

9 October 2020

Malaysia

## EQUITIES

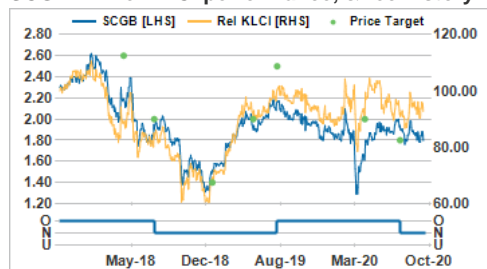
SCGB MK Neutral  
Price (at 05:50, 08 Oct 2020 GMT) RM1.80

|                        |       |               |
|------------------------|-------|---------------|
| Valuation              | RM    | 1.46-2.13     |
| - PER                  |       |               |
| 12-month target        | RM    | 1.80          |
| Upside/Downside        | %     | +0.0          |
| 12-month TSR           | %     | +4.2          |
| Volatility Index       |       | Medium        |
| GICS sector            |       | Capital Goods |
| Market cap             | RMm   | 2,327         |
| Market cap             | US\$m | 560           |
| Free float             | %     | 25            |
| 30-day avg turnover    | US\$m | 0.1           |
| Number shares on issue | m     | 1,293         |

## Investment fundamentals

| Year end 31 Dec |     | 2019A   | 2020E   | 2021E   | 2022E   |
|-----------------|-----|---------|---------|---------|---------|
| Revenue         | m   | 1,768.7 | 1,535.2 | 2,374.2 | 2,395.6 |
| EBITDA          | m   | 181.3   | 127.8   | 200.3   | 218.9   |
| EBIT            | m   | 141.0   | 77.5    | 145.4   | 160.6   |
| Reported profit | m   | 129.3   | 72.9    | 134.8   | 150.3   |
| Adjusted profit | m   | 129.3   | 72.9    | 134.8   | 150.3   |
| EPS rep         | sen | 10.0    | 5.6     | 10.4    | 11.6    |
| EPS rep growth  | %   | -10.6   | -43.7   | 84.9    | 11.6    |
| EPS adj         | sen | 10.0    | 5.6     | 10.4    | 11.6    |
| EPS adj growth  | %   | -10.6   | -43.7   | 84.9    | 11.6    |
| PER rep         | x   | 18.0    | 31.9    | 17.3    | 15.5    |
| PER adj         | x   | 18.0    | 31.9    | 17.3    | 15.5    |
| Total DPS       | sen | 7.0     | 5.0     | 8.0     | 8.0     |
| Total div yield | %   | 3.9     | 2.8     | 4.4     | 4.4     |
| ROA             | %   | 7.7     | 4.2     | 7.6     | 7.7     |
| ROE             | %   | 21.3    | 11.7    | 20.9    | 21.7    |
| EV/EBITDA       | x   | 10.3    | 14.4    | 9.1     | 8.4     |
| Net debt/equity | %   | -65.0   | -78.2   | -81.5   | -76.4   |
| P/BV            | x   | 3.7     | 3.8     | 3.5     | 3.2     |

## SCGB MK rel KLCI performance, &amp; 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: FactSet, Macquarie Research, October 2020

(all figures in MYR unless noted)

## Macquarie Governance and Risk Score (MGRS)

On our proprietary [Governance and Risk Score](#) Sunway Construction Group scores in the third quartile of our current universe coverage.

## Analysts

Macquarie Capital Securities (Malaysia) Sdn. Bhd.



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## Sunway Construction Group (SCGB MK)

### Orderbook support is good; wary on precast

## Key points

- Reiterate Neutral call on SunCon with maintained TP of RM1.80
- The recent announcement took SunCon's FY20E order wins to RM1.98bn, in line with its RM2bn target for the year
- We are cautious on the precast business, given the slowdown in HDB projects could lead to an impairment, as seen in Gamuda IBS earlier

## Event

- We reiterate our Neutral rating on SunCon with a maintained TP of RM1.80. SunCon has managed to come close to its FY20E order win target of RM2bn after the recent order win announcement – taking the YTD order wins to RM1.98bn. However, we note that 70% of the order wins this year have been contributed by the parent – Sunway Berhad. As such the reaction from the market was rather muted, despite delivering its target ahead of time. SunCon currently trades at 19x fwd PE, in line with its long-term average levels.

## Impact

- Further order wins would bring marginal impact to valuation.** Management's RM2bn order win target in FY20E is similar to our order win target for SunCon. At RM2bn order wins, with 15x FY21E EPS multiple, we value SunCon at RM1.80. Should SunCon continue winning new jobs in FY20E, every RM100mn additional order win impacts valuation by 0.6%.
- We remain wary of the precast business – impairment on the horizon?** Given that HDB in Singapore are currently focusing its resources in [helping households with their mortgage](#), we believe there will be limited launches going ahead and thus a bleak outlook for SunCon's precast order book replenishments. The recent [impairment by Gamuda IBS \(precast\) division](#) was driven by lack of projects/order wins – as such, SunCon would likely need to take the same drastic steps going ahead if the situation persists. The current utilisation rates of the plants are at 30% and 33%, respectively (**Fig 6**). SunCon will later expand the precast capacity when its JV plant in Singapore is completed 1Q22, where the JV had spent [S\\$80mn capex on the new plant](#).
- 5sen DPS (89% payout ratio) in FY20E is achievable.** Given the strong order book support from Sunway Berhad, we believe our assumptions of 5sen DPS in FY20E holds water, as the parent would likely need cash support in the midst of property market slowdown – with a net cash position of c.RM600mn, the estimated payout is achievable.

## Earnings and target price revision

- No change.

## Price catalyst

- 12-month price target: RM1.80 based on a PER methodology.
- Catalyst: More external order wins

## Action and recommendation

- Neutral rating is reiterated.

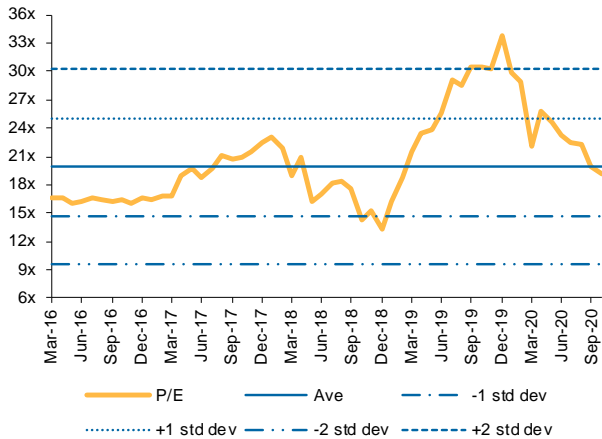
Analysis

Fig 1 SunCon's valuation

| Business Segments          | Valuation Method    | Stake | Estimates (RM 'mil) |
|----------------------------|---------------------|-------|---------------------|
| Construction and Precast   | PER of 15x in FY21E | 100%  | 1,773               |
| India Tollroad Maintenance | DCF, WACC @ 6.8%    | 60%   | 16                  |
| FY20E estimated net cash   |                     |       | 540                 |
| Sum of the parts (SOTP)    |                     |       | 2,328               |
| No. of shares ('mil)       |                     |       | 1,293               |
| <b>Target Price (RM)</b>   |                     |       | <b>1.80</b>         |

Source: Company data, Macquarie Research, October 2020

Fig 2 Fwd-PE is currently trading at its LT ave. levels despite the strong order win



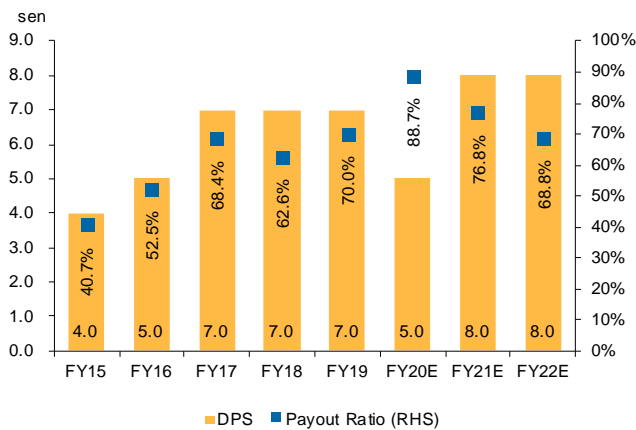
Source: Bloomberg, Company data, Macquarie Research, October 2020

Fig 3 Every additional RM100mn of order wins in FY20E will only increase SunCon's valuation by 0.6% based on FY21E valuation

| RM  | FY20E Orderbook Replenishment (RM 'mil) |       |       |       |       |
|-----|---|-------|-------|-------|-------|
|     | 2,000                                   | 2,100 | 2,200 | 2,300 | 2,400 |
| 13x | 1.62                                    | 1.63  | 1.63  | 1.64  | 1.65  |
| 14x | 1.71                                    | 1.72  | 1.73  | 1.74  | 1.74  |
| 15x | 1.80                                    | 1.81  | 1.82  | 1.83  | 1.84  |
| 16x | 1.89                                    | 1.90  | 1.91  | 1.92  | 1.93  |
| 17x | 1.98                                    | 1.99  | 2.01  | 2.02  | 2.03  |

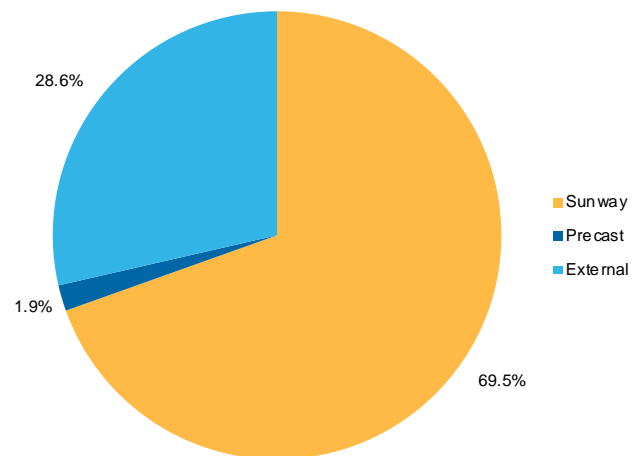
Source: Company data, Macquarie Research, October 2020

Fig 4 Dividend payout estimates for SunCon – high payout ratio in FY20E will be supported by its c.RM600mn net cash



Source: Company data, Macquarie Research, October 2020

Fig 5 Breakdown of YTD order wins; outstanding orderbook is estimated to stand at RM6.2bn



Source: Company data, Macquarie Research, October 2020

Fig 6 SunCon's precast plant utilisation rate – this is before the completion of its ICPH (integrated concrete pile hub) in Pulau Punggol Barat, set to commence operations in 1Q22

| Plant   | Area (sq. ft.)   | Max Annual Capacity (m <sup>3</sup> ) | Utilisation rate 2020 (%) | Utilisation rate 2019 (%) | Utilisation rate 2018 (%) | No. of lines            |
|---|--|---------------------------------------|---------------------------|---------------------------|---------------------------|-------------------------|
| <b>Senai Plant (own)</b>  | <b>Built up area :<br/>262,231<br/>Land area :<br/>475,409</b> | <b>75,000</b>                         | <b>30%</b>                | <b>34%</b>                | <b>58%</b>                | <b>6+3 (half) lines</b> |
| <b>Iskandar Plant (rented)</b><br><b>5 years Pioneer Status</b> | <b>Land area :<br/>9 hectares</b>                              | <b>81,600</b>                         | <b>33%</b>                | <b>56%</b>                | <b>39%</b>                | <b>9 lines</b>          |

Source: Company data, Macquarie Research, October 2020

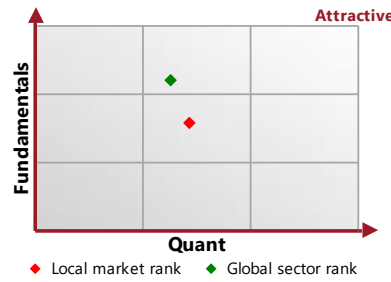
# Macquarie Quant Alpha Model Views

The quant model currently holds a neutral view on Sunway Construction Group. The strongest style exposure is Valuations, indicating this stock is under-priced in the market relative to its peers. 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.

**1164/1998**

Global rank in Capital Goods

% of BUY recommendations: 71% (10/14)  
 Number of Price Target downgrades: 0  
 Number of Price Target upgrades: 1

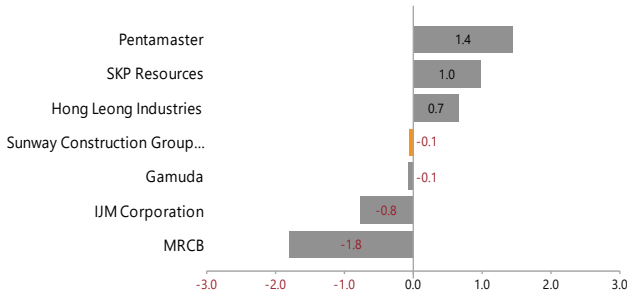


Displays where the company's ranked based on the fundamental consensus Price Target and Macquarie's Quantitative Alpha model.

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

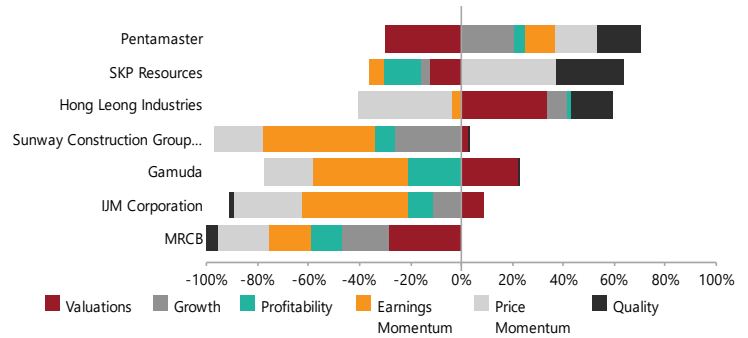
## Macquarie Alpha Model ranking

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



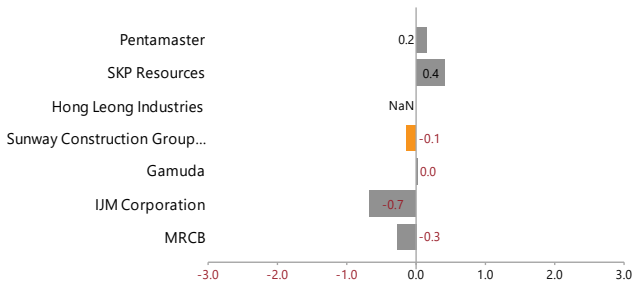
## Factors driving the Alpha Model

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



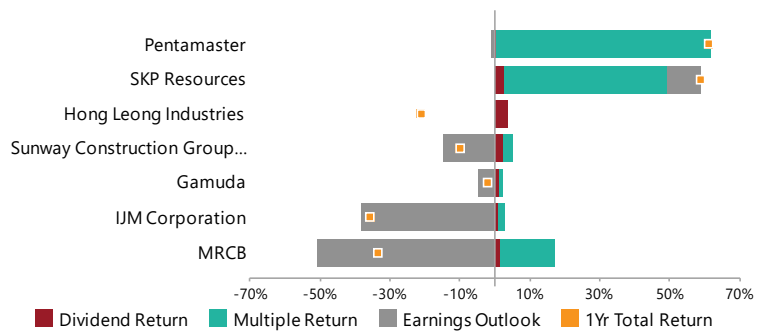
## Macquarie Earnings Sentiment Indicator

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.



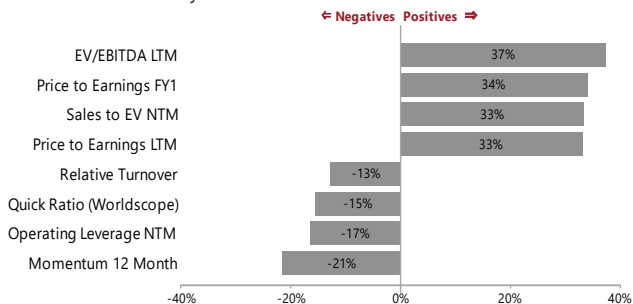
## Drivers of Stock Return

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



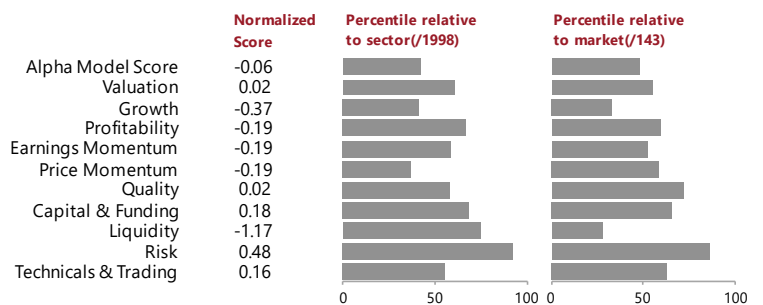
## What drove this Company in the last 5 years

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](mailto:cpg@macquarie.com))

**Sunway Construction Group (SCGB MK, Neutral, Target Price: RM1.80)**

| Interim Results               |     | 2H/19A       | 1H/20E       | 2H/20E       | 1H/21E       | Profit & Loss              |       |              |              |              |              |
|-------------------------------|-----|--------------|--------------|--------------|--------------|----------------------------|-------|--------------|--------------|--------------|--------------|
|                               |     |              |              |              |              | 2019A                      | 2020E | 2021E        | 2022E        |              |              |
| Revenue                       | m   | 973          | 691          | 844          | 1,068        | Revenue                    | m     | 1,769        | 1,535        | 2,374        | 2,396        |
| Gross Profit                  | m   | 100          | 58           | 70           | 90           | Gross Profit               | m     | 181          | 128          | 200          | 219          |
| Cost of Goods Sold            | m   | 873          | 633          | 774          | 978          | Cost of Goods Sold         | m     | 1,587        | 1,407        | 2,174        | 2,177        |
| EBITDA                        | m   | 100          | 58           | 70           | 90           | EBITDA                     | m     | 181          | 128          | 200          | 219          |
| Depreciation                  | m   | 22           | 23           | 28           | 25           | Depreciation               | m     | 40           | 50           | 55           | 58           |
| Amortisation of Goodwill      | m   | 0            | 0            | 0            | 0            | Amortisation of Goodwill   | m     | 0            | 0            | 0            | 0            |
| Other Amortisation            | m   | 0            | 0            | 0            | 0            | Other Amortisation         | m     | 0            | 0            | 0            | 0            |
| EBIT                          | m   | 78           | 35           | 43           | 65           | EBIT                       | m     | 141          | 77           | 145          | 161          |
| Net Interest Income           | m   | -7           | -8           | -10          | -8           | Net Interest Income        | m     | -13          | -18          | -17          | -16          |
| Associates                    | m   | 2            | 3            | 3            | 4            | Associates                 | m     | 4            | 6            | 10           | 10           |
| Exceptionals                  | m   | 0            | 0            | 0            | 0            | Exceptionals               | m     | 0            | 0            | 0            | 0            |
| Forex Gains / Losses          | m   | 0            | 0            | 0            | 0            | Forex Gains / Losses       | m     | 0            | 0            | 0            | 0            |
| Other Pre-Tax Income          | m   | 14           | 13           | 16           | 15           | Other Pre-Tax Income       | m     | 25           | 28           | 34           | 35           |
| Pre-Tax Profit                | m   | 87           | 42           | 51           | 77           | Pre-Tax Profit             | m     | 157          | 94           | 172          | 189          |
| Tax Expense                   | m   | -15          | -9           | -11          | -16          | Tax Expense                | m     | -27          | -20          | -36          | -38          |
| Net Profit                    | m   | 72           | 33           | 41           | 61           | Net Profit                 | m     | 130          | 74           | 136          | 151          |
| Minority Interests            | m   | -1           | -0           | -1           | -0           | Minority Interests         | m     | -1           | -1           | -1           | -1           |
| Reported Earnings             | m   | 71           | 33           | 40           | 61           | Reported Earnings          | m     | 129          | 73           | 135          | 150          |
| Adjusted Earnings             | m   | 71           | 33           | 40           | 61           | Adjusted Earnings          | m     | 129          | 73           | 135          | 150          |
| EPS (rep)                     | sen | 5.5          | 2.5          | 3.1          | 4.7          | EPS (rep)                  | sen   | 10.0         | 5.6          | 10.4         | 11.6         |
| EPS (adj)                     | sen | 5.5          | 2.5          | 3.1          | 4.7          | EPS (adj)                  | sen   | 10.0         | 5.6          | 10.4         | 11.6         |
| EPS Growth yoy (adj)          | %   | -10.6        | -43.7        | -43.7        | 84.9         | EPS Growth (adj)           | %     | -10.6        | -43.7        | 84.9         | 11.6         |
|                               |     |              |              |              |              | PE (rep)                   | x     | 18.0         | 31.9         | 17.3         | 15.5         |
|                               |     |              |              |              |              | PE (adj)                   | x     | 18.0         | 31.9         | 17.3         | 15.5         |
| EBITDA Margin                 | %   | 10.2         | 8.3          | 8.3          | 8.4          | Total DPS                  | sen   | 7.0          | 5.0          | 8.0          | 8.0          |
| EBIT Margin                   | %   | 8.0          | 5.0          | 5.0          | 6.1          | Total Div Yield            | %     | 3.9          | 2.8          | 4.4          | 4.4          |
| Earnings Split                | %   | 55.0         | 45.0         | 55.0         | 45.0         | Basic Shares Outstanding   | m     | 1,293        | 1,293        | 1,293        | 1,293        |
| Revenue Growth                | %   | -21.6        | -13.2        | -13.2        | 54.7         | Diluted Shares Outstanding | m     | 1,293        | 1,293        | 1,293        | 1,293        |
| EBIT Growth                   | %   | -19.2        | -45.1        | -45.1        | 87.7         |                            |       |              |              |              |              |
| <b>Profit and Loss Ratios</b> |     | <b>2019A</b> | <b>2020E</b> | <b>2021E</b> | <b>2022E</b> | <b>Cashflow Analysis</b>   |       | <b>2019A</b> | <b>2020E</b> | <b>2021E</b> | <b>2022E</b> |
| Revenue Growth                | %   | -21.6        | -13.2        | 54.7         | 0.9          | EBITDA                     | m     | 181          | 128          | 200          | 219          |
| EBITDA Growth                 | %   | -15.5        | -29.5        | 56.7         | 9.3          | Tax Paid                   | m     | -38          | -20          | -36          | -38          |
| EBIT Growth                   | %   | -19.2        | -45.1        | 87.7         | 10.5         | Chgs in Working Cap        | m     | 28           | 116          | -15          | -72          |
| Gross Profit Margin           | %   | 10.2         | 8.3          | 8.4          | 9.1          | Net Interest Paid          | m     | 12           | 10           | 17           | 19           |
| EBITDA Margin                 | %   | 10.2         | 8.3          | 8.4          | 9.1          | Other                      | m     | 5            | 5            | 5            | 5            |
| EBIT Margin                   | %   | 8.0          | 5.0          | 6.1          | 6.7          | Operating Cashflow         | m     | 188          | 239          | 171          | 133          |
| Net Profit Margin             | %   | 7.3          | 4.7          | 5.7          | 6.3          | Acquisitions               | m     | 0            | 0            | 0            | 0            |
| Payout Ratio                  | %   | 70.0         | 88.7         | 76.8         | 68.8         | Capex                      | m     | -8           | -71          | -45          | -48          |
| EV/EBITDA                     | x   | 10.3         | 14.4         | 9.1          | 8.4          | Asset Sales                | m     | 4            | 0            | 0            | 0            |
| EV/EBIT                       | x   | 13.2         | 23.0         | 12.4         | 11.3         | Other                      | m     | -47          | 0            | 0            | 0            |
| <b>Balance Sheet Ratios</b>   |     |              |              |              |              | Investing Cashflow         | m     | -51          | -71          | -45          | -48          |
| ROE                           | %   | 21.3         | 11.7         | 20.9         | 21.7         | Dividend (Ordinary)        | m     | -90          | -78          | -84          | -103         |
| ROA                           | %   | 7.7          | 4.2          | 7.6          | 7.7          | Equity Raised              | m     | -6           | 0            | 0            | 0            |
| ROIC                          | %   | 52.8         | 28.0         | 84.9         | 103.2        | Debt Movements             | m     | 168          | 7            | -12          | -18          |
| Net Debt/Equity               | %   | -65.0        | -78.2        | -81.5        | -76.4        | Other                      | m     | -0           | -0           | -0           | -0           |
| Interest Cover                | x   | 10.7         | 4.2          | 8.4          | 10.0         | Financing Cashflow         | m     | 72           | -71          | -96          | -122         |
| Price/Book                    | x   | 3.7          | 3.8          | 3.5          | 3.2          | Net Chg in Cash/Debt       | m     | 208          | 87           | 50           | -16          |
| Book Value per Share          |     | 0.5          | 0.5          | 0.5          | 0.6          | Free Cashflow              | m     | 180          | 168          | 126          | 85           |
|                               |     |              |              |              |              | <b>Balance Sheet</b>       |       | <b>2019A</b> | <b>2020E</b> | <b>2021E</b> | <b>2022E</b> |
|                               |     |              |              |              |              | Cash                       | m     | 693          | 780          | 830          | 814          |
|                               |     |              |              |              |              | Receivables                | m     | 841          | 589          | 846          | 919          |
|                               |     |              |              |              |              | Inventories                | m     | 25           | 19           | 30           | 30           |
|                               |     |              |              |              |              | Investments                | m     | 0            | 0            | 0            | 0            |
|                               |     |              |              |              |              | Fixed Assets               | m     | 139          | 171          | 145          | 118          |
|                               |     |              |              |              |              | Intangibles                | m     | 4            | 4            | 4            | 4            |
|                               |     |              |              |              |              | Other Assets               | m     | 203          | 203          | 203          | 203          |
|                               |     |              |              |              |              | Total Assets               | m     | 1,905        | 1,766        | 2,058        | 2,089        |
|                               |     |              |              |              |              | Payables                   | m     | 605          | 463          | 715          | 716          |
|                               |     |              |              |              |              | Short Term Debt            | m     | 233          | 240          | 228          | 210          |
|                               |     |              |              |              |              | Long Term Debt             | m     | 53           | 53           | 53           | 53           |
|                               |     |              |              |              |              | Provisions                 | m     | 0            | 0            | 0            | 0            |
|                               |     |              |              |              |              | Other Liabilities          | m     | 388          | 388          | 388          | 388          |
|                               |     |              |              |              |              | Total Liabilities          | m     | 1,280        | 1,144        | 1,384        | 1,367        |
|                               |     |              |              |              |              | Shareholders' Funds        | m     | 661          | 657          | 708          | 755          |
|                               |     |              |              |              |              | Minority Interests         | m     | 2            | 3            | 4            | 5            |
|                               |     |              |              |              |              | Other                      | m     | -38          | -38          | -38          | -38          |
|                               |     |              |              |              |              | Total S/H Equity           | m     | 625          | 622          | 674          | 722          |
|                               |     |              |              |              |              | Total Liab & S/H Funds     | m     | 1,905        | 1,766        | 2,058        | 2,089        |

All figures in MYR unless noted.

Source: Company data, Macquarie Research, October 2020

## 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

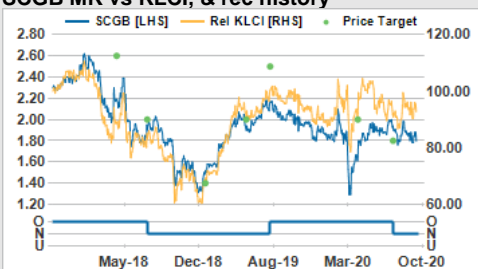
\*equivalent fully paid ordinary weighted average number of shares

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

## Recommendation proportions – For quarter ending 30 Sept 2020

|              | AU/NZ  | Asia   | USA    |   |
|--------------|--------|--------|--------|---|
| Outperform   | 56.27% | 63.55% | 63.04% | (for global coverage by Macquarie, 4.95% of stocks followed are investment banking clients) |
| Neutral      | 29.49% | 21.61% | 36.96% | (for global coverage by Macquarie, 4.25% of stocks followed are investment banking clients) |
| Underperform | 14.24% | 14.84% | 0.00%  | (for global coverage by Macquarie, 2.37% of stocks followed are investment banking clients) |

## SCGB MK vs KLCI, &amp; rec history



(all figures in MYR currency unless noted)

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, October 2020

## 12-month target price methodology

SCGB MK: RM1.80 based on a PER methodology

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| Date        | Stock Code (BVG code) | Recommendation | Target Price |
|-------------|-----------------------|----------------|--------------|
| 29-Jul-2020 | SCGB MK               | Neutral        | RM1.80       |
| 14-Apr-2020 | SCGB MK               | Outperform     | RM2.00       |
| 25-Jul-2019 | SCGB MK               | Outperform     | RM2.50       |
| 14-May-2019 | SCGB MK               | Neutral        | RM2.00       |
| 11-Jan-2019 | SCGB MK               | Neutral        | RM1.40       |
| 20-Jul-2018 | SCGB MK               | Neutral        | RM2.00       |
| 19-Apr-2018 | SCGB MK               | Outperform     | RM2.60       |

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