

19 July 2018

Malaysia

EQUITIES

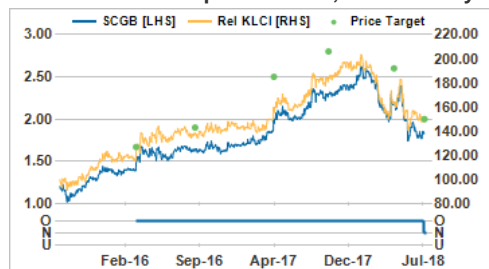
SCGB MK Neutral
Price (at 10:40, 19 Jul 2018 GMT) RM1.95

Valuation	RM	1.66-2.37
- PER		
12-month target	RM	2.00
Upside/Downside	%	+2.6
12-month TSR	%	+7.0
Volatility Index		Low/Medium
GICS sector		Capital Goods
Market cap	RMm	2,521
Market cap	US\$m	583
Free float	%	27
30-day avg turnover	US\$m	0.2
Number shares on issue	m	1,293

Investment fundamentals

Year end 31 Dec		2017A	2018E	2019E	2020E
Revenue	m	2,076.3	2,162.1	2,583.0	2,311.7
EBITDA	m	202.4	222.2	259.0	252.3
EBIT	m	164.6	178.6	208.6	198.3
Reported profit	m	137.8	149.0	173.4	168.4
Adjusted profit	m	137.8	149.0	173.4	168.4
EPS rep	sen	10.7	11.5	13.4	13.0
EPS rep growth	%	11.9	8.1	16.4	-2.9
EPS adj	sen	10.7	11.5	13.4	13.0
EPS adj growth	%	11.9	8.1	16.4	-2.9
PER rep	x	18.3	16.9	14.5	15.0
PER adj	x	18.3	16.9	14.5	15.0
Total DPS	sen	7.0	8.0	9.0	10.0
Total div yield	%	3.6	4.1	4.6	5.1
ROA	%	9.5	9.7	11.6	10.9
ROE	%	26.3	25.9	27.6	24.9
EV/EBITDA	x	10.6	9.7	8.4	8.6
Net debt/equity	%	-63.5	-45.0	-48.9	-79.4
P/BV	x	4.6	4.2	3.8	3.6

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: FactSet, Macquarie Research, July 2018
(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

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Sunway Construction Group

Insufficient fuel for take-off

Key points

- ▶ We downgrade SunCon to Neutral (from Outperform), with a reduced target price of RM2.00 (from RM2.60).
- ▶ SunCon's heavy reliance (70% of outstanding orderbook) on government projects poses a threat to its orderbook outlook, in our view.
- ▶ We cut our estimates following a revision in the FY18E orderbook replenishment target from RM2bn to RM1.5bn.

Event

- Sunway Construction (SunCon) has relied heavily on government projects in its previous orderbook replenishment exercises. As the new government begins to clamp down on future spending, this poses a risk to SunCon's orderbook outlook. We estimate c.70% of its outstanding orderbook came from the government and its GLCs. Against this backdrop, we downgrade SunCon to Neutral and revise our TP by -23% from RM2.60 to RM2.00. Among other adjustments, we reduce our FY18E order win target from RM2bn to RM1.5bn. Our new TP of RM2.00 implies a 15x multiple to SunCon's FY19E EPS, a touch below its long-term fwd-PE average of 16x.

Impact

- **Earnings to peak in FY19E; more support from Sunway Berhad going ahead.** SunCon recorded order wins of >RM2.5bn in FY15-17 which now provide earnings visibility to the group until FY20E. However, with order wins of RM1.5bn/FY in FY18-20E, we believe earnings will peak in FY19E. YTD SunCon recorded an order win of RM842mn, with at least RM700mn coming from its parent – Sunway Berhad (Sunway). SunCon targets to secure another c.RM800mn in new orders to meet its FY18E order win target of RM1.5bn. Based on Sunway's project pipeline, it is looking to build three new medical centres and a mall in 2019, with a combined value of c.RM900mn – we believe these projects will likely be awarded to SunCon in FY19E. Going forward SunCon is also planning to venture into projects in the ASEAN region, given the potential slowdown in Malaysian construction sector.
- **Limited downside despite looming LRT3 and MRT2 cost cuts.** Based on our estimates, every 10% change in LRT3 and MRT2 contract values would reduce our fair value by -1.6% and -1.2%, respectively. However, we estimate SunCon to pay a DPS of 8.0sen in FY18E, tantamount to a 4.1% dividend yield, which should provide additional downside support to the share price.

Earnings and target price revision

- Following earnings adjustments, we lower our FY18-20E EPS -17%/-20%/-34%, respectively. TP revised to RM2.00 from RM2.60 previously.

Price catalyst

- 12-month price target: RM2.00 based on a PER methodology.
- Catalyst: Further clarity by government on LRT3 and MRT2 cost cuts.

Action and recommendation

- Downgrade to Neutral.

Analysis

We downgrade SunCon to Neutral from Outperform and reduce our TP from RM2.60 to RM2.00 due to the following changes:

- Revised FY18E order wins from RM2bn to RM1.5bn as we believe it will be challenging for SunCon to obtain order wins of such quantum due to the government's reduction in spending, with every RM100mn change in order wins (from our base case) changing our fair value by 1%;
- From the amount above, we reduced SunCon's FY18E precast order win from RM250mn to RM100mn given the lack of precast orders recorded YTD. This brings a significant impact to the earnings given that precast products deliver higher margins with a higher turnover; and
- We spread out the construction progress of LRT3 from 3.5 years to 4.5 years following MoF's recent announcement to extend the project's timeline to reduce overtime payments. However we have not factored in the reduction in LRT3 and MRT2 (potentially) project value, until the figures are finalised by the government. Based on our estimates, every 10% change in LRT3 and MRT2 contract values, will reduce our fair value by -1.6% and -1.2%, respectively.

Fig 1 SunCon valuation

Item	Valuation Method	Stake	New Estimates (RM 'mil)	Old Estimates (RM 'mil)	Change (%)
Construction and Precast	PER of 14x in FY19E	100%	2,313	3,069	-25%
FY18E estimated net cash			270	291	-7%
Valuation			2,583	3,360	-23%
No. of shares ('mil)			1,293	1,293	0%
Target Price (RM)			2.00	2.60	-23%

Scenario	Bear	Base	Bull
Fair value (RM)	1.66	2.00	2.37
Implied PE	12x	15x	17x
Upside (%)	-14.6%	3.1%	22.2%
Dividend Yield (%)	4.1%	4.1%	4.1%
TSR (%)	-10.5%	7.2%	26.3%

Key Assumptions

Orderbook replenishment FY18E	1,000	1,500	2,000
Orderbook replenishment FY19E	1,000	1,500	2,000
Target PE	12x	14x	16x

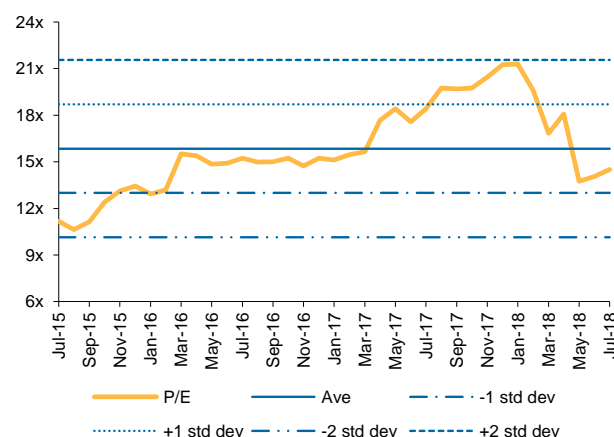
Source: Company data, Bloomberg, Macquarie Research, July 2018; share price as at 19 July 2018 close

Fig 2 Orderbook and target PE sensitivity

Target PE	FY18E-19E Orderbook Replenishment (RM 'mil)				
	2,000	2,500	3,000	3,500	4,000
12x	1.66	1.70	1.74	1.79	1.83
13x	1.78	1.82	1.87	1.92	1.96
14x	1.90	1.95	2.00	2.05	2.10
15x	2.02	2.07	2.13	2.18	2.23
16x	2.14	2.19	2.25	2.31	2.37
17x	2.26	2.32	2.38	2.44	2.51

Source: Company data, Macquarie Research, July 2018

Fig 3 SunCon's fwd-rolling PE



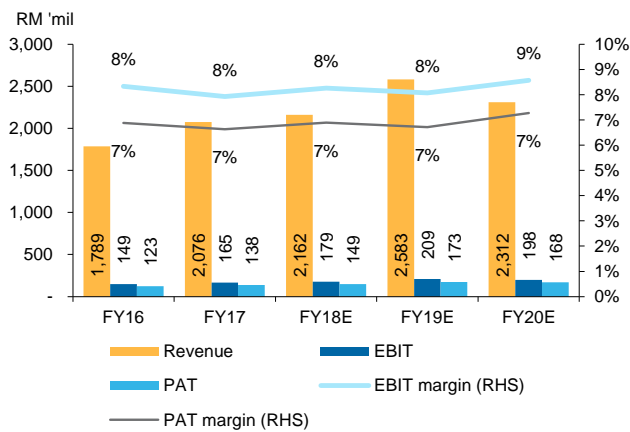
Source: Company data, Macquarie Research, July 2018

Financials

Prior to FY18E, SunCon has been registering order wins of above RM2.5bn/FY in FY15-17. Based on our order win targets of RM1.5bn/FY in FY18-20E, we believe SunCon's earnings will peak in FY19E. Going ahead, we estimate margins will remain stable as the higher margins from construction is offset by the lower margins from the precast division. The precast division is facing headwinds from higher material costs as well as lower ASPs due to the stiff competition in the HDB market.

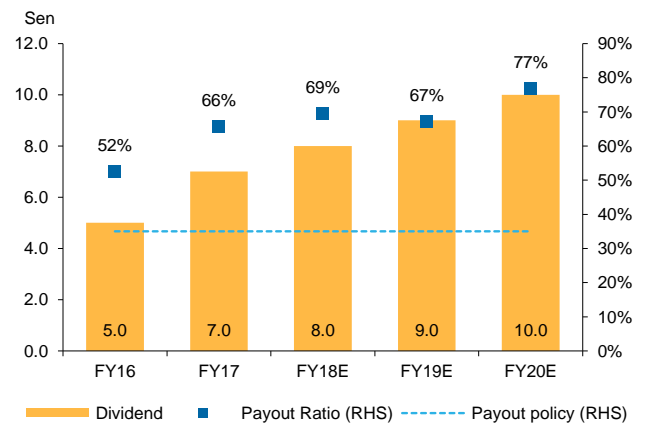
According to management, it will continue to bring dividend growth to investors going ahead, given the company's strong cash balance. In FY18E, we estimate a dividend payout of 69% tantamount to dividend per share of 8.0sen.

Fig 4 Earnings to peak in FY19E



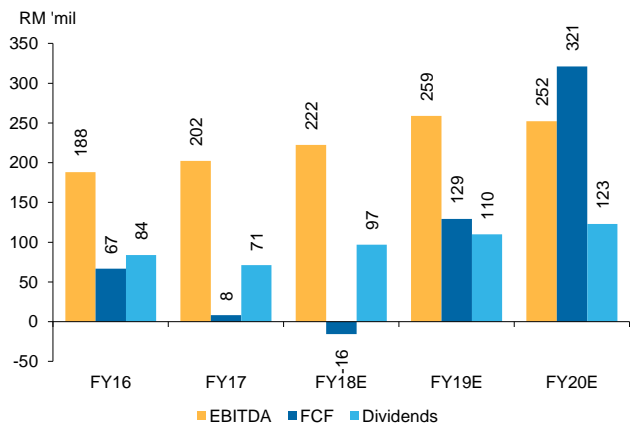
Source: Company data, Macquarie Research, July 2018

Fig 5 Dividend outlook still on an uptrend



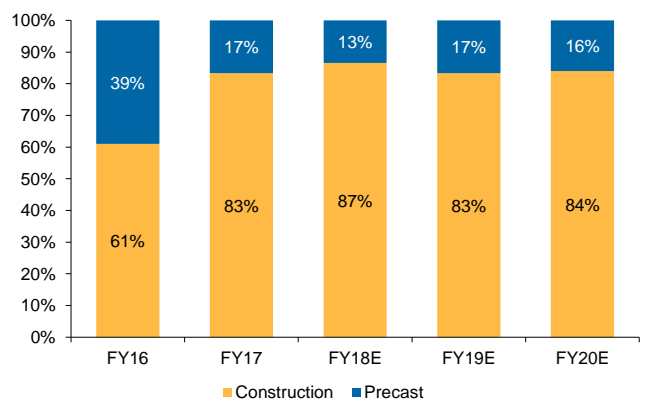
Source: Company data, Macquarie Research, July 2018

Fig 6 Strong FCF balance brings headroom for dividend growth



Source: Company data, Macquarie Research, July 2018

Fig 7 EBIT contribution by division



Source: Company data, Macquarie Research, July 2018

Fig 8 Change in estimates

RM 'mil	New estimates			Old estimates			Change in estimates		
	FY18E	FY19E	FY20E	FY18E	FY19E	FY20E	FY18E	FY19E	FY20E
Revenue	2,162	2,583	2,312	2,578	2,959	2,741	-16%	-13%	-16%
EBIT	179	209	198	218	259	290	-18%	-20%	-32%
Profit before tax	189	217	211	229	270	305	-17%	-20%	-31%
Adjusted net profit	149	173	168	181	216	255	-17%	-20%	-34%
Diluted EPS (sen)	12	13	13	14	17	20	-17%	-20%	-34%

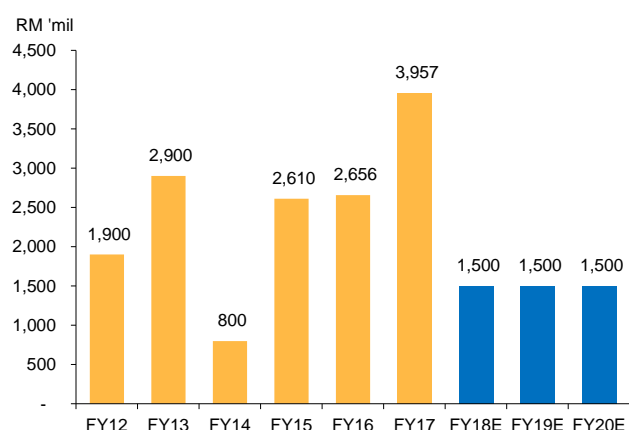
Source: Macquarie Research, July 2018

Fig 9 Macquarie vs. consensus

RM 'mil	Macquarie			Consensus			Difference		
	FY18E	FY19E	FY20E	FY18E	FY19E	FY20E	FY18E	FY19E	FY20E
Revenue	2,162	2,583	2,312	2,587	2,876	2,849	-16%	-10%	-19%
EBIT	179	209	198	216	240	248	-17%	-13%	-20%
Profit before tax	189	217	211	223	250	263	-16%	-13%	-20%
Adjusted net profit	149	173	168	171	191	204	-13%	-9%	-18%
Diluted EPS (sen)	12	13	13	13	15	16	-13%	-10%	-16%

Source: Bloomberg, Macquarie Research, July 2018

Fig 10 Order wins – history and forecast



Source: Company data, Macquarie Research, July 2018

Fig 11 YTD order wins

Project	Value (RM 'mil)
Sunway Medical Centre Seberang Jaya	180
Sunway Carnival Extension	274
Sunway GEOLake	223
Others (Inhouse)	35
Precast	55
Piling	75
Total	842

Source: Company data, July 2018

Fig 12 SunCon's orderbook

Project	Completion Period	Contract Value (RM 'mil)	Outstanding value (RM 'mil)	% Completion
External				
Putrajaya Parcel F	1Q19	1,610	707	56%
KLCC (NEC + 2 + 2A)	2Q18	646	98	85%
HUKM (MEP works)	2Q18	66	45	32%
International School of Kuala Lumpur	2Q18	268	133	50%
Gas District Cooling (Plant 1)	3Q18	152	102	33%
PP1AM Kota Bharu	1Q20	582	540	7%
Warehouse in Shah Alam	3Q19	70	70	0%
MRT V201 (Sg. Buloh - Persiaran Dagang)	2Q21	1,213	871	28%
MRT V201 - Advance Works	1Q18	53	19	64%
SUKE & DASH (Piling)	2Q18	34	21	38%
BBCC (Piling)	1Q18	108	78	28%
LRT3 (GS07 & GS08)	4Q20	2,178	2,150	1%
Total		6,980	4,834	31%
Internal				
Sunway Velocity Hotel + Office	4Q17	101	3	97%
Sunway Velocity Medical Centre	4Q18	185	128	31%
Sunway Medical Centre Phase 4	1Q19	428	383	11%
Sunway Iskandar Citrine Service Apartment	1Q18	213	12	94%
Sunway Geo Retail Shops & Flexi Suites Phase 2	1Q18	244	19	92%
Sunway Iskandar - Emerald Residences	1Q18	175	32	82%
Sunway Iskandar - 88 units shoplots	2Q18	57	13	77%
Sunway Iskandar - Big Box	1Q18	100	70	30%
Sunway Serene	4Q20	449	426	5%
Sunway Carnival 2	4Q20	274	274	0%
SunGeo Lake	2Q21	223	223	0%
Total		2,226	1,360	39%
Precast				
Singapore HDB	2Q19	846	252	70%
Total		846	252	70%
Grand Total		10,052	6,446	36%

Source: Company data, Macquarie Research, July 2018

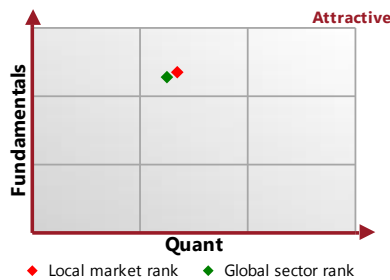
Macquarie Quant View

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 Price Momentum, indicating this stock has had weak medium to long term returns which often persist into the future.

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Global rank in Capital Goods

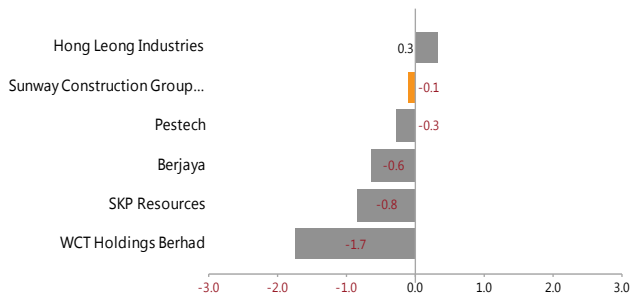
% of BUY recommendations 54% (7/13)
Number of Price Target downgrades 3
Number of Price Target upgrades 0



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)

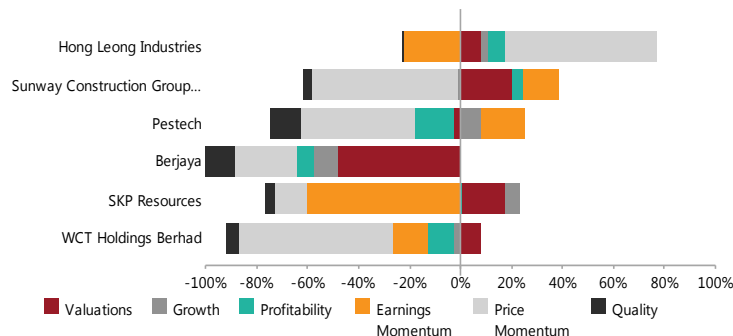
Macquarie Alpha Model ranking

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



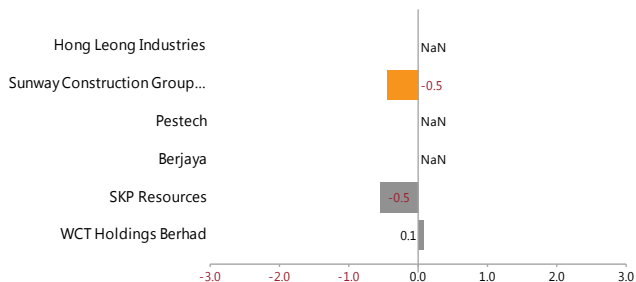
Factors driving the Alpha Model

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



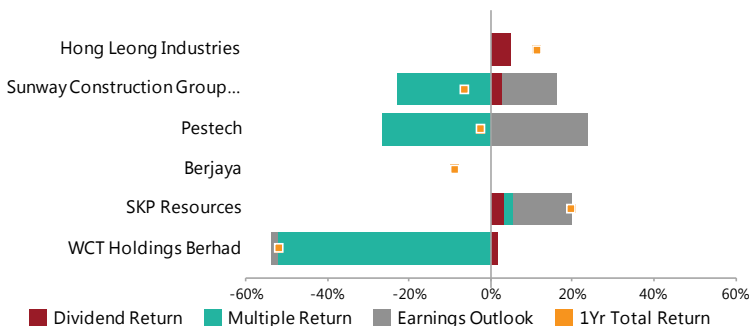
Macquarie Earnings Sentiment Indicator

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.



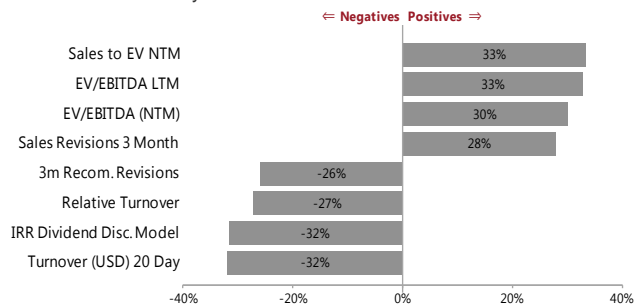
Drivers of Stock Return

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



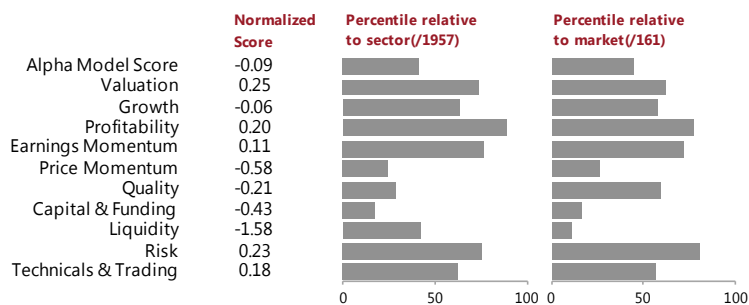
What drove this Company in the last 5 years

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 Research. For more details on the Macquarie Alpha model or for more customised analysis and screens, please contact the Macquarie Global Quantitative/Custom Products Group (cpq@macquarie.com)

Sunway Construction Group (SCGB MK, Neutral, Target Price: RM2.00)

Interim Results					Profit & Loss						
		2H/17A	1H/18E	2H/18E	1H/19E		2017A	2018E	2019E	2020E	
Revenue	m	1,240	973	1,189	1,162	Revenue	m	2,076	2,162	2,583	2,312
Gross Profit	m	126	100	122	117	Gross Profit	m	202	222	259	252
Cost of Goods Sold	m	1,113	873	1,067	1,046	Cost of Goods Sold	m	1,874	1,940	2,324	2,059
EBITDA	m	126	100	122	117	EBITDA	m	202	222	259	252
Depreciation	m	19	20	24	23	Depreciation	m	38	44	50	54
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	107	80	98	94	EBIT	m	165	179	209	198
Net Interest Income	m	-4	-1	-1	-1	Net Interest Income	m	-6	-3	-3	-3
Associates	m	1	0	1	0	Associates	m	2	1	0	0
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	8	5	6	5	Other Pre-Tax Income	m	13	12	11	15
Pre-Tax Profit	m	112	85	104	98	Pre-Tax Profit	m	174	189	217	211
Tax Expense	m	-21	-18	-22	-20	Tax Expense	m	-36	-40	-43	-42
Net Profit	m	92	67	82	78	Net Profit	m	138	149	173	168
Minority Interests	m	-0	-0	-0	-0	Minority Interests	m	-0	-0	-0	-0
Reported Earnings	m	91	67	82	78	Reported Earnings	m	138	149	173	168
Adjusted Earnings	m	91	67	82	78	Adjusted Earnings	m	138	149	173	168
EPS (rep)	sen	7.1	5.2	6.3	6.0	EPS (rep)	sen	10.7	11.5	13.4	13.0
EPS (adj)	sen	7.1	5.2	6.3	6.0	EPS (adj)	sen	10.7	11.5	13.4	13.0
EPS Growth yoy (adj)	%	34.8	44.2	-10.3	16.4	EPS Growth (adj)	%	11.9	8.1	16.4	-2.9
						PE (rep)	x	18.3	16.9	14.5	15.0
						PE (adj)	x	18.3	16.9	14.5	15.0
EBITDA Margin	%	10.2	10.3	10.3	10.0	Total DPS	sen	7.0	8.0	9.0	10.0
EBIT Margin	%	8.6	8.3	8.3	8.1	Total Div Yield	%	3.6	4.1	4.6	5.1
Earnings Split	%	66.3	45.0	55.0	45.0	Basic Shares Outstanding	m	1,293	1,293	1,293	1,293
Revenue Growth	%	26.0	16.3	-4.1	19.5	Diluted Shares Outstanding	m	1,293	1,293	1,293	1,293
EBIT Growth	%	30.1	38.9	-8.0	16.8						
Profit and Loss Ratios					Cashflow Analysis						
		2017A	2018E	2019E	2020E		2017A	2018E	2019E	2020E	
Revenue Growth	%	16.1	4.1	19.5	-10.5	EBITDA	m	202	222	259	252
EBITDA Growth	%	7.5	9.8	16.6	-2.6	Tax Paid	m	-37	-40	-43	-42
EBIT Growth	%	10.3	8.5	16.8	-4.9	Chgs in Working Cap	m	112	-101	13	155
Gross Profit Margin	%	9.7	10.3	10.0	10.9	Net Interest Paid	m	7	9	8	12
EBITDA Margin	%	9.7	10.3	10.0	10.9	Other	m	-222	0	0	0
EBIT Margin	%	7.9	8.3	8.1	8.6	Operating Cashflow	m	63	90	237	377
Net Profit Margin	%	6.6	6.9	6.7	7.3	Acquisitions	m	0	0	0	0
Payout Ratio	%	65.7	69.4	67.1	76.8	Capex	m	-55	-106	-108	-56
EV/EBITDA	x	10.6	9.7	8.4	8.6	Asset Sales	m	6	0	0	0
EV/EBIT	x	13.0	12.1	10.4	10.9	Other	m	83	0	0	0
Balance Sheet Ratios						Investing Cashflow	m	35	-106	-108	-56
ROE	%	26.3	25.9	27.6	24.9	Dividend (Ordinary)	m	-71	-97	-110	-123
ROA	%	9.5	9.7	11.6	10.9	Equity Raised	m	-1	0	0	0
ROIC	%	79.9	69.8	50.6	47.2	Debt Movements	m	-2	-24	6	6
Net Debt/Equity	%	-63.5	-45.0	-48.9	-79.4	Other	m	-0	0	0	0
Interest Cover	x	27.1	65.6	72.9	66.0	Financing Cashflow	m	-74	-121	-104	-117
Price/Book	x	4.6	4.2	3.8	3.6	Net Chg in Cash/Debt	m	20	-107	57	238
Book Value per Share		0.4	0.5	0.5	0.5	Free Cashflow	m	8	-16	129	321
						Balance Sheet		2017A	2018E	2019E	2020E
						Cash	m	487	380	437	675
						Receivables	m	1,066	1,037	991	823
						Inventories	m	24	25	30	27
						Investments	m	0	0	0	0
						Fixed Assets	m	150	176	195	157
						Intangibles	m	4	4	4	4
						Other Assets	m	156	156	156	156
						Total Assets	m	1,887	1,778	1,813	1,842
						Payables	m	794	664	637	621
						Short Term Debt	m	135	110	116	122
						Long Term Debt	m	0	0	0	0
						Provisions	m	0	0	0	0
						Other Liabilities	m	403	403	403	403
						Total Liabilities	m	1,332	1,178	1,156	1,146
						Shareholders' Funds	m	592	637	694	733
						Minority Interests	m	1	1	1	1
						Other	m	-38	-38	-38	-38
						Total S/H Equity	m	555	600	657	696
						Total Liab & S/H Funds	m	1,887	1,778	1,813	1,842

All figures in MYR unless noted.

Source: Company data, Macquarie Research, July 2018

Important disclosures:

Recommendation definitions

Macquarie - Australia/New Zealand

Outperform – return >3% in excess of benchmark return
 Neutral – return within 3% of benchmark return
 Underperform – return >3% below benchmark return

Benchmark return is determined by long term nominal GDP growth plus 12 month forward market dividend yield, which is currently around 9%.

Macquarie – Asia/Europe

Outperform – expected return >+10%
 Neutral – expected return from -10% to +10%
 Underperform – expected return <-10%

Macquarie – South Africa

Outperform – expected return >+10%
 Neutral – expected return from -10% to +10%
 Underperform – expected return <-10%

Macquarie - Canada

Outperform – return >5% in excess of benchmark return
 Neutral – return within 5% of benchmark return
 Underperform – return >5% below benchmark return

Macquarie - USA

Outperform (Buy) – return >5% in excess of Russell 3000 index return
 Neutral (Hold) – return within 5% of Russell 3000 index return
 Underperform (Sell) – return >5% below Russell 3000 index return

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 Asia/Australian/NZ/Canada stocks only

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 / epowa*

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

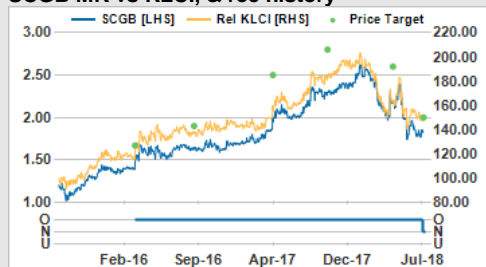
*equivalent fully paid ordinary weighted average number of shares

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

Recommendation proportions – For quarter ending 30 June 2018

	AU/NZ	Asia	RSA	USA	CA	EUR	
Outperform	52.87%	61.26%	48.86%	47.54%	69.86%	46.61%	(for global coverage by Macquarie, 3.51% of stocks followed are investment banking clients)
Neutral	34.10%	27.25%	36.36%	46.72%	21.92%	43.22%	(for global coverage by Macquarie, 2.10% of stocks followed are investment banking clients)
Underperform	13.03%	11.49%	14.77%	5.74%	8.22%	10.17%	(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)

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, July 2018

12-month target price methodology

SCGB MK: RM2.00 based on a PER methodology

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Date	Stock Code (BBG code)	Recommendation	Target Price
19-Apr-2018	SCGB MK	Outperform	RM2.60
06-Oct-2017	SCGB MK	Outperform	RM2.80
26-Apr-2017	SCGB MK	Outperform	RM2.50
03-Sep-2016	SCGB MK	Outperform	RM1.90
11-Mar-2016	SCGB MK	Outperform	RM1.67

Target price risk disclosures:

SCGB MK: Any inability to compete successfully in their markets may harm the business. This could be a result of many factors which may include geographic mix and introduction of improved products or service offerings by competitors. The results of operations may be materially affected by global economic conditions generally, including conditions in financial markets. The company is exposed to market risks, such as changes in interest rates, foreign exchange rates and input prices. From time to time, the company will enter into transactions, including transactions in derivative instruments, to manage certain of these exposures.

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