

# Sunway Construction has strong in-house project pipeline

**Sunway Construction Group Bhd**  
(May 3, RM2.21)

**Upgrade to buy with an unchanged target price (TP) of RM2.45:** We upgrade Sunway Construction Group Bhd (SunCon) to “buy” from “hold” with an unchanged 12-month TP of RM2.45, based on a 10% discount to revalued net asset value (RNAV). We believe SunCon is an apolitical pure-play contractor that provides good construction sector exposure, with strong prospects to replenish its order book given its excellent track record. We hosted an investor meeting for Suncon recently. The company expects to secure RM1.5 billion to RM2 billion of new contracts in 2018. We lift our financial year 2018 estimate (FY18E) to FY20E earnings per share (EPS) by 2% to 3% to reflect higher interest income given higher free cash flow.

SunCon’s parent company, Sunway Bhd, plans to build five hospitals nationwide in Sunway Velocity, Kuala Lumpur (first quarter of 2019 [1Q19] completion); Seberang Jaya, Penang (2020); Ipoh, Perak (2022); Damansara, Selangor (2023); and Iskandar Puteri, Johor. Each hospital will have about 250 beds and cost about RM250 million to RM300 million. SunCon has the first right of refusal to build the hospitals, assuming it puts in a competitive bid. Its major ongoing in-house projects include Sunway Medical Centre Phase 4; Sunway Velocity hotel, office and medical centre; and Sunway Serene serviced apartments.

**Sunway Construction Group Bhd**

FYE DEC (RM MIL)	2016	2017	2018E	2019E	2020E
Revenue	1,788.8	2,076.3	2,542.8	2,984.9	3,020.7
Ebitda	184.1	200.0	268.7	298.5	299.4
Pre-tax profit	153.7	174.2	239.5	269.1	271.7
Net profit	123.5	137.8	181.9	204.4	206.4
EPS (sen)	9.6	10.7	14.1	15.8	16.0
PER (x)	23.2	20.8	15.8	14.0	13.9
Core net profit	119.0	135.4	181.9	204.4	206.4
Core EPS (sen)	9.2	10.5	14.1	15.8	16.0
Core EPS growth (%)	(12.7)	13.9	34.3	12.4	1.0
Core PER (x)	24.1	21.2	15.8	14.0	13.9
Net DPS (sen)	5.0	7.0	7.0	7.0	8.0
Dividend yield (%)	2.3	3.2	3.2	3.2	3.6
EV/Ebitda (x)	13.8	12.6	9.2	8.1	7.5
Chg in EPS (%)			2.6	2.4	3.1
Affin/Consensus (x)			1.0	1.0	0.9

Sources: Company, Affin Hwang forecasts, Bloomberg

Its high remaining order book of RM6.14 billion, equivalent to three times its 2017 revenue, provides good earnings visibility and should sustain its construction activities up to 2Q21. It has submitted tenders for over RM2 billion worth of projects. In addition to in-house projects, SunCon is also bidding for external projects such as the Tenaga Headquarters redevelopment; Daya Bumi Phase 3 offices and hotel; and Bukit Bintang City Centre office tower.

Although SunCon and its partners lost the bid to be the project delivery partner for the Kuala Lumpur-Singapore high-speed rail project, it can

still bid for station-building works and infrastructure works. There are six to seven stations planned and each costs about RM2 billion. We assume that SunCon will secure RM2 billion in new contracts in both FY18E and FY19E.

We upgrade our call on SunCon to “buy” from “hold” as the recent share price correction provides an opportunity to accumulate the stock. Potential total return is 13.6%, which includes a net dividend yield of 3.2% in FY18E. The current share price is also supported by a high net cash position of RM353 million or 27 sen per share. — *Affin Hwang Capital Research, May 3*