

OFFER PRICE: RM1.20

FAIR VALUE: RM1.60

Closing date : 6 Jul 2015

Listing date : 28 Jul 2015

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hewei@alliancedbs.com**AT A GLANCE****LISTING DETAIL**

Issue manager	RHB IB
Funds raised (RM m):	-
Shares on offer (m):	398.7
New shares (m):	-
Vendor shares (m):	398.7
Placement shares (m):	-
Public shares (m):	71.1
Shariah compliance:	Yes

POST LISTING

Ordinary share cap (m shares):	1,292.9
Par value (sen):	20
Mkt Cap (RM m):	1,551.5
Est Free Float %:	36.8

USE OF PROCEEDS (RM m)

Capital expenditure:	-
Marketing expenses:	-
R&D expenses:	-
Working capital:	-
Estimated listing expenses:	-

Forecasts and Valuation

FY Dec (RM m)	2013A	2014A	2015F	2016F
Revenue	1,839.6	1,880.7	1,917.7	2,163.7
EBITDA	85.2	161.8	192.7	213.8
Pre-tax Profit	89.8	151.3	149.7	168.6
Net Profit	66.9	124.8	122.8	138.3
Net Pft (Pre Ex.)	94.4	114.1	122.8	138.3
EPS (sen)	5.2	9.7	9.5	10.7
EPS Pre Ex. (sen)	7.3	8.8	9.5	10.7
EPS Gth (%)	22	87	(2)	13
EPS Gth Pre Ex (%)	37	21	8	13
PE (X)*	23.2	12.4	12.6	11.2
PE Pre Ex. (X)*	16.4	13.6	12.6	11.2
Net DPS (sen)	n.a.	n.a.	3.3	3.7
Net Div Yield (%)	n.a.	n.a.	2.8	3.1

*Based on offer price of RM1.20

Source of all data: Company, AllianceDBS, Bloomberg

Substantial Shareholders:

Sunway Berhad (%)	55.6
Tan Sri Jeffrey Cheah & Family (%)	7.6

INITIAL PUBLIC OFFERING – Main Market

- Malaysia's largest listed pure play total construction solutions provider with strong brand recognition
- RM2.8bn order book to underpin earnings visibility; beneficiary of Malaysia's infrastructure spending
- >35% dividend payout ratio
- Fair value of RM1.60 based on 15x FY16 EPS

End-to-end design and construction solutions. An established player with >30 years of heritage, Sunway Construction Group (SCG) is one of Malaysia's largest construction companies. It adopts an integrated business model that covers various phases of construction activities, from project design to completion. SCG also enjoys strong parentage with the support of holding company, Sunway Berhad, which has kept 55.6% stake in SCG post-listing.

Riding on Malaysia's infrastructure spending. As a pure construction player, SCG is a beneficiary of the booming construction industry driven by major infrastructure jobs including the RM23bn MRT Line 2, RM16.1bn highway jobs, and RM9bn LRT 3. These projects - worth RM75bn collectively - were unveiled in Budget 2015 in Oct14, and are slated to commence this year. The 11th Malaysia Plan, launched in May15, also sets an upbeat tone for the construction sector over the next five years (2015-2020); Malaysia will continue to roll out other catalytic development such as the Tun Razak Exchange and KL118 Tower.

Solid order book. Its order book stands at RM2.8bn (1.5x FY15 revenue), of which RM1bn comes from Sunway Group. This offers strong earnings visibility up to FY16. Despite winning only ~RM500m worth of jobs YTD, management remains confident of securing RM2bn worth of orders in FY15, to take year end order book to RM4bn. In addition, SCG is typically appointed contractor for selected strategic assets owned by Sunway Berhad, easing concerns over poor order book replenishment.

>35% dividend payout policy. SCG is committed to distribute >35% of core profit to shareholders, which is rare among construction players. This could be attributable to its sizeable operation with a large asset base, which may require little capex spending going forward.

Fair value of RM1.60. This is based on 15x FY16 EPS, on par with its construction peers' weighted average of 15.8x. We project SCG will deliver 2-year earnings CAGR of 10% over FY14-16F, premised on strong order replenishment. Post-listing, SCG is in net cash position and boasts superior ROE of ~30%.

Sunway Construction Group

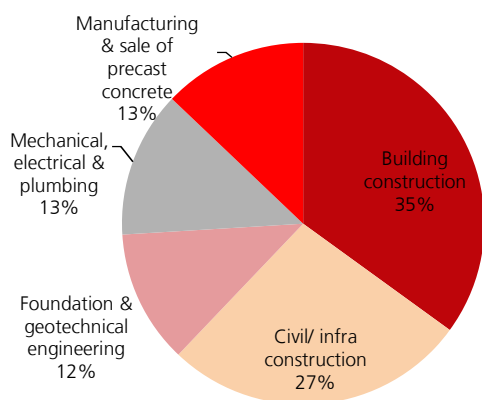
Background

Established construction service provider. Sunway Construction Group (SCG) is the construction arm of Sunway Berhad. Its subsidiary, Sunway Construction Sdn. Bhd. was listed on the main board of KLSE in Jun97, before being privatised in Nov03. Post-listing, Sunway Berhad will continue to hold 55.6% stake in SCG.

SCG is mainly involved in providing the following:

- i. Building construction services
- ii. Civil/infrastructure construction services
- iii. Foundation and geotechnical engineering services
- iv. Mechanical, electrical and plumbing services
- v. Manufacturing and sale of precast concrete products

EXHIBIT 1: Revenue breakdown in FY14



Source: Prospectus

Aggressive expansion since privatisation. SCG has undertaken construction jobs locally and overseas, cementing its reputation as one of few fully-integrated construction companies in Malaysia with expertise that cover project design to completion. Some of the notable achievements since privatisation include acquiring expertise to construct bored piles, venturing into precast concrete business in Singapore, and successfully venturing into India, Trinidad and Tobago, and Abu Dhabi.

Strong flow of repeat customers. Some of the key clients include KLCC Corporation, Putrajaya Holdings and Khazanah Nasional. SCG also benefits from Sunway Group's strong presence in Iskandar Malaysia, which has resulted in several contract wins, including jobs at Legoland Malaysia Theme Park, Pinewood Iskandar Malaysia Studios and Coastal Highway Southern Link.

Specialised contractor. SCG was heavily involved in the development of Bandar Sunway, which was transformed from an exhausted mining area into an integrated resort lifestyle township. SCG is also an experienced infrastructure construction specialist given its good delivery track record for various MRT, LRT and BRT jobs in the country. It is the only construction specialist to be involved in those three infrastructure projects. Its capabilities across the various sub-segments of the construction sector - ranging from highways, bridges, residential homes, to convention centres and theme parks - make it among the strongest candidates for new jobs.

Economies of scale. SCG's integrated construction services are supported by a large fleet of construction machinery and equipment that is unrivalled by most peers. The key assets include 23 boring rigs, 20 hydraulic excavators, 16 tower cranes, 13 crawler cranes, 5 launching girders, and 25,000 m² of system formworks. The business is further strengthened by the use of design technology, Virtual Design and Construction (VDC), which helps to enhance operational efficiency.

Growing precast concrete business. SCG's foothold in the precast concrete, especially in supplying precast components for HDB and private projects in Singapore, is a strong platform for future growth. Currently, SCG operates manufacturing plants in Senai, Johor (65.6k m³ capacity) and Tampines, Singapore (124k m³ capacity). Utilisation at both plants have been growing steadily, in tandem with rising demand for industrial building systems (IBS) which speed up delivery times and reduces project costs (less wastage, ease of delivery, improved quality).

RM2.8bn order book (as at Mar15). This will offer strong earnings visibility over the next two years. Given its impressive track record and strong brand name in the construction sector, it is likely to secure more jobs going forward. SCG's diversified construction capabilities will be a critical success factor in bidding for new jobs.

EXHIBIT 2: Outstanding order book

	Outstanding order book		
	Contract sum	Dec14	Mar15
Civil & infrastructure			
MRT Package V4 (Sec 17 to Semantan)	1,173	556	502
LRT Kelana Jaya Line Extension (Package B)	569	165	129
BRT Sunway Line	453	125	62
Coastal Highway Southern Link	170	170	165
Subtotal	2,365	1,016	858
Building			
KLCC NEC	304	224	215
KLCC package 2 (piling & substructure)	222	143	113
Sunway Velocity Mall (Substructure)	350	262	223
Sunway University New Academic Block	204	28	8
Sunway Putra Place	258	16	-
Sunway Pyramid 3	193	125	106
Affinity Medini mixed development project	283	164	113
Sunway Medical Centre phase 3	167	163	157
Others	1,307	601	608
Subtotal	3,288	1,726	1,543
Precast	494	317	359
Total	6,147	3,059	2,760

Source: Company

EXHIBIT 3: Major completed jobs (>RM200m contract)

Project	Client	Contract period	Value (RMm)
Malaysia			
Sunway Pyramid	Sunway	Mar95-Nov96	209
Office block, Plaza Pantai	Atlas Corporation Sdn Bhd	Mar97-Dec98	239
National Registration Department and Ministry of Entrepreneur and Cooperative Development Buildings	Putrajaya Holdings Sdn Bhd	Apr01-Sep03	319
SILK Highway	Sistem Lingkaran Lebuhraya Kajang Sdn Bhd	Aug01-Apr04	1,045
KL Convention Centre	Kuala Lumpur Convention Centre	Sep02-Mar05	549
Sunway Pyramid Phase 2	Sunway	Feb05-Apr07	299
Ministry of Housing and Local Government and Ministry of Women, Family and Community Development buildings, Putrajaya	Putrajaya Holdings Sdn Bhd	Sep07-Jan10	520
Sunway Velocity Phase 1A	Sunway	Feb11-Dec13	210
Legoland Malaysia Theme Park Package 4	IDR Assets Sdn Bhd	Mar11-Jun12	258
Pinewood Iskandar Malaysia Studios	Iskandar Malaysia Studios Sdn Bhd	Oct11-May13	309
Sunway University new academic block	Sunway	Sep12-Sep14	204
Sunway Putra Mall	Sunway REIT	May13-Mar15	258
Overseas			
Phase 1, Zone C of Al-Reem Island, Abu Dhabi	Tamouh Investments LLC	Oct06-Apr09	1,323
Phase 1A, Rihan Heights project, Abu Dhabi	Mubadala Capitaland Real Estate LCC	Nov08-Nov10	1,865
Grand trunk road, India	National Highways Authority of India	Apr02-Apr05	228
East-West Corridor roadworks, India	National Highways Authority of India	Jul05-Jan08	239
Ministry of Legal Affairs Tower, Trinidad & Tobago	The Urban Development Corporation of Trinidad and Tobago	May05-Aug07	213

Source: Company

Prospects

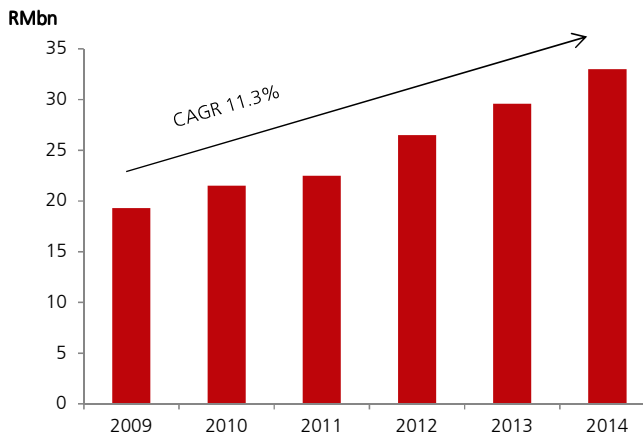
Robust outlook for Malaysia construction. SCG is poised to ride on heavy public spending on major infrastructure projects in Malaysia tabled in the 11th Malaysia Plan, to elevate the country to high-income status.

According to the Economic Report 2014/15, public development expenditure for 2015 is estimated at RM48.5bn (+15% y-o-y) or 4.1% of GDP. The growth rate seems strong, possibly because the government is looking to exhaust the balance of expenditure of RM230bn which it has yet to allocate under the 10MP which ends in 2015. This will likely be for infrastructure projects such as roads and bridges, schools, hospitals, housing and water supply. Physical projects form 78% (8,168 projects) of projects under the 10MP.

Seven of the projects mentioned worth a total of c.RM48bn will kick off in 2015: 1) 59-km Sungai Besi – Ulu Klang Expressway (SUGE), RM5.3bn; 2) 276-km West Coast Expressway (WCE) from Taiping to Banting, RM5bn; 3) 47-km Damansara – Shah Alam Highway (DASH), RM4.2bn; 4) 36-km Eastern Klang Valley Expressway (EKVE), RM1.6bn; 5) Upgrading the East Coast railway line along Gemas - Mentakab, Jerantut - Sungai Yu and Gua Musang - Tumpat with an allocation of RM150; 6) 56-km Second MRT Line from Selayang to Putrajaya, RM23bn; and 7): LRT 3 Project, linking Bandar Utama to Shah Alam and Klang, RM9bn.

In the revised Budget 2015, the government affirmed its commitment to the RM48.5bn development spending. There is also an additional allocation of RM800m to repair and reconstruct basic infrastructure such as schools, hospitals, roads and bridges.

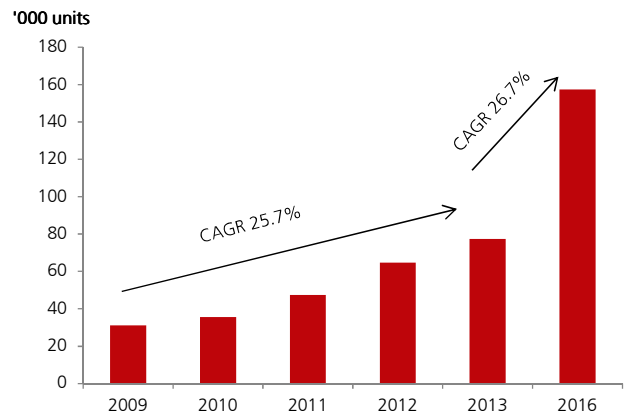
EXHIBIT 4: Construction GDP outperformed national GDP



Source: Company

Sustainable demand for precast concrete products. Its precast concrete business has been targeting the Singaporean construction industry. SCG will keep a presence in Singapore, riding on growing demand for public housing there, where 70% of the building components are precast concrete products. Between 2009 and 2013, the number of HDB residences under construction expanded at 26% CAGR; this is expected to accelerate to 27% over 2013-2016F driven by development plans for new housing areas.

EXHIBIT 5: Rising HDB homes under construction



Source: Company

Capacity expansion. SCG plans to expand its precast concrete business in Sunway Iskandar with a new factory to house nine production lines with a total annual capacity of 93,150 m³, to be completed in two phases. This represents 49% growth of its existing capacity of 189,600 m³. The first phase consisting of four production lines (41,400 m³) will be commissioned by Feb16, and the second phase consisting of five production lines (51,750 m³) will commence by Aug16.

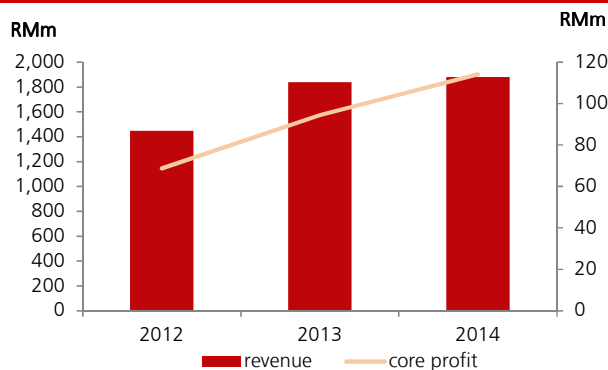
External income from specialty services. SCG also bundles i) foundation and geotechnical engineering services, and ii). mechanical, electrical and plumbing services, together with construction services to offer integrated services to customers. Going forward, SCG will try to derive more benefits from those specialty services by bidding for opportunities in those areas.

Expansion into international market. Malaysia and Singapore account for 86% and 14% of SCG's revenue in FY14, respectively. SCG intends to explore opportunities within ASEAN as well as the Middle East, by leveraging on its international track record.

Financial highlights

Record high profit. SCG achieved record profit of RM114m (+21% y-o-y) in FY14, thanks to the strong order book secured over the past two years. Its outstanding order book of RM4.2bn in FY13 was also a record high, and underpinned the impressive earnings performance.

EXHIBIT 6: Improving profitability



Source: Company

EXHIBIT 7: Order book replenishment

Year	Order book replenishment (RMbn)	Outstanding order book (RMbn)
2011	2.2	2.8
2012	1.9	3.0
2013	2.9	4.2
2014	0.8	3.0

Source: Company

Low replenishment in FY14 not a concern. Admittedly, SCG's order book replenishment of RM0.8bn in FY14 was disappointing after an impressive FY13. Nevertheless, its outstanding order book remains strong as at Mar15, offering strong earnings visibility up to FY16. Despite winning only ~RM500m worth of jobs YTD, management remains confident of securing RM2bn worth of orders in FY15 to take year end order book to RM4bn.

Leveraging on parent support. SCG is normally appointed contractor for selected strategic assets owned by Sunway Berhad, such as shopping malls, hospitals, education campuses, theme parks, office towers and hotels and resorts that are part of Sunway's township developments. It is in the best interest of Sunway Group to keep the technical know-how within its construction arm to maintain its competitive edge. This will help to ease concerns of slow order book replenishment.

EXHIBIT 8: Segmental breakdown

Revenue	2012	2013	2014
Building construction	681	810	817
Civil/ infra construction	182	441	632
Foundation & geotechnical engineering	384	404	278
Mechanical, electrical & plumbing	329	301	305
Manufacturing & sale of precast concrete	204	252	301
Others	(331)	(368)	(452)
	1,448	1,840	1,881
Gross profit			
Building construction	99	97	90
Civil/ infra construction	10	43	103
Foundation & geotechnical engineering	54	74	55
Mechanical, electrical & plumbing	68	61	38
Manufacturing & sale of precast concrete	41	62	108
Others	10	1	1
	282	338	395
Gross margin			
Building construction	15%	12%	11%
Civil/ infra construction	5%	10%	16%
Foundation & geotechnical engineering	14%	18%	20%
Mechanical, electrical & plumbing	21%	20%	13%
Manufacturing & sale of precast concrete	20%	24%	36%
	19%	18%	21%

Source: Company, AllianceDBS

Manufacturing & sale of precast concrete to surprise. SCG's precast concrete business has grown by leaps and bounds over the past few years. It is also the largest earnings contributor in FY14, accounting for 27% of SCG's gross profit. The expansion plan in the pipeline could help to boost earnings growth going forward.

Risks

Project risk. This has always been a key risk for the construction industry given various factors such as changes in clients' requirements, problems on the site, and disputes with clients about job scopes. Unfavourable economic condition may also lead to cancellations, postponement or scaling down of their projects.

Delays in construction. There may be project cost overruns due to several factors such as design and engineering issues and soil conditions. Timely completion is critical to prevent the Group from being forced to pay liquidated ascertained damage by clients. Nevertheless, SCG has not experienced material adverse financial effects from construction delays thus far.

Fluctuations in prices of raw materials. The construction business typically requires a wide range of raw materials including steel bars, ready mixed concrete, diesel, electrical cables and fittings, which are all subject to price fluctuations. This could result in fluctuating profit margins, although we notice SCG's profitability has been improving over the years, possibly because of bulk purchases from suppliers at favourable terms.

Dependence on subcontractors. Given the scale of projects undertaken by SCG, it relies on the services of subcontractors to provide certain services and labour-intensive work. There is no assurance that the subcontractors will always deliver quality work in a timely manner.

IPO proceeds and future plans

Raising profile. The IPO will raise SCG's visibility as a leading construction expert in Malaysia, and enable the Group to access the equity and debt capital markets to raise funds to pursue growth opportunities.

Sunway Berhad remains the controlling shareholder. SCG is not issuing new shares pursuant to the listing; it will be an offer for sale of existing SCG shares. The IPO is expected to raise ~RM478m (assuming over-allotment option is not exercised) for the vendor, Sunway Berhad. 13.5% of SCG shares will be distributed-in-specie to Sunway Berhad's shareholders at 1 SCG share for every 10 Sunway shares held, while 30.8% will be offered for sale to investors. Sunway Berhad will retain 55.6% stake in SCG upon completion of the IPO.

Rewarding shareholders. Sunway Berhad will be distributing the bulk of net proceeds from the divestment of its stake in SCG to existing shareholders via a special cash dividend. The estimated RM448m special cash dividend translates into 25sen/ Sunway share, implying 7% yield.

Continue to enhance profitability. While the listing does not raise funds for SCG, it will continue to enhance profitability through various cost-reduction initiatives. It could minimise exposure to raw materials with favourable supply contracts for bulk purchase of key raw materials. And, access to capital markets will enable SCG to improve its capital structure and reduce financing cost.

Valuation

Fair value of RM1.60. Within our construction universe, SCG stands out as a pure construction player. We peg SCG's fair value to 15x FY16 EPS of 10.7 sen. This takes into account SCG's unique value proposition as the largest listed pure construction play with strong track record, as well as the strong parentage which can offer a ready pipeline of construction jobs going forward. Our fair value implies 33% upside to the offer price of RM1.20.

EXHIBIT 3: Peer comparison

	Call	TP / FV	Current Price (LC)	Mkt Cap (RM m)	EPS Growth (YoY)		P/E		Price/ BVPS		Dividend Yield		ROE	
					CY2015	CY2016	CY2015	CY2016	CY2015	CY2016	CY2015	CY2016	CY2015	CY2016
Sunway Construction	NR	1.60	1.20	1,552	8%	13%	12.6x	11.2x	3.9x	3.2x	2.8%	3.1%	31.0%	29.0%
IJM Corp	Hold	7.75	6.77	12,182	(7%)	10%	19.1x	17.3x	1.3x	1.3x	1.6%	1.6%	6.1%	6.6%
Gamuda	Buy	6.00	4.80	11,548	(4%)	4%	16.4x	15.7x	1.8x	1.7x	1.9%	1.9%	9.9%	9.6%
WCT Holdings	Hold	1.90	1.45	1,596	15%	17%	14.0x	12.0x	0.8x	0.7x	2.3%	2.3%	5.8%	6.3%
Muhibbah Engineering	Buy	3.50	2.36	1,123	19%	10%	10.3x	9.4x	1.4x	1.2x	1.9%	2.1%	10.1%	10.0%
Kimlun Corporation	Buy	2.05	1.33	400	14%	10%	9.3x	8.5x	0.9x	0.8x	2.9%	3.1%	11.7%	11.7%
<i>Total / weighted avg</i>				26,849	(3%)	8%	17.1x	15.8x	1.5x	1.4x	1.8%	1.8%	8.0%	8.1%

Sources: AllianceDBS, Bloomberg

DISCLOSURE

Stock rating definitions

STRONG BUY	-	> 20% total return over the next 3 months, with identifiable share price catalysts within this time frame
BUY	-	> 15% total return over the next 12 months for small caps, >10% for large caps
HOLD	-	-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps
FULLY VALUED	-	negative total return > -10% over the next 12 months
SELL	-	negative total return of > -20% over the next 3 months, with identifiable catalysts within this time frame

Commonly used abbreviations

Adex = advertising expenditure	EPS = earnings per share	PBT = profit before tax
bn = billion	EV = enterprise value	P/B = price / book ratio
BV = book value	FCF = free cash flow	P/E = price / earnings ratio
CF = cash flow	FV = fair value	PEG = P/E ratio to growth ratio
CAGR = compounded annual growth rate	FY = financial year	q-o-q = quarter-on-quarter
Capex = capital expenditure	m = million	RM = Ringgit
CY = calendar year	M-o-m = month-on-month	ROA = return on assets
Div yld = dividend yield	NAV = net assets value	ROE = return on equity
DCF = discounted cash flow	NM = not meaningful	TP = target price
DDM = dividend discount model	NTA = net tangible assets	trn = trillion
DPS = dividend per share	NR = not rated	WACC = weighted average cost of capital
EBIT = earnings before interest & tax	p.a. = per annum	y-o-y = year-on-year
EBITDA = EBIT before depreciation and amortisation	PAT = profit after tax	YTD = year-to-date

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