

## Sunway Construction Group Bhd

SCOG.KL SCGB MK

EQUITY: ENGINEERING & CONSTRUCTION

### Stable exposure to Malaysia and Singapore

Buy for Malaysia public transport track record, Singapore exposure and support from parentco

#### Action: Initiate at Buy with a TP of MYR1.40

We initiate coverage of Sunway Construction (SunCon) with a Buy rating and TP of MYR1.40, which implies upside of 10%. SunCon is the construction subsidiary of its separately listed parent Sunway Bhd (SWB MK, Buy) and was relisted on Bursa Malaysia in July 2015. We are positive on SunCon for three reasons: **1)** It has a track record of having worked on portions of various Malaysian public transport infrastructure projects like MRT, LRT as well as BRT, and we believe it stands a good chance of winning portions of future legs of these projects (like MRT Line 2, LRT3); **2)** continuous flow of contracts from its parentco's property development division, which has committed to underwriting ~20-30% of SunCon's annual orderbook replenishment, and **3)** a relatively underappreciated Singapore precast concrete division, focussing on public housing (HDB) units, where the capex is on the uptrend, and contributes materially to SunCon's profits, giving it an FX hedge due to the exposure to a rising SGD. The company has a 35% dividend payout policy.

#### Catalyst: Precast works and MRT2/LRT3 construction projects award

The continued replenishment of orderbook, supported by its parentco, along with Singapore earnings expanding due to a stronger SGD, should imply a re-rating for the stock.

#### Valuation: Deserving a premium due to Singapore market exposure

We value SunCon on CY16F earnings and a target P/E of 14x, which is higher than the average multiple of 12x for Malaysian listed contractors, but below the valuations of large-cap stocks such as IJM (IJM MK, Buy)/GAM (GAM MK, Reduce). We believe the premium valuation is justified given its exposure to the rising precast concrete market in Singapore, which we estimate will contribute ~40% to SunCon's PBT in FY15-17F. Using a target of 14x on CY16F earnings (EPS: 10sen), we arrive at our TP of MYR1.40.

Year-end 31 Dec	FY14		FY15F		FY16F		FY17F	
Currency (MYR)	Actual	Old	New	Old	New	Old	New	
Revenue (mn)	1,881		1,620		1,928		2,675	
Reported net profit (mn)	125		123		132		153	
Normalised net profit (mn)	133		123		132		153	
FD normalised EPS	10.30c		9.53c		10.20c		11.81c	
FD norm. EPS growth (%)	28.6		-7.5		7.0		15.7	
FD normalised P/E (x)	12.3	N/A	13.3	N/A	12.4	N/A	10.8	
EV/EBITDA (x)	7.4	N/A	7.2	N/A	6.2	N/A	5.0	
Price/book (x)	4.3	N/A	3.6	N/A	3.0	N/A	2.5	
Dividend yield (%)	24.1	N/A	2.6	N/A	2.8	N/A	3.3	
ROE (%)	25.1		29.3		26.2		25.6	
Net debt/equity (%)	net cash		net cash		net cash		net cash	

Source: Company data, Nomura estimates

Key company data: See next page for company data and detailed price/index chart.

### Global Markets Research

26 October 2015

Rating Starts at	<b>Buy</b>
Target Price Starts at	MYR 1.40
Closing price 21 October 2015	MYR 1.27
Potential upside	+10.2%

#### Anchor themes

Within Malaysia's rapidly evolving construction sector, we prefer companies where management is looking beyond short-term project awards and actively aligning the business mix to best suit structural growth, which in our view is the best indicator of long-term outperformance.

#### Nomura vs consensus

Our TP is in line with consensus.

#### Research analysts

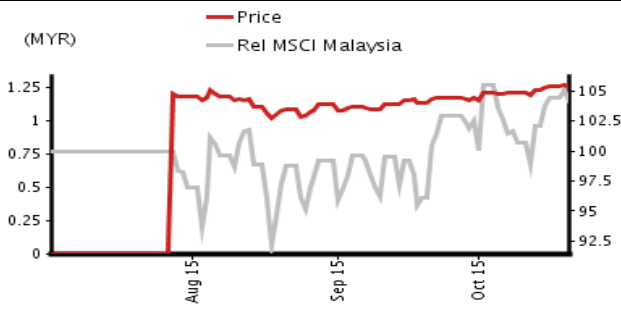
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# Key data on Sunway Construction Group Bhd

## Relative performance chart



Source: Thomson Reuters, Nomura research

## Notes:

## Performance

(%)	1M	3M	12M		
Absolute (MYR)	9.5			M cap (USDmn)	382.6
Absolute (USD)	8.8			Free float (%)	37.9
Rel to MSCI Malaysia	5.5			3-mth ADT (USDmn)	2.5

## Income statement (MYRmn)

Year-end 31 Dec	FY13	FY14	FY15F	FY16F	FY17F
Revenue	1,840	1,881	1,620	1,928	2,675
Cost of goods sold	-1,761	-1,752	-1,467	-1,765	-2,487
Gross profit	79	129	153	163	188
SG&A					
Employee share expense					
Operating profit	79	129	153	163	188
EBITDA	122	170	199	216	248
Depreciation	-43	-42	-46	-53	-60
Amortisation					
EBIT	79	129	153	163	188
Net interest expense	2	1	2	3	4
Associates & JCEs	45	30	0	0	0
Other income					
Earnings before tax	127	160	155	166	192
Income tax	-24	-26	-32	-34	-39
Net profit after tax	103	133	123	132	153
Minority interests	1	0	0	0	0
Other items					
Preferred dividends					
Normalised NPAT	104	133	123	132	153
Extraordinary items	-37	-8	0	0	0
Reported NPAT	67	125	123	132	153
Dividends	-33	-395	-43	-46	-53
Transfer to reserves	34	-270	80	86	99

## Valuations and ratios

Reported P/E (x)	24.5	13.2	13.3	12.4	10.8
Normalised P/E (x)	15.8	12.3	13.3	12.4	10.8
FD normalised P/E (x)	15.8	12.3	13.3	12.4	10.8
Dividend yield (%)	2.0	24.1	2.6	2.8	3.3
Price/cashflow (x)	19.8	8.9	10.7	8.8	7.6
Price/book (x)	2.7	4.3	3.6	3.0	2.5
EV/EBITDA (x)	9.4	7.4	7.2	6.2	5.0
EV/EBIT (x)	12.6	9.3	9.4	8.3	6.6
Gross margin (%)	4.3	6.8	9.4	8.5	7.0
EBITDA margin (%)	6.6	9.1	12.3	11.2	9.3
EBIT margin (%)	4.3	6.8	9.4	8.5	7.0
Net margin (%)	3.6	6.6	7.6	6.8	5.7
Effective tax rate (%)	18.8	16.6	20.5	20.5	20.5
Dividend payout (%)	49.3	316.4	35.0	35.0	35.0
ROE (%)	11.4	25.1	29.3	26.2	25.6
ROA (pretax %)	9.6	13.7	15.5	16.3	15.3

## Growth (%)

Revenue	27.0	2.2	-13.9	19.0	38.7
EBITDA	38.3	39.7	16.6	9.1	14.5
Normalised EPS	54.2	28.6	-7.5	7.0	15.7
Normalised FDEPS	54.2	28.6	-7.5	7.0	15.7

Source: Company data, Nomura estimates

## Cashflow statement (MYRmn)

Year-end 31 Dec	FY13	FY14	FY15F	FY16F	FY17F
EBITDA	122	170	199	216	248
Change in working capital	-17	297	-16	2	4
Other operating cashflow	-22	-283	-30	-31	-35
Cashflow from operations	83	184	153	187	217
Capital expenditure	-49	-46	-61	-53	-60
Free cashflow	34	138	92	134	157
Reduction in investments	4	23	0	0	0
Net acquisitions					
Dec in other LT assets	0	-5	0	0	0
Inc in other LT liabilities	1	3	0	0	0
Adjustments	-46	359	0	0	0
CF after investing acts	-8	518	92	134	157
Cash dividends	-20	-429	-43	-46	-53
Equity issue					
Debt issue	34	54	60	60	60
Convertible debt issue					
Others	-5	-7	0	0	0
CF from financial acts	10	-382	17	14	7
Net cashflow	2	136	109	147	164
Beginning cash	154	156	292	401	548
Ending cash	156	292	401	548	712
Ending net debt	-66	-156	-206	-293	-397

## Balance sheet (MYRmn)

As at 31 Dec	FY13	FY14	FY15F	FY16F	FY17F
Cash & equivalents	156	292	401	548	712
Marketable securities					
Accounts receivable	1,020	790	680	810	1,123
Inventories	26	20	17	20	29
Other current assets	5	9	9	9	9
Total current assets	1,208	1,110	1,107	1,387	1,873
LT investments	48	24	24	24	24
Fixed assets	181	179	194	194	194
Goodwill	4	4	4	4	4
Other intangible assets					
Other LT assets	2	7	7	7	7
Total assets	1,442	1,324	1,336	1,616	2,102
Short-term debt	75	135	195	255	315
Accounts payable	731	791	662	797	1,123
Other current liabilities	9	13	13	13	13
Total current liabilities	815	940	871	1,066	1,452
Long-term debt	15	0	0	0	0
Convertible debt					
Other LT liabilities	2	4	4	4	4
Total liabilities	832	944	875	1,070	1,456
Minority interest	-4	0	0	0	0
Preferred stock					
Common stock	614	259	259	259	259
Retained earnings	0	160	240	326	425
Proposed dividends					
Other equity and reserves	0	-39	-39	-39	-39
Total shareholders' equity	614	380	460	546	645
Total equity & liabilities	1,442	1,324	1,336	1,616	2,102

## Liquidity (x)

Current ratio	1.48	1.18	1.27	1.30	1.29
Interest cover	na	na	na	na	na

## Leverage

Net debt/EBITDA (x)	net cash	net cash	net cash	net cash	net cash
Net debt/equity (%)	net cash	net cash	net cash	net cash	net cash

## Per share

Reported EPS (MYR)	5.18c	9.65c	9.53c	10.20c	11.81c
Norm EPS (MYR)	8.02c	10.30c	9.53c	10.20c	11.81c
FD norm EPS (MYR)	8.02c	10.30c	9.53c	10.20c	11.81c
BVPS (MYR)	0.48	0.29	0.36	0.42	0.50
DPS (MYR)	0.03	0.31	0.03	0.04	0.04

## Activity (days)

Days receivable	207.4	175.7	165.7	141.4	131.9
Days inventory	4.9	4.8	4.6	3.9	3.6
Days payable	158.3	158.5	180.9	151.3	140.9
Cash cycle	54.0	21.9	-10.6	-6.1	-5.4

Source: Company data, Nomura estimates

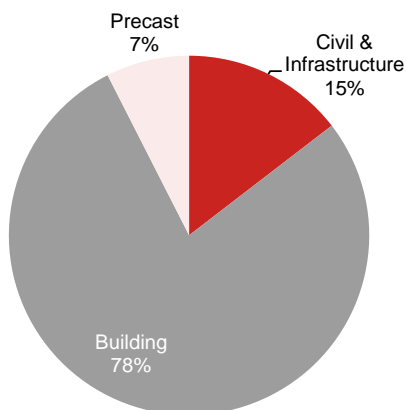
# Outstanding order-book of ~MYR4bn+ implies ~2 years of earnings visibility

With less than ~MYR800mn worth of project wins in FY14, Sunway Construction (SunCon) has managed to secure ~MYR2.4bn worth of jobs in YTD 2015. We expect SunCon to maintain the current annual replenishment rate of ~MYR2bn due to the Malaysian government’s focus on infrastructure spending and a rising precast market in Singapore.

## Exposure to the high-margin precast concrete business in Singapore and parentco’s asset pipeline in Malaysia

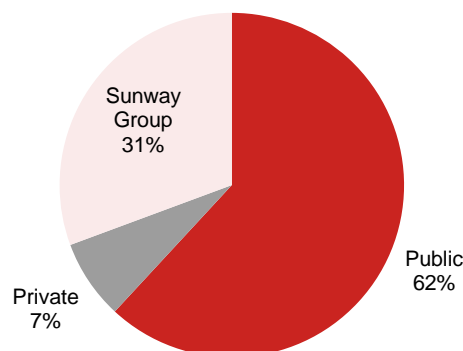
SunCon derives its earnings from local infrastructure and building jobs + precast concrete sales + property development projects from the parentco. Precast, mostly from Singapore, forms ~7% of the current outstanding order-book of the company (see fig below), but contributes a larger share to earnings (FY14: 56% of PBT; FY13: 52% of PBT) due to higher margins owing to increased productivity on shorter construction time and economies of scale. Also, SunCon gets projects internally from its parentco, Sunway Bhd (SWB MK, Buy), for its property development projects, which form 31% of the current outstanding order-book of SunCon (see figure below). YTD, it has managed to secure MYR2.4bn worth total projects, which has increased the current outstanding order-book to MYR4.4bn, implying an earnings visibility of ~2 years for the company.

**Fig. 107: Current outstanding order-book split by project type**  
Oct-15



Source: Company data, Nomura research

**Fig. 108: Current outstanding order-book by customer**



Note: Assuming only precast is awarded by private corporations  
Source: Company data, Nomura research

**Fig. 109: Sunway Construction's current outstanding orderbook**

MYR mn	Contract Sum	Outstanding order book
<b>Infrastructure</b>		
MRT Package V4 (Sec 17 to Semantan)	1,173	419
LRT Kelana Jaya Line Extension (Package B)	569	78
<b>Johor</b>		
Urban Wellness Centre	283	63
Coastal Highway Southern Link	170	147
<b>Others</b>		
Putrajaya Parcel F	1,610	1,610
KLCC NEC	304	210
KLCC Package 2 (Piling & Substructure)	222	141
Others	97	73
<b>Internal</b>		
Sunway Velocity 2 Mall	350	164
Sunway Pyramid 3	193	62
Sunway Geo Retail Shops & Flexi Suites	153	119
Sunway Medical Centre Phase 3	167	140
Sunway Iskandar - Citrine Service Apts	180	155
Sunway Geo Retail Shops & Flexi Suites 2	244	244
Sunway Lenang Phase 1A	96	81
Sunway Iskandar - Linked/cluster and Semi D	175	175
Others	618	218
<b>Singapore</b>		
Precast	661	331
<b>Total</b>	<b>7,265</b>	<b>4,430</b>
<b>Orderbook burn rate (FY14, including internal)</b>		<b>2,334</b>
<b>Implied earnings visibility (years)</b>		<b>1.9</b>

Source: Company data, Nomura research

**Fig. 110: SunCon: YTD order-book replenishment (internal + external)**

MYR mn	Contract sum
Sunway Geo Retail Shops & Flexi Suites 2	244
Sunway Lenang Phase 1A	96
Putrajaya Parcel F	1,610
Sunway Iskandar - Linked/cluster and Semi D	175
Precast	164
Others	61
<b>Total</b>	<b>2,350</b>

Source: Company data, Nomura research

**Local government's focus on infrastructure spend to help replenish order book**

SunCon has a solid track record and has managed to secure ~MYR5.6bn of new projects (external + internal) in 2012-13, which included the V4 package from MRT Line 1, on which it is currently working. Another key project was the Bus Rapid Transit Sunway Line (MYR452mn) and the LRT Kelana Jaya extension package B, worth MYR569mn. These public infrastructure projects imply that Sunway has a strong likelihood of winning portions of future construction packages, like MRT Line 2/LRT 3, along with other residential/commercial buildings (e.g. its current KLCC projects and recent award of Putrajaya Parcel F office building project).

YTD, SunCon has won ~MYR1.6bn worth external jobs and we forecast an external replenishment of ~MYR1.3bn annually in both FY16F and 17F.

**Sunway Bhd's remaining GDV of ~MYR30bn to support internal order book**

Sunway Bhd has an effective remaining gross development value (GDV) of ~MYR30bn+ in Malaysia, which should help SunCon's internal order-book to grow. We forecast a replenishment of ~MYR500mn annually from FY15-17F.

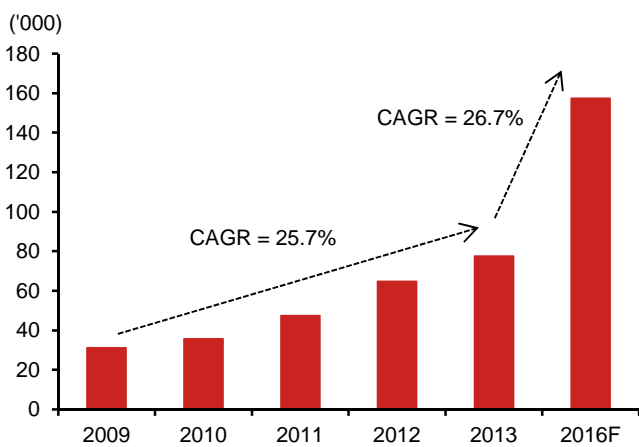
**Higher affordable units in Singapore to drive precast sales**

- SunCon manufactures and sells precast concrete, and currently most of its works come from Singapore where precast concrete is being used in public residential development, which is spearheaded by the Housing & Development Board (HDB) (~70% of building components in public housing in Singapore are precast concrete components). The company is also working with Sunway Iskandar to develop the precast market in Malaysia.
- According to management, Singapore's precast market size is ~MYR4bn (~SGD1.3bn) annually with SunCon having a market share between 5% and 10%. In terms of housing units completed, Sunway has a market share of ~3.2% (2013), completing 2.5K of ~77k total HDB units. Also, SunCon falls in Grade L6 in Singapore (precast industry players' classification by license grades in Singapore), which implies there is no upper limit on the tender size of the precast project it is eligible to bid for.
- Currently precast works form 7% of SunCon's outstanding orderbook, which we believe is expected to increase, as a research by Smith Zander estimates that the number of

HDB units under construction will record a CAGR of ~27% from 2013-16F (see the figure below), with HDB incentivising the use of prefabricated technologies. This should translate into a higher share in the bottom-line as precast concrete production generally provides for higher margins due to increased productivity (because of increased standardisation and repetition), lower construction time and economies of scale. Therefore, we expect precast to form ~40% of SunCon's PBT through FY15-17F. We build in ~MYR250mn of precast replenishment in each year between FY15F-17F and expect PBT margins from precast to normalise to 20% by 2017F. Note that PBT margins in 2014F were high at ~40% due to the finalisation of accounts in the year following the completion of the contracts.

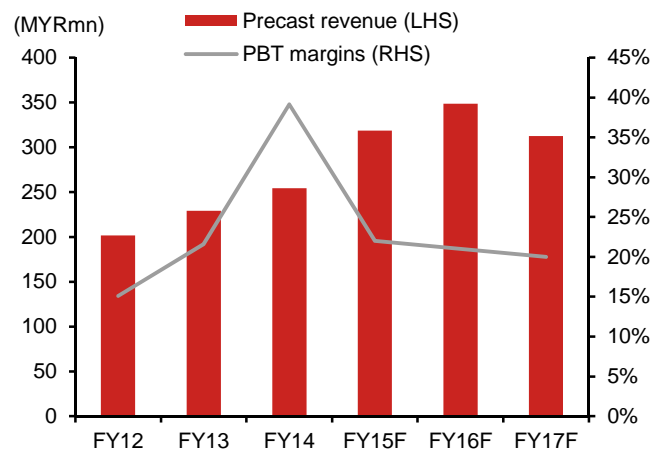
- We also note that the cost of transporting the precast concrete to the site is higher compared to conventional methods and are, therefore, minimised by the location of the fabrication plant. SunCon currently has two plants in operation, located in Singapore and Johor, with a total annual capacity of 200,000 m3 and current utilization of 60% (see the table below). It plans to have another plant operational in Sunway Iskandar by 1Q16, which will have an annual capacity of 50,000 m3.

Fig. 111: HDB units under construction in Singapore



Source: Company data, SMITH ZANDER analysis, Nomura research

Fig. 112: Precast revenue and PBT margin



Source: Company data, Nomura estimates

Fig. 113: SunCon's precast manufacturing facilities

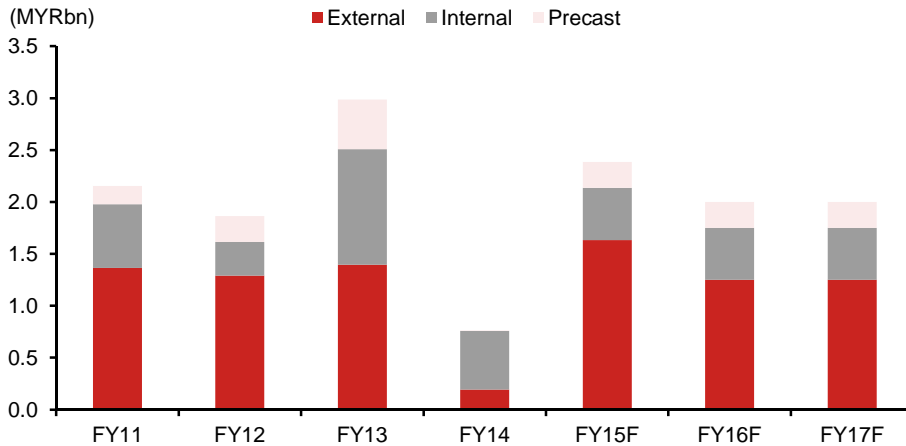
Plant	Location	Year of commencement	Annual capacity (m <sup>3</sup> )	Utilisation
<b>Current</b>				
1	Tampines, Singapore	2008	124,000	70%
2	Senai, Johor	2012	76,000	43%
<b>Total current capacity</b>			<b>200,000</b>	<b>60%</b>
<b>Future</b>				
3	Sunway Iskandar	1Q 2016F	50,000	NA
<b>Total capacity after plant 3</b>			<b>250,000</b>	<b>NA</b>

Source: Company data, Nomura research

## SunCon to maintain its order-book replenishment at ~MYR2bn annually, in our view

Overall, we expect an orderbook replenishment of ~MYR2.4bn in FY15F and further MYR2bn each in FY16F and FY17F (see chart below), which should support SunCon’s earnings. According to management, tenders submitted as well as under progress are worth MYR10bn. Additionally, SunCon is likely to benefit from a stronger SGD due to its Singapore market exposure.

Fig. 114: SunCon: Orderbook replenishment

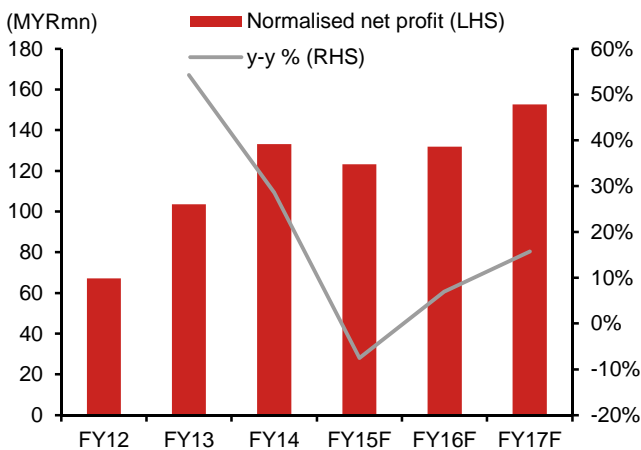


Source: Company data, Nomura estimates

## Net income growth to remain steady

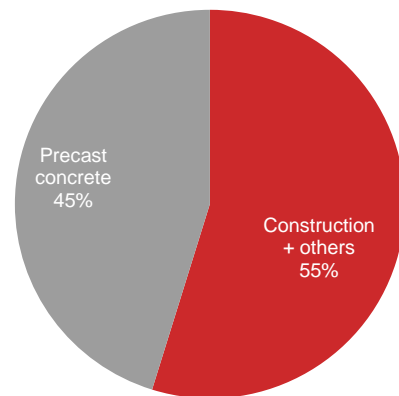
We believe that the orderbook replenishment of ~MYR2bn per year can provide for a stable net income for SunCon in FY15-17F and we estimate a net income CAGR of 5%. Also note that our normalised net income estimate is lower y-y for FY15F because of the absence of contribution from project JVs from 2015F (as they were completed in 2014) and the normalisation of PBT margins from the precast business.

Fig. 115: Normalised net profit



Source: Company data, Nomura estimates

Fig. 116: PBT contribution: FY15F

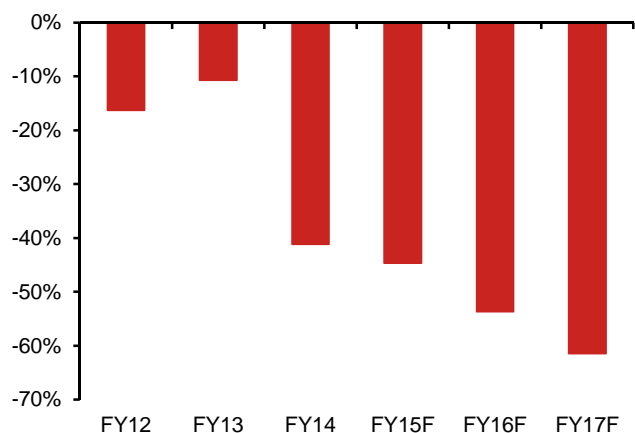


Source: Company data, Nomura estimates

## Balance sheet likely to remain in net cash position

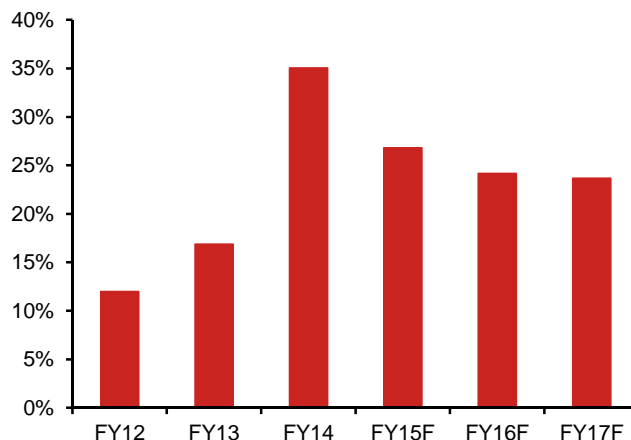
We estimate that SunCon will remain in a net cash position and maintain its ROE levels higher at over 20%, fresh out of its IPO, due to minimal capex requirements.

Fig. 117: SunCon: Net gearing



Source: Company data, Nomura estimates

Fig. 118: SunCon: ROE



Source: Company data, Nomura estimates

## Minimum payout policy of 35%

SunCon is committed to sharing its profits with the shareholders and has, therefore, guided a minimum dividend payout of 35% of its annual core net income. This translates into an FY16F yield of ~2.8% at current levels.

# Singapore property market exposure justifies a premium valuation; initiate at Buy with a TP of MYR1.40

We initiate coverage of SunCon with a Buy rating and target price of MYR1.40, which implies upside of 10% at current levels. Our valuation is based on a CY16F target P/E multiple of 14x, which is higher than the average P/E multiple of 12x for mid-cap construction stocks in Malaysia, but below the valuations of large-cap stocks such as IJM/GAM. We believe the premium valuation is justified for its exposure to the growing precast market in Singapore (SGD exposure), which is expected to contribute more than 40% to SunCon's earnings through FY15-17F, in our view.

Fig. 119: SunCon: P/E-based valuation

	Dec-16
	FY16F
Normalised net profit (MYR mn)	132
FD number of shares outstanding (mn)	1,293
FD EPS (MYR/ sh)	0.10
Target CY16F P/E	14.0 x
Price target (MYR/ sh)	1.40

Source: Nomura estimates

## Catalyst

Continued replenishment of the orderbook supported by its parentco, along with Singapore earnings expanding due to SGD translation.

## Downside risks to our view

1) A delay in construction project awards, 2) lower-than-expected margins, 3) Singapore housing units not growing as expected; and 4) lower-than-expected orderbook inflows are potential downside risks.

Fig. 120: Sensitivity analysis

	Adj. net income (MYR mn)			Target price (MYR)
	FY15F	FY16F	FY17F	
NMR estimates	123	132	153	1.40
<b>If sustainable orderbook replenishment target is lower by 25%</b>				
New estimates	92	99	114	1.10
<b>% change</b>	<b>(25%)</b>	<b>(25%)</b>	<b>(25%)</b>	<b>(21%)</b>

Source: Nomura estimates



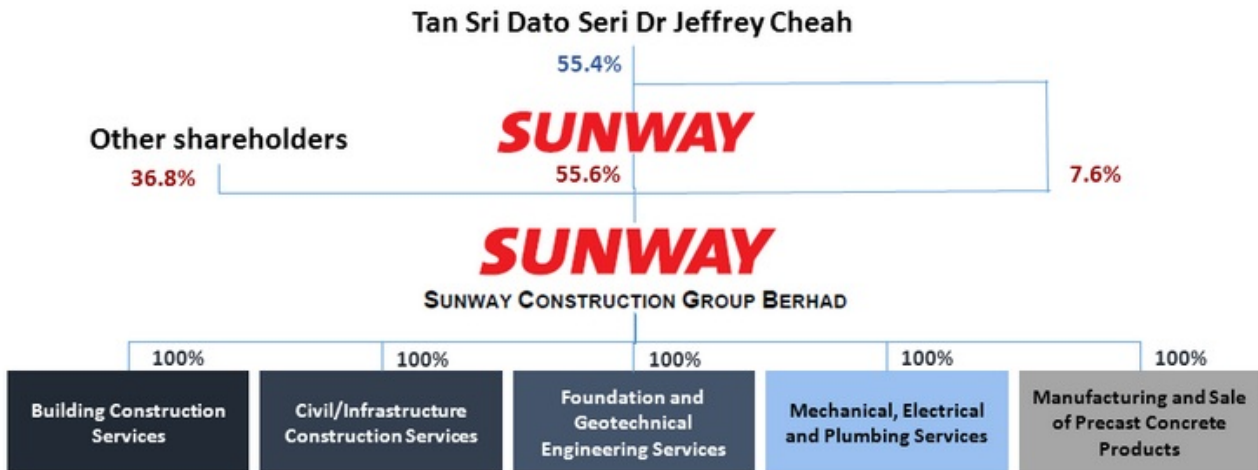
## Company profile

Sunway Construction was incorporated as Sungei Way Quarry Sdn Bhd back in 1976 and was later listed on Bursa Malaysia in 1997 under its new name Sungei Way Construction Bhd. In 2004, the company was taken private and relisted again in July 2015 (See fig below for details).

After its relisting on Bursa Malaysia, it has become the largest pure-play construction company in Malaysia in terms of construction revenues (IJM and GAM are diversified contractors). It offers fully integrated construction services and products ranging from construction of infrastructure projects and buildings; geotechnical engineering services; mechanical, electrical and plumbing services; and also manufactures and sells precast concrete. Before its listing in July 2015, SunCon was wholly-owned by Sunway Bhd which now owns a 55.6% stake in the company.

SunCon has a solid construction pedigree in Malaysia and has worked on portions of various public transport infrastructure types like MRT, LRT as well as BRT. Apart from several projects in Malaysia, SunCon has successfully completed projects overseas in Singapore, India, Trinidad & Tobago and the UAE.

Fig. 121: SunCon’s corporate structure



Source: Company data, Nomura research

**Fig. 122: SunCon: History**

Date	Event
January 26, 1978	Sungei Way Holdings Sdn Bhd was incorporated as a private limited company
December 13, 1983	Converted into a public limited company
February 16, 1984	Sungei Way Holdings Bhd listed on the main board of Kuala Lumpur Stock Exchange
June 11, 1984	Sungei Way Quarry Sdn Bhd was incorporated in Malaysia as a private limited company and changed its name to Sungei Way Quarry & Construction Sdn Bhd and Sungei Way Construction Sdn Bhd in 1981 and 1984, respectively
June 12, 1997	Sungei Way Construction Sdn Bhd listed on the main board of Kuala Lumpur Stock Exchange as Sungei Way Construction Bhd
December 13, 1999	Sungei Way Construction Bhd and Sungei Way Holdings Bhd changed names to Sunway Construction Bhd (SCB) and Sunway Holdings Incorporated Bhd (SunInc), respectively
November 17, 2003	SunInc acquired remaining stake in SCB to own 100% and took SCB private. An offer price of MYR 2.73 per share (MYR 1.10 per share in cash and one new SunInc share at an issue price of MYR 1.63 per share). Offer price implied 15.15x FY 2002 earnings of 18 sen per share.
August 16, 2004	SCB was delisted from the main board of Bursa securities and converted into a private company with the name Sunway Construction Sdn Bhd
Between Sept 2004 and Oct 2010	SunCon build its reputation as a contractor locally and overseas after completing several projects in Malaysia, India, Trinidad and Tobago and the UAE SunInc changed its name to Sunway Holdings Bhd on 3 December 2007.
November 24, 2010	Sunway was incorporated on 10 November 2010 under the name Alpha Sunrise Sdn Bhd to acquire Sunway Holdings Bhd and Sunway City Bhd. Sunway City Bhd was primarily involved in property development and investment, hospitality, leisure and healthcare and was listed on the main market of Bursa on 8 July 1996 Purchase consideration was MYR 4.5bn Alpha Sunrise changed to Sunway Sdn Bhd on 23 Nov 2010 and became public on 20 Nov 2010
August 18, 2011	Businesses of Sunway Holdings Bhd and Sunway City Bhd were merged under Sunway Group. The group's two main businesses were property and construction and other businesses included quarry and building materials, trading and manufacturing, and hospitality, leisure and healthcare.
August 23, 2011	Sunway was listed on the main market of Bursa Securities and Sunway Holdings Bhd and Sunway City Bhd were delisted and became private
November 7, 2014	Execution of share sale agreement in relation to the transfer of SunCon
May 15, 2015	Completion of transfer of SunCon

Source: Company data, Nomura research

**Fig. 123: SunCon's senior management's experience**

Name	Designation	Years in SunCon Group	Construction industry experience (~years)
Kw an Foh Kw ai	Senior Managing Director	19	37
Chung Soo Kiong	Deputy Managing Director	18	20
Evan Cheah	Non-Independent Non-Executive Director	14	14
Ng Bee Lien	Chief Financial Officer	10	16
Thomas Samuel	Executive Director Sunway Geotechnics	Recently joined	32
Richard Wong	Senior GM Building Division	15	27
Liew Kok Wing	Senior GM Civil Division	17	20
Eric Tan Chee Hin	Senior GM MEP Division	14	18
Kw ong Tzyy En	GM Precast Division	13	20

Source: Company data, Nomura research

# Appendix A-1

## Analyst Certification

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Issuer	Ticker	Price	Price date	Stock rating	Sector rating	Disclosures
Sunway Construction Group Bhd	SCGB MK	MYR 1.23	13-Oct-2015	Buy	N/A	

**Sunway Construction Group Bhd (SCGB MK)** MYR 1.23 (13-Oct-2015) Buy (Sector rating: N/A)

Chart Not Available

**Valuation Methodology** We value SCGB based on CY16F target P/E of 14x which is higher than the average P/E of Malaysian listed contractors but lower than valuations of large cap like IJM/GAM. We believe the premium is justified due to SCGB's exposure to growing Singapore's precast market. Using our fully diluted EPS forecast of 10sen for CY16F and target multiple of 14x, we arrive at our target price of MYR1.40 for SCGB. The benchmark index for the stock is MSCI Malaysia.

**Risks that may impede the achievement of the target price** Downside risks to our view: 1) Delay in construction project awards, 2) Lower margins than expected; 3) Singapore housing units not growing as expected; 4) lower-than-expected orderbook inflows.

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