



MALAYSIA

SCGB MK Outperform

Price (at 08:44, 25 Aug 2016 GMT) RM1.64

Valuation RM 1.13-2.02
- PER

12-month target RM 1.67

Upside/Downside % +1.8

12-month TSR % +4.2

Volatility Index Low

GICS sector Capital Goods

Market cap RMm 2,120

Market cap US\$m 526

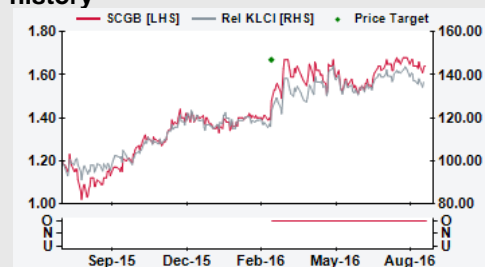
30-day avg turnover US\$m 0.8

Number shares on issue m 1,293

Investment fundamentals

Year end 31 Dec		2015A	2016E	2017E	2018E
Revenue	m	1,916.9	2,031.2	2,342.3	2,334.7
EBITDA	m	178.2	193.7	223.6	234.0
EBITDA growth	%	10.1	8.7	15.5	4.6
EBIT	m	136.3	148.0	172.8	177.7
EBIT growth	%	13.4	8.6	16.8	2.8
Reported profit	m	127.2	131.5	154.5	160.8
Adjusted profit	m	127.2	131.5	154.5	160.8
EPS adj	sen	9.8	10.2	12.0	12.4
EPS adj growth	%	-79.6	3.4	17.5	4.0
PER adj	x	16.7	16.1	13.7	13.2
Total DPS	sen	5.4	3.6	4.2	4.4
Total div yield	%	3.3	2.2	2.6	2.7
ROA	%	9.6	9.3	9.6	9.0
ROE	%	30.6	26.6	26.3	23.3
EV/EBITDA	x	10.0	9.2	8.0	7.6
Net debt/equity	%	-73.4	-81.4	-86.9	-89.1
P/BV	x	4.7	4.0	3.3	2.9

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, August 2016

(all figures in MYR unless noted)

Analyst(s)

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26 August 2016

Macquarie Capital Securities (Malaysia) Sdn. Bhd.

Sunway Construction Group

Solid orderbook replenishment

Event

- We reiterate our Outperform rating on Sunway Construction Group (SunCon) post 2Q16 results. 2Q16 results were in line with our estimates although, the company's PAT recorded a decline y/y. This was mainly caused by lower billings from the construction segment, as some of the projects were nearing their completions. SunCon highlighted its key project, the RM1.2bn KVMRT2 package, has commenced preliminary works and is expected to contribute to earnings in 2H16.
- 2Q16 adjusted PAT was at RM31mn (-17.3% y/y), backed by a total revenue of RM460mn (-8.1% y/y). On a cumulative basis, 1H16 revenue was at RM884mn (-11.3% y/y), with PAT of RM60mn (-16.4% y/y).

Impact

- Outstanding orderbook stands at RM4.9bn:** YTD SunCon has managed to win orders worth RM2.35bn (67% of MQ's FY16E target), to take its outstanding orderbook size to RM4.9bn. We estimate c.RM450mn worth of projects will be completed by the end of FY16. We believe SunCon remains one of the main contenders to bag one of the LRT3 packages, which we estimate a value between RM700mn and RM1bn. However, we believe chances are pretty slim that SunCon would bag one of the two remaining packages of Sarawak PBH given the stiff competition among the bidders.
- Slower orders from Singapore HDB in the precast segment:** As at end of 1H16, SunCon had only received RM82mn of new orders from its Singapore counterpart, tracking behind our estimate of RM285 for FY16E. Despite the slow orders, the segment's 1H16 PBT margins held up within the expected normalised range of 20–25% at 23.6%. Due to the high margins, the precast segment contributes 38% of SunCon's PBT, despite only contributing 17% to its revenue. SunCon also reported improved utilisation rates for both the Tampines and Senai plants, which in 2Q16 increased to 82.7% and 59.1%, respectively, versus 53.9% and 36.2% in 1Q16. SunCon's third plant in Iskandar Johor commenced operations in 2Q16 with a maximum capacity of 52,000 m³ p.a. We believe the increased capacity, combined with higher utilisation rates, should accelerate SunCon's precast earnings recognition.
- Internal orders exceeded expectations:** YTD, SunCon has received orders worth RM778mn from its parent, Sunway Berhad (Sunway). This is ahead of our FY16 estimate of RM500mn by 56%. Based on our recent checks with Sunway's management, it is expecting to award stable orders worth between RM200mn and RM300mn to SunCon over the next two to three FYs.

Earnings and target price revision

- No change.

Price catalyst

- 12-month price target: RM1.67 based on a PER methodology.
- Catalyst: Awards of major infra contract, namely LRT3.

Action and recommendation

- Outperform rating is maintained.

Analysis

Fig 1 SunCon's 2Q16 results

RM 'mil	Quarterly					Cumulative		
	2Q16	2Q15	YoY (%)	1Q16	QoQ (%)	1H16	1H15	YoY (%)
Revenue	460	500	-8.1%	424	8.3%	884	996	-11.3%
EBITDA	47	51	-6.9%	45	4.5%	92	100	-7.4%
Depreciation and Amortization	10	9	2.2%	10	-1.8%	20	19	0.6%
Operating Profit/EBIT	38	41	-9.0%	35	6.3%	73	80	-9.3%
Finance costs	-1	-1	19.3%	-1	92.7%	-2	-2	-5.3%
Interest income	2	2	24.2%	3	-33.8%	5	3	57.4%
Pre-tax income	38	42	-8.4%	38	1.6%	76	81	-6.9%
Net profit	31	38	-17.3%	29	7.6%	60	72	-16.4%
Diluted EPS (sen)	2.4	2.9	-17.1%	2.3	7.6%	4.7	5.6	-16.3%
Segment Reporting								
Revenue								
Construction	361	421	-14.3%	374	-3.5%	735	852	-13.8%
Precast Concrete	99	75	31.7%	51	95.6%	149	144	3.8%
Total	460	496	-7.3%	424	8.3%	884	996	-11.3%
Operating Profit/EBIT								
Construction	21	17	21.3%	24	-13.1%	45	44	1.1%
Precast Concrete	17	22	-23.6%	12	46.5%	28	36	-22.0%
Total	38	39	-4.0%	35	6.3%	73	80	-9.3%
PBT								
Construction	21	27	-22.3%	26	-18.5%	47	45	5.1%
Precast Concrete	17	14	18.2%	12	47.0%	28	36	-21.8%
Total	38	42	-8.4%	38	1.6%	76	81	-6.9%
Margins (%)								
EBIT	8.2%	8.3%		8.3%		8.3%	8.1%	
PBT	6.8%	7.6%		6.8%		6.8%	7.2%	
Construction EBIT	5.7%	4.1%		6.4%		6.1%	10.5%	
Precast Concrete EBIT	17.1%	29.4%		22.8%		19.0%	48.5%	
Construction PBT	5.9%	6.5%		7.0%		6.4%	5.3%	
Precast PBT	17.1%	19.0%		22.8%		19.0%	25.2%	

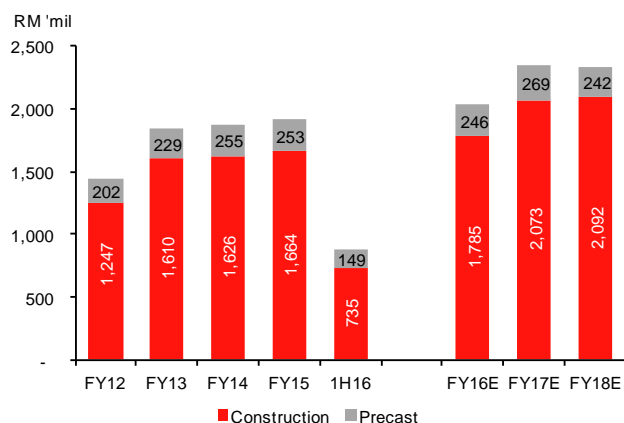
Source: Company data, Macquarie Research, August 2016

Fig 2 SunCon's 2Q16 results are in line with MQ's estimates

RM 'mil	Macquarie	Actual	% of MQ forecast	Consensus	Actual	% of Consensus forecast
Revenue	2,031	884	43.5%	2,045	884	43.2%
EBIT	148	73	49.3%	168	73	43.4%
Profit before tax	157	76	48.3%	176	76	43.1%
Adjusted net profit	131.5	60.3	45.9%	139	60.3	43.3%
Diluted EPS (sen)	10.2	4.7	45.9%	10.5	4.7	44.5%

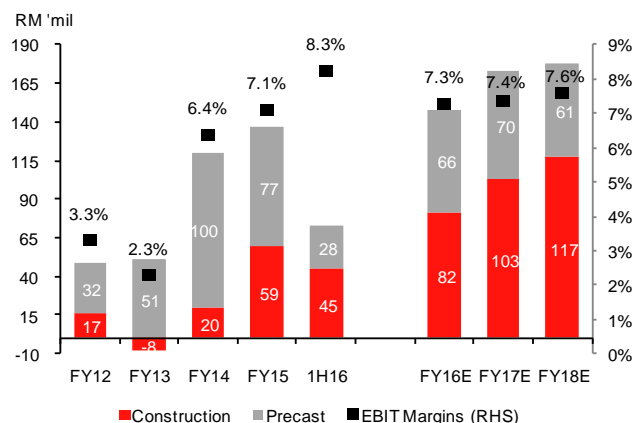
Source: Bloomberg, Company data, Macquarie Research, August 2016

Fig 3 Revenue is tracking MQ's FY16 estimate



Source: Company data, Macquarie Research, August 2016

Fig 4 EBIT contributions by segment



Source: Company data, Macquarie Research, August 2016

Fig 5 SunCon's outstanding orderbook size stood at RM4.9bn

Project	Job Type	Contract Value (RM 'mil)	% of completion	Outstanding Orderbook (RM 'mil)
KVMRT1	Infrastructure	1,173	98%	18
KVMRT2	Infrastructure	1,213	1%	1,199
Coastal Highway Southern Link	Infrastructure	170	73%	46
Putrajaya Parcel F	Building	1,610	20%	1,292
KLCC	Building	646	46%	349
HUKM	Building	666	90%	66
ISKL	Building	268	0%	268
Others	Building	93	72%	26
Sunway Velocity Mall	Internal	370	82%	67
Sunway Velocity Hotel + Office	Internal	113	43%	64
Sunway Velocity Medical Centre	Internal	185	14%	160
Sunway Geo Retail Shops & Flexi Suites Phase 1	Internal	153	84%	24
Sunway Geo Retail Shops & Flexi Suites Phase 2	Internal	244	19%	198
Sunway Medical Centre Phase 3	Internal	167	61%	65
Sunway Medical Centre Phase 4	Internal	428	1%	422
Sunway Iskandar - Citrine Service Apt	Internal	213	67%	71
Sunway Lenang Phase 1A	Internal	96	86%	13
Sunway Iskandar -Emerald Residences	Internal	175	13%	152
Others	Internal	135	66%	46
Singapore HDB	Precast	888	57%	380
Total		9,006	45%*	4,926

*Weighted average completion

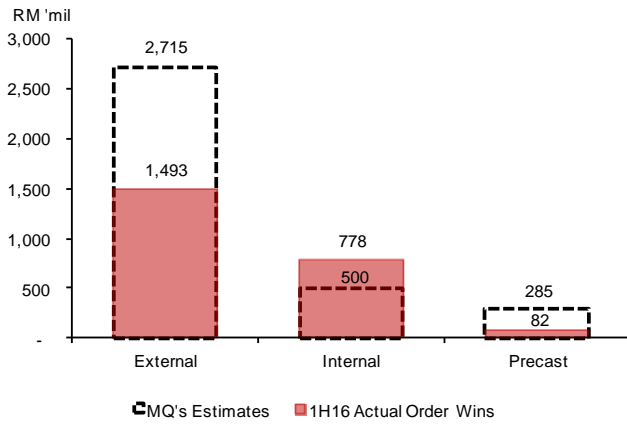
Source: Company data, Macquarie Research, August 2016

Fig 6 SunCon's order wins YTD

Project	Contract Value (RM 'mil)
KVMRT2	1,213
Velocity Link Bridge	20
MRT Spurline	12
Casa Kiara	19
Sunway Medical Centre	428
Sunway Velocity Medical Centre	185
Sunway Velocity Hotel + Office	113
RC8	10
ISKL	268
Precast	82
Others	3
Total	2,353

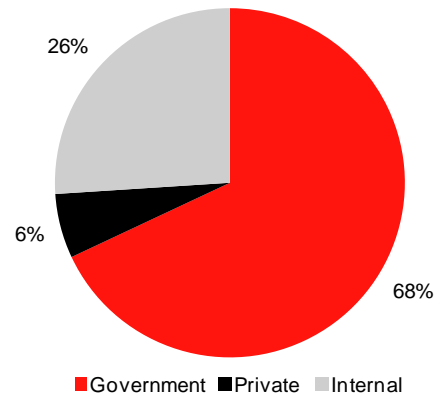
Source: Company data, Macquarie Research, August 2016

Fig 7 1H16 actual order wins vs MQ's estimates



Source: Company data, Macquarie Research, August 2016

Fig 8 Breakdown of construction paymaster



Source: Company data, Macquarie Research, August 2016

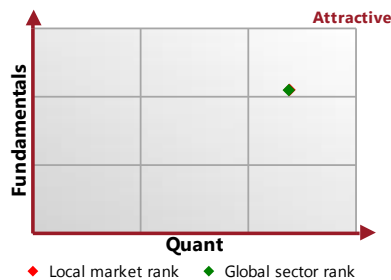
Macquarie Quant View

The quant model currently holds a reasonably positive view on Sunway Construction Group. The strongest style exposure is Growth, indicating this stock has good historic and/or forecast growth. Growth metrics focus on both top and bottom line items. The weakest style exposure is Earnings Momentum, indicating this stock has received earnings downgrades and is not well liked by sell side analysts.

398/1905

Global rank in
Capital Goods

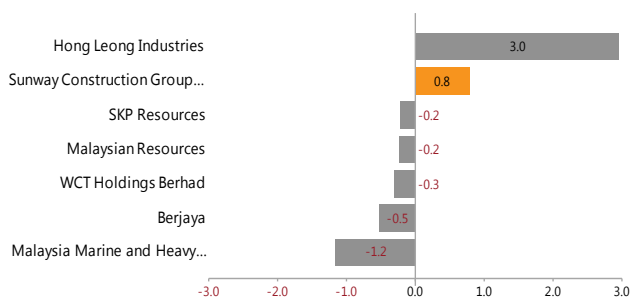
% of BUY recommendations 78% (7/9)
Number of Price Target downgrades 0
Number of Price Target upgrades 0



Displays where the company's ranked based on the fundamental consensus Price Target and Macquarie's Quantitative Alpha model.
 Two rankings: Local market (Malaysia) and Global sector (Capital Goods)

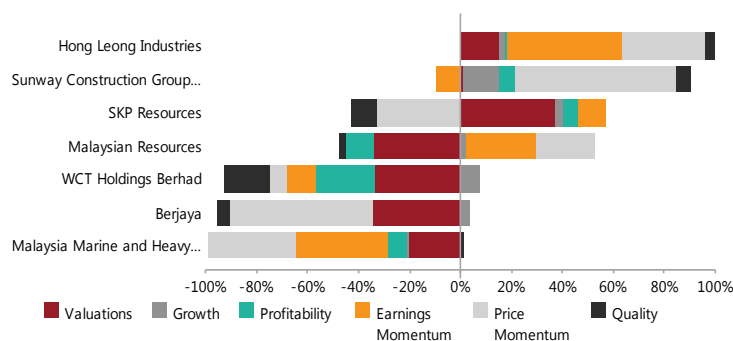
Macquarie Alpha Model ranking

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



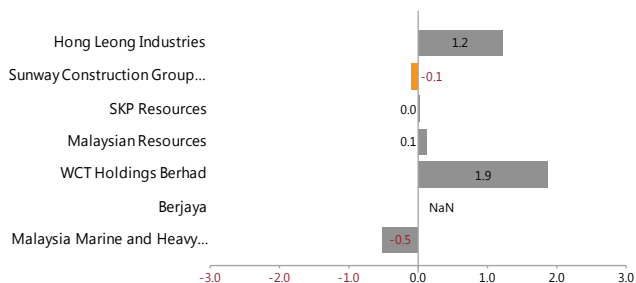
Factors driving the Alpha Model

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



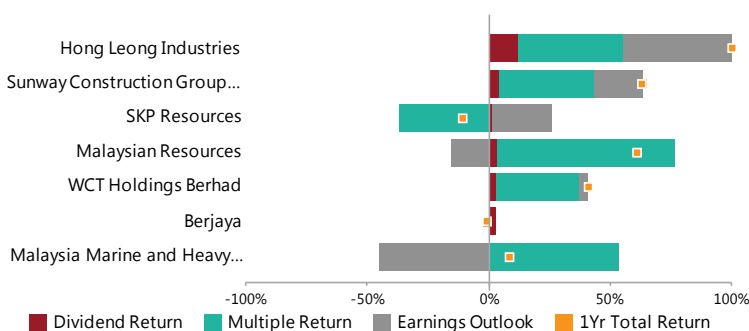
Macquarie Earnings Sentiment Indicator

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



Drivers of Stock Return

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

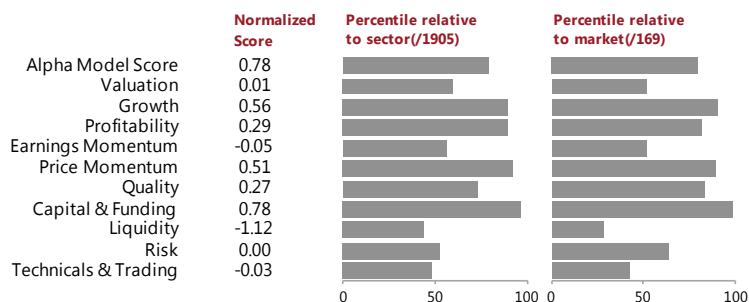


What drove this Company in the last 5 years

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

How it looks on the Alpha model

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



Source (all charts): FactSet, Thomson Reuters, and Macquarie 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 (cpg@macquarie.com)

Sunway Construction Group (SCGB MK, Outperform, Target Price: RM1.67)

Interim Results					Profit & Loss						
	2H/15A	1H/16E	2H/16E	1H/17E		2015A	2016E	2017E	2018E		
Revenue	m	921	975	1,056	1,124	Revenue	m	1,917	2,031	2,342	2,335
Gross Profit	m	105	93	101	107	Gross Profit	m	178	194	224	234
Cost of Goods Sold	m	815	882	955	1,017	Cost of Goods Sold	m	1,739	1,837	2,119	2,101
EBITDA	m	78	93	101	107	EBITDA	m	178	194	224	234
Depreciation	m	23	22	24	24	Depreciation	m	42	46	51	56
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	56	71	77	83	EBIT	m	136	148	173	178
Net Interest Income	m	-1	-2	-2	-2	Net Interest Income	m	-4	-3	-3	-3
Associates	m	0	-0	-0	-0	Associates	m	-0	-0	-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	5	6	6	7	Other Pre-Tax Income	m	8	12	15	17
Pre-Tax Profit	m	60	75	81	88	Pre-Tax Profit	m	141	157	184	191
Tax Expense	m	-4	-12	-13	-14	Tax Expense	m	-13	-25	-29	-31
Net Profit	m	56	63	68	74	Net Profit	m	128	132	155	161
Minority Interests	m	-1	-0	-0	-0	Minority Interests	m	-1	-0	-0	-0
Reported Earnings	m	55	63	68	74	Reported Earnings	m	127	131	155	161
Adjusted Earnings	m	55	63	68	74	Adjusted Earnings	m	127	131	155	161
EPS (rep)	sen	4.3	4.9	5.3	5.7	EPS (rep)	sen	9.8	10.2	12.0	12.4
EPS (adj)	sen	4.3	4.9	5.3	5.7	EPS (adj)	sen	9.8	10.2	12.0	12.4
EPS Growth yoy (adj)	%	-83.1	-12.5	24.3	17.5	EPS Growth (adj)	%	-79.6	3.4	17.5	4.0
						PE (rep)	x	16.7	16.1	13.7	13.2
						PE (adj)	x	16.7	16.1	13.7	13.2
EBITDA Margin	%	8.5	9.5	9.5	9.5	Total DPS	sen	5.4	3.6	4.2	4.4
EBIT Margin	%	6.1	7.3	7.3	7.4	Total Div Yield	%	3.3	2.2	2.6	2.7
Earnings Split	%	43.3	48.0	52.0	48.0	Basic Shares Outstanding	m	1,293	1,293	1,293	1,293
Revenue Growth	%	-5.9	-2.1	14.7	15.3	Diluted Shares Outstanding	m	1,293	1,293	1,293	1,293
EBIT Growth	%	-10.7	-11.7	37.9	16.8						
Profit and Loss Ratios					Cashflow Analysis						
		2015A	2016E	2017E	2018E		2015A	2016E	2017E	2018E	
Revenue Growth	%	1.9	6.0	15.3	-0.3	EBITDA	m	178	194	224	234
EBITDA Growth	%	10.1	8.7	15.5	4.6	Tax Paid	m	-30	-25	-29	-31
EBIT Growth	%	13.4	8.6	16.8	2.8	Chgs in Working Cap	m	-112	17	14	-5
Gross Profit Margin	%	9.3	9.5	9.5	10.0	Net Interest Paid	m	-5	9	11	14
EBITDA Margin	%	9.3	9.5	9.5	10.0	Other	m	204	0	0	0
EBIT Margin	%	7.1	7.3	7.4	7.6	Operating Cashflow	m	236	194	219	212
Net Profit Margin	%	6.6	6.5	6.6	6.9	Acquisitions	m	-65	0	0	0
Payout Ratio	%	55.0	35.0	35.0	35.0	Capex	m	-39	-42	-49	-49
EV/EBITDA	x	10.0	9.2	8.0	7.6	Asset Sales	m	15	0	0	0
EV/EBIT	x	13.1	12.1	10.4	10.1	Other	m	25	0	0	0
Balance Sheet Ratios					Investing Cashflow						
ROE	%	30.6	26.6	26.3	23.3	Dividend (Ordinary)	m	-70	-46	-54	-56
ROA	%	9.6	9.3	9.6	9.0	Equity Raised	m	0	0	0	0
ROIC	%	55.3	103.6	145.7	178.1	Debt Movements	m	2	0	0	0
Net Debt/Equity	%	-73.4	-81.4	-86.9	-89.1	Other	m	0	0	0	0
Interest Cover	x	38.9	43.8	51.1	52.6	Financing Cashflow	m	-68	-46	-54	-56
Price/Book	x	4.7	4.0	3.3	2.9	Net Chg in Cash/Debt	m	177	106	116	107
Book Value per Share		0.3	0.4	0.5	0.6	Free Cashflow	m	197	152	170	164
					Balance Sheet						
						2015A	2016E	2017E	2018E		
					Cash	m	468	574	691	798	
					Receivables	m	835	885	1,020	1,017	
					Inventories	m	17	18	21	21	
					Investments	m	0	0	0	0	
					Fixed Assets	m	163	159	157	150	
					Intangibles	m	4	4	4	4	
					Other Assets	m	28	28	28	28	
					Total Assets	m	1,515	1,668	1,921	2,017	
					Payables	m	913	965	1,113	1,103	
					Short Term Debt	m	137	137	137	137	
					Long Term Debt	m	0	0	0	0	
					Provisions	m	0	0	0	0	
					Other Liabilities	m	13	29	34	35	
					Total Liabilities	m	1,063	1,131	1,283	1,275	
					Shareholders' Funds	m	489	574	675	779	
					Minority Interests	m	1	1	1	1	
					Other	m	-38	-38	-38	-38	
					Total S/H Equity	m	452	537	638	742	
					Total Liab & S/H Funds	m	1,515	1,668	1,921	2,017	

All figures in MYR unless noted.

Source: Company data, Macquarie Research, August 2016

Important disclosures:

<p>Recommendation definitions</p> <p>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</p> <p>Benchmark return is determined by long term nominal GDP growth plus 12 month forward market dividend yield</p> <p>Macquarie – Asia/Europe Outperform – expected return >+10% Neutral – expected return from -10% to +10% Underperform – expected return <-10%</p> <p>Macquarie – South Africa Outperform – expected return >+10% Neutral – expected return from -10% to +10% Underperform – expected return <-10%</p> <p>Macquarie - Canada Outperform – return >5% in excess of benchmark return Neutral – return within 5% of benchmark return Underperform – return >5% below benchmark return</p> <p>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</p>	<p>Volatility index definition*</p> <p>This is calculated from the volatility of historical price movements.</p> <p>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.</p> <p>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.</p> <p>Medium – stock should be expected to move up or down at least 30–40% in a year.</p> <p>Low–medium – stock should be expected to move up or down at least 25–30% in a year.</p> <p>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</p> <p>Recommendations – 12 months Note: Quant recommendations may differ from Fundamental Analyst recommendations</p>	<p>Financial definitions</p> <p>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</p> <p>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</p> <p>All Reported numbers for Australian/NZ listed stocks are modelled under IFRS (International Financial Reporting Standards).</p>
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Recommendation proportions – For quarter ending 30 June 2016

	AU/NZ	Asia	RSA	USA	CA	EUR	
Outperform	45.17%	56.00%	36.36%	43.16%	63.39%	45.91%	(for global coverage by Macquarie, 6.27% of stocks followed are investment banking clients)
Neutral	36.21%	28.59%	40.26%	50.38%	29.46%	36.96%	(for global coverage by Macquarie, 6.33% of stocks followed are investment banking clients)
Underperform	18.62%	15.41%	23.38%	6.46%	7.14%	17.12%	(for global coverage by Macquarie, 5.38% of stocks followed are investment banking clients)



(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, August 2016

12-month target price methodology
 SCGB MK: RM1.67 based on a PER methodology

Company-specific disclosures:

Important disclosure information regarding the subject companies covered in this report is available at www.macquarie.com/research/disclosures.

Date	Stock Code (BBG code)	Recommendation	Target Price
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.

Analyst certification:
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