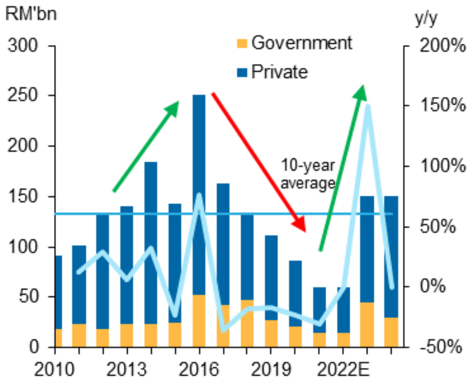
8 August 2022 ASEAN

EQUITIES

Gov. projects should drive the sector in 2023. Inflows of private jobs should follow suit. This is supportive of our SunCon thesis in FY23.



Source: CIDB, Macquarie Research August 2022

SCGB MK		Outperform
Price (at 06:50, 08 Aug 2022 GMT)		RM1.50
Valuation - PER	RM	1.47-2.84
12-month target	RM	2.10
Upside/Downside	%	+40.0
12-month TSR	%	+45.3
Volatility Index		Low
GICS sector		Capital Goods
Market cap	RMm	1,939
Market cap	US$m	435
Free float	%	24
30-day avg turnover	US$m	0.02
Number shares on issue	m	1,293

Investment fundamentals

Year end 31 Dec		2021A	2022E	2023E	2024E
Revenue	m	1,729.2	2,097.2	2,669.1	2,804.8
EBIT	m	139.4	141.6	187.9	208.9
EBIT growth	%	54.0	1.6	32.7	11.1
Reported profit	m	112.6	116.7	149.0	158.2
Adjusted profit	m	112.6	116.7	149.0	158.2
EPS rep	sen	8.7	9.0	11.5	12.2
EPS rep growth	%	54.7	3.6	27.7	6.1
EPS adj	sen	8.7	9.0	11.5	12.2
EPS adj growth	%	54.7	3.6	27.7	6.1
PER rep	x	17.2	16.6	13.0	12.3
PER adj	x	17.2	16.6	13.0	12.3
Total DPS	sen	4.0	5.5	8.0	8.0
Total div yield	%	2.7	3.7	5.3	5.3
ROA	%	7.4	6.7	7.2	7.1
ROE	%	16.9	16.0	19.0	18.9
EV/EBITDA	x	11.5	9.9	8.0	7.3
Net debt/equity	%	19.4	21.6	24.2	34.6
P/BV	x	2.8	2.5	2.4	2.2

Source: FactSet, Macquarie Research, July 2022
(all figures in MYR unless noted)

Analysts

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Sunway Construction (SCGB MK)
Pure-play contractor set to ride MRT3 upside

Key points

- Construction is turning around with an influx of government jobs next year. SunCon's contract tenders could reach a record high, surpassing RM13bn.
- We expect RM4bn new orders in FY23; twice the size of SunCon's annual wins. Earnings should enjoy a 3-year 12% EPS CAGR over FY22-FY24E.
- Initiate OP with RM2.10 TP. As well as earnings expansion, the RM31bn MRT3 impending jobs are a boon to SunCon's valuation in next 12 months.

New contracts bode well for SunCon's pipeline

A potential influx of new construction jobs next year provides a positive readthrough for contractors. Those with healthy exposure in government projects like Sunway Construction (SunCon) should benefit. Presently, local players (see our MacVisits on Pintaras Jaya, Gabungan AQRS, Mudajaya) are rushing to submit their MRT3 bids as tenders close in Aug/Sep. Judging from past wins, we expect SunCon to submit a strong proposal to earn a slice of the pie. At Tier-1 level, the value for each civil work package could range from RM2bn to RM13bn (Fig 26).

SunCon is well placed to at least double its new orderbook in FY23E

We expect FY23 orderbook replenishment to reach RM4bn, twice the size of our RM2bn new contract estimate in FY22. This only factors in RM1.6bn (10sen EPS) of MRT3 subcontracts. SunCon's strong balance sheet and good execution track record favour its chances of winning at least one MRT3 contract. In the past, SunCon has cumulatively won RM2.6bn in MRT jobs inclusive of viaduct, station, and advanced works. If it succeeds in becoming an MRT3 Tier-1 contractor which potentially brings RM4-5bn of contracts to the group, it presents further upside to our TP (see Fig 21 for scenario analysis).

We forecast strong earnings growth in FY23

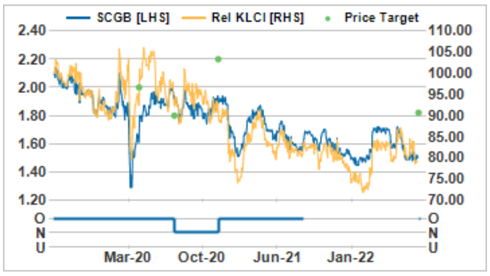
We see a multi-year growth trajectory (+12% EPS CAGR over FY21-FY24E) in FY22/23/24E PAT driven by ramp up of construction progress for backlog orders, and recovery in operational margins as pressure from input costs ease (Fig 20). Positively for margins, steel prices have started to trend down since the April 2022 peak, to RM2,854/MTN (-18%).The maiden contribution from SunCon's new precast plant should complement growth in FY23. The outlook on future precast orders should be healthy, driven by strong demand for Singapore HDB (Housing Development Board) units. The supply could increase from 17k to 23k in FY22.

Pecking order: Gamuda (OP) > SunCon (OP) > IJM (UP)

We initiate on SunCon at Outperform with a RM2.10 TP on further recovery in precast and construction earnings, as well as strong inflow of new contracts next year. Presently, the share price reflects the group's uninspiring tender value of RM2.4bn (announced in May 2022). On the positive side, SunCon's tenders could be worth more than RM13bn now as it submits its bid for MRT3 Tier-1 package (tender ends in Aug/Sept 2022). This reads positively on the group's potential of clinching large-scale contracts, hence presenting a catalyst to drive up the share price. We think 15x PER (+0.5 SD to KLCON Index five-year mean) on FY23E earnings is justified based on the group's high ROE >15%, scarcity of high quality pure-play local contractors, healthy rate of annual orderbook replenishment of >RM1.5bn (partly backed by the parent co.) and an efficient management team. SunCon ranks in the first quartile of the Macquarie ESG Score among Asia companies under our coverage (see pg 17 for details).

Inside

SCGB MK rel KLCI performance, & rec history

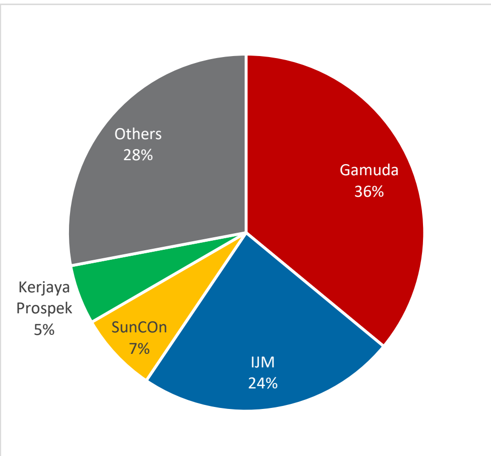


Note: Recommendation timeline - if not a continuous line, then there was no Macquarie coverage at the time or there was an embargo period.

Source: Macquarie Research, Jul 2022

(all figures in MYR unless noted)

SunCon is the 4th biggest construction company in KLCON by market cap

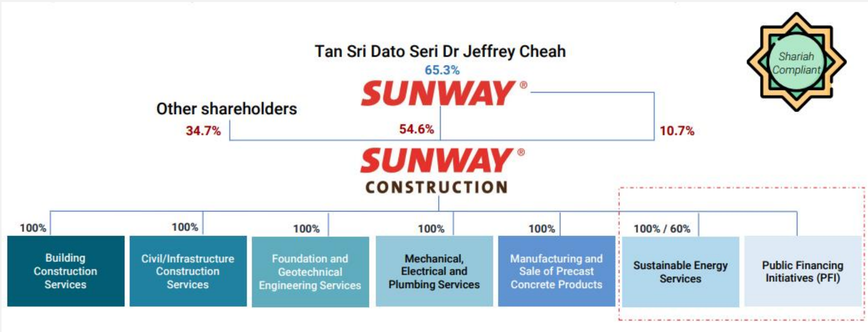


Source: Bloomberg, Macquarie Research, August 2022

Company profile

- SunCon was formally known as Sungei Way Quarry, founded in 1976. It was first listed on Bursa Malaysia in 1997 but was taken private in 2004 to be placed under its parent company Sunway Holdings. In July 2015, the group was relisted under the name Sunway Construction.

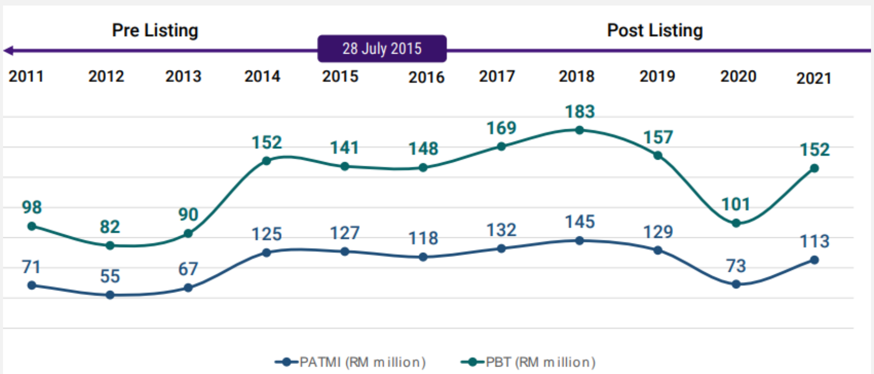
Fig 1 SunCon ownership structure



Source: Company data, Macquarie Research, August 2022

- SunCon operates as a fully integrated construction company with primary operations in the construction and precast businesses. Since its inception, SunCon has generated cumulative revenue of RM40bn.
- Generally, the construction segment contributes around 90% of the total revenue and the remainder <10% is contributed by the precast segment.
- We believe SunCon's ability to keep replenishing its orderbook (>RM1.5bn/year in the last seven years) will drive the company's growth and propel itself to become one of the leading construction companies in Malaysia. SunCon's key differentiator with other local construction companies is the new orderbook support from its parent company, Sunway Berhad. In the past 7 years, internal jobs made up about 30% of total outstanding orderbook.
- Sunway Berhad holds a property arm that has a landbank portfolio of 3,362 acres with an underlying Gross Development Value of RM59bn. In terms of the landbank location, 50% in Johor, 28% Klang Valley, 6% Penang, 12% Singapore, and 4% others. We believe the continued township developments by Sunway Berhad, which will take over 15 years to be fully developed, will contribute to SunCon's orderbook replenishment.

Fig 2 SunCon's earnings performance in the past 11 years

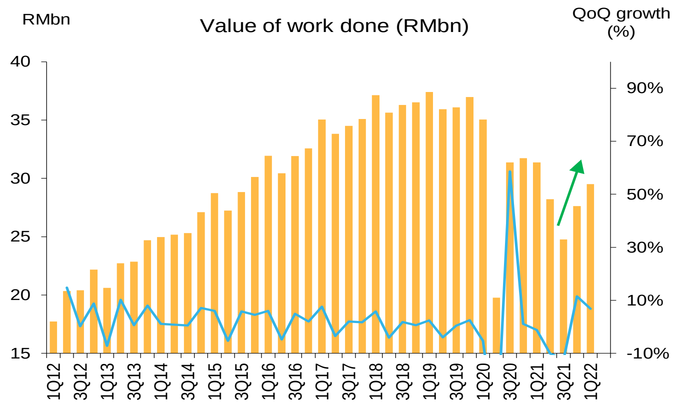


Source: Company data, Macquarie Research, August 2022

Pure-play contractor set to ride MRT3 upside

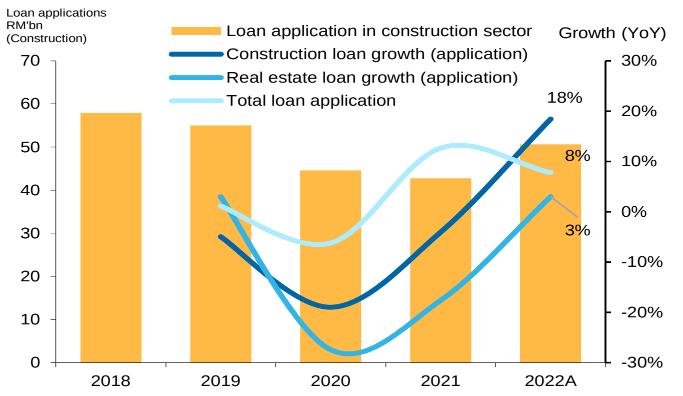
Focus charts

Fig 3 Value of quarterly work done has improved beginning 3Q21, which gives positive readthrough on sector recovery



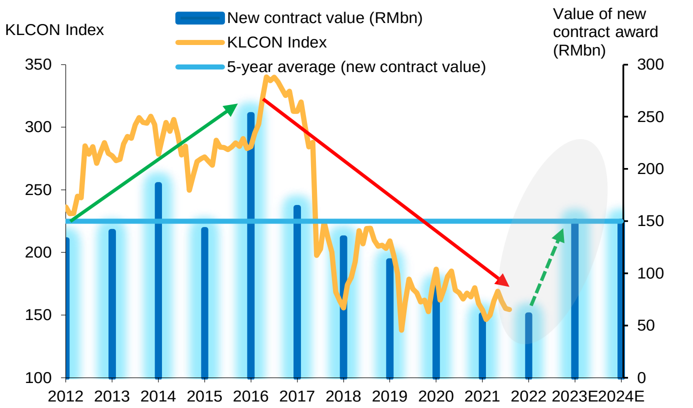
Source: DOSM, Macquarie Research August 2022

Fig 4 In the sector, loan applications have risen faster than others, we expect 2022 numbers to reach pre-pandemic level



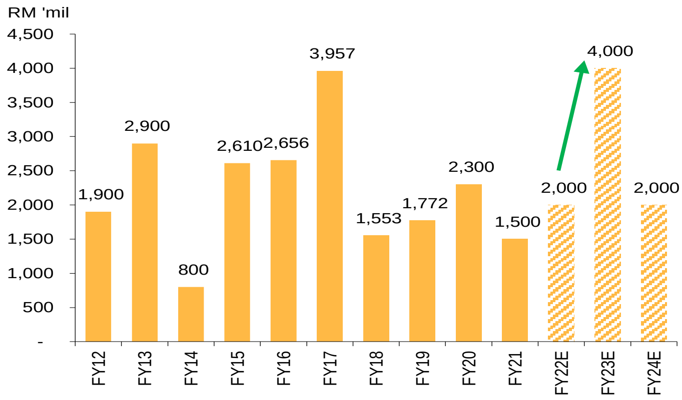
Source: BNM, Macquarie Research August 2022

Fig 5 Since 2012, the construction index (KLCON) has tracked closely with the value of new contract award



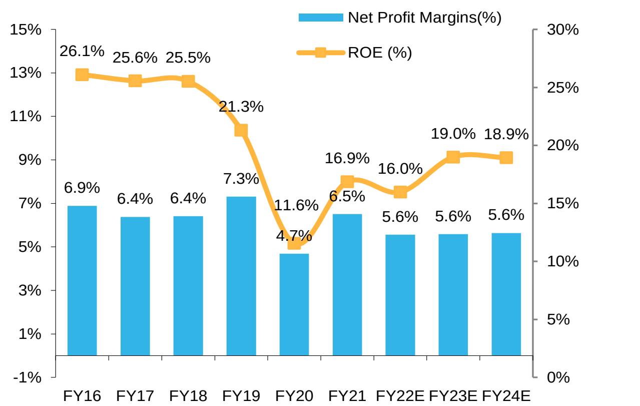
Source: Bloomberg, CIDB, Macquarie Research, August 2022

Fig 6 We expect SunCon to benefit from the increase in new jobs next year (both from private and government)



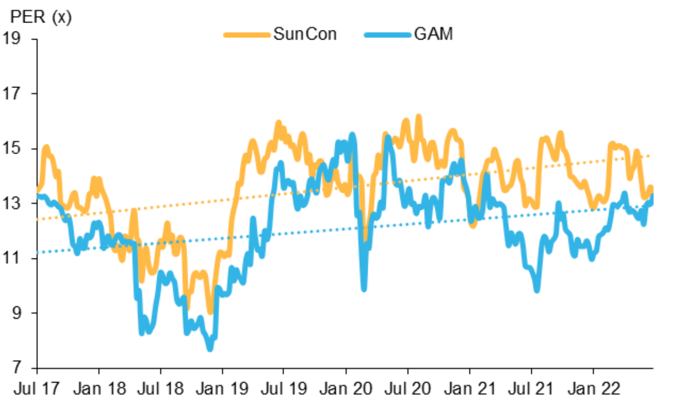
Source: Company data, Macquarie Research, August 2022

Fig 7 ROE of more than 15% is better than large cap peers



Source: Company data, Macquarie Research, August 2022

Fig 8 We think the market has not priced in the full potential of earnings recovery in the next three years



Source: Bloomberg, Macquarie Research, August 2022

We initiate at OP with RM2.10 price target

We value SunCon at 15x PER to FY23E PAT and arrive at a RM2.10 price target. The ascribed multiple is +0.5SD above the Bursa Malaysia Construction Index (KLCON) long-term average. We think SunCon deserves a premium to this multiple based on the group's proven track record in capturing mega project opportunities locally and its healthy execution track record (see Fig 12).

We believe the MRT3 project is a kicker to valuation, as it approaches closer to contract awards. We expect these events to take place by 1Q23, which will largely benefit listed local contractors who have been facing a four-year hiatus for new large-scale contract. The influx of new contracts should lead to a broad-based upgrade to contractors' future income. Accordingly, this looks favourable to trigger further recovery in the KLCON Index. A strong name like SunCon should be in the lead to capture any upside potential in the sector.

Fig 9 SunCon's valuation

	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
PAT	145	129	73	113	117	149	158
Finance income	16	25	8	4	22	25	22
Finance cost	-8	-13	-7	-5	-27	-35	-41
Net interest expense/income	8	12	1	0	-5	-10	-19
PAT (ex-interest expense)	137	117	72	113	122	159	177
EPS (sen)	10.6	9.1	5.6	8.7	9.4	12.3	13.7
BV	593	722	639	717	778	821	874
BVPS (sen)	45.9	55.9	49.4	55.5	60.2	63.6	67.7
DPS (sen)	7.0	7.0	4.0	4.0	5.5	8.0	8.0
3-year rolling PAT CAGR	4%	2%	-18%	-8%	-3%	27%	12%
Valuation @ 15x FY23						2,378	
Net cash ((debt)/share						334*	
Net valuation						2,712	
No. of shares	1,292	1,292	1,292	1,292	1,292	1,292	1,292
Target price						2.10	
Implied PER at TP	20	23	38	24	22	17	15
Implied P/B at TP	4.6	3.8	4.2	3.8	3.5	3.3	3.1
Implied div. yield at TP	3%	3%	2%	2%	3%	4%	4%

Share price as per 28 July 2022 close – RM1.50

**As of Q122, SunCon was at net cash position of RM334mn, included wholesale funds of RM464mn classified as Investment in Associate in balance sheet.*

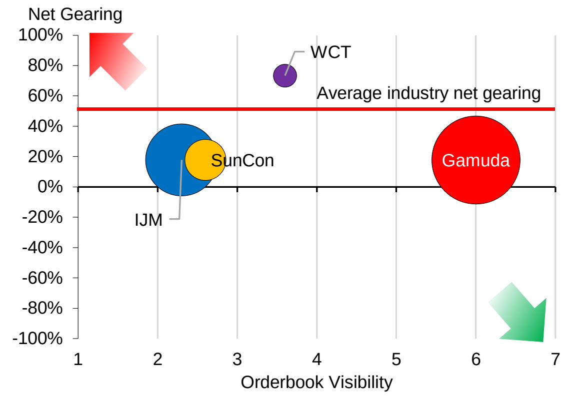
Source: Macquarie Research, August 2022

Fig 10 Peers' comparisons as at 8 August 2022

Companies	Year End	Market Cap	Last Price (RM)	PER(X)			Div. Yld. (%)		ROE (%)		PBV	
				Actual	1 Yr Fwd	2 Yr Fwd	Actual	1 Yr Fwd	Actual	1 Yr Fwd	Actual	1 Yr Fwd
Gamuda Bhd	07/2022	9,679.4	3.8	16.5	14.3	15.4	1.6	4.2	8.2	7.3	1.0	1.0
IJM Corp Bhd	03/2022	6,309.9	1.8	7.9	18.8	16.3	3.4	3.1	1.4	3.2	0.6	0.6
SunCon	12/2021	1,934.0	1.5	17.2	14.5	13.2	3.5	4.1	18.2	18.4	2.6	2.6
Kerjaya Prospek	06/2022	1,450.2	1.2	15.0	11.0	9.4	3.5	3.3	8.6	10.6	1.2	1.1
Ame Elite	03/2023	1,063.5	1.7	21.9	16.7	14.0	1.5	2.1	7.0	8.4	1.5	1.2
Wct Holdings Bhd	12/2022	651.9	0.5	6.7	10.2	7.6	1.1	1.5	2.9	2.1	0.2	0.3
Muhibbah Engineering	12/2022	330.8	0.5	-96.8	12.6	7.1	nm	2.9	-0.7	2.1	0.2	0.3
Pintaras Jaya	06/2022	384.8	2.3	6.0	10.5	9.0	4.3	7.5	10.4	10.5	1.0	1.0
Mgb Bhd	12/2022	328.4	0.6	12.1	10.2	6.8	0.9	2.2	5.2	6.3	0.7	0.5
Gdb Holdings	12/2022	276.6	0.3	9.7	7.3	6.0	4.7	5.1	19.2	22.5	1.8	1.6
Econpile Holdings	06/2022	255.2	0.2	23.0	-21.2	14.0	nm	nm	-6.1	-4.3	0.6	0.6
Gadang Holdings	05/2023	262.1	0.4	6.3	7.9	7.3	1.9	2.8	5.1	3.7	0.3	0.3

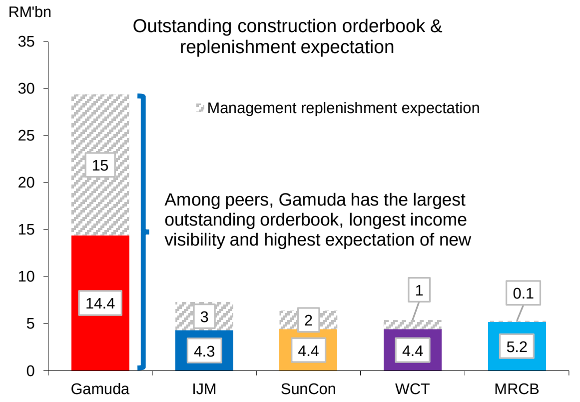
Source: Bloomberg, Macquarie Research, August 2022

Fig 11 SunCon's balance sheet and earnings visibility is comparable to larger cap players like IJM Corp



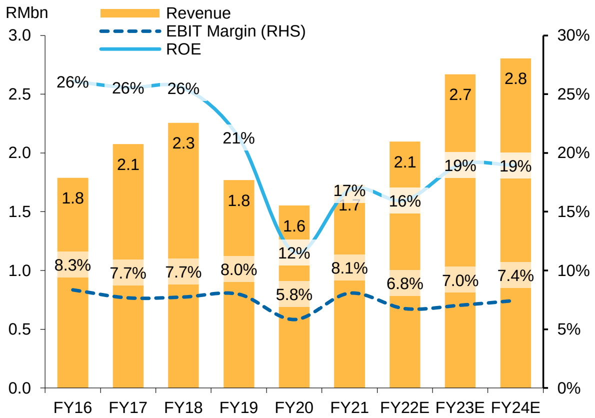
Source: Company data, Macquarie Research, August 2022

Fig 12 Mgmt. expects RM2bn worth of replenishment in FY22. We expect new orders to double in FY23, driven by the increase in government jobs i.e. MRT3



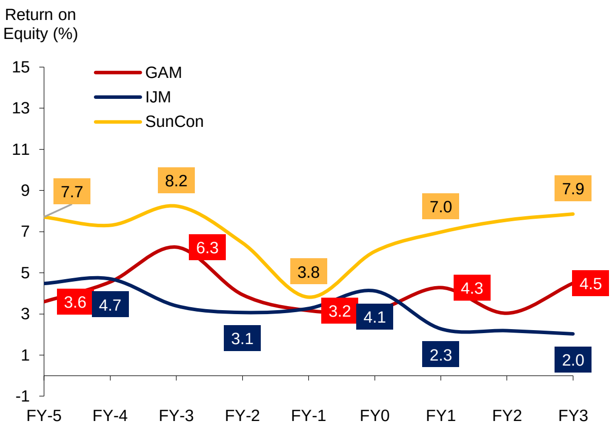
Source: Company data, Macquarie Research, August 2022

Fig 13 Stable margins and high ROE in FY16-24E



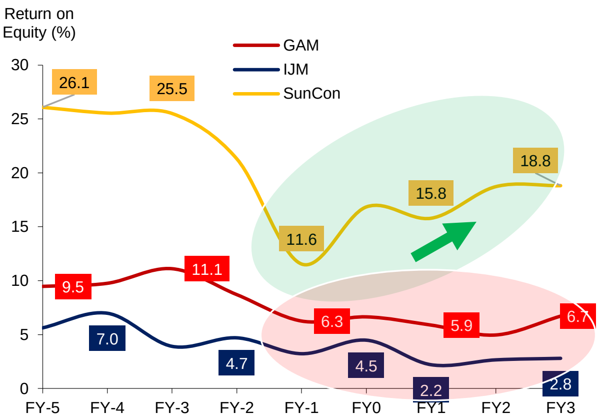
Source: Company data, Macquarie Research, August 2022

Fig 14 Return on assets - SunCon's is consistently higher than peers



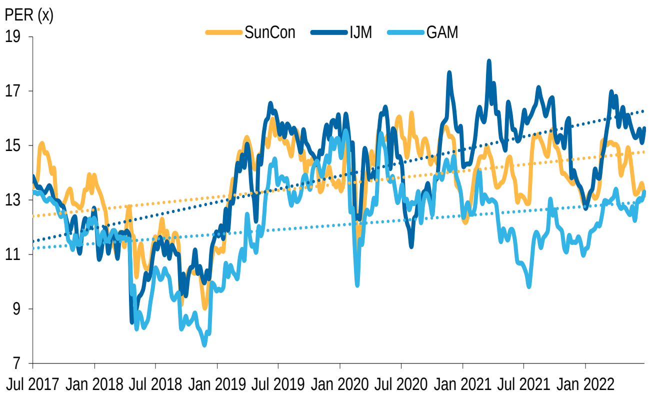
Source: Company data, Macquarie Research, August 2022

Fig 15 We think SunCon's ROE will recover faster than others as it remains a pure play construction company



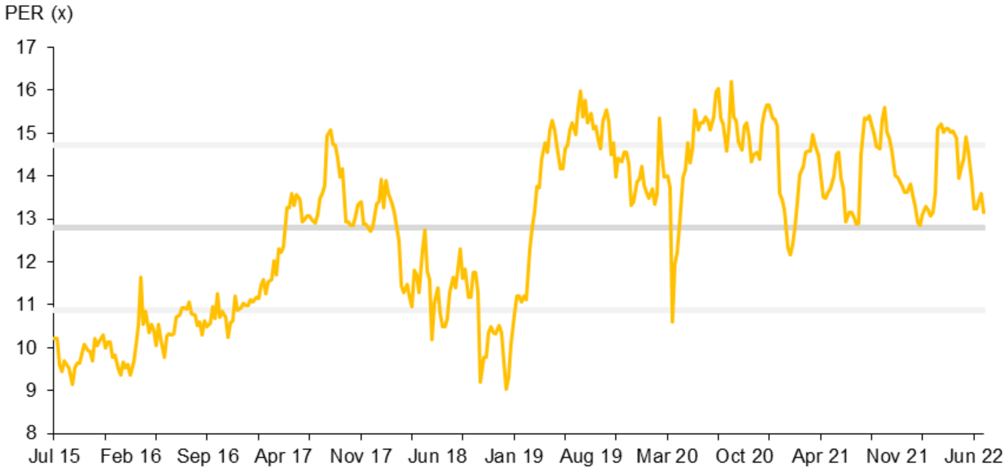
Source: Company data, Macquarie Research, August 2022

Fig 16 We think SunCon is a laggard to the other big caps



Source: Bloomberg, Macquarie Research, August 2022

Fig 17 SunCon forward PER currently trades close to 13x PER (five-year average mean)



Source: Bloomberg, Macquarie Research, August 2022

Execution strength to drive growth in FY23E

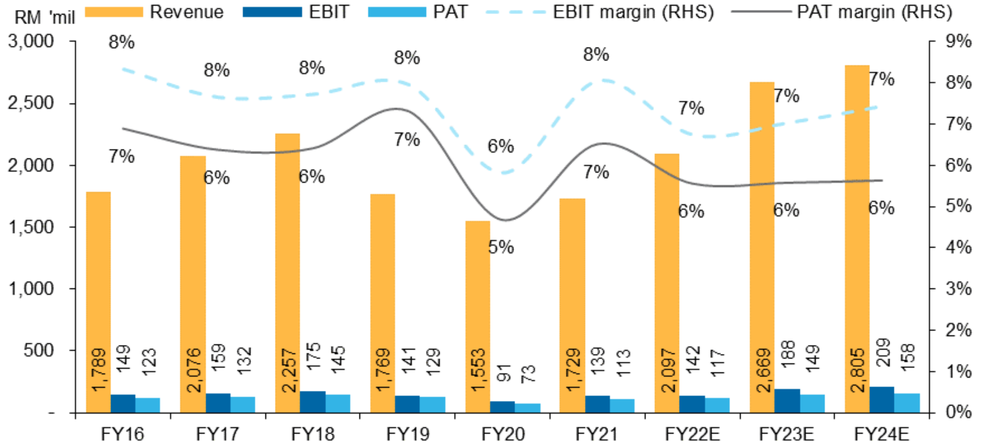
We expect SunCon earnings to grow by 28%YoY in FY23. We see a multi-year earnings growth trajectory in FY22E/23E/24E of +4%/+28%/+6% YoY driven by the ramping-up of construction progress on current backlog orders (need to meet deadline or risk being penalised with LAD), and recovery in operational margins as pressure from input costs ease. Positively, steel prices have started to trend down since April 2022, to RM2,854/MTN (-18% from peak level). Our earnings differ from Bloomberg consensus by -13%/+2%/+9% for FY22E/23E/24E respectively. Our near-term earnings forecasts are lower than the Street, as we impute risk of margin contractions due to higher raw material prices than pre-pandemic level.

Fig 18 MQ's SunCon forecasts vs Bloomberg consensus

RM 'mil	Macquarie			Consensus			Difference		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	2,097	2,669	2,805	2,385	2,567	2,511	-12%	4%	12%
EBIT	142	188	209	173	183	177	-18%	3%	18%
PBT	144	184	195	177	189	190	-19%	-3%	3%
Adj. PAT	117	149	158	134	146	145	-13%	2%	9%
Adj. EPS (sen)	9.0	11.5	12.2	10.4	11.3	11.2	-13%	2%	9%

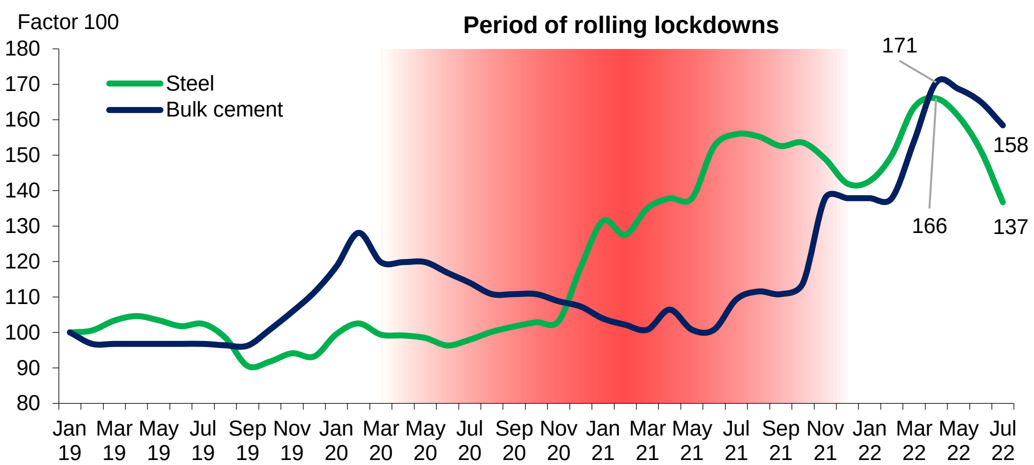
Source: Bloomberg consensus, Company data, Macquarie Research, August 2022

Fig 19 We expect PAT to grow the highest in FY23 at +28%YoY in the next three years



Source: Bloomberg, Company data, Macquarie Research, August 2022

Fig 20 Prices of bulk cement and steel have trended down since April 2022



Source: Company data, Macquarie Research, August 2022

Scenario and sensitivity analysis

We run a scenario analysis to illustrate the potential impact from downside and upside risks to SunCon's share price. The base case represents our current thesis for SunCon that arrives at a TP of RM2.10. The variables for each scenario are based on the outcomes in FY23E. We have assumed RM4bn orderbook replenishment in FY23E for our base-case scenario.

Fig 21 Scenario analysis on SunCon's valuations

	Bear Case	Base Case	Bull Case
Per-share valuation (RM)	1.47	2.10	2.84
Upside/(Downside)	-2.0%	+40.0%	+89.6%
Scenarios	External orders: RM800m	External orders of RM2.5bn	External orders of RM4bn
	Internal orders: RM200m	Internal orders of RM1bn	Internal/international orders of RM2bn
	No orders from precast business in Singapore	New orders worth RM500m from Singapore HDB	New orders worth RM800m from Singapore HDB
	PER multiple of 12x	PER multiple of 15x	PER multiple of 18x

Source: Company data, Macquarie Research, August 2022

- **Bear case:** Our bear case scenario provides a valuation of RM1.47 (2% potential downside). New replenishment to construction orderbook within a year duration is expected at RM1bn. That means construction division is expected to secure -54% lower contract value compared to the average in the past ten years. In our view, SunCon is still able to win more than RM1bn given the support of internal jobs from parent company, Sunway Berhad. Other than that, we believe the roll out of remaining packages from existing local infrastructure projects to be healthier compared to the last four years. Few reasons that support this includes 1) more stability in the local political landscape after General Election (MQ expects the event to be held within this year), and 2) the return to normalcy after going through heavy business restrictions during the pandemic. P/E for construction is lowered to 12x from 15x over concerns of further delay in KVMRT3 contract roll-out.
- **Base case:** Our base case target price is RM2.10 (+40% potential upside). New replenishment in the construction division is expected at RM4bn in one year. This is assuming SunCon is able to clinch one MRT3 civil work as a Work Package Contractor, with job value of around RM1.6bn (10sen EPS) worth of job. Based on SunCon's strong balance sheet and good execution track record, we think it has high chances of winning at least one WPC contract. In the past, SunCon has cumulatively won RM2.6bn in MRT jobs inclusive of viaduct, station, and advanced works. P/E for construction is set at 15x, equivalent to +0.5SD to KLCON five-year mean. We think 15x PER (+0.5SD to KLCON Index five-year mean) to FY23 earnings is justified based on the group's high ROE >15%, scarcity of high quality pure-play local contractors, healthy rate of annual replenishment of >RM1.5bn (partly backed by parent co.) and efficient management team.
- **Bull case:** Our bull case scenario provides a valuation of RM2.84 (+90% potential upside). Construction division is expected to achieve new job replenishment of c. RM7bn in FY23, on possibly clinching one Tier-1 level MRT3 contract with potential value of RM4bn. We also expect higher new orders from parent company as well as from overseas market like India and Philippine. We understand that there are a lot of opportunities in India. Few local players have approached the group on some upcoming tenders. P/E for construction is pegged at 18x, +1.5SD to KLCON five-year mean.

We provide a sensitivity analysis to illustrate the impact of orderbook increase or decrease to our valuation. Our forecasts reveal that for every RM500m addition/reduction in orderbook replenishment, it will impact the FY23E revenue and PAT by c.5% and 3.5%, respectively. In terms of valuation, every RM500mn addition/reduction in orderbook replenishment size will impact the TP by c.4%, with the PER multiple remained constant.

Fig 22 Sensitivity analysis TP vs. orderbook replenishment size

		Orderbook Replenishment (RM 'mil)						
		2,500	3,000	3,500	4,000	4,500	5,500	6,000
PER multiple	11x	1.50	1.54	1.59	1.61	1.73	1.78	1.84
	12x	1.61	1.66	1.71	1.73	1.86	1.92	1.98
	13x	1.73	1.78	1.83	1.85	1.99	2.06	2.12
	14x	1.84	1.89	1.95	1.98	2.13	2.20	2.27
	15x	1.95	2.01	2.07	2.10	2.26	2.33	2.41
	16x	2.06	2.13	2.19	2.22	2.39	2.47	2.55
	17x	2.18	2.24	2.31	2.34	2.53	2.61	2.70

Source: Macquarie Research, August 2022

Construction: Potential influx of new contracts in FY23

Primarily, MRT3 project will be the main driver. It carries RM31bn (estimate) job value including civil works (est. RM26bn), and system works (est. RM5bn). We expect MRT Corp and main contractors to award Tier-1 civil work package within 6-10 months after bidding ends in Aug/Sep 2022. Refer our report Malaysia Construction Value-play ahead of election (Pg 6) to learn more about our expectation on MRT3 project.

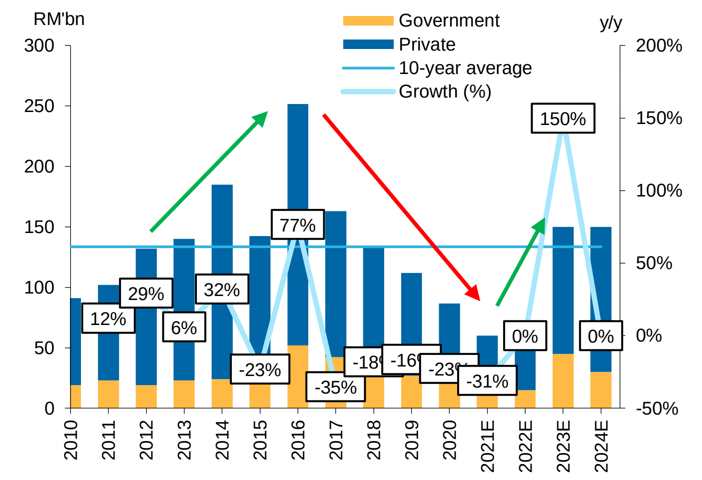
Fig 23 Details of MRT3 project (new vs old). The new proposal is final, following the greenlight given by cabinet.

KVMRT3	New Proposal	Previous Proposal
Construction cost (estimate)	**RM31bn**	**RM21bn**
Total length	50km (39km elevated and 11km underground)	40km (32km elevated and 8km underground)
Number of stations	30 stations	26 stations
Station locations	Ampang Jaya, KLCC, Jalan Bukit Bintang, TRX, Bandar Malaysia, KL Eco City, Pusat Bandar Damansara, Mont Kiara, Sentul	Ampang Jaya, KLCC, Jalan Bukit Bintang, TRX, Bandar Malaysia, KL Eco City, Pusat Bandar Damansara, Mont Kiara, Sentul
Number of depots	2	TBA
Project owner/operator	MRT Corp / Private Entities	MRT Corp
Construction period	Eight to nine years	Six years
Target completion period	2030 (first phase)	TBD

Source: Macquarie Research, August 2022

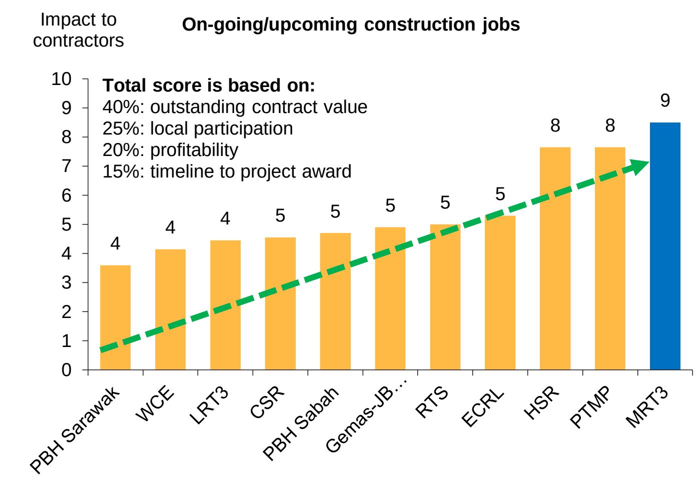
We think the MRT3 project will be the main driver of orderbook increases next year. The job is estimated at RM31bn with at least 50% of total value is expected to be bagged by the listed contractors. We foresee sizeable packages to surface in the next 12 months, which will finally improve sentiment on the sector that is faced with four years of dry period. We think private investment will follow suit as well as progress for government infrastructure projects gather momentum. On these account, we believe it is highly likely that more new jobs will return in 2023, which will eventually double up the value of new contract award from a low base. We view those with healthy exposure in government (30% sector weightage) and private (70% sector weightage) projects like SunCon will largely benefit.

Fig 24 MRT3 project is expected to drive the influx of new jobs, including from the private side



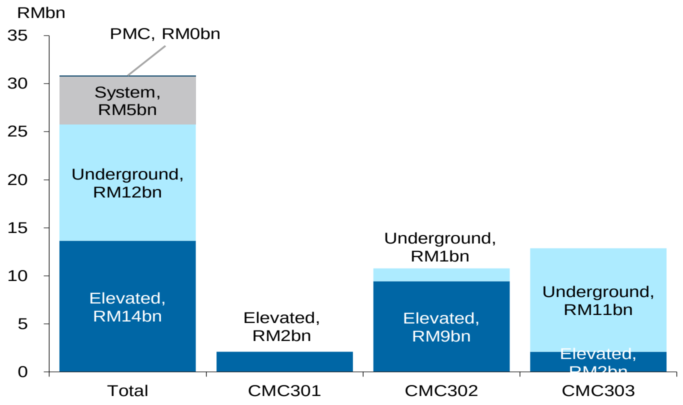
Source: CIDB, Macquarie Research, August 2022

Fig 25 Recall in our previous report, we stated that MRT3 will be the highest impact project in the next 12 months



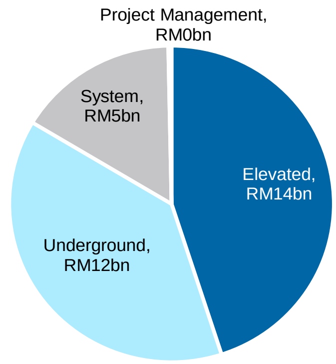
Source: The Edge, CIDB, Macquarie Research, August 2022

Fig 26 Value MRT3 civil work package could amount to RM26bn for CMC301, CMC302, CMC303



Source: MRT Corp, Macquarie Research, August 2022

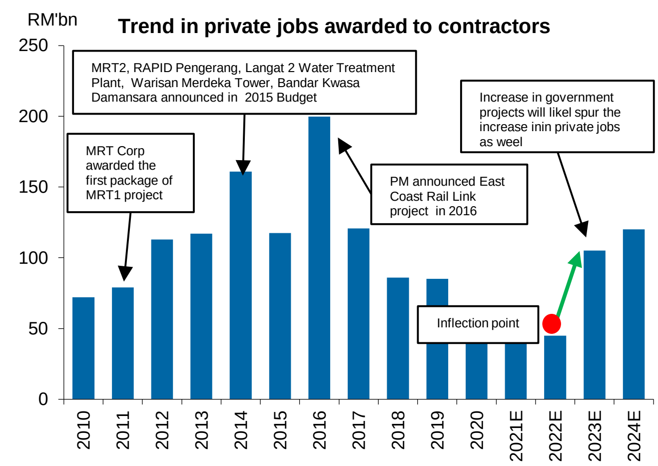
Fig 27 We believe SunCon has big advantage to compete for the elevated portion of MRT3 civil works



Source: MRT Corp, Macquarie Research, August 2022

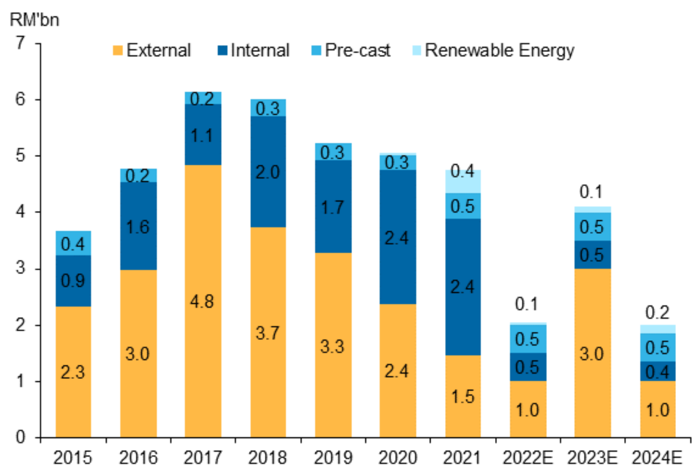
The increase in government jobs should also draw more investments in private projects. We believe the overall value of private projects will likely double to c. RM105bn next year from a low base. Hence, those with healthy exposure in government (30% sector weightage) and private (70% sector weightage) projects like SunCon will largely benefit in our view.

Fig 28 Private contracts are expected to move together with the increase in government projects. SunCon's internal (private) jobs form 30% (average) from the total



Source: CIDB, Macquarie Research, August 2022

Fig 29 SunCon's outstanding orderbook since 2015. We believe it is able to capture the increase in job flows in the sector in 2023, hence our higher replenishment estimate



Source: Company data, Macquarie Research, August 2022

Overall, stronger job inflows expected next year provides positive readthrough for local players especially after facing four-year dry period. The MRT3 project should greatly expand opportunities for contract replenishments, as it focuses on high local participation especially for the civil work package. This should lead to a broad-based upgrade to contractors' future income. Judging by past MRT wins, we expect SunCon to again submit a strong proposal to earn a slice of the pie. At Tier-1 level, value for each civil work package could range from RM2bn to RM13bn. We are not surprised if SunCon's tender value reached a record-high by now, likely at RM14.5bn. This is assuming SunCon tenders for package CMC302 that we broadly estimate at RM12bn. Over the past 5 years, the tender book each year was averagely at RM7bn to RM9bn.

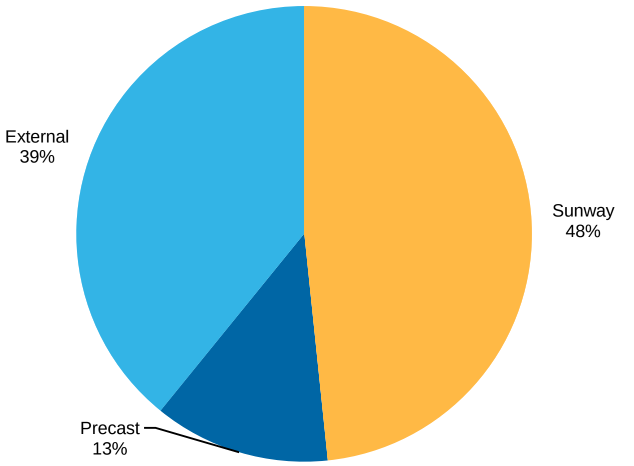
In terms of in-house jobs, there is still further development in Sunway South Quay CP2, high rise residential projects as well as warehouses located in Klang Valley. In Penang, the Sunway Valley City on the island is due to begin development end of this year or next year depending on market sentiment.

Fig 30 SunCon outstanding orderbook as at end of 1Q22

External Projects	Completion	Value (RM 'mil)	Outstanding Value	% of Completion
Putrajaya Parcel F	Maintenance	1,610	11	99%
Sentul West MRTUG ST. (MEP)	2Q22	57	4	93%
Petronas Leadership Centre (PLC)	Completed	305	28	91%
LRT3: Package GS07-08	4Q22	1,295	137	89%
Chan Sow Lin MRTUG ST. (MEP)	2Q22	54	6	89%
IOI Mall (MEP)	2Q22	68	8	88%
TNB HQ Campus (PH2)	3Q22	781	197	75%
Precast	Various	584	427	27%
Oxley Tower (MEP)	4Q24	68	52	24%
Jalan Tambun, Ipoh	4Q22	14	11	21%
Meensurutti-Chidambaran (MC)	3Q23	315	266	16%
PNB118 Pkg A&B (MEP)	3Q22	8	7	13%
Tasco	3Q22	9	8	11%
Solar-external	Various	414	397	4%
Thorapalli-Jittandahalli (TJ)	4Q23	508	488	4%
Bangsar Rising-Piling	3Q22	5	5	0%
RTS Link Package P2A	2Q25	112	112	0%
LRT: GS06	2Q22	1	1	0%
Pre-cast: new order 2022	Various	128	128	0%
	Total	**6,207**	**2,293**	65%
Internal Projects	**Completion**	**Value (RM 'mil)**	**Remaining Value**	**% of Completion**
Sunway Carnival Mall Ext.	2Q22	286	28	90%
Sunway Serene	4Q22	413	61	85%
SMC Seberang Jaya	2Q22	196	44	78%
Sunway Velocity 2	4Q22	352	80	77%
South Quay CP2-Piling	2Q22	198	45	77%
Solar-internal	Various	4	1	75%
Sunway Hotel Renovation	3Q22	81	24	70%
Sunway Velocity 3C4	3Q22	100	30	70%
SW International School (SIS)	4Q22	140	51	64%
SMC 4+VO	3Q23	612	265	57%
Butterworth-Kulim Expressway	2Q22	4	2	50%
Big Box Office	3Q22	51	28	45%
Sunway Velocity 2B	4Q23	253	213	16%
Sunway Belfield	4Q24	403	346	14%
SMC Damansara	1Q23	240	222	8%
SMC Ipoh	1Q24	150	142	5%
South Quay CP2-Superstructure	3Q24	557	555	0%
Drainage Works	4Q22	1	1	0%
Wellness Road & Drain	2Q22	1	1	0%
Sustainable Energy-new order 2022	Various	8	8	0%
	Total	**4,050**	**2,147**	47%
	Grand Total	**10,257**	**4,440**	

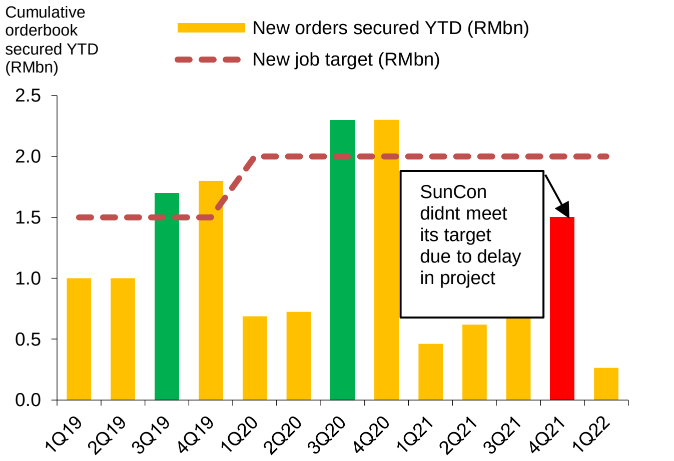
Source: Company data, Macquarie Research, August 2022

Fig 31 Breakdown of outstanding orderbook as of 1Q22



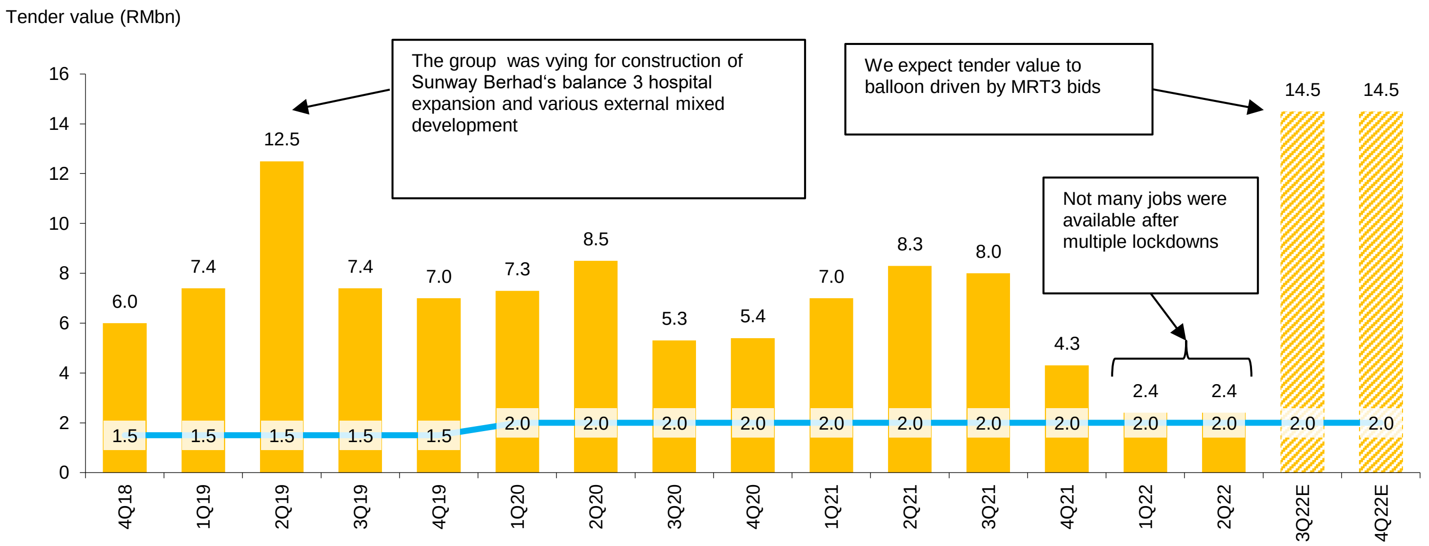
Source: Company data, Macquarie Research, August 2022

Fig 32 SunCon has managed to meet their target since 2019



Source: Company data, Macquarie Research, August 2022

Fig 33 We expect SunCon's active tender to reach record high by 3Q22



Source: Company data, Macquarie Research, August 2022

Precast segment geared to the Singapore HDB market

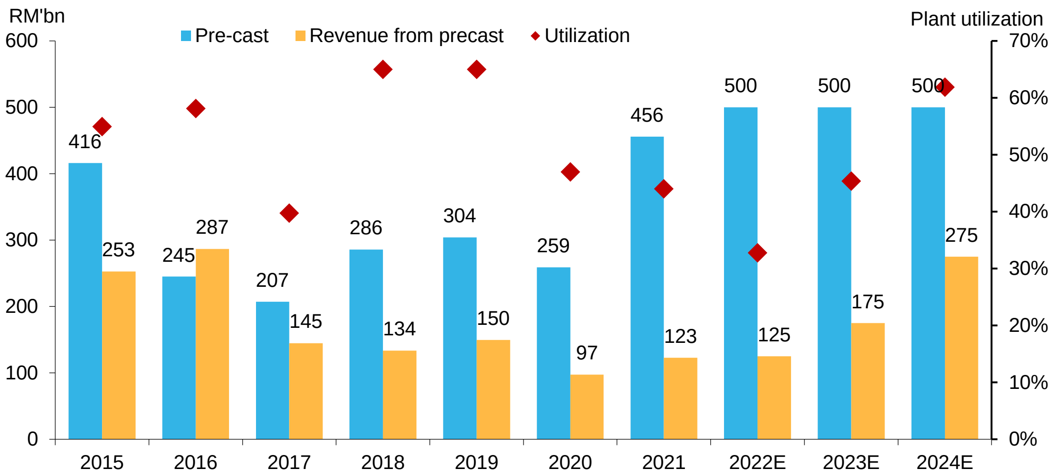
The group supplies precast products to a variety of contractors for HDB projects and it currently has projects in Ang Mo Kio, Clementi, Punggol, Tampines, and Tengah Park. The precast products that SunCon delivers include pre-fabricated toilets, lift wells and lift covers, facade and precast water tanks. These made-to-order products cater for the HDB construction in Singapore.

SunCon will commence operations of its new plant - Integrated Construction and Prefabrication Hub - in 2H22. The new plant will add 75,000m^3 of production capacity, taking total volume to 201,000m^3. We believe revenue contribution from new precast plant should complement the segment's growth in FY23. Depreciation of the ICPH plant will only kick start in 4Q22E. Precast business has more than RM550m in outstanding order book as of 1Q22, with some newer projects able to secure higher average selling price per/m3. This could alleviate the one quarter higher depreciation impact from the ICPH plant, in our view.

Outlook on future orders looks healthy, driven by the strong demand for HDB units. We expect the Singapore Housing Development Board to increase its supply from 17k to 23k in FY22. A HDB press release in Dec 21 said that demand for public housing has increased significantly in recent years, with the overall number of applications received per BTO flat up from 3.7 times in 2019 to 5.5 times in 2021. Also, based on the number of applications received published on HDB web on 2 June 2022, the application rate for 2-room & 3-room flat has remained high at 4 times and 6.2 times, respectively.

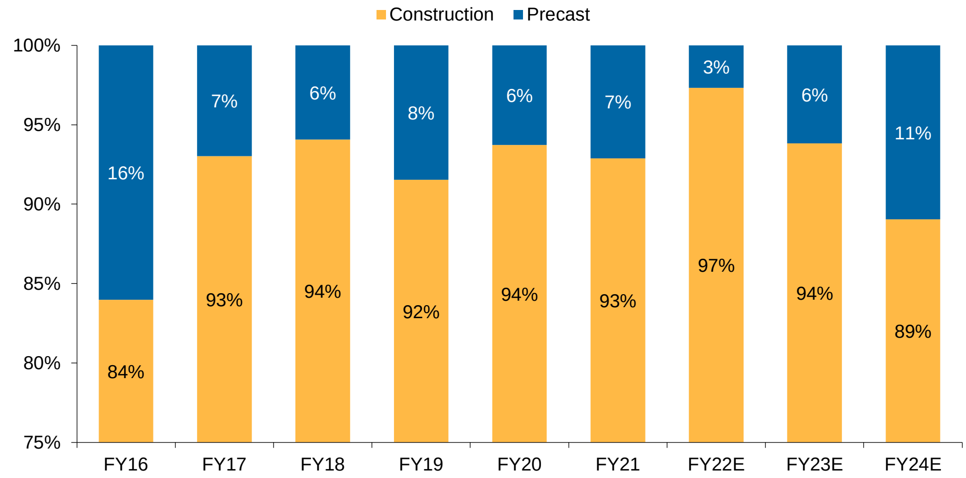
SunCon's precast plant utilization has already returned to pre-pandemic levels. The bigger issue is plant storage due to delivery issues as project progress was slower due to labour shortages. Management believes this issue will be resolved soon as construction activity is picking up after the relaxation of border restrictions on the inflow of foreign workers. Management expects the average margin for this segment to be around 5-8%.

Fig 34 Outstanding orderbook for precast jobs



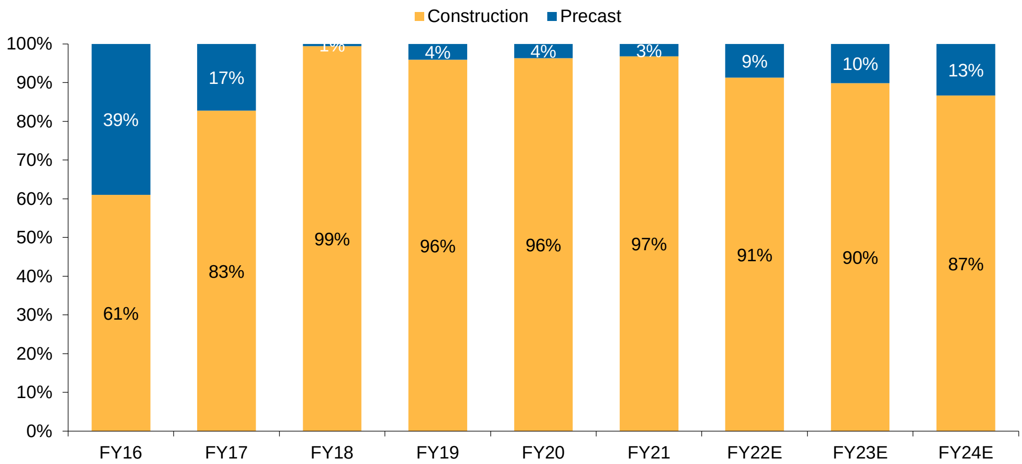
Source: Company data, Macquarie Research, August 2022

Fig 35 Revenue contribution from precast to grow to 11% in FY24E



Source: Company data, Macquarie Research, August 2022

Fig 36 We expect operational earnings from pre-cast to increase by >100%/22%/20% in FY22/23/24 respectively.



Source: Company data, Macquarie Research, August 2022

Fig 37 We expect plant capacity in 2022

Plant	Maximum Annual Capacity (m^3)	Utilisation Rate	Main Products
Senai, Johor	76,000	48%	Prestressed planks for residential projects, service ducts, refuse chutes, parapet, air conditioner ledges
Iskandar, Johor	51,000	41%	Manufacture facades, non-prestressed planks, beams, columns, household shelters
Integrated Construction & Prefabrication Hub (ICPH), Singapore	75,000	Opening in 2H22	Manufacture large panel slabs, precast walls and tunnels for infrastructure projects
Total	201,000	44%	

Source: Company data, Macquarie Research, August 2022

Key risks are order wins and project delays

- Failure to win MRT3 work package poses a downside risk to our valuation. While this is possible, we are confident of SunCon’s capability to execute the MRT3 civil works due to its extensive experience in the past MRT1 and MRT2. Also, there is scarcity among local contractors which can execute the job well at WPC level.
- We believe other potential risks for SunCon include 1) delays in launches of mega projects by the Government; 2) delayed payments by customers which may affect SunCon’s profitability and margins; 3) lower than expected orderbook replenishment size could pose a big risk to our TP.
- Again, we reiterate that the risks of delays from the MRT3 projects are limited as the project does not require government funds to start. The project owner (MRT Corp, state-owned company) will only start paying for the civil works after two years of project commencement. Per our checks with industry players and stakeholders, it seems unlikely that the project will be deferred as it would incur much higher costs. Based on our channel checks, the process of acquiring critical land plots for MRT3 commenced eight months before tenders were called.
- While the group also depends on new contracts from its parent company, Sunway Berhad, we note that all related-party transactions were carried out at an arms’ length and under normal commercial terms.

Sunway Construction Group

SCGB MK

ENGINEERING & CONSTRUCTION SERVICES

Danial Razak

	Quartile	Previous
Macquarie ESG Score	**Q1**	Q1
Sustainability (Environment & Social)	**Q1**	Q1
Governance & Risk	**BM**	Q2
Macquarie ESG Research	* BM - Below Median	

Company Research Homepage

What's New & Interesting

Sunway Construction has successfully competed renewable energy projects. In 2021, the group secured sizeable jobs from external local parties for the commissioning of solar photovoltaics construction. It continues to look for recurring income opportunities in the renewable energy sector. The group has an extensive track record in executing urban rail projects. It is bidding for mega rail project like MRT3 which we believe will continue to improve its green portfolio.

Key ESG Issues

	3 key ESG issues to consider *	Supporting Information from Macquarie ESG Model
E	All project sites of the group are certified with the ISO 14001 Environmental Management System, which ensures stringent policy implementation, regular monitoring, commitment from senior management and setting targets to measure performance. We think its efforts to execute more green projects in its orderbook like Mass Rapid Transit will help to improve its scoring for E.	SunCon has been at the forefront of designing green buildings as it trains professionals to provide top-notch services and solutions to its clients in the area of green building construction.
S	The company uses degraded land instead of clearing forested land for its developments, thereby minimizing social conflicts.	The bulk of the property projects secured from Sunway Berhad came from ex-mining land. Reclaimed mining land for property projects reduces deforestation risk.
G	The company's business model is highly dependent on its ability to secure new contracts from government and private sector to generate revenue. The environment is highly competitive, which may result in bribery and corruption incidents.	The company reported zero confirmed bribery & corruption incidents in 2021. No instance was found in external search for the past two years.

* Key issues are sourced from the full ESG model, including 10+ pages on Environmental/Social issues and 120+ questions on CG/Risk.
Contact your MQ sales rep to see the full model.

ESG Opportunity

What is the greatest opportunity for the company? And what moves is it making to capitalize on that opportunity

To ensure energy efficiency and minimum energy wastage across its business operations, the company monitors its energy consumption and is using green construction materials. We think the group will be able to capture more opportunities in clean energy and mass rapid transit projects. This energy transition portion is growing and could represent a material share in its overall share of orderbook. The company is a leader in the construction of green buildings which gives it an advantage to take on bigger projects in the future.

Looking Ahead

	Current	Qualitative comments
1. Degree to which ESG risks are factored into financial forecasts, where the risks could have a clearly defined impact on P&L of BS within 3 years. (1-10; with 1 = not at all; 10 = completely)	4	If Sunway Construction embraces sustainable financing, it could see lower interest rates in its borrowings
2. Degree to which ESG risks are factored into stock valuation (DCF or multiple), where the impact is difficult to quantify and/or hits outside the forecast period. (1-10; with 1 = not at all; 10 = completely)	3	As ESG awareness increases, we believe there could be a premium to Sunway Construction's valuation vs peers.
3. Two years from now we expect the company's ESG profile to: (1-10; with 1 = Get Much Worse; 5 = Stay the Same; 10 = Improve Dramatically)	7	Sunway Construction's expansion into renewable energy will increase its ESG profile.

Score Card Summary *

	vs FY20	Score	Sector Average	# of Notes	Sample KPI *
Environmental Impacts of Project Development	→	10.0	8.2	6	Number of incidents of non-compliance with environmental permits, standards, and regulations
Environment Score (25%)	→	10.0	8.2	**6**	
Structural Integrity & Safety	↑	8.0	6.0	3	Amount of defect- and safety-related rework costs
Workforce Health & Safety	↑	7.5	6.0	4	Fatality rate
Social & Human Capital (25%)	↑	7.8	6.0	**7**	
Lifecycle Impacts of Buildings & Infrastructure	↓	6.3	6.5	8	Number of commissioned projects certified to a third-party multi-attribute sustainability standard
Climate Impacts of Business Mix	→	7.1	5.6	7	Amount of backlog for renewable energy projects
Business Model & Innovation (25%)	↓	6.7	6.1	**15**	
Business Ethics	↑	8.0	6.7	11	Number of active projects
Leadership & Governance (25%)	↑	8.0	6.7	**11**	
Environment and Sustainability (E&S)	↑	8.1	6.6	39	

		vs FY20	Score	Asia Average	Sample Negatives & Positives *
Corp Gov (58%)	Board Structure (15%)	↑	7.8	5.7	Chairman on Board Committees
	Shareholding (15%)	↓	5.8	6.8	Related party transactions >10% of costs or revenues (avg last 3 years
	History (11%)	↑	8.1	7.4	Directors and/or senior management from MNC background
	Capital Management (9%)	↑	8.0	6.2	Company does not give clear guidance for use of excess cash on BS and/or treasury st
	Remuneration (4%)	→	8.5	7.4	Company does not buy back shares to offset options
	Access (4%)	↑	6.7	6.2	Analyst access up to CFO
Risk (42%)	Account & Audit (18%)	↓	5.6	7.2	Company does not employ big 4 auditor
	Earnings Quality (15%)	↓	4.4	5.9	Top 3 customers represent >50% sales past three years
	True B/S Strength (7%)	↓	5.6	6.8	Company carries both high cash and high debt simultaneously
	Visibility (2%)	↑	7.2	5.7	3 supppliers channel checked in last 6 months
Macquarie Governance & Risk (G)		↓	6.5	6.5	

	Score	Sector Average
Macquarie ESG Score ^	7.5	6.6

^Note: Macquarie ESG Score = 60% E&S + 40% G

* This is a summary. For our full ESG model, please contact your Macquarie sales representative.

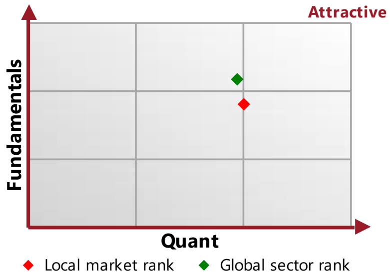
Macquarie Quant Alpha Model Views

The quant model currently holds a marginally positive view on Sunway Construction. The strongest style exposure is Earnings Momentum, indicating this stock has received earnings upgrades and is well liked by sell side analysts. The weakest style exposure is Growth, indicating this stock has weak historic and/or forecast growth. Growth metrics focus on both top and bottom line items.

846/2393

Global rank in Capital Goods

% of BUY recommendations	67% (6/9)
Number of Price Target downgrades	0
Number of Price Target upgrades	0

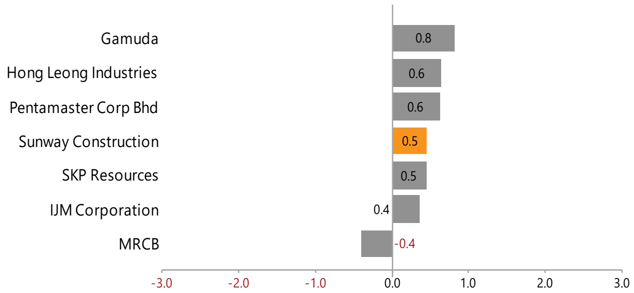


Displays where the company's ranked based on the fundamental consensus Price Target and Macquarie's Quantitative Alpha model.

Two rankings: Local market (Malaysia) and Global sector (Capital Goods)

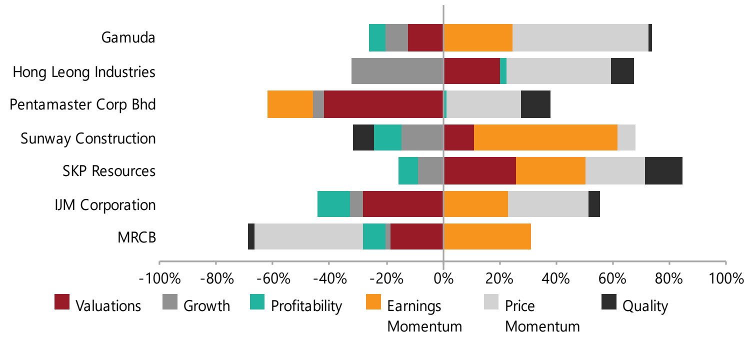
Macquarie Alpha Model ranking

A list of comparable companies and their Macquarie Alpha model score (higher is better).



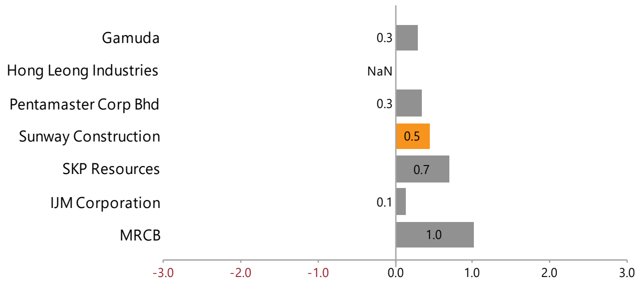
Factors driving the Alpha Model

For the comparable firms this chart shows the key underlying styles and their contribution to the current overall Alpha score.



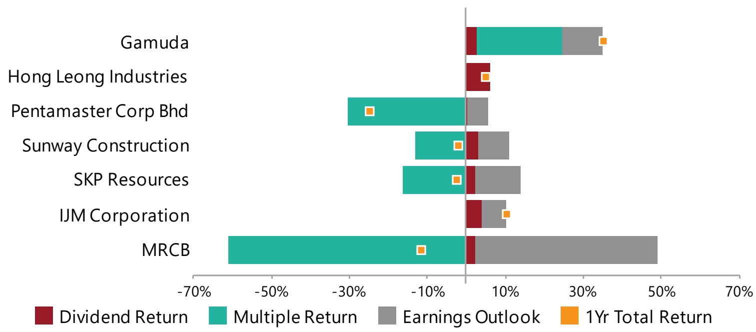
Macquarie Earnings Sentiment Indicator

The Macquarie Sentiment Indicator is an enhanced earnings revisions signal that favours analysts who have more timely and higher conviction revisions. Current score shown below.



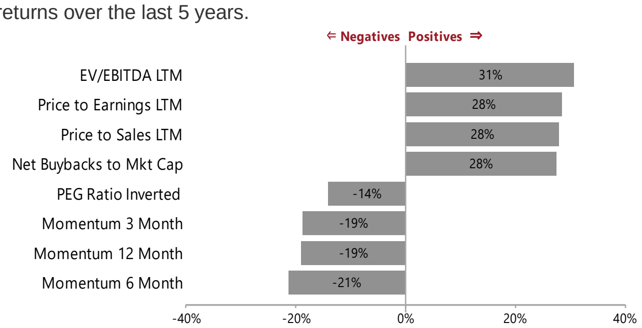
Drivers of Stock Return

Breakdown of 1 year total return (local currency) into returns from dividends, changes in forward earnings estimates and the resulting change in earnings multiple.



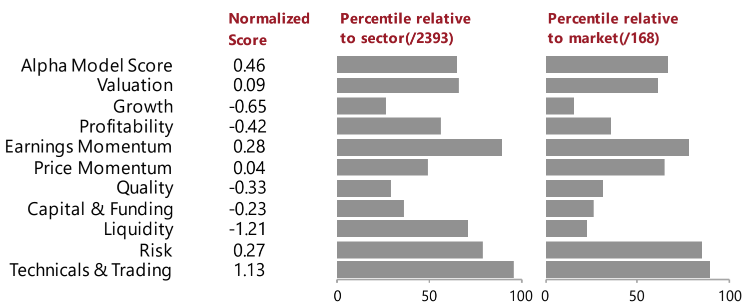
What drove this Company in the last 5 years

Which factor score has had the greatest correlation with the company's returns over the last 5 years.



How it looks on the Alpha model

A more granular view of the underlying style scores that drive the alpha (higher is better) and the percentile rank relative to the sector and market.



Source (all charts): FactSet, Thomson Reuters, and Macquarie Quant. For more details on the Macquarie Alpha model or for more customised analysis and screens, please contact the Macquarie Global Quantitative/Custom Products Group (cpg@macquarie.com)

Sunway Construction (SCGB MK)

Interim Results		2H/21A	1H/22E	2H/22E	1H/23E
Revenue	**m**	**951**	**944**	**1,153**	**1,201**
Gross Profit	**m**	**92**	**92**	**112**	**114**
Cost of Goods Sold	m	859	852	1,042	1,087
EBITDA	**m**	**92**	**92**	**112**	**114**
Depreciation	m	15	28	34	30
Amortisation of Goodwill	m	0	0	0	0
Other Amortisation	m	0	0	0	0
EBIT	**m**	**77**	**64**	**78**	**85**
Net Interest Income	m	-3	-12	-15	-16
Associates	m	7	3	4	3
Exceptionals	m	0	0	0	0
Forex Gains / Losses	m	0	0	0	0
Other Pre-Tax Income	m	2	10	12	11
Pre-Tax Profit	**m**	**84**	**65**	**79**	**83**
Tax Expense	m	-23	-13	-16	-17
Net Profit	**m**	**61**	**52**	**63**	**66**
Minority Interests	m	1	1	1	1
Reported Earnings	**m**	**62**	**53**	**64**	**67**
Adjusted Earnings	**m**	**62**	**53**	**64**	**67**
EPS (rep)	sen	4.8	4.1	5.0	5.2
EPS (adj)	sen	4.8	4.1	5.0	5.2
EPS Growth yoy (adj)	%	54.7	3.6	3.6	27.7
EBITDA Margin	%	9.6	9.7	9.7	9.5
EBIT Margin	%	8.1	6.8	6.8	7.0
Earnings Split	%	55.0	45.0	55.0	45.0
Revenue Growth	%	11.4	21.3	21.3	27.3
EBIT Growth	%	54.0	1.6	1.6	32.7

Profit and Loss Ratios		2021A	2022E	2023E	2024E
Revenue Growth	%	11.4	21.3	27.3	5.1
EBITDA Growth	%	34.6	22.0	24.7	10.0
EBIT Growth	%	54.0	1.6	32.7	11.1
Gross Profit Margin	%	9.6	9.7	9.5	10.0
EBITDA Margin	%	9.6	9.7	9.5	10.0
EBIT Margin	%	8.1	6.8	7.0	7.4
Net Profit Margin	%	6.5	5.6	5.6	5.6
Payout Ratio	%	45.9	60.9	69.4	65.4
EV/EBITDA	x	11.5	9.9	8.0	7.3
EV/EBIT	x	13.6	14.0	10.7	9.7
Balance Sheet Ratios					
ROE	%	16.9	16.0	19.0	18.9
ROA	%	7.4	6.7	7.2	7.1
ROIC	%	13.7	13.2	15.9	16.4
Net Debt/Equity	%	19.4	21.6	24.2	34.6
Interest Cover	x	30.4	5.2	5.4	5.1
Price/Book	x	2.8	2.5	2.4	2.2
Book Value per Share		0.5	0.6	0.6	0.7

Profit & Loss		2021A	2022E	2023E	2024E
Revenue	**m**	**1,729**	**2,097**	**2,669**	**2,805**
Gross Profit	**m**	**167**	**203**	**254**	**279**
Cost of Goods Sold	m	1,562	1,894	2,415	2,526
EBITDA	**m**	**167**	**203**	**254**	**279**
Depreciation	m	27	62	66	70
Amortisation of Goodwill	m	0	0	0	0
Other Amortisation	m	0	0	0	0
EBIT	**m**	**139**	**142**	**188**	**209**
Net Interest Income	m	-5	-27	-35	-41
Associates	m	13	7	6	6
Exceptionals	m	0	0	0	0
Forex Gains / Losses	m	0	0	0	0
Other Pre-Tax Income	m	4	22	25	22
Pre-Tax Profit	**m**	**152**	**144**	**184**	**195**
Tax Expense	m	-41	-29	-37	-39
Net Profit	**m**	**111**	**115**	**147**	**156**
Minority Interests	m	2	2	2	2
Reported Earnings	**m**	**113**	**117**	**149**	**158**
Adjusted Earnings	**m**	**113**	**117**	**149**	**158**
EPS (rep)	sen	8.7	9.0	11.5	12.2
EPS (adj)	sen	8.7	9.0	11.5	12.2
EPS Growth (adj)	%	54.7	3.6	27.7	6.1
PE (rep)	x	17.2	16.6	13.0	12.3
PE (adj)	x	17.2	16.6	13.0	12.3
Total DPS	sen	4.0	5.5	8.0	8.0
Total Div Yield	%	2.7	3.7	5.3	5.3
Basic Shares Outstanding	m	1,293	1,293	1,293	1,293
Diluted Shares Outstanding	m	1,293	1,293	1,293	1,293

Cashflow Analysis		2021A	2022E	2023E	2024E
EBITDA	**m**	**167**	**203**	**254**	**279**
Tax Paid	m	-30	-29	-37	-39
Chgs in Working Cap	m	83	-64	-102	-185
Net Interest Paid	m	0	-5	-10	-19
Other	m	18	18	18	18
Operating Cashflow	**m**	**238**	**124**	**124**	**54**
Acquisitions	m	-56	0	0	0
Capex	m	-35	-51	-55	-59
Asset Sales	m	3	0	0	0
Other	m	-86	0	0	0
Investing Cashflow	**m**	**-173**	**-51**	**-55**	**-59**
Dividend (Ordinary)	m	-52	-55	-103	-103
Equity Raised	m	0	0	0	0
Debt Movements	m	70	167	104	91
Other	m	-141	-141	-141	-141
Financing Cashflow	**m**	**-122**	**-29**	**-141**	**-154**
Net Chg in Cash/Debt	**m**	**-19**	**176**	**205**	**264**
Free Cashflow	**m**	**204**	**73**	**69**	**-4**

Balance Sheet		2021A	2022E	2023E	2024E
Cash	m	99	236	309	296
Receivables	m	850	1,186	1,609	1,860
Inventories	m	46	42	40	42
Investments	m	0	0	0	0
Fixed Assets	m	125	151	123	94
Intangibles	m	0	0	0	0
Other Assets	m	744	744	744	744
Total Assets	**m**	**1,864**	**2,359**	**2,825**	**3,036**
Payables	m	891	1,158	1,477	1,545
Short Term Debt	m	93	259	363	453
Long Term Debt	m	145	145	145	145
Provisions	m	0	0	0	0
Other Liabilities	m	18	18	18	18
Total Liabilities	**m**	**1,147**	**1,581**	**2,004**	**2,162**
Shareholders' Funds	m	737	800	845	900
Minority Interests	m	18	16	14	12
Other	m	-38	-38	-38	-38
Total S/H Equity	**m**	**717**	**778**	**821**	**874**
Total Liab & S/H Funds	**m**	**1,864**	**2,359**	**2,825**	**3,036**

All figures in MYR unless noted.
Source: Company data, Macquarie Research, August 2022

Important disclosures:

Recommendation definitions

Macquarie – Asia and USA
Outperform – expected return >10%
Neutral – expected return from -10% to +10%
Underperform – expected return <-10%

Macquarie – Australia/New Zealand
Outperform – expected return >10%
Neutral – expected return from 0% to 10%
Underperform – expected return <0%

Note: expected return is reflective of a Medium Volatility stock and should be assumed to adjust proportionately with volatility risk

Volatility index definition*

This is calculated from the volatility of historical price movements.

Very high–highest risk – Stock should be expected to move up or down 60–100% in a year – investors should be aware this stock is highly speculative.

High – stock should be expected to move up or down at least 40–60% in a year – investors should be aware this stock could be speculative.

Medium – stock should be expected to move up or down at least 30–40% in a year.

Low–medium – stock should be expected to move up or down at least 25–30% in a year.

Low – stock should be expected to move up or down at least 15–25% in a year.
* Applicable to select stocks in Asia/Australia/NZ

Recommendations – 12 months
Note: Quant recommendations may differ from Fundamental Analyst recommendations

Financial definitions

All "Adjusted" data items have had the following adjustments made:
Added back: goodwill amortisation, provision for catastrophe reserves, IFRS derivatives & hedging, IFRS impairments & IFRS interest expense
Excluded: non recurring items, asset revals, property revals, appraisal value uplift, preference dividends & minority interests

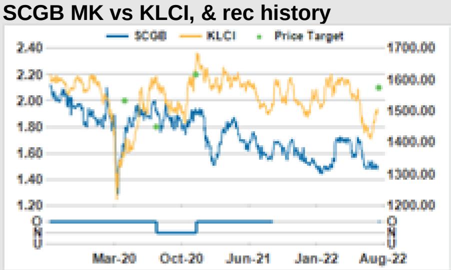
EPS = adjusted net profit / efpowa*
ROA = adjusted ebit / average total assets
ROA Banks/Insurance = adjusted net profit /average total assets
ROE = adjusted net profit / average shareholders funds
Gross cashflow = adjusted net profit + depreciation
*equivalent fully paid ordinary weighted average number of shares

All Reported numbers for Australian/NZ listed stocks are modelled under IFRS (International Financial Reporting Standards).

Recommendation proportions – For quarter ending 30 Jun 2022

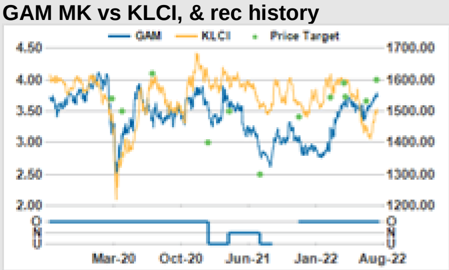
	AU/NZ	Asia	USA	
Outperform	62.76%	67.19%	74.19%	(for global coverage by Macquarie, 2.75% of stocks followed are investment banking clients)
Neutral	31.03%	21.78%	24.73%	(for global coverage by Macquarie, 2.15% of stocks followed are investment banking clients)
Underperform	6.21%	11.02%	1.08%	(for global coverage by Macquarie, 0.00% of stocks followed are investment banking clients)

SCGB MK vs KLCI, & rec history



(all figures in MYR currency unless noted)

GAM MK vs KLCI, & rec history



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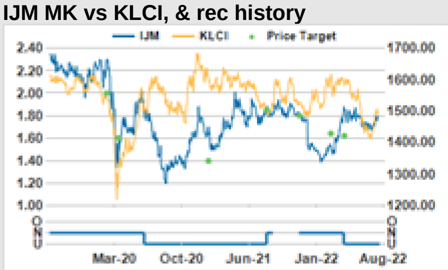
IJM MK vs KLCI, & rec history



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Note: Recommendation timeline – if not a continuous line, then there was no Macquarie coverage at the time or there was an embargo period.
Source: FactSet, Macquarie Research, August 2022

12-month target price methodology

SCGB MK: RM2.10 based on a PER methodology

GAM MK: RM4.00 based on a Sum of Parts methodology

IJM MK: RM1.62 based on a Sum of Parts methodology

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Date	Stock Code (BBG code)	Recommendation	Target Price
08-Dec-2020	SCGB MK	Outperform	RM2.20
29-Jul-2020	SCGB MK	Neutral	RM1.80
14-Apr-2020	SCGB MK	Outperform	RM2.00

Target price risk disclosures:
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This publication was disseminated on 08 August 2022 at 15:52 UTC.