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(PR VALUE: 6,522)

SunCon off to a good start with 2 job wins

SUNWAY CONSTRUCTION GROUP BHD

FYE DEC	FY15	FY16	FY17F	FY18F
REVENUE (RM mil)	1,917	1,789	2,312	2,554
CORE PATAMI (RM mil)	115	124	139	148
CORE EPS (sen)	8.9	9.6	10.7	11.5
PE (x)	20.3	18.8	16.8	15.7

Recommendation: Buy

TARGET Price: RM2.00
by Hong Leong Investment Bank Bhd (March 27)

News

SUNWAY Construction Group Bhd (SunCon) was awarded a RM152.4m contract for the engineering, procurement, construction and commissioning at Gas District Cooling Plant 1, Precinct 1, Putrajaya involving: i) Chilled water supply system; and ii) power generation system. The job was awarded by the Putrajaya Holdings Sdn Bhd and works will span from March 2017 to August 2018.

Piling works for SUKE and DASH. In a separate award, SunCon also managed to bag the bore piling works subcontract for Sungai Besi-Ulu Kelang Elevated Expressway (SUKE) (RM18.1m) and Damansara-Shah Alam Highway (DASH) (RM15.8m).

Comments

We are positive on these contract wins as they represent: 1) SunCon's eighth project secured from the Putrajaya Group; and 2) subcontract works for SUKE and DASH even though SunCon did not manage to participate in SUKE and DASH at the main contractor level.

Job wins coming in strong. With these two jobs in the bag, SunCon's YTD job wins now total RM900m. Management is gunning for RM2b in new job wins while we remain more optimistic at RM2.5b, justified by the strong momentum witnessed thus far into the year. Its orderbook currently stands at RM4.9b, translating to a healthy cover ratio of 2.7x on FY16 revenue.

In terms of upcoming mega projects, we reckon that SunCon is a strong contender to participate in the Light Rail Transit Line 3 (RM9b), in which awards are expected to start rolling in from 2Q17 onwards.

Risks

Execution is a potential risk area to watch out for.

Forecasts

As YTD job wins of RM900m is within our full-year target of RM2.5b, we maintain our earnings forecast.

Rating

SunCon is a well-managed company with commendable execution capabity across a wide array of project types, putting it in a polar position to ride on the ongoing robust flow of construction jobs. While there are no changes to our earnings forecast, we raise our TP from RM1.84 to RM2 as we roll forward our valuation horizon from FY17 to mid-FY18 at an unchanged P/E target of 18x.

We reckon that our premium valuation yardstick is justified by its: i) Healthy balance sheet with net cash at RM0.25/share; and ii) ROE of 24% compared to the industry average of 11%.