnings remains unchanged but we raise FY18E earnings by 18% after factoring in higher order-book replenishment. Upgraded our call to MARKET PERFORM with a higher SoP-driven Target Price of RM2.29 (previously, UP; TP: RM2.00).

**LRT3 in the bag.** Yesterday, SUNCON announced that they have secured a contract award from LRT3 amounting to c.RM2.2b. This particular contract award consists of two packages combined, which is Package GS07-08, and SUNCON is required to complete the guideway, stations, iconic bridge, park and rides, ancillary buildings and other associated works within 36 months.

**Positive on the win!** We were positively surprised with the win as we did not expect such a huge contract from LRT3. Furthermore, the contract award of c.RM2.2b have brought its year-to-date win to RM3.5b (excluding MRT2 S201) surpassing our FY17 order-book replenishment assumption of RM2.0b by 75%. Assuming pre-tax margin of 8%, this particular contract will contribute c.RM43.5m to its bottom-line per annum.

**Outlook.** Post LRT3 job win, SUNCON's outstanding order-book now stands at RM6.5b providing earnings visibility for the next 2-3 years. Going forward, we believe that SUNCON might look to focus on its on-going projects and more selective in their future jobs selections, which command better margins.

**Upgrade FY18E earnings.** While we are keeping our FY17E earnings unchanged, we raised our FY18E earnings by 18% after we factored in a higher order-book replenishment of RM4.0b vis-à-vis our initial assumptions of RM2.0b for FY17. With the new assumptions, we have remaining replenishment of RM500.0m to be achieved in FY17. However, we reduced our FY18E order-book replenishment of RM2.0b to RM1.0b as SUNCON might look to focus on the execution of its on-going projects.

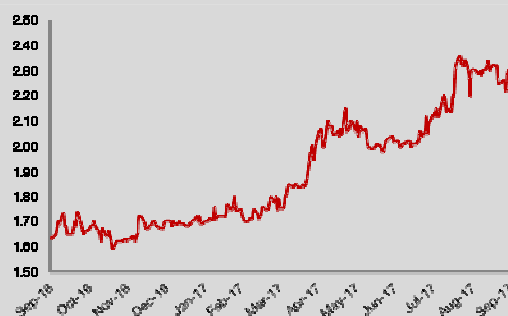
**Upgrade to MARKET PERFORM.** Following LRT3 job win and our upgrade in FY18E earnings, we also raised our SoP-driven Target Price accordingly to RM2.29 (previously, RM2.00). Subsequently, we also upgraded our recommendation from UNDERPERFORM to MARKET PERFORM for its strong capability in securing such big-ticket projects. At our TP of RM2.29, it implies FY18E PER of 17.1x trading close to big-cap peers' average of 18.0-20.0x.

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

# MARKET PERFORM ↑

Price : **RM2.30**  
Target Price : **RM2.29** ↑

### Share Price Performance



KLCI	1,759.09
YTD KLCI chg	7.1%
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:	1,706,959
Free Float	32%
Beta	0.5

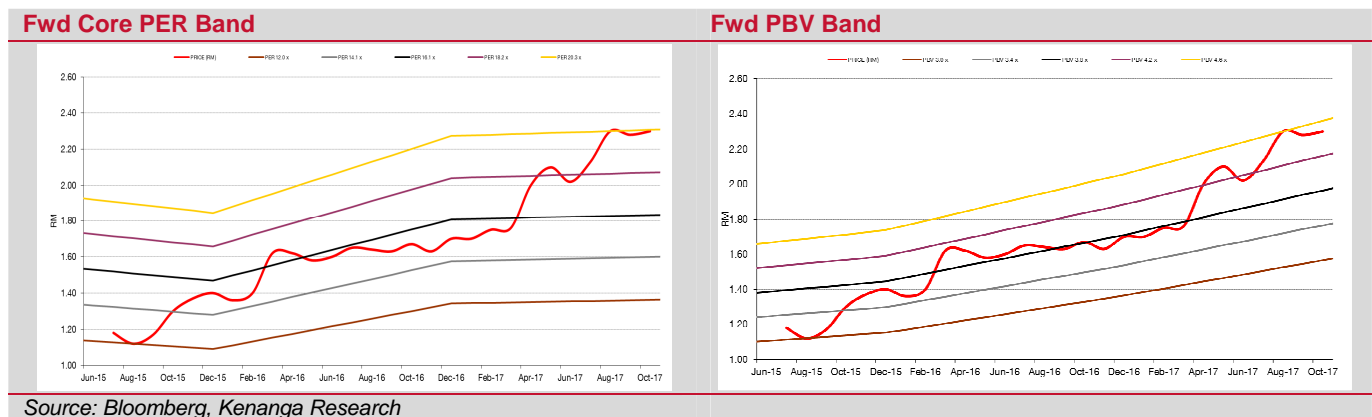
### Major Shareholders

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	2,997.6
EBIT	149.6	185.3	220.7
PBT	153.7	193.7	230.9
<b>Net Profit (NP)</b>	<b>123.5</b>	<b>145.2</b>	<b>173.1</b>
<b>Core NP</b>	<b>117.7</b>	<b>145.2</b>	<b>173.1</b>
Consensus (CNP)	n.a.	150.7	176.3
Earnings Revision	n.a.	n.a.	17.9%
Basic EPS (sen)	9.1	11.2	13.4
EPS growth %	-3%	18%	19%
NDPS (sen)	5.0	4.0	4.7
Basic PER (x)	25.3	20.5	17.2
BV/Share (RM)	0.38	0.45	0.54
Net Gearing (x)	n.c.	n.c.	n.c.
Dividend Yield (%)	2.2%	1.8%	2.0%

<b>Sum-of-parts valuation</b>	
16x FY17E PER on existing business (RM m)	2769.6
50% of FY18E cash pile (RM m)	192.8
<b>Fair Value (RM m)</b>	<b>2962.4</b>
Shares Outstanding (m)	1292.9
<b>Target Price (RM)</b>	<b>2.29</b>
<b>Implied FY17E PER (x)</b>	<b>17.1</b>
<i>Source: Kenanga Research</i>	



This section is intentionally left blank



06 October 2017

## Peer Comparison

CORE COVERAGE																
NAME	Price (5/10/17)	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	0.89	693	-4.9	11.7	9.8	2%	6%	0.7	-140.3	58.9	70.0	-142%	19%	0.75	Underperform	54.8
GAMUDA BHD	5.25	12886	21.1	20.0	16.7	2%	10%	1.6	700.6	741.7	885.4	6%	19%	5.45	Market Perform	9.8
IJM CORP BHD	3.24	11755	21.7	20.0	17.9	2%	6%	1.2	539.1	585.8	656.1	9%	12%	3.48	Market Perform	1.2
KIMLUN CORP BHD	2.24	716	8.5	9.8	8.9	3%	12%	1.2	81.9	70.7	78.3	-14%	11%	2.27	Market Perform	7.7
MUHIBBAH ENGINEERING (M) BHD	2.78	1335	16.4	14.2	13.6	1%	11%	1.5	87.7	101.5	106.2	16%	5%	2.94	Market Perform	24.7
HOCK SENG LEE BERHAD	1.46	802	14.2	16.2	11.6	2%	7%	1.1	56.5	49.4	69	-13%	40%	1.40	Market Perform	-8.8
WCT HOLDINGS BHD	1.75	2462	34.6	19.7	17.3	2%	5%	1.0	84.8	149	169.4	76%	14%	1.83	Market Perform	1.8
MITRAJAYA HOLDINGS BHD	1.03	710	8.0	11.0	9.6	5%	10%	1.1	97.3	70.5	80.5	-28%	14%	1.20	Market Perform	-18.3
SUNWAY CONSTRUCTION GROUP	2.30	2972	25.3	20.5	17.2	2%	25%	5.1	117.7	145.2	173.1	23%	19%	2.29	Market Perform	35.3
KERJAYA PROSPEK GROUP BHD	3.80	2140	21.4	16.9	14.5	1%	16%	2.6	100	126.7	148.1	27%	17%	3.30	Underperform	75.1
<i>Average</i>			16.6	16.0	13.7											
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	1.14	674	-2.3	16.0	11.6	n.a.	n.a.	n.a.	-264.9	38.5	52.9	-115%	37%	n.a.	Not Rated	25.3
PROTASCO	1.07	454	8.7	7.7	7.5	6%	14%	1.1	51.8	58.5	60.1	13%	3%	1.52	Trading Buy	-5.3
PINTARAS JAYA	4.03	665	37.1	15.7	13.1	5%	12%	1.9	17.8	42.2	50.6	137%	20%	4.2	Trading Buy	14.5
GABUNGAN AQRS	1.71	734	29.5	17.9	8.6	1%	11%	2.0	22.6	37.2	77.9	65%	109%	1.6	Not Rated	89.0
GADANG HOLDINGS	1.24	816	8.5	9.3	8.9	2%	14%	1.3	94.2	86.8	90.8	-8%	5%	2.44	Not Rated	18.1
AZRB	1.12	595	19.9	9.4	7.4	n.a.	15%	1.4	27.2	57.4	73	111%	27%	1.35	Trading Buy	76.4
TRC SYNERGY	0.80	384	12.9	11.7	14.6	3%	8%	0.9	29.9	32.9	26.3	10%	-20%	n.a.	Not Rated	110.5
BINA PURI	0.35	93	83.5	5.6	5.6	n.a.	n.a.	n.a.	1	14.9	14.9	1390%	0%	n.a.	Not Rated	-19.5
GKENT	3.15	1774	17.5	18.9	16.7	3%	21%	3.9	101.4	93.8	106	-7%	13%	2.8	Trading Buy	55.4
PESONA	0.52	344	16.9	9.6	7.0	4%	22%	2.1	20	35.3	48.5	77%	37%	0.485	Take Profit	-14.9
JAKS	1.28	622	0.8	9.1	6.6	0%	12%	1.1	736	61.933	85.433	-92%	38%	1.54	Not Rated	25.5
<i>Average</i>			21.2	11.9	9.8											

Source: Bloomberg, Kenanga Research

06 October 2017

**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.**

---

This document has been prepared for general circulation based on information obtained from sources believed to be reliable but we do not make any representations as to its accuracy or completeness. Any recommendation contained in this document does not have regard to the specific investment objectives, financial situation and the particular needs of any specific person who may read this document. This document is for the information of addressees only and is not to be taken in substitution for the exercise of judgement by addressees. Kenanga Investment Bank Berhad accepts no liability whatsoever for any direct or consequential loss arising from any use of this document or any solicitations of an offer to buy or sell any securities. Kenanga Investment Bank Berhad and its associates, their directors, and/or employees may have positions in, and may effect transactions in securities mentioned herein from time to time in the open market or otherwise, and may receive brokerage fees or act as principal or agent in dealings with respect to these companies.

---

Published and printed by:

**KENANGA INVESTMENT BANK BERHAD (15678-H)**

Level 12, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia  
Telephone: (603) 2172 0880 Website: [www.kenanga.com.my](http://www.kenanga.com.my) E-mail: [research@kenanga.com.my](mailto:research@kenanga.com.my)



Chan Ken Yew  
Head of Research