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14 April 2020

Malaysia

EQUITIES

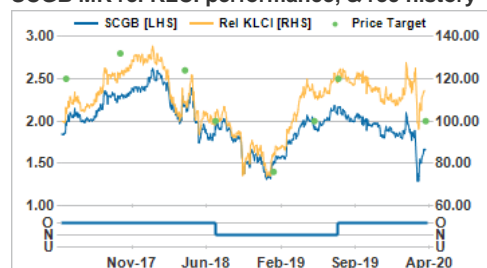
SCGB MK Outperform
Price (at 12:04, 13 Apr 2020 GMT) RM1.61

Valuation	RM	1.60-2.30
- PER		
12-month target	RM	2.00
Upside/Downside	%	+24.2
12-month TSR	%	+28.8
Volatility Index		Medium
GICS sector		Capital Goods
Market cap	RMm	2,082
Market cap	US\$m	495
Free float	%	25
30-day avg turnover	US\$m	0.2
Number shares on issue	m	1,293

Investment fundamentals

Year end 31 Dec		2019A	2020E	2021E	2022E
Revenue	m	1,768.7	2,115.8	2,322.9	2,403.2
EBITDA	m	181.3	182.6	223.0	222.6
EBIT	m	141.0	132.2	168.1	164.4
Reported profit	m	129.3	115.9	152.3	154.6
Adjusted profit	m	129.3	115.9	152.3	154.6
EPS rep	sen	10.0	9.0	11.8	12.0
EPS rep growth	%	-10.6	-10.4	31.4	1.5
EPS adj	sen	10.0	9.0	11.8	12.0
EPS adj growth	%	-10.6	-10.4	31.4	1.5
PER rep	x	16.1	18.0	13.7	13.5
PER adj	x	16.1	18.0	13.7	13.5
Total DPS	sen	7.0	7.0	8.0	8.0
Total div yield	%	4.3	4.3	5.0	5.0
ROA	%	7.7	6.8	8.3	7.8
ROE	%	21.3	18.2	22.5	21.2
EV/EBITDA	x	9.0	8.9	7.2	7.2
Net debt/equity	%	-65.0	-70.5	-81.7	-77.4
P/BV	x	3.3	3.2	3.0	2.8

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, April 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) Steady as she goes

Key points

- ▶ We roll forward estimates and adjust earnings to reflect the impact of COVID-19 on SunCon's operations; lower TP by 20% to RM2.00.
- ▶ Cut FY20-21E EPS by 28% and 3%, respectively.
- ▶ At the current share price, the mkt is pricing in RM1bn order wins in FY20-21E, respectively; SunCon's order wins have been >RM1.5bn since FY15.

Event

- We maintain our Outperform rating on Sunway Construction (SunCon) following a review of estimates with a revised TP of RM2.00 (17x implied fwd-PE), from RM2.50, previously. The cut in estimates is a result of COVID-19's impact on SunCon's operations. We chose SunCon as one of our top picks in the Malaysian Construction sector because 1) order wins of at least RM1bn should be secured from Sunway Berhad each year; 2) payments and margins from Sunway Berhad has been very steady; and 3) c.90% of its orderbook consists of government and in-house projects, which carry minimal payment risk.

Impact

- **Strong balance sheet, ample cash balance to sustain overheads.** SunCon ended FY19 with a cash balance of c.RM700mn, with a net cash-to-equity of 74%. Given its monthly overhead of RM20mn, the cash balance is enough to sustain SunCon's overhead for almost three years. Due to the stop-work order under the movement control order (MCO) in Malaysia, we baked in up to two months of loss in revenue in FY20E. While SunCon may qualify for some exemptions, whereby construction work could continue per usual, we still believe bulk of its projects will remain idle until the MCO ends.
- **Order book estimated to be ~RM5.1bn as at 1Q20E-end; order win target of RM2bn in FY20E is achievable.** We estimate SunCon's orderbook now stands at RM5.1bn with 90% of the value consist of in-house and government projects. As such, we believe the future earnings are not at risk, but there will be delays in terms of revenue recognition. Management is confident that it could achieve RM2bn in order wins in FY20E, after having secured a contract from India earlier this year. Management also guided that at least 50% of the order wins in FY20E will come from the parent company – Sunway Berhad, while the balance are likely to come from local projects, more awards of highway projects in India and awards of hospital works in Myanmar.

Earnings and target price revision

- We roll forward estimates and revise FY20-21E EPS by -28% and -3%, respectively. We lower our TP by 20% to RM2.00, from RM2.50 previously.

Price catalyst

- 12-month price target: RM2.00 based on a PER methodology.
- Catalyst: awards of new projects from government and parent company.

Action and recommendation

- Outperform rating reiterated. SunCon is among the top-three picks in Malaysia Construction sector after Gamuda and Econpile.

Analysis

SunCon will likely face some margin compression as overhead costs are ongoing despite the stop-work order under MCO. We understand ~40% of SunCon's skilled foreign workers are full-time employees of the company – they are also provided accommodation and transportation from the hostel to the work sites. Despite the MCO, we believe these foreign workers will be retained as SunCon anticipates up to RM2bn order wins in FY20E.

We believe the bottom has passed – if we assume zero order wins going ahead over the next three FYs, the fair value is RM1.53, 8% below the current share price.

Below are the key changes made to our estimates to arrive at the new target price of RM2.00.

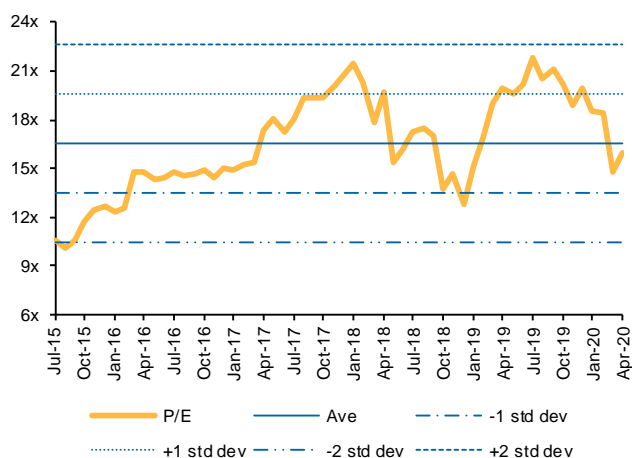
- We cut our three-year forward order win target from RM6bn to RM5.5bn, maintaining the RM2bn order wins in FY20-21E, respectively.
- We cut the target PE to 15x from 19x, previously to reflect the earnings and margins outlook as a result of the COVID-19 pandemic.
- We revise EBIT margins downward from 7.5%-8.5% to 6.3%-6.9%. We believe EBIT margin will reach a new normal at around 7% given that construction margins may not be as lucrative as before and precast margins are unlikely to go beyond 20% given the stiff competition in the precast sector.
- We included the Indian toll road contract secured in March 2020 in our new estimates.

Fig 1 SunCon valuation

Business Segments	Valuation Method	Stake	New Estimates (RM 'mil)	Old Estimates (RM 'mil)	Change (%)
Construction and Precast	PER of 15x in FY21E	100%	2,057	2,663	-23%
India Tollroad Maintenance	DCF, WACC @ 6.8%	60%	16	0	nmf
FY20E estimated net cash			513	570	-10%
Sum of the parts (SOTP)			2,585	3,233	-20%
No. of shares ('mil)			1,293	1,293	0%
Target Price (RM)			2.00	2.50	-20%
Implied PE			17x	20x	

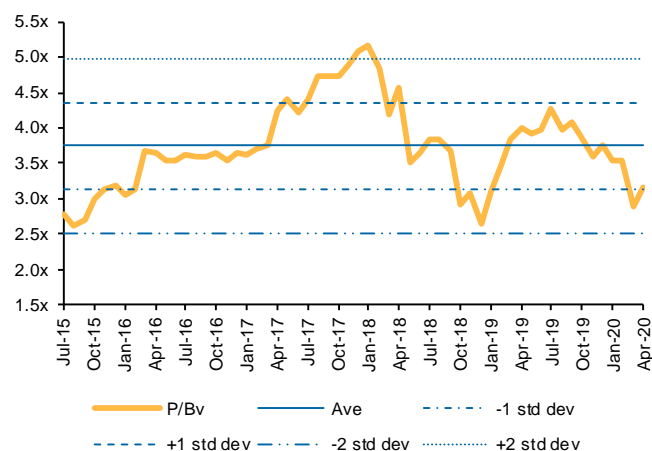
Source: Company data, Macquarie Research, April 2020

Fig 2 SunCon rolling fwd-PE band



Source: Bloomberg, Macquarie Research, April 2020

Fig 3 SunCon rolling fwd-PBv



Source: Bloomberg, Macquarie Research, April 2020

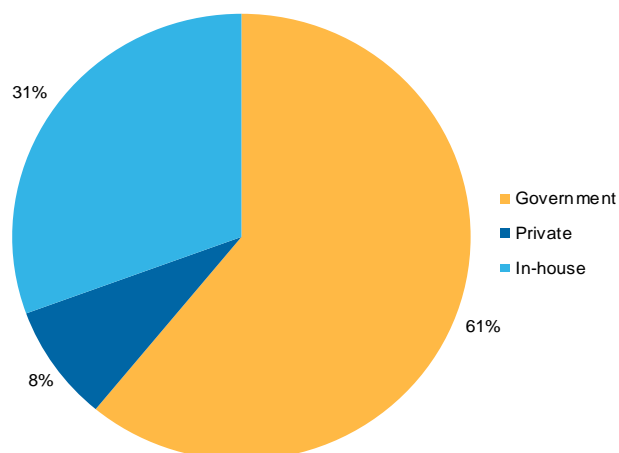
Fig 4 SunCon scenario analysis suggest the bottom has passed

Scenario	Bear	Base	Bull
Fair value (RM)	1.60	2.00	2.30
Implied PE	14x	17x	20x
Upside (%)	-0.5%	24.2%	43.0%
Dividend Yield (%)	3.3%	3.3%	3.3%
TSR (%)	2.8%	27.5%	46%
Key Assumptions			
Orderbook replenishment FY20-22E	4,000	5,500	6,000
Target PE	12x	15x	18x
Current share price (RM)	1.61		
Potential upside / (downside) (%)	24.2%		
FY20E dividend yield	4.3%		
TSR (%)	28.5%		

Note: Share price as at 13 April 2020 close

Source: Bloomberg, Macquarie Research, April 2020

Fig 5 SunCon's outstanding orderbook by client



Source: Company data, Macquarie Research, April 2020

Fig 6 Change in our estimates

RM 'mil	New estimates			Old estimates			Change in estimates		
	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Revenue	2,116	2,323	2,403	2,562	2,135	na	-17%	9%	na
EBIT	132	168	164	194	183	na	-32%	-8%	na
PBT	148	194	194	203	198	na	-27%	-2%	na
Adj. PAT	116	152	155	161	156	na	-28%	-3%	na
Adj. EPS (sen)	9.0	11.8	12.0	12.4	12.1	na	-28%	-3%	na

Source: Macquarie Research, April 2020

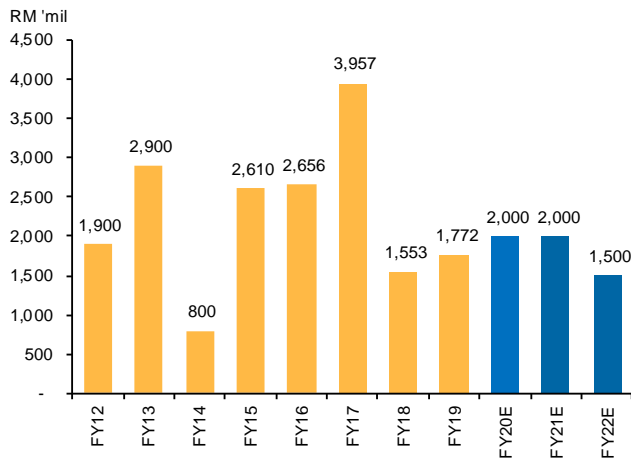
Fig 7 MQ vs. consensus estimates

RM 'mil	Macquarie			Consensus			Difference		
	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Revenue	2,116	2,323	2,403	2,281	2,401	2,334	-7%	-3%	3%
EBIT	132	168	164	187	191	175	-29%	-12%	-6%
PBT	148	194	194	196	205	197	-24%	-5%	-1%
Adj. PAT	116	152	155	154	161	155	-25%	-5%	0%
Adj. EPS (sen)	9.0	11.8	12.0	12.0	12.4	11.9	-25%	-5%	0%

Source: Bloomberg, Macquarie Research, April 2020

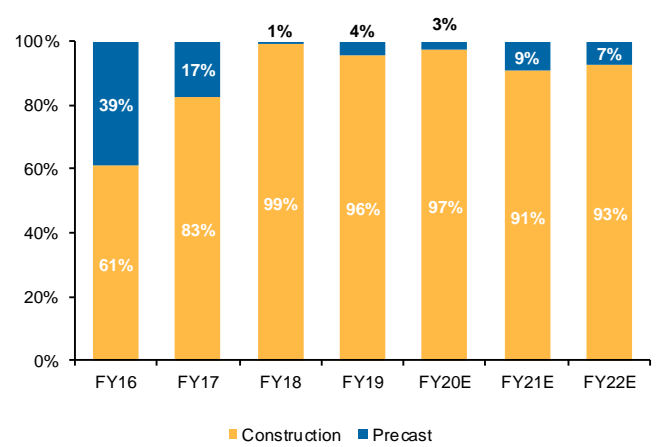
Financials

Fig 8 SunCon's historical order wins and order win forecast



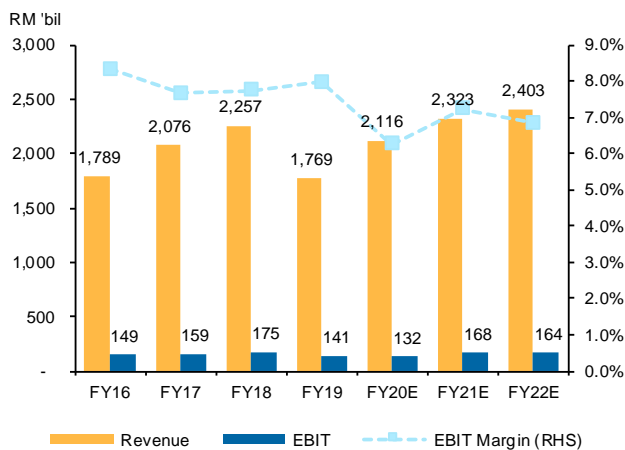
Source: Company data, Macquarie Research, April 2020

Fig 9 EBIT breakdown by segment



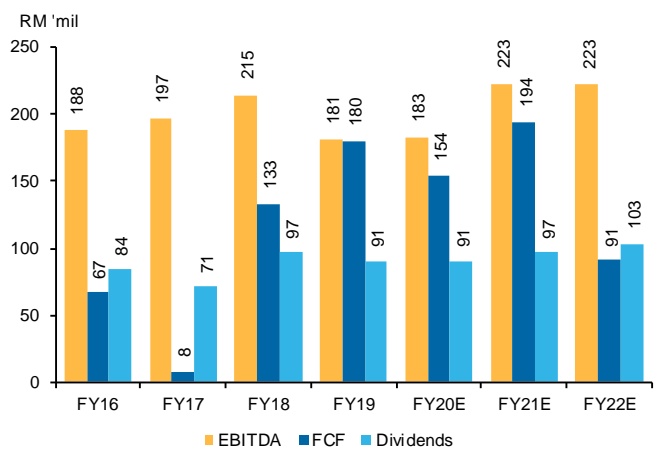
Source: Company data, Macquarie Research, April 2020

Fig 10 PAT margin will remain steady at around 7% after sector recovers from the pandemic impact



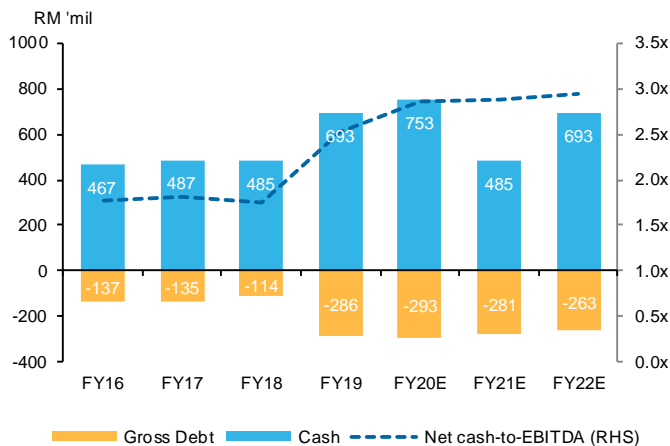
Source: Company data, Macquarie Research, April 2020

Fig 11 Ample cash balance to withstand the sector slow down



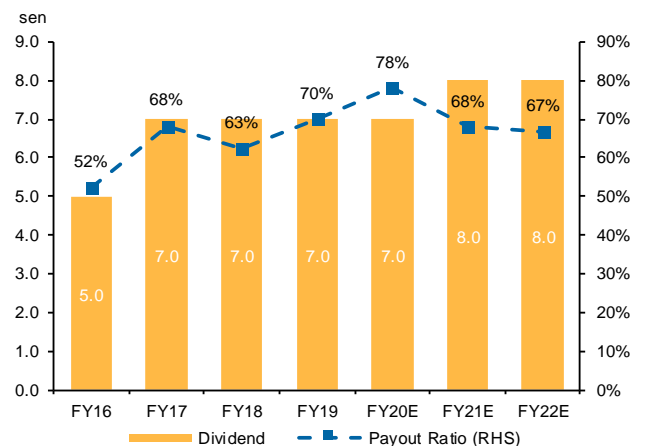
Source: Company data, Macquarie Research, April 2020

Fig 12 Net cash position estimated to widen further



Source: Company data, Macquarie Research, April 2020

Fig 13 Dividends can be sustained due to cash balance



Source: Company data, Macquarie Research, April 2020

Fig 14 SunCon's outstanding orderbook

Project	Completion Period	Contract Value (RM 'mil)	Outstanding value (RM 'mil)	% Completion
External				
Putrajaya Parcel F	1Q19	1,610	33	98%
PP1AM Kota Bharu	1Q20	582	76	87%
MRT V201 (Sg. Buloh - Persiaran Dagang)	2Q21	1,213	163	87%
LRT3 (GS07 & GS08)	4Q20	2,178	1,718	21%
Piling works	4Q19	99	24	76%
TNB HQ Campus	2Q21	781	704	10%
PLC	2Q21	310	299	4%
Oxley Tower (MEP)	2Q22	68	67	1%
IOI Mall (MEP)	2Q21	68	68	0%
Thorapali Agraharam - Jittandahalli Highway	2Q22	303	303	0%
	Total	7,212	3,455	52%
Internal				
Sunway Medical Centre Phase 4	4Q21	512	379	26%
Sunway Serene	3Q21	449	261	42%
Sunway Carnival 2	1Q21	286	226	21%
SunGeo Lake	2Q21	223	82	63%
SMC Seberang Jaya	1Q21	180	146	19%
Velo 2	4Q21	352	300	15%
Velocity 3C4	2Q21	100	75	25%
Piling works CP2	3Q21	119	111	7%
Big Box Hotel	3Q20	100	72	28%
Sunway Pyramid Solar	3Q20	3	3	0%
	Total	2,324	1,655	29%
Precast				
Singapore HDB	2Q21	331	157	53%
New orders	3Q20	160	147	8%
	Total	491	304	38%
	Grand Total	10,027	5,414	46%
MQ Orderbook replenishment targets				
FY20E		2,000		
FY21E		2,000		
FY22E		1,500		
	Total	5,500		

Source: Company data, Macquarie Research, April 2020

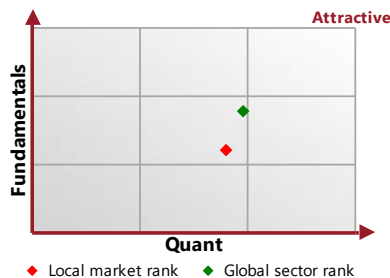
Macquarie Quant Alpha Model Views

The quant model currently holds a marginally positive view on Sunway Construction Group. The strongest style exposure is Quality, indicating this stock is likely to have a superior and more stable underlying earnings stream. 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.

684/1962

Global rank in Capital Goods

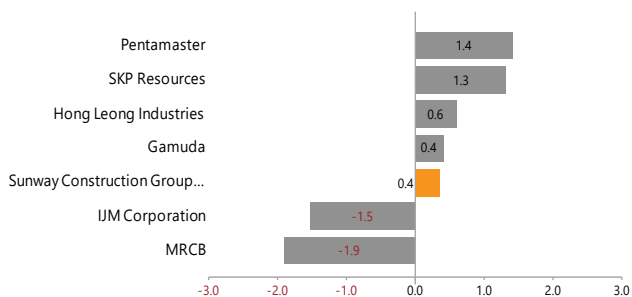
% of BUY recommendations 69% (9/13)
Number of Price Target downgrades 9
Number of Price Target upgrades 0



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)

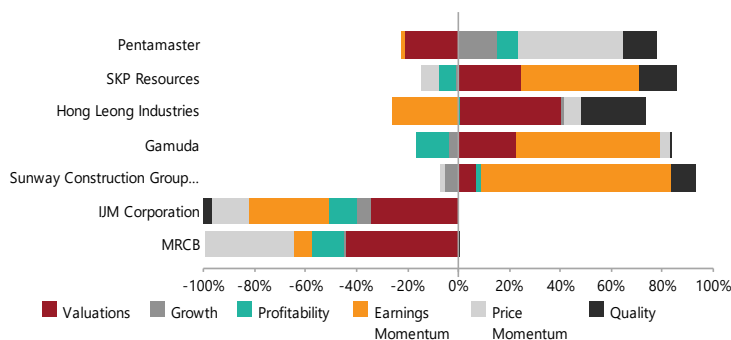
Macquarie Alpha Model ranking

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



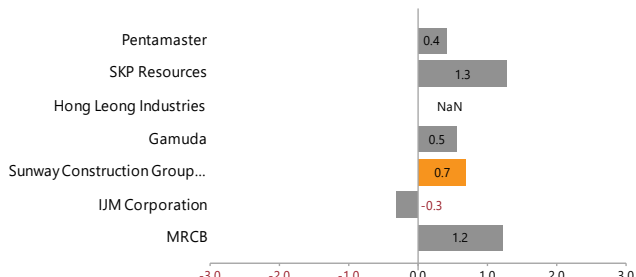
Factors driving the Alpha Model

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



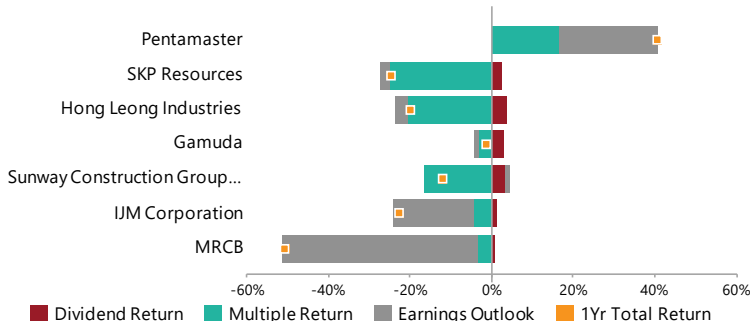
Macquarie Earnings Sentiment Indicator

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.



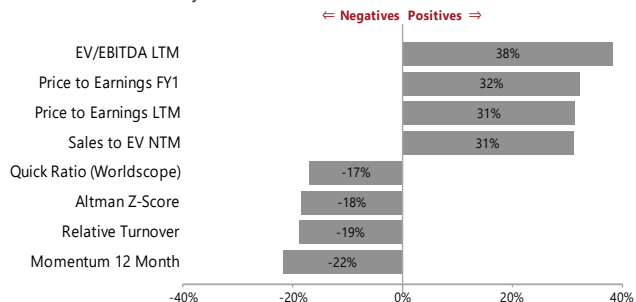
Drivers of Stock Return

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



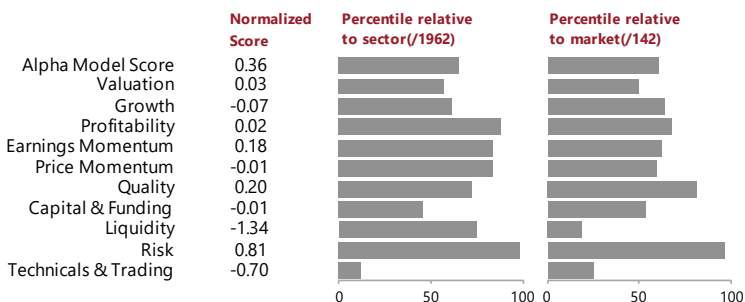
What drove this Company in the last 5 years

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 (cpq@macquarie.com)

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

Interim Results					Profit & Loss						
		2H/19A	1H/20E	2H/20E	1H/21E		2019A	2020E	2021E	2022E	
Revenue	m	973	952	1,164	1,045	Revenue	m	1,769	2,116	2,323	2,403
Gross Profit	m	100	82	100	100	Gross Profit	m	181	183	223	223
Cost of Goods Sold	m	873	870	1,063	945	Cost of Goods Sold	m	1,587	1,933	2,100	2,181
EBITDA	m	100	82	100	100	EBITDA	m	181	183	223	223
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	60	73	76	EBIT	m	141	132	168	164
Net Interest Income	m	-7	-8	-10	-8	Net Interest Income	m	-13	-18	-17	-16
Associates	m	2	3	3	5	Associates	m	4	6	11	11
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	15	15	Other Pre-Tax Income	m	25	28	33	35
Pre-Tax Profit	m	87	67	81	87	Pre-Tax Profit	m	157	148	194	194
Tax Expense	m	-15	-14	-17	-18	Tax Expense	m	-27	-31	-41	-39
Net Profit	m	72	53	64	69	Net Profit	m	130	117	153	156
Minority Interests	m	-1	-0	-1	-0	Minority Interests	m	-1	-1	-1	-1
Reported Earnings	m	71	52	64	69	Reported Earnings	m	129	116	152	155
Adjusted Earnings	m	71	52	64	69	Adjusted Earnings	m	129	116	152	155
EPS (rep)	sen	5.5	4.0	4.9	5.3	EPS (rep)	sen	10.0	9.0	11.8	12.0
EPS (adj)	sen	5.5	4.0	4.9	5.3	EPS (adj)	sen	10.0	9.0	11.8	12.0
EPS Growth yoy (adj)	%	-10.6	-10.4	-10.4	31.4	EPS Growth (adj)	%	-10.6	-10.4	31.4	1.5
						PE (rep)	x	16.1	18.0	13.7	13.5
						PE (adj)	x	16.1	18.0	13.7	13.5
EBITDA Margin	%	10.2	8.6	8.6	9.6	Total DPS	sen	7.0	7.0	8.0	8.0
EBIT Margin	%	8.0	6.2	6.2	7.2	Total Div Yield	%	4.3	4.3	5.0	5.0
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	19.6	19.6	9.8	Diluted Shares Outstanding	m	1,293	1,293	1,293	1,293
EBIT Growth	%	-19.2	-6.2	-6.2	27.1						
Profit and Loss Ratios					Cashflow Analysis						
		2019A	2020E	2021E	2022E		2019A	2020E	2021E	2022E	
Revenue Growth	%	-21.6	19.6	9.8	3.5	EBITDA	m	181	183	223	223
EBITDA Growth	%	-15.5	0.7	22.1	-0.2	Tax Paid	m	-38	-31	-41	-39
EBIT Growth	%	-19.2	-6.2	27.1	-2.2	Chgs in Working Cap	m	28	59	37	-69
Gross Profit Margin	%	10.2	8.6	9.6	9.3	Net Interest Paid	m	12	10	15	19
EBITDA Margin	%	10.2	8.6	9.6	9.3	Other	m	5	5	5	5
EBIT Margin	%	8.0	6.2	7.2	6.8	Operating Cashflow	m	188	225	239	139
Net Profit Margin	%	7.3	5.5	6.6	6.4	Acquisitions	m	0	0	0	0
Payout Ratio	%	70.0	78.1	67.9	66.9	Capex	m	-8	-71	-45	-48
EV/EBITDA	x	9.0	8.9	7.2	7.2	Asset Sales	m	4	0	0	0
EV/EBIT	x	11.5	12.1	9.4	9.5	Other	m	-47	0	0	0
						Investing Cashflow	m	-51	-71	-45	-48
Balance Sheet Ratios						Dividend (Ordinary)	m	-90	-91	-97	-103
ROE	%	21.3	18.2	22.5	21.2	Equity Raised	m	-6	0	0	0
ROA	%	7.7	6.8	8.3	7.8	Debt Movements	m	168	7	-12	-18
ROIC	%	52.8	47.8	69.0	101.5	Other	m	-0	-0	-0	-0
Net Debt/Equity	%	-65.0	-70.5	-81.7	-77.4	Financing Cashflow	m	72	-84	-109	-122
Interest Cover	x	10.7	7.2	9.7	10.3						
Price/Book	x	3.3	3.2	3.0	2.8	Net Chg in Cash/Debt	m	208	60	107	-9
Book Value per Share		0.5	0.5	0.5	0.6	Free Cashflow	m	180	154	194	91
						Balance Sheet		2019A	2020E	2021E	2022E
						Cash	m	693	753	860	852
						Receivables	m	841	812	827	922
						Inventories	m	25	26	29	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	1,969	2,068	2,129
						Payables	m	605	636	690	717
						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	1,317	1,360	1,368
						Shareholders' Funds	m	661	687	742	793
						Minority Interests	m	2	3	4	5
						Other	m	-38	-38	-38	-38
						Total S/H Equity	m	625	652	709	761
						Total Liab & S/H Funds	m	1,905	1,969	2,068	2,129

All figures in MYR unless noted.

Source: Company data, Macquarie Research, April 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 / 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

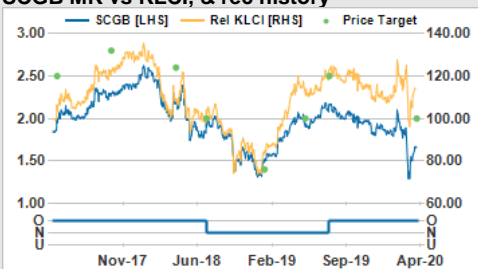
*equivalent fully paid ordinary weighted average number of shares

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

Recommendation proportions – For quarter ending 31 March 2020

	AU/NZ	Asia	USA	
Outperform	53.43%	61.07%	67.03%	(for global coverage by Macquarie, 4.62% of stocks followed are investment banking clients)
Neutral	34.30%	26.77%	31.87%	(for global coverage by Macquarie, 3.10% of stocks followed are investment banking clients)
Underperform	12.27%	12.17%	1.10%	(for global coverage by Macquarie, 3.57% 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, April 2020

12-month target price methodology

SCGB MK: RM2.00 based on a PER methodology

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Date	Stock Code (BVG code)	Recommendation	Target Price
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
06-Oct-2017	SCGB MK	Outperform	RM2.80
26-Apr-2017	SCGB MK	Outperform	RM2.50

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