Sunway Construction 'buy', E&O 'buy', consumer sector 'neutral', SKP 'hold'

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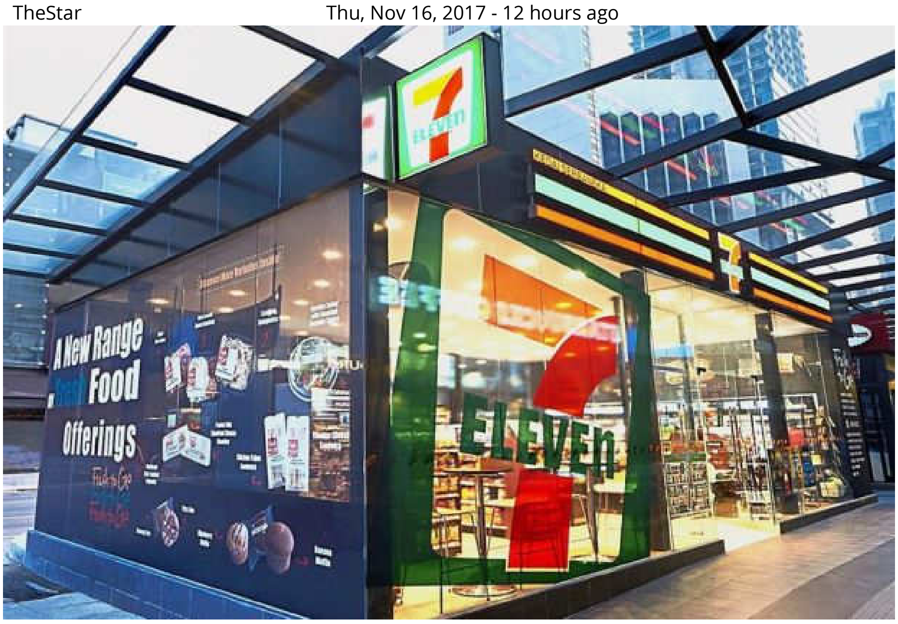

New opportunities: 7-Eleven and Bison's extensive store network and increasingly established distribution chain will play well into the e-commerce theme as the stores become pick-up and return hubs

SUNWAY CONSTRUCTION GROUP BHD (http://www.thestar.com.my/business/marketwatch/stocks/?qcounter=SUNCON)

(http://charts.thestar.com.my/?s=SUNCON)

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).

EASTERN & ORIENTAL BHD

By MIDF Research

Buy (maintained)

Target price: RM2.37

EASTERN & Oriental Bhd's (E&O) first half FY18 core net income of RM28.9mil was deemed within expectations despite only making up 38% and 39% of MIDF Research's and consensus' full-year estimates.

The research house expects second half FY18 earnings to be supported by profit recognition from Seri Tanjung Pinang phase 2 (STP2A) land sale in Penang to Retirement Fund Inc (KWAP).

E&O's second quarter FY18 core net income leaped by 246% year-on-year (y-o-y) to RM15.7mil from a low base of RM4.5mil in the second quarter of FY17, bringing cumulative earnings in the first half of FY18 to RM28.9mil (52% y-o-y).

The higher earnings were contributed by recognition from ongoing projects – The Tamarind, Ariza Seafront Terrace and Amaris Terraces in Seri Tanjung Pinang (STP).

Higher sales of completed projects – the Andaman condominium in STP and Princes House in London – have also contributed to the higher earnings.

Meanwhile, unbilled sales declined from RM739mil in the the first quarter of FY18 to RM622.1mil in second quarter of FY18, providing one year of earnings visibility to property division.

MIDF said E&O recorded new property sales of RM65.9mil in the second quarter of FY18. That brought first half FY18 new sales to RM149.7mil, flattish against first half FY17 new sales of RM152mil.

Projects in Penang contributed 62% of the total new sales, UK project 23%, Klang Valley projects 12% and the remaining from Johor. MIDF maintained E&O's earnings forecasts for FY18/FY19.

"Our target price of RM2.37 is based on 60% discount to revalued net asset valuation.

"We are maintaining our positive stance on E&O due to the positive long-term prospect of STP2A. Reclamation works is on track and first launch of project on STP2A is expected in mid-2019," MIDF noted.

Meanwhile, profit recognition from the land sale to KWAP is expected to boost E&O's earnings in FY18 and FY19.

E&O's balance sheet has also stabilised with net gearing of 0.59 times as at September 2017. E&O is targeting a long-term sustainable net gearing of 0.5 times.

CONSUMER SECTOR

By AmResearch

Neutral (maintained)

WITH the boom in e-commerce, AmResearch reckons that convenience store operators will be the beneficiaries of the growing phenomenon.

"It will present challenges to most existing retailers but there will be opportunities to thrive. Ultimately, retailers will need to strike a fine balance between brick-and-mortar presence and an online presence to varying degrees, depending on their position in the retail industry value chain.

"Among the beneficiaries of e-commerce are the convenience store operators."

The research house added that 7-Eleven and Bison (http://www.thestar.com.my/business/marketwatch/stocks/?qcounter=BISON)

(http://charts.thestar.com.my/?s=BISON)'s extensive store network and increasingly established distribution chain will play well into the e-commerce theme as the stores become pick-up and return hubs.

"It is an alternative to last-mile parcel delivery services. There are other benefits, which include higher foot traffic, related spillover spending and commission fee from payments made through the convenience stores.

"Aside from that, other technological best practices led us to believe that it could alleviate the convenience store operators' dependence on labour."

On the opposite end of the spectrum, AmResearch said the shopping mall and departmental store operators such as Aeon and Parkson may face an existential crisis in the longer term.

"They face intense competition from both online and offline players. Online shopping provides consumers with the ultimate level of convenience, offering endless product selection and price comparisons.

"Meanwhile, we opine there are numerous competing shopping malls that offer value-added elements beyond the commoditised shopping experience commonly found with Aeon malls."

The research house said it had recently attended the 18th Asia Pacific Retailers Convention and Exhibition 2017 – the longest running biennial regional retail conference in Asia-Pacific.

"The core retail topics discussed were future retail customers, winning retail formats of the future, retail technologies and solutions and omni-channel retailing.

"Insights into these core topics were discussed by renowned retail practitioners and industry heavyweights," it said.

SKP RESOURCES BHD (http://www.thestar.com.my/business/marketwatch/stocks/?qcounter=SKPRES)

(http://charts.thestar.com.my/?s=SKPRES)

By UOBKayHian

Hold (maintained)

Target price: RM1.85

IN April, SKP Resources incorporated a 75%-owned subsidiary (the remaining stake owned by a foreign partner), which manufactures printed circuit boards (PCB) and battery packs.

UOBKayHian said the RM10mil facility in the company's existing Johor Baru plant is estimated to ramp up its operations considerably by mid-2018 in a bid to acquire more jobs from its key customer.

"We gather that suppliers awarded the vertically integration (VI) status stand better chances of securing more orders from the key customer, as the suppliers will have more control over cost and quality in the entire process, thus reducing risks of cost hikes, disruption to raw material supply and quality issues."

SKP's key customer planned to double up sales volume over the next three years, the research house said.

"Given that most of its peers are running at full utilisation and SKP still has about 50% floor space capacity at its Johor Baru plant, we believe SKP is in the sweet spot to take up more jobs from its key customer.

"Hence, we have factored in additional sales contribution from one assembly line in 2019 or 2020 (partial contribution of one assembly line in 2019)."

Unlike most of the export-oriented manufacturing companies which recorded windfall profits due to the recent strengthening of the greenback against the ringgit, UOBKayHian said SKP reviewed its foreign exchange (forex) position and raw material costs with its key customer monthly.

"The only forex exposure SKP has is through its wholly-owned subsidiaries acquired from Tecnic (which are expected to account for less than 10% of the group's sales from 2018 to 2020).

"Hence, the bulk of its forex fluctuation is passed through to its key customer," the brokerage said.

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