

Outthink. Outperform.

## Good interest

We hosted a Sunway Construction (Suncon) corporate day in Malaysia that attracted good institutional investor interest (13 participants). Suncon's Managing Director Chung Soo Kiong was positive on the company's prospects to grow its order book. New contracts clinched to date total about RM2bn and Suncon is targeting another RM0.5-1.0bn by end-2016. Suncon is exploring investment infrastructure projects given its high net cash of RM0.256/share, while maintaining a reasonable dividend payout. Suncon remains our top BUY in the construction sector with a RM1.98 target price, based on a 10% discount to RNAV.

### Two new in-house projects

Suncon recently secured two projects from its parent company Sunway Bhd worth RM580m, ie, Sunway Medical Centre Package 4 & 5 and Sunway Velocity Medical Centre. This increased the year-to-date new contract wins to about RM2bn. Its outstanding order book has increased to a new record high of RM5bn currently (2.6x FY15 revenue) from RM3.7bn as at end-2015, improving earnings visibility.

### Steel price risk is manageable

The jump in domestic steel price from a low of RM1,600/t to RM2,500/t over the past few months poses a risk to its construction profit margin if high prices are sustained. The risk is manageable currently as Suncon has locked in its steel bar requirements for 6 months at lower prices. The higher steel bar cost can also be passed through to the government for its new RM1.2bn Klang Valley MRT Line 2 (MRT2) project.

### Fine-tuning earnings forecasts

Suncon is exploring opportunities to invest in green-field infrastructure projects to generate higher long-term returns on its net cash of RM332m or RM0.256/share. The recurrent infrastructure earnings will reduce the earnings risk from cyclical construction earnings. A potential public-private partnership (PPP) project is the RM1.5bn Bus Rapid Transit (Federal Line), which is pending the government's approval.

### Top sector BUY

We believe Suncon's current ex-cash 2016E PER of 12x is attractive compared to its peer average of 18x. Maintain BUY. Key risks are public infrastructure project implementation delays and cost overruns.

### Earnings & Valuation Summary

| FYE 31 Dec            | 2014    | 2015    | 2016E   | 2017E   | 2018E   |
|-----------------------|---------|---------|---------|---------|---------|
| Revenue (RMm)         | 1,880.7 | 1,916.9 | 1,765.4 | 2,276.2 | 2,185.2 |
| EBITDA (RMm)          | 172.3   | 187.3   | 207.1   | 254.2   | 282.9   |
| Pretax profit (RMm)   | 151.3   | 140.8   | 170.9   | 218.2   | 248.4   |
| Net profit (RMm)      | 124.8   | 127.2   | 143.0   | 169.6   | 188.2   |
| EPS (sen)             | 9.7     | 9.8     | 11.1    | 13.1    | 14.6    |
| PER (x)               | 16.6    | 16.3    | 14.5    | 12.2    | 11.0    |
| Core net profit (RMm) | 135.3   | 136.2   | 143.0   | 169.6   | 188.2   |
| Core EPS (sen)        | 10.5    | 10.5    | 11.1    | 13.1    | 14.6    |
| Core EPS growth (%)   | 31.9    | 0.7     | 5.0     | 18.6    | 10.9    |
| Core PER (x)          | 15.3    | 15.2    | 14.5    | 12.2    | 11.0    |
| Net DPS (sen)         | 0.0     | 4.0     | 5.5     | 6.5     | 7.0     |
| Dividend Yield (%)    | 0.0     | 2.5     | 3.4     | 4.1     | 4.4     |
| EV/EBITDA (x)         | 11.2    | 9.7     | 8.5     | 6.4     | 5.3     |
| Chg in EPS (%)        |         |         | 0.0     | 0.0     | 0.0     |
| Affin/Consensus (x)   |         |         | 1.0     | 1.1     | 1.1     |

Source: Company, Affin Hwang forecasts, Bloomberg

Affin Hwang Investment Bank Bhd (14389-U)  
(Formerly known as HwangDBS Investment Bank Bhd)

## Company Update

# Sunway Construction

SCGB MK  
Sector: Construction

RM1.60 @ 4 May 2016

BUY (maintain)

Upside 24%

Price Target: RM1.98

Previous Target: RM1.98



## Price Performance

|             | 1M    | 3M     | 12M |
|-------------|-------|--------|-----|
| Absolute    | +0.6% | +14.3% | N/A |
| Rel to KLCI | +4.7% | +14.2% | N/A |

## Stock Data

|                               |              |
|-------------------------------|--------------|
| Issued shares (m)             | 1,292.9      |
| Mkt cap (RMm)/(US\$m)         | 2068.6/516.3 |
| Avg daily vol - 6mth (m)      | 3.1          |
| 52-wk range (RM)              | 0.98-1.72    |
| Est free float                | 37.9%        |
| BV per share (RM)             | 0.35         |
| P/BV (x)                      | 4.59         |
| Net cash/ (debt) (RMm) (4Q15) | 331.7        |
| ROE (2016F)                   | 29.1%        |
| Derivatives                   | Nil          |
| Shariah Compliant             | Yes          |

## Key Shareholder

|            |       |
|------------|-------|
| Sunway Bhd | 54.4% |
|------------|-------|

Source: Affin Hwang, Bloomberg

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### New contract wins on track to hit RM3bn

It has a tender book of RM18bn and is targeting to clinch another RM0.5-1.0bn in new contracts by end-2016. This is in line with our assumption of RM3bn of new contract wins in 2016.

### Exploring investments in infrastructure projects

Suncon is exploring opportunities to invest in infrastructure projects, which include the operation and maintenance of centralised utility facilities (CUF) for townships and industrial parks and toll road projects in Malaysia and other Asean countries. The potential infrastructure investments are supported by its net cash position of RM332m and strong projected free cash flow of RM100-200m p.a. Suncon may partner with other construction/infrastructure companies to bid for new toll road projects in Indonesia, given the government's aggressive plan to improve the road infrastructure in the country.

**Fig 1: Order book as at 30 April 2015**

| Project  | Contract value (RMm) | Outstanding value (RMm) |
|--|----------------------|-------------------------|
| <b>Infrastructure</b>                                    |                      |                         |
| MRT Package V4 (Sec 17 to Semantan)                      | 1,173                | 43                      |
| MRT Package V201 (Sg Buloh - Persiaran Dagang)           | 1,213                | 1,213                   |
|  | <b>2,386</b>         | <b>1,256</b>            |
| <b>Johor</b>   |                      |                         |
| Coastal Highway Southern Link                            | 170                  | 66                      |
|  | <b>170</b>           | <b>66</b>               |
| <b>Others</b>  |                      |                         |
| Putrajaya Parcel F                                       | 1,610                | 1,450                   |
| KLCC (NEC, Package 2 & 2a)                               | 646                  | 414                     |
| Others   | 92                   | 33                      |
|  | <b>2,348</b>         | <b>1,897</b>            |
| <b>Internal</b>  |                      |                         |
| Sunway Velocity 2 Mall & Link Bridge                     | 370                  | 92                      |
| Sunway Velocity Hotel & Office                           | 93                   | 69                      |
| Sunway Velocity Medical Centre                           | 200                  | 159                     |
| Sunway Geo Retail Shops & Flexi Suites                   | 153                  | 59                      |
| Sunway Medical Centre Phase 3 (Sub & Superstructure)     | 167                  | 96                      |
| Sunway Medical Centre Phase 4 (2 Towers)                 | 380                  | 380                     |
| Sunway Iskandar - Citrine Swc Apt (Sub & Superstructure) | 213                  | 106                     |
| Sunway Geo Retail Shops & Flexi Suites Phase 2           | 244                  | 207                     |
| Sunway Lenang Phase 1A                                   | 96                   | 30                      |
| Sunway Iskandar - Emerald Residences                     | 175                  | 133                     |
| Others   | 124                  | 51                      |
|  | <b>2215</b>          | <b>1382</b>             |
| <b>Singapore</b>   |                      |                         |
| Precast  | 844                  | 416                     |
| <b>Grand total</b>                                       | <b>7,963</b>         | <b>5,017</b>            |

Source: Company

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**Fig 2: New contracts secured year-to-date**

| Project   | Contract value (RMm) |
|---|----------------------|
| MRT Package V201 (Sg Buloh to Persiaran Dagang) | 1,213                |
| Velocity Link Bridge                            | 20                   |
| MRT Spurline (piling)                           | 12                   |
| Casa Kiara 3 (piling)                           | 19                   |
| Sunway Medical Centre Phase 4 (2 Towers)        | 380                  |
| Sunway Velocity Medical Centre                  | 200                  |
| Sunway Velocity Hotel & Office                  | 93                   |
| Precast concrete in Singapore                   | 58                   |
| <b>Total</b>                                    | <b>1,995</b>         |

Source: Company

**Fig 3: RNAV and target price**

| Segments  | Stake (%) | RNAV (RMm)   |
|---|-----------|--------------|
| Construction @ PE 14x avg earnings of RM120m      | 100       | 1,680        |
| Pre-cast concrete @ PE 14x avg earnings of RM65m  | 100       | 910          |
| Net cash/(debt)                                   |           | 254          |
| <b>RNAV</b>                                       |           | <b>2,844</b> |
| No. of shares (m shrs)                            |           | 1,293        |
| <b>RNAV/share (RM)</b>                            |           | <b>2.20</b>  |
| <b>Target price at 10% discount to RNAV/share</b> |           | <b>1.98</b>  |

Source: Company, Affin Hwang

**Fig 4: Malaysian construction company valuations**

| Stock                    | Bbg      | Rating | Sh Pr (RM) | TP (RM) | Mkt cap (RMbn) | Core PER (x) |             | Core EPS gr (%) |             | P/BV (x)   | ROE (%)    | DY (%)     |
|--------------------------|----------|--------|------------|---------|----------------|--------------|-------------|-----------------|-------------|------------|------------|------------|
|                          |          |        |            |         |                | CY16E        | CY17E       | CY16E           | CY17E       |            |            |            |
| IJM Corp                 | IJMMK    | BUY    | 3.48       | 3.76    | 12.5           | 19.5         | 16.0        | 18.2            | 22.3        | 1.0        | 5.8        | 3.1        |
| Gamuda                   | GAMMK    | BUY    | 4.75       | 5.70    | 11.5           | 19.6         | 17.5        | (7.3)           | 11.5        | 1.7        | 10.1       | 2.5        |
| MRCB                     | MRCMK    | BUY    | 1.22       | 1.46    | 2.3            | 31.1         | 24.0        | 200.7           | 29.8        | 1.0        | 2.8        | 2.0        |
| WCT Hldgs                | WCTHG MK | BUY    | 1.67       | 1.90    | 2.1            | 16.2         | 10.9        | 87.8            | 47.9        | 0.7        | 5.4        | 3.6        |
| Sunway Construction      | SCGB MK  | BUY    | 1.60       | 1.98    | 2.1            | 14.5         | 12.2        | 5.0             | 18.6        | 4.0        | 29.4       | 3.4        |
| Eversendai               | EVSD MK  | BUY    | 0.67       | 0.84    | 0.5            | 7.9          | 6.9         | 25.0            | 15.1        | 0.5        | 6.2        | 6.0        |
| Benalec                  | BHB MK   | HOLD   | 0.50       | 0.56    | 0.4            | 8.1          | 6.8         | 104.9           | 19.3        | 0.7        | 8.6        | 5.1        |
| Gabungan AQRS            | AQRS MK  | SELL   | 0.90       | 0.70    | 0.4            | 11.5         | 9.3         | (402.8)         | 24.2        | 1.0        | 9.2        | 1.7        |
| <b>Malaysian wgt avg</b> |          |        |            |         |                | <b>17.5</b>  | <b>14.6</b> | <b>24.9</b>     | <b>20.0</b> | <b>1.2</b> | <b>6.8</b> | <b>2.7</b> |

Source: Company, Affin Hwang estimates, Bloomberg; prices as of 4 May 2016

**Note:** When a report covers six or more subject companies please access important disclosures for Daiwa Capital Markets Hong Kong Limited at [http://www.daiwacm.com/hk/research\\_disclaimer.html](http://www.daiwacm.com/hk/research_disclaimer.html) or contact your investment representative or Daiwa Capital Markets Hong Kong Limited at Level 26, One Pacific Place, 88 Queensway, Hong Kong.

# Sunway Construction - FINANCIAL SUMMARY

## Profit & Loss Statement

| FYE 31 Dec (RMm)         | 2014           | 2015           | 2016E          | 2017E          | 2018E          |
|--------------------------|----------------|----------------|----------------|----------------|----------------|
| <b>Revenue</b>           | <b>1,880.7</b> | <b>1,916.9</b> | <b>1,765.4</b> | <b>2,276.2</b> | <b>2,185.2</b> |
| Operating expenses       | (1,708.5)      | (1,729.6)      | (1,558.3)      | (2,022.0)      | (1,902.3)      |
| <b>EBITDA</b>            | <b>172.3</b>   | <b>187.3</b>   | <b>207.1</b>   | <b>254.2</b>   | <b>282.9</b>   |
| Depreciation             | (41.6)         | (41.9)         | (44.4)         | (46.9)         | (49.4)         |
| <b>EBIT</b>              | <b>130.6</b>   | <b>145.4</b>   | <b>162.6</b>   | <b>207.3</b>   | <b>233.5</b>   |
| Net int income/(expense) | 0.7            | 4.5            | 8.3            | 11.0           | 14.9           |
| Associates' contribution | 30.4           | (0.1)          | 0.0            | 0.0            | 0.0            |
| Forex gain/(loss)        | (5.2)          | (2.9)          | 0.0            | 0.0            | 0.0            |
| Exceptional gain/(loss)  | (5.3)          | (6.2)          | 0.0            | 0.0            | 0.0            |
| <b>Pretax profit</b>     | <b>151.3</b>   | <b>140.8</b>   | <b>170.9</b>   | <b>218.2</b>   | <b>248.4</b>   |
| Tax                      | (26.5)         | (13.0)         | (27.3)         | (48.0)         | (59.6)         |
| Minority interest        | 0.1            | (0.6)          | (0.6)          | (0.6)          | (0.6)          |
| <b>Net profit</b>        | <b>124.8</b>   | <b>127.2</b>   | <b>143.0</b>   | <b>169.6</b>   | <b>188.2</b>   |

## Balance Sheet Statement

| FYE 31 Dec (RMm)                   | 2014           | 2015           | 2016E          | 2017E          | 2018E          |
|------------------------------------|----------------|----------------|----------------|----------------|----------------|
| Fixed assets                       | 178.7          | 162.5          | 168.1          | 171.2          | 171.8          |
| Other long term assets             | 35.3           | 17.7           | 17.7           | 17.7           | 17.7           |
| <b>Total non-current assets</b>    | <b>214.0</b>   | <b>180.2</b>   | <b>185.8</b>   | <b>188.9</b>   | <b>189.4</b>   |
| Cash and equivalents               | 277.6          | 390.5          | 436.1          | 540.8          | 650.5          |
| Stocks                             | 20.2           | 17.3           | 17.2           | 27.3           | 15.5           |
| Debtors                            | 639.8          | 684.7          | 583.5          | 1,051.6        | 518.1          |
| Other current assets               | 172.6          | 242.5          | 242.5          | 242.5          | 242.5          |
| <b>Total current assets</b>        | <b>1,110.2</b> | <b>1,334.9</b> | <b>1,279.3</b> | <b>1,862.2</b> | <b>1,426.6</b> |
| Creditors                          | 601.9          | 658.0          | 502.3          | 993.7          | 442.5          |
| Short term borrowings              | 135.1          | 136.8          | 136.8          | 109.5          | 87.6           |
| Other current liabilities          | 202.6          | 264.5          | 297.7          | 333.5          | 373.2          |
| <b>Total current liabilities</b>   | <b>939.6</b>   | <b>1,059.4</b> | <b>936.8</b>   | <b>1,436.7</b> | <b>903.3</b>   |
| Long term borrowings               | 0.1            | 0.0            | 0.0            | 0.0            | 0.0            |
| Other long term liabilities        | 4.3            | 4.1            | 4.1            | 4.1            | 4.1            |
| <b>Total long term liabilities</b> | <b>4.4</b>     | <b>4.1</b>     | <b>4.1</b>     | <b>4.1</b>     | <b>4.1</b>     |
| <b>Shareholders' Funds</b>         | <b>380.2</b>   | <b>451.0</b>   | <b>522.9</b>   | <b>608.5</b>   | <b>706.2</b>   |
| <b>Minority interests</b>          | <b>0.1</b>     | <b>0.6</b>     | <b>1.2</b>     | <b>1.8</b>     | <b>2.4</b>     |

## Cash Flow Statement

| FYE 31 Dec (RMm)                | 2014           | 2015          | 2016E         | 2017E          | 2018E         |
|---------------------------------|----------------|---------------|---------------|----------------|---------------|
| EBIT                            | 130.6          | 136.3         | 162.6         | 207.3          | 233.5         |
| Depreciation & amortisation     | 41.6           | 41.9          | 44.4          | 46.9           | 49.4          |
| Working capital changes         | 14.1           | 111.7         | (54.4)        | 13.2           | (5.8)         |
| Cash tax paid                   | (28.5)         | (29.6)        | (27.3)        | (48.0)         | (59.6)        |
| Others                          | 25.3           | (24.4)        | 33.1          | 35.8           | 39.8          |
| <b>Cashflow from operation</b>  | <b>183.2</b>   | <b>236.0</b>  | <b>158.5</b>  | <b>255.2</b>   | <b>257.2</b>  |
| Capex                           | (37.8)         | (24.3)        | (50.0)        | (50.0)         | (50.0)        |
| Disposal/(purchases)            | 372.7          | (40.2)        | 0.0           | 0.0            | 0.0           |
| Others                          | 0.0            | 0.0           | 0.0           | 0.0            | 0.0           |
| <b>Cash flow from investing</b> | <b>334.9</b>   | <b>(64.5)</b> | <b>(50.0)</b> | <b>(50.0)</b>  | <b>(50.0)</b> |
| Debt raised/(repaid)            | 44.7           | 1.6           | 0.0           | (27.4)         | (21.9)        |
| Equity raised/(repaid)          | 0.0            | 0.0           | 0.0           | 0.0            | 0.0           |
| Net interest income/(exp)       | 0.7            | 4.5           | 8.3           | 11.0           | 14.9          |
| Dividends paid                  | (428.6)        | (70.0)        | (71.1)        | (84.0)         | (90.5)        |
| Others                          | (16.7)         | 0.0           | 0.0           | 0.0            | 0.0           |
| <b>Cash flow from financing</b> | <b>(399.9)</b> | <b>(63.8)</b> | <b>(62.8)</b> | <b>(100.4)</b> | <b>(97.5)</b> |
| <b>Free Cash Flow</b>           | <b>145.4</b>   | <b>211.7</b>  | <b>108.5</b>  | <b>205.2</b>   | <b>207.2</b>  |

## Key Financial Ratios and Margins

| FYE 31 Dec (RMm)          | 2014   | 2015   | 2016E  | 2017E  | 2018E  |
|---------------------------|--------|--------|--------|--------|--------|
| <b>Growth</b>             |        |        |        |        |        |
| Revenue (%)               | 2.2    | 1.9    | (7.9)  | 28.9   | (4.0)  |
| EBITDA (%)                | 42.6   | 3.5    | 16.2   | 22.8   | 11.3   |
| Core net profit (%)       | 31.9   | 0.7    | 5.0    | 18.6   | 10.9   |
| <b>Profitability</b>      |        |        |        |        |        |
| EBITDA margin (%)         | 9.2    | 9.3    | 11.7   | 11.2   | 12.9   |
| PBT margin (%)            | 8.0    | 7.3    | 9.7    | 9.6    | 11.4   |
| Net profit margin (%)     | 6.6    | 6.6    | 8.1    | 7.5    | 8.6    |
| Effective tax rate (%)    | 17.5   | 9.2    | 16.0   | 22.0   | 24.0   |
| ROA (%)                   | 4.2    | 4.2    | 4.5    | 4.6    | 4.9    |
| Core ROE (%)              | 27.2   | 32.8   | 29.4   | 30.0   | 28.6   |
| ROCE (%)                  | 33.2   | 62.6   | 77.3   | 103.4  | 145.7  |
| Dividend payout ratio (%) | 0.0    | 40.7   | 49.7   | 49.5   | 48.1   |
| <b>Liquidity</b>          |        |        |        |        |        |
| Current ratio (x)         | 1.2    | 1.3    | 1.4    | 1.3    | 1.6    |
| Op. cash flow (RMm)       | 183.2  | 236.0  | 158.5  | 255.2  | 257.2  |
| Free cashflow (RMm)       | 145.4  | 211.7  | 108.5  | 205.2  | 207.2  |
| FCF/share (sen)           | 11.2   | 16.4   | 8.4    | 15.9   | 16.0   |
| <b>Asset management</b>   |        |        |        |        |        |
| Debtors turnover (days)   | 124.2  | 130.4  | 120.6  | 168.6  | 86.5   |
| Stock turnover (days)     | 3.9    | 3.3    | 3.6    | 4.4    | 2.6    |
| Creditors turnover (days) | 116.8  | 125.3  | 103.9  | 159.3  | 73.9   |
| <b>Capital structure</b>  |        |        |        |        |        |
| Net gearing (%)           | (37.5) | (56.2) | (57.2) | (70.9) | (79.7) |
| Interest cover (x)        | 51.6   | 50.8   | NA     | NA     | NA     |

## Quarterly Profit & Loss

| FYE 31 Dec (RMm)         | 1Q15         | 2Q15         | 3Q15         | 4Q15         |
|--------------------------|--------------|--------------|--------------|--------------|
| <b>Revenue</b>           | <b>496.1</b> | <b>500.2</b> | <b>450.3</b> | <b>470.3</b> |
| Operating expenses       | (444.2)      | (446.7)      | (413.2)      | (425.8)      |
| <b>EBITDA</b>            | <b>51.8</b>  | <b>53.5</b>  | <b>37.1</b>  | <b>44.5</b>  |
| Depreciation             | (9.9)        | (9.5)        | (9.2)        | (13.3)       |
| <b>EBIT</b>              | <b>41.9</b>  | <b>44.1</b>  | <b>27.9</b>  | <b>31.1</b>  |
| Net int income/(expense) | 0.4          | 0.4          | 1.9          | 1.8          |
| Associates' contribution | 0.0          | (0.1)        | 0.0          | 0.0          |
| Forex gain/(loss)        | (2.1)        | (0.6)        | 1.4          | (1.7)        |
| Exceptional items        | (0.6)        | (2.2)        | (1.1)        | (1.9)        |
| <b>Pretax profit</b>     | <b>39.6</b>  | <b>41.6</b>  | <b>30.1</b>  | <b>29.4</b>  |
| Tax                      | (5.2)        | (3.8)        | (4.9)        | (1.0)        |
| Minority interest        | (0.0)        | 0.0          | (0.5)        | (1.0)        |
| <b>Net profit</b>        | <b>34.4</b>  | <b>37.8</b>  | <b>24.7</b>  | <b>27.4</b>  |
| <b>Core net profit</b>   | <b>37.1</b>  | <b>40.6</b>  | <b>24.4</b>  | <b>31.0</b>  |
| <b>Margins (%)</b>       |              |              |              |              |
| EBITDA                   | 10.4         | 10.7         | 8.2          | 9.5          |
| PBT                      | 8.0          | 8.3          | 6.7          | 6.3          |
| Net profit               | 6.9          | 7.6          | 5.5          | 5.8          |

**Equity Rating Structure and Definitions**


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|                  |  |
|------------------|--|
| <b>BUY</b>       | Total return is expected to exceed +10% over a 12-month period   |
| <b>HOLD</b>      | Total return is expected to be between -5% and +10% over a 12-month period   |
| <b>SELL</b>      | Total return is expected to be below -5% over a 12-month period  |
| <b>NOT RATED</b> | Affin Hwang Investment Bank Berhad does not provide research coverage or rating for this company. Report is intended as information only and not as a recommendation |

*The total expected return is defined as the percentage upside/downside to our target price plus the net dividend yield over the next 12 months.*

|                    |  |
|--------------------|--|
| <b>OVERWEIGHT</b>  | Industry, as defined by the analyst's coverage universe, is expected to outperform the KLCI benchmark over the next 12 months          |
| <b>NEUTRAL</b>     | Industry, as defined by the analyst's coverage universe, is expected to perform inline with the KLCI benchmark over the next 12 months |
| <b>UNDERWEIGHT</b> | Industry, as defined by the analyst's coverage universe is expected to under-perform the KLCI benchmark over the next 12 months        |

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