Sunway Construction Group (SCGB MK)

Buy

Construction & Engineering - Engineering & Construction

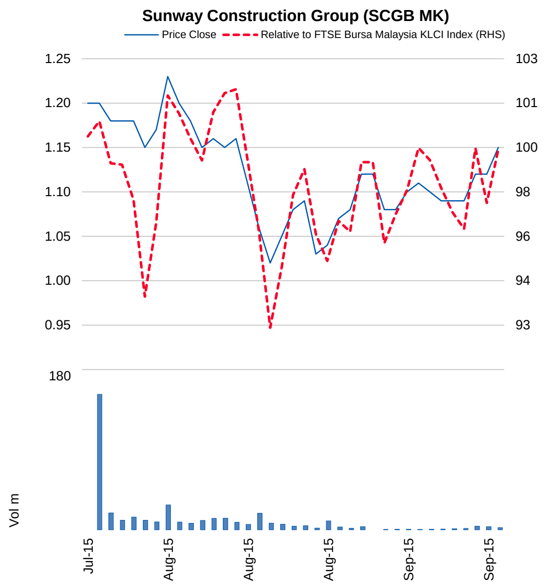
Market Cap: USD351m

Target Price: MYR1.40

Price: MYR1.15

A Partner In Nation Building, Literally

Macro ◆◆◆
Risks ◆◆
Growth ◆
Value ◆◆



Source: Bloomberg

Avg Turnover (MYR/USD)	12.8m/3.26m
Cons. Upside (%)	7.8
Upside (%)	21.7
52-wk Price low/high (MYR)	1.02 - 1.23
Free float (%)	37
Share outstanding (m)	1,293
Shareholders (%)	
Sunway Bhd	55.8
Tan Sri Jeffrey Cheah	7.4

Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	n.a	3.6	n.a	n.a	n.a
Relative	n.a	0.4	n.a	n.a	n.a

***Shariah* compliant**

Sunway Construction is an integrated contractor that provides both general and specialist contracting services. It has a strong track record in the mass rapid transit segment, which is one of the key focus areas of infrastructure spending in Malaysia. Its earnings visibility is strong underpinned by recurring jobs from its parent and key blue-chip clients. We initiate coverage with a BUY call and a TP of MYR1.40 (22% upside).

- **A seasoned player.** Sunway Construction is one of the largest contractors in Malaysia by construction revenue. Apart from the bread and butter building and civil & infrastructure construction services, the company also provides the more specialised: i) foundation & geotechnical engineering, and ii) mechanical, electrical & plumbing (MEP) services. In addition, it runs a highly profitable precast concrete products manufacturing operation in Singapore.
- **Investment case.** We like Sunway Construction for: i) its wide range of capabilities (both general and specialist construction services) that translates into enhanced competitiveness in the market ii) its strong track record in mass rapid transit projects, iii) its strong "internal" client, i.e. parent Sunway Bhd (SWB MK, BUY, TP: MYR3.86) that is an important source of recurring construction jobs, iv) its strong external client base comprising KLCC/Petronas, Khazanah, Putrajaya Holdings, MRT Co and Prasarana, and v) its highly profitable pre-cast operation in Singapore.
- **Risks to our view:** i) job wins in FY15-17F falling short of our MYR2.2bn per annum assumption (YTD in FY15, it has secured MYR2bn new jobs), ii) higher-than-expected input costs and iii) weak demand for its precast concrete products in Singapore (see Key Risks on page 15).
- **Initiating coverage with BUY.** Sunway Construction's earnings visibility is strong, backed by: i) an existing order backlog of MYR4.3bn (MYR4.0bn in construction and MYR0.3bn in precast concrete products), and ii) recurring orders from its parent and key blue-chip clients that are engaged in massive long-term projects (such as the development of townships, mass public transport systems, a new economic zone and an administrative centre). We derive a TP of MYR1.40 for Sunway Construction by pegging it to 14x FY16F EPS, in line with our benchmark upcycle 1-year forward target P/E of 14x for mid-cap construction stocks. At the current price, Sunway Construction trades at undemanding P/Es of 12.4x for FY15F and 11.5x for FY16F.

Forecasts and Valuations	Dec-13	Dec-14	Dec-15F	Dec-16F	Dec-17F
Total turnover (MYRm)	1,840	1,881	2,359	2,481	2,548
Reported net profit (MYRm)	67	125	120	129	139
Recurring net profit (MYRm)	94	114	120	129	139
Recurring net profit growth (%)	20.9	21.6	5.2	7.9	7.3
Recurring EPS (MYR)	0.07	0.09	0.09	0.10	0.11
DPS (MYR)	0.00	0.00	0.03	0.03	0.03
Recurring P/E (x)	15.9	13.1	12.4	11.5	10.7
P/B (x)	2.42	4.46	3.59	2.95	2.46
P/CF (x)	17.4	8.1	10.1	9.3	8.8
Dividend Yield (%)	0.0	0.0	2.6	2.6	2.6
EV/EBITDA (x)	12.2	8.0	6.8	5.8	5.0
Return on average equity (%)	11.4	26.3	32.0	28.1	25.0
Net debt to equity (%)	net cash	net cash	net cash	net cash	net cash
Our vs consensus EPS (adjusted) (%)			(7.4)	(0.1)	7.2

Source: Company data, RHB

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Valuation

We derive a TP of MYR1.40 for Sunway Construction by pegging it to 14x FY16F EPS, which is in line with our benchmark upcycle 1-year forward target P/E of 14x for mid-cap construction stocks (we ascribe target P/Es of 10-12x and 16-18x for small-cap and large-cap construction stocks respectively)

At 14x FY16F earnings, our valuation for the company is:

i. In line with sector weighted average of 14.1x (see Figure 1)

ii. At a premium to 12.7x P/E of mid-cap peer WCT (WCTHG MK, BUY, TP: MYR1.55) which is understandable given that WCT offers less leverage to the construction sector as we project about two thirds of its earnings in FY16 to come from property development and investment

iii. At a premium to 6.2-11.8x P/Es of its small-cap peers comprising Naim Holdings (NHB MK, BUY, TP: MYR3.18), Pintaras Jaya (PINT MK, BUY, TP: MYR4.60), Protasco (PRTA MK, BUY, TP: MYR2.27), Kimlun Corp (KICB MK, BUY, TP: MYR1.65), Ahmad Zaki Resources (AZR MK, BUY, TP: MYR0.98) and Hock Seng Lee (HSL MK, NEUTRAL, TP: MYR1.75) given Sunway Construction's relatively larger size

iv. At a discount to 17.0-18.4x P/Es of its large-cap peers comprising Gamuda (GAM MK, BUY, TP: MYR5.26) and IJM (IJM MK, BUY, TP: MYR3.39) given Sunway Construction's relatively smaller size

Figure 1: Peers' valuations

	FYE	Price	Target	Mkt Cap	P/E		EPS Growth		P/BV	P/CF	ROE	NDY	Recom.
					FY15	FY16	FY15	FY16	FY15	FY15	FY15	FY15	
		(MYR)	(MYR)	(MYRm)	(x)	(x)	(%)	(%)	(x)	(x)	(%)	(%)	(x)
Gamuda	Jul	4.66	5.26	11,022	15.7	18.4	(4.2)	(14.8)	1.8	25.8	12.1	2.6	B
Ahmad Zaki	Dec	0.59	0.98	283	10.9	8.1	+>100.0	34.8	0.8	7.0	7.7	1.7	B
Naim	Dec	2.15	3.18	538	7.7	6.8	(28.6)	13.5	0.4	15.5	5.4	1.6	B
Pintaras	Jun	3.30	4.60	552	10.9	10.8	(8.2)	0.6	1.6	31.0	15.4	5.3	B
Protasco	Dec	1.61	2.27	540	8.2	7.2	18.2	13.8	1.6	5.5	19.9	8.7	B
IJM^	Mar	3.31	3.39	10,855	18.2	17.0	14.5	6.8	1.2	9.9	6.8	3.2	B
WCT	Dec	1.30	1.55	1,416	16.2	12.7	(5.4)	27.2	0.6	21.7	3.9	1.7	B
Kimlun	Dec	1.16	1.65	349	6.4	6.2	38.8	2.1	0.8	4.2	13.0	3.3	B
HSL	Dec	1.73	1.75	962	12.9	11.8	(2.8)	8.7	1.5	11.4	12.0	1.7	N
Sector Avg.					**14.9**	**14.1**	**2.0**	**1.8**					
Sunway Construction	**Dec**	**1.15**	**1.40**	**1,487**	**12.4**	**11.5**	**5.2**	**7.9**	**3.6**	**10.1**	**32.0**	**2.6**	**B**

Source: RHB; data as of Sept. 15, 2015
^FY15-16 valuations refer to those of FY16-17

Corporate Profile

A seasoned player in the construction in Malaysia. Sunway Construction is one of the largest contractors in Malaysia by construction revenue. Apart from the bread and butter building and civil & infrastructure construction services – which most players in the industry are able to offer – the company also provides the more specialised: i) foundation & geotechnical engineering, and ii) MEP services. In addition, it runs a highly profitable precast concrete products manufacturing operation in Singapore, supplying largely to Housing and Development Board (HDB) projects in the island republic.

It is registered with the Construction Industry Development Board (CIDB) as a “Grade 7” construction company, the highest classification accorded by the board. This allows the company to tender for contracts of unlimited value in Malaysia. In addition, Sunway Construction’s Certificates of Procurement of Government Work – also issued by the CIDB – entitles the company to bid for government and government-related projects. In Singapore, Sunway Construction is registered with the Building & Construction Authority (BCA) as a “L6” contractor, ie one that is capable of undertaking precast concrete works of unlimited value.

For FY14, building construction contributed 35% of group turnover (before consolidated adjustments), followed by civil & infrastructure (27.1%), foundation & geotechnical engineering (11.9%), precast concrete products (13.1%) and MEP (12.9%). However, in terms of gross profit contribution, precast concrete products led the pack with 27.4%, followed by civil & infrastructure (26.0%), building construction (22.8%), foundation & geotechnical engineering (13.8%) and MEP (9.7%).

By geographical breakdown, 86.4% of total revenue came from Malaysia and 13.6% from Singapore, while in terms of gross profit, 76.6% originated from Malaysia, followed by Singapore (23.1%) and others (0.3%).

We believe that Sunway Construction’s diverse capability profile could be traced back to its inception in the early 1980s when the “modern” construction sector in Malaysia was still in its infancy. In the absence of a pool of proven and reliable subcontractors, over time Sunway Construction accumulated various specialised capabilities and equipment that complemented its core building and civil and infrastructure construction expertise. The company has retained this “insourcing” model until today despite the availability of “outsourcing” with the proliferation of small subcontractors in the market over the last 1-2 decades. These small subcontractors are able to offer very competitive rates given their very lean setup. Not only has Sunway Construction not scaled down or wound down its operations in foundation & geotechnical engineering and MEP, it has actually grown them to offer services to third parties apart from providing support to in-house jobs; thus Sunway Construction was able to continue reinventing itself to stay relevant and competitive in the business segments that it is engaged in.

Among Sunway Construction’s maiden projects in Malaysia in the early 1980s were road resurfacing, highway rehabilitation, and drainage and sewerage works. It got its first break when it successfully completed the Langkawi Jetty project (awarded by the Ministry of Works) ahead of the 11^{th} Commonwealth Heads of Government Meeting that were held in Langkawi in Oct 1989. It has not looked back since. Over the last three-and-a-half decades, the company has completed a long list of construction jobs worth more than MYR20bn in Malaysia, the United Arab Emirates (UAE), India and Singapore (supply of precast concrete products) (see Appendix). Among Sunway Construction’s most notable completed construction projects are the: i) Sunway Pyramid Shopping Mall & Sunway Pyramid Shopping Mall’s Phase 2 (MYR508m), ii) Kajang Traffic Dispersal Ring Road (MYR1,045m), iii) Kuala Lumpur Convention Centre (MYR549m), iv) Ministry of Housing & Local Government and Ministry of Women, Family & Community Development buildings in Putrajaya (MYR520m), v) Legoland Malaysia Theme Park (Package 4) (MYR258m), and vi) Pinewood Iskandar Malaysia Studios (MYR309m).

Sunway Construction was incorporated under the name of Sungei Way Quarry SB in 1976. This was changed to Sungei Way Quarry & Construction SB in 1981 and, subsequently Sungei Way Construction SB in 1984. In 1997, the entity was converted into a public limited company and listed on the Main Board of the Kuala Lumpur Stock Exchange (now known as the Main Market of Bursa Malaysia) under the name of Sungei Way Construction. This was changed to Sunway Construction two years later.

In 2003, parent Sunway Holdings Incorporated took Sunway Construction private by acquiring the remaining 72m shares, or a 39% stake, in the company that it did not own for MYR2.73 per share. This was satisfied by MYR1.10 cash and one new Sunway Holdings Incorporated share at an issue price of MYR1.63. The deal effectively valued Sunway Construction in its entirety at MYR505m. Sunway Construction became a wholly-owned subsidiary of Sunway Holdings Incorporated and was delisted in 2004.

After the privatisation, Sunway Construction has grown its revenue by almost twofold to MYR1.9bn in FY14 from MYR1.08bn in FY03. It has also more than doubled its net profit to MYR114m from MYR51.1m during the same interval. In terms of order backlog, this has more than quadrupled to MYR4.3bn as at end-2Q15 – comprising MYR4.0bn outstanding construction orderbook (see Figure 2) and a MYR306m balance order from precast concrete products – from MYR1bn in early-FY04.

At the Malaysian Construction Industry Excellence Awards (MCIEA) 2013 – hosted by CIDB in September last year – Sunway Construction walked away with the Builder of the Year Award. Meanwhile, founder and chairman – Tan Sri Dr Jeffrey Cheah – received the Prominent Player Award and managing director Mr Kwan Foh Kwai bagged the CEO of the Year Award. Sunway Construction had been no stranger to MCIEA's Builder of the Year Awards, having won this accolade in 2003 and 2005.

Figure 2: Sunway Construction's construction orderbook

Project	Type	Contract Sum (MYRm)	Balance Sum (MYRm)
Package V4, MRT1	Civil & infrastructure	1,173	431
Coastal Highway Southern Link	Civil & infrastructure	170	155
Package B, Kelana Jaya LRT Line extension	Civil & infrastructure	569	78
Parcel F, Putrajaya	Building	1,610	1,610
KLCC North East Carpark	Building	304	203
Sunway Geo @ Sunway South Quay (CP4)	Building	153	122
Sunway Pyramid 3	Building	193	90
Bukit Lenang Ph 1A	Building	96	86
Afiniti Medini	Building	283	73
Parcel CP3, Bandar Sunway	Piling/substructure	244	244
Sunway Velocity Mall	Substructure	350	179
Service apartments in Medini, Iskandar	Sub/superstructure	180	161
Sunway Medical Centre 3	Sub/superstructure	167	143
KLCC Package 2	Substructure	222	96
Others	Various	718	322
Total		**6,432**	**3,994**

Source: Company data, RHB

Figure 3: Chronology of key events

1976	Sungei Way Quarry SB incorporated as a private limited company
1981	Name change to Sungei Way Quarry & Construction SB
	Commences active operations
1983	Name change to Sungei Way Construction SB
1988	Appointed main contractor for the Bandar Sunway township project
1997	Name change to Sungei Way Construction on conversion to a public limited company
2000-2001	Secured Putrajaya construction jobs
2001	Awarded design & build contract for Kajang Dispersal Ring Road
2003	Privatised at MYR2.73/share, satisfied by MYR1.10 cash and one Sunway Holdings Incorporated share at an issue price of MYR1.63
2004	Delisting from the Main Board of Bursa Securities
2004-2010	Made inroads into construction markets in India, Trinidad & Tobago and the UAE
2007	Sunway Holdings Incorporated changed its name to Sunway Holdings
2010-2011	Merger of the businesses of Sunway Holdings and Sunway City under the enlarged Sunway
2011	Secured an LRT line extension package
	Secured Iskandar Malaysia construction jobs
2012	Won a Klang Valley MRT package
2013	Awarded the Sunway BRT job

Source: Company data

Key Investment Themes

Integrated operations, enhanced competitiveness

Given its wide range of capabilities comprising building construction, civil & infrastructure, foundation & geotechnical engineering and MEP, Sunway Construction is well-positioned to fully capitalise on business opportunities prevailing in various segments within the construction sector in Malaysia. It has strong presence in both: i) the "volume game" – which is the highly competitive building construction and civil & infrastructure space, and ii) the "margin game", ie the less crowded specialised foundation & geotechnical engineering and MEP segments.

Typically, foundation & geotechnical engineering and MEP constitute specialist works within a turnkey building construction or civil & infrastructure contract. As such, we have strong reasons to believe that Sunway Construction is also able to leverage on these in-house specialist capabilities to boost its overall competitiveness when bidding for turnkey building construction and civil & infrastructure jobs.

First, we believe the specialist works provided by Sunway Construction are at least on par with those provided by third-parties in terms of cost and quality, as evidenced by the ability of the company's foundation & geotechnical engineering and MEP units to secure external contracts on a competitive basis. Second, the "insourcing" of two major specialist work components of a contract allows it to achieve better design optimisation, interfacing of works, and control over work quality and timeliness of completion. All these would translate to synergy, efficiency and cost savings, and hence Sunway Construction's sharpened competitiveness in the market.

The key risk to its integrated operations is the ownership costs associated with each specialist segment, such as depreciation of equipment and staff costs. Sunway Construction will have to carry these costs during a sector downturn when there are fewer jobs available in the market. The problem does not arise for a contractor which relies on specialist services from third parties.

A good proxy to mass rapid transit developments in Malaysia

One of the key pillars of support for the construction sector in Malaysia over the next decade and beyond is spending in mass rapid transit developments, particularly in the Klang Valley and Penang. A rail-based mass transit network will eventually take over the existing land-based road network as the backbone to the public transportation system in densely populated areas like the Klang Valley and Penang, as Malaysia marches towards a developed nation status. Industry players are set for an exciting time ahead with the almost concurrent implementation of mass rapid transit (MRT) 2, light rail transit (LRT) 3, Penang Transportation Master Plan and more bus rapid transit (BRT) projects (see Figure 4).

Figure 4: Mass rapid transit developments in the pipeline

Project	Briefing Description	Status
MRT2 (MYR28bn)	A 52km radial mass rapid transit line linking Sungai Buloh in the north-west of the Klang Valley to Putrajaya in the south via Serdang, with 36 stations.	The PDP for the MYR16bn elevated portion of the project, MMC-Gamuda JV, last guided for public display and feedback for the project by mid-2015, tender calling by 4Q15 and award of contracts by mid-2016. For the MYR12bn underground (tunnelling) portion, we believe it is likely to be awarded on a Swiss challenge basis as per MRT1, ie via an international tender with the sole local bidder – the MMC-Gamuda JV – being given the right to match the lowest/winning bid.
LRT3 (MYR9bn)	A 36km spur light rail transit line linking Bandar Utama to Klang via Shah Alam, with 26 stations.	Prasarana in Sep 2015 appointed a JV between Malaysian Resource Corporation (MRC MK, BUY, TP: MYR1.00) and George Kent (M) (GKEN MK, NR) to be the PDP for the project. It expects construction works to commence in early-2016.
Penang Transport Master Plan (MYR27bn)	A blueprint spanning from 2014 to 2030 by the Penang State Government to improve the highway network and develop an integrated public transport system that combines buses, trams, LRT and water taxis on Penang Island and Seberang Prai.	The Penang State Government in Aug 2015 appointed a 60:20:20 JV between Gamuda and two Penang-based private companies Ideal Property Development SB and Loh Phoy Yen Holdings SB to be the PDP for the project. Gamuda expects the project to hit the ground in 2017 and we believe one of the proirities is the 17.5km LRT line connecting Komtar in the heart of George Town to the Penang International Airport (MYR4.5bn).
BRT	High capacity and high frequency bus services operating on a dedicated (and elevated) alignment or a partial segregated alignment (as part of the highway).	The first BRT in Malaysia, the BRT Sunway Line – operating on a dedicated and elevated 5.4km alignment with seven stations – opened to the public in June 2015. The Land Public Transport Commission (SPAD) has identified another 11 BRT corridors for future development, with the propriety being given to the Kuala Lumpur-Klang and Kuala Lumpur-Taman Melawati corridors "to be assessed for detailed design".

Source: RHB, SPAD, Media reports

We believe that Sunway Construction is well-positioned to capitalise on the various mass rapid developments in Malaysia, which are detailed below:

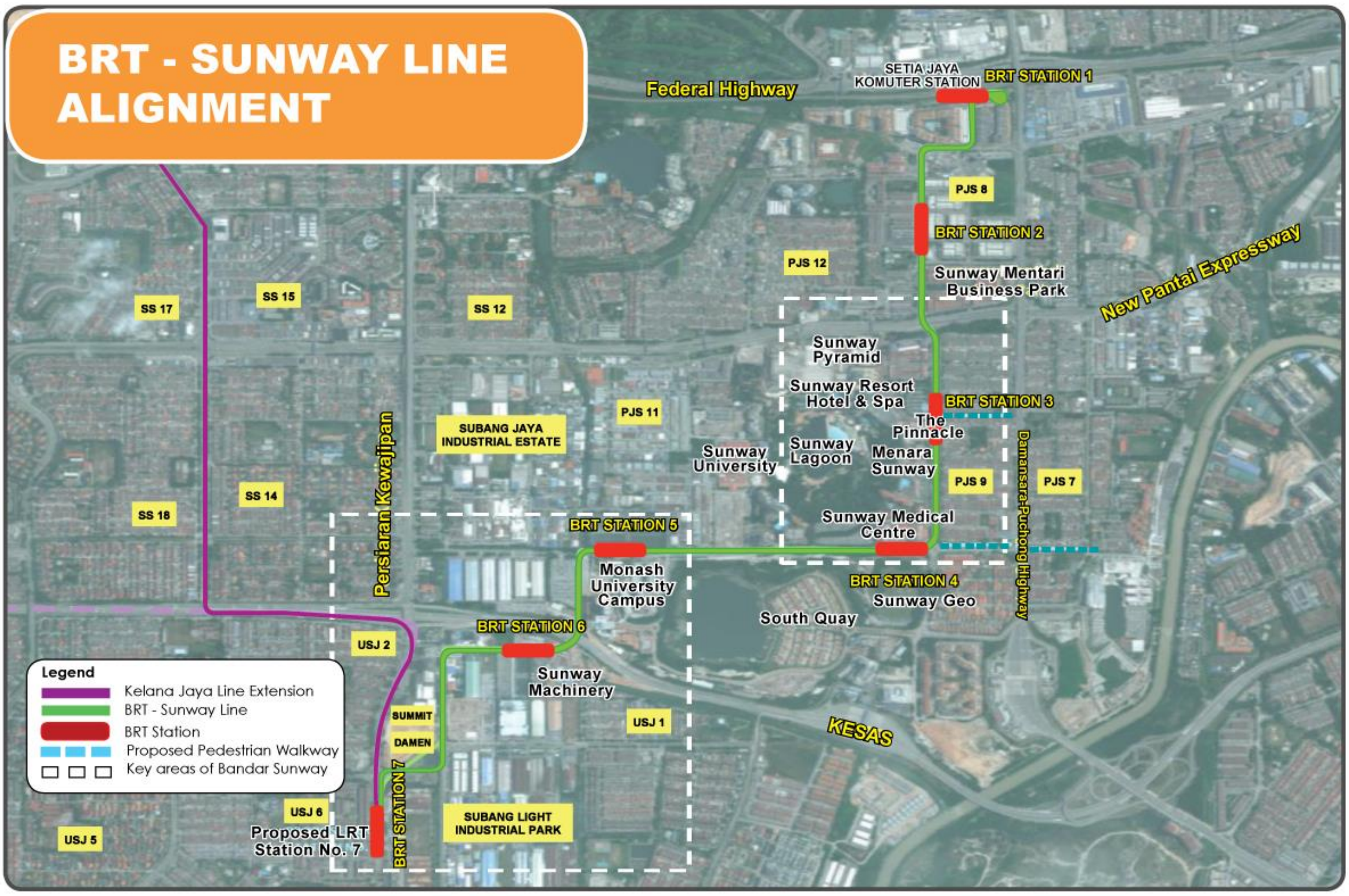
i. It is poised to bag at least a viaduct package from MRT2, given its strong track record in carrying out Package V4 of MRT1 (contract sum of MYR1,173m, 63%-completed as at end-June 2015), and the experience and a fleet of equipment it built up from executing the job

ii. Similarly, it is a strong contender for a main facilities package of LRT3, given its involvement in a main facilities package of LRT3 (contract sum of MYR569m, 86% completed as at end-June 2015)

iii. Sunway Construction is more than qualified to bid for work packages from a key component of the Penang Transport Master Plan, ie the MYR4.5bn 17.5km LRT line connecting Komtar in the heart of George Town to the Penang International Airport, backed by its rail development track records in MRT1 and LRT2

iv. It has a first-mover advantages over its peers in the industry in the elevated BRT space, given its involvement in the 5.4km BRT Sunway Line, which is the first transit system based on elevated and dedicated bus lanes in Malaysia (see Figures 5 & 6 for the alignment and an image of the BRT Sunway Line). In its Land Public Transport Master Plan published in Jun 2013, SPAD identifies 12 "BRT corridors" (including the BRT Sunway Line) for development (see Figure 7).

Figure 5: The alignment of the BRT Sunway Line

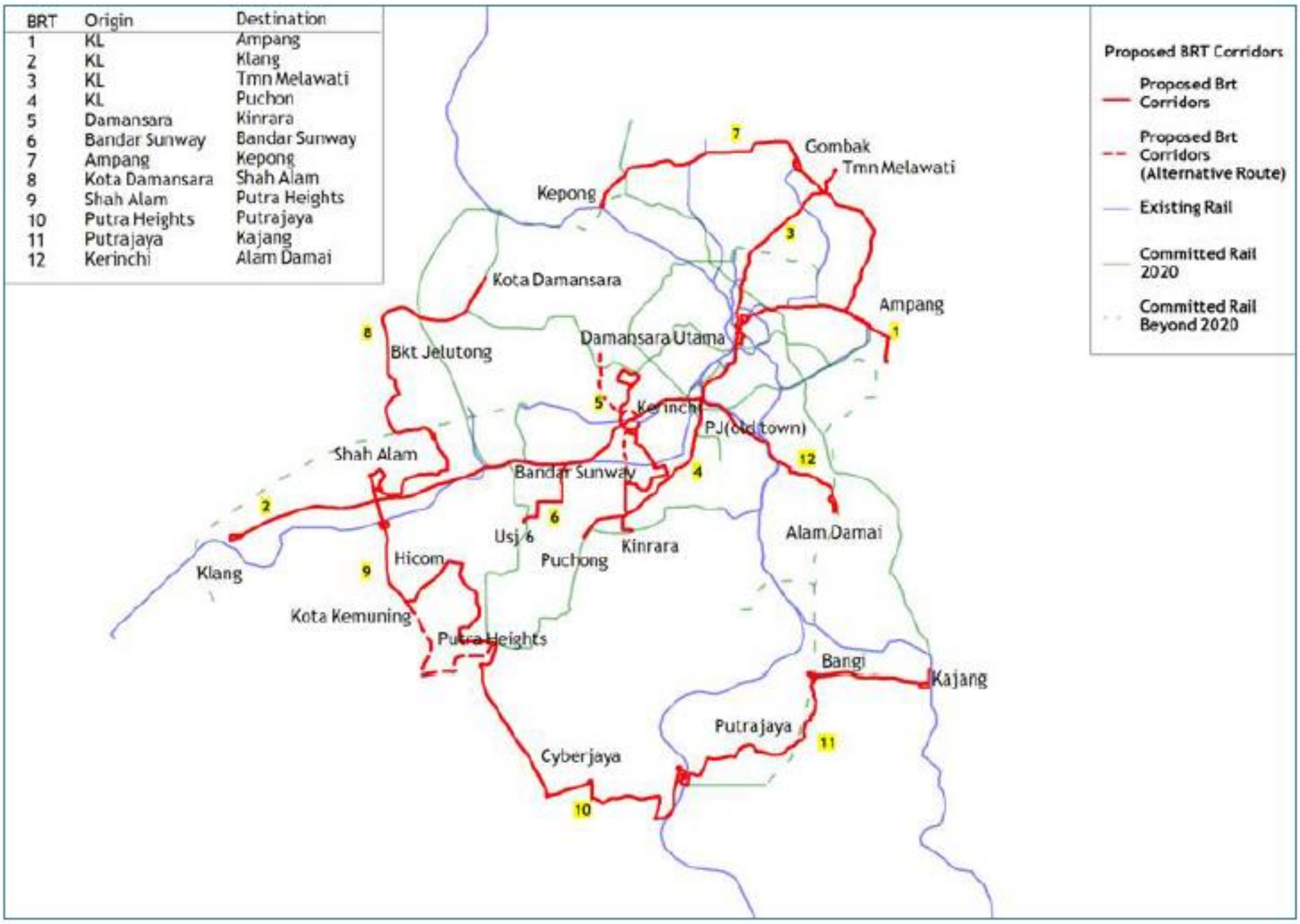


Source: SPAD

Figure 6: BRT Sunway Line

Source: Company

Figure 7: Proposed BRT corridors



Source: SPAD

Recurring construction jobs from parent

Sunway Construction can rely on parent Sunway, one of the largest and most prominent property developers in Malaysia, for recurring construction jobs. As at end-June 2015, its outstanding "in-house" construction orderbook comprising construction works from, among others, Sunway Velocity Mall, Sunway University, Sunway Putra Place, Sunway Pyramid and Sunway Medical Centre, added up to MYR1,059m. This was equivalent to about 25% of Sunway Construction's total outstanding construction orderbook of MYR4.3bn. We believe the company can continue to count on parent Sunway for new jobs, given the latter's massive outstanding GDV of MYR54.6bn from its landbank totalling 3,407 acres (see Figure 8).

Figure 8: Sunway's outstanding GDV and landbank

Location	Landbank (acres)	GDV (MYRm)	Stake (%)
Selangor/KL			
Sunway Damansara	15.36	1,691.28	60%
Sunway South Quay	42.17	3,296.66	60%
Sunway Monterez	5.36	43.67	60%
Sunway Semenyih	398.11	728.59	70%
Sunway Cheras	5.97	16.82	100%
Sunway Duta	3.16	120.00	60%
Sunway Montana	1.99	55.51	100%
Sunway Alam Suria	0.65	12.00	100%
Sunway Resort City	14.9	660	100%
Casa Kiara III	2.88	210.00	80%
Sunway Velocity	17.94	2,858.98	85%
Sunway Tower KL 1	1.00	240.00	100%
Bangi	3.00	59.00	100%
Melawati	2.00	43.00	100%
Sg Long	111.00	277.00	80%
Mont Putra, Rawang	163.00	156.00	100%
Kelana Jaya	17.00	1,800.00	100%
Perak			
Sunway City Ipoh	440.5	1,048.38	65%
Penang			
Sunway Hills	80.70	849.00	100%
Sunway Cassia, Batu Maung	6.62	74.00	100%
Sunway Wellesley, Bukit Mertajam	63.00	845.00	100%
Paya Terubong	24.46	1,500.00	100%
Sunway Tunas, Balik Pulau	9.00	60.00	100%
Sunway Betong, Balik Pulau	19.87	110.00	100%
S'pore			
Mount Sophia	5.87	2,137.20	30%
Sembawang, Singapore	0.77	75.00	100%
Royal Square @ Novena	1.65	2,287.50	30%
Johor			
Bukit Lenang	64.79	698.40	80%
Medini	691.00	12,000.00	60%
Pendas	1,079.07	18,000.00	60%
China			
Sunway Guanghao	3.73	66.78	65%
Tianjin Eco City	24.00	1,300.00	60%
India			
Sunway OPUS Grand India	23.80	702.36	50%
Sunway MAK Signature Residence	14.00	181.22	60%
(JV with M.A.K Builders)			
Australia			
Wonderland Business Park (Sydney)	48.40	378.10	45%
Total	**3,406.75**	**54,581.52**	

Source: Sunway, RHB

A strong external client base

Sunway Construction has a strong external client base comprising Putrajaya Holdings, KLCC Group, Prasarana, MRT Co and various Khazanah companies, with business relationships with them going back for years or more than a decade (see Figure 9).

Figure 9: Sunway Construction's external client base

Client	Relationship history (Years)	Value of projects (MYRm)	Notable projects
Putrajaya Holdings	>10	>1,300	Buildings for Ministry of Finance, National Registration Department, Ministry of Entrepreneur & Cooperative Development, Ministry of Housing & Local Government and Ministry of Women, Family & Community Development, and The Everly Hotel
KLCC Group	>10	>1,300	Kuala Lumpur Convention Centre, Traders Hotel Kuala Lumpur, KLCC North East Car Park, Cititower @KLCC (piling & substructures)
Prasarana	>3	>1,000	LRT2 and BRT Sunway Line
MRT Co	>2	>1,000	MRT1
Various Khazanah companies including IDR Asset, Iskandar Malaysia Studios and Pulau Indah Ventures	>4	>800	Legoland Malaysia, Pinewood Iskandar and Afiniti Medini

Source: Company data, RHB

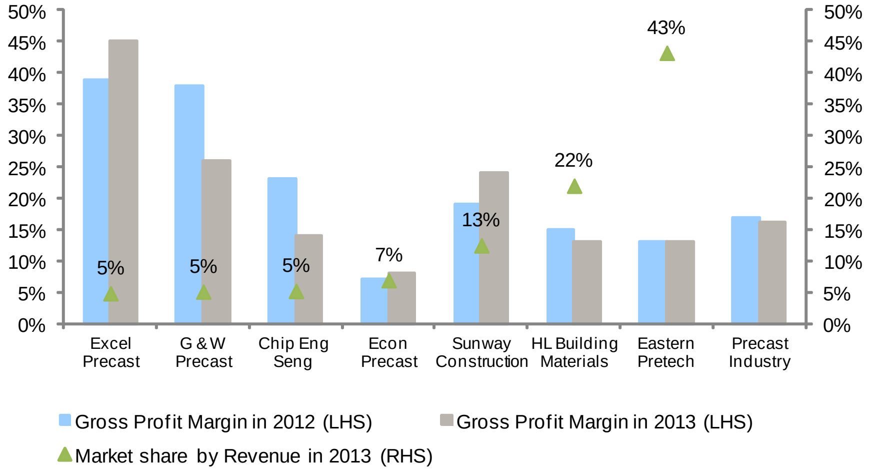
These clients have certain common attributes. First, they are backed by strong shareholders or owners such as the national oil company Petronas (Putrajaya Holdings and KLCC Group), Khazanah (Putrajaya Holdings and various Khazanah companies operating in Iskandar Malaysia), and the Government itself (Prasarana and MRT Co). This translates to low credit risk to Sunway Construction as a contractor.

Secondly, these clients are engaged in their respective, fairly long-term and massive projects: i) Putrajaya Holdings in the further development of the national administrative centre in Putrajaya including constructing more new ministry buildings, ii) KLCC Group in embarking on new phases of Kuala Lumpur City Centre as well as the redevelopment of Kompleks Dayabumi, iii) Khazanah in the further investment in Iskandar Malaysia, and iv) Prasarana and MRT Co in the implementation of LRT3 and MRT2 respectively. Given the size of these projects (they will last for years), this ought to translate into recurring jobs for Sunway Construction as a contractor.

Highly profitable precast operations in Singapore

Sunway Construction is the third-largest producer of HDB precast concrete segments by turnover in Singapore, with an estimated market share of 13%, after Eastern Pretech (43%) and HL Building Materials (22%). The industry is in a sweet spot thanks to: i) the Government's commitment towards rolling out more HDB units over the medium term, ii) limited new entrants and capacity expansion by existing players (this is because the awarding of new land leases by the Government hinges largely on a players' willingness to invest in a highly automated integrated construction and rrecast hub (ICPH) that requires huge upfront investment of between SGD60m-80m), and iii) government policies to further boost the use of precast concrete products in public residential units to reduce reliance on foreign labour in the construction sector. All these translate into good margins for existing players (see Figure 10).

Figure 10: Key precasters in Singapore



Source: RHB

Experienced management team

As at 31 May 2015, Sunway Construction had a staff of 2,170, comprising permanent staff of 1,361 and contract staff of 809, led by senior managing director Mr Kwan who has been in the construction sector for almost four decades, including almost two decades with Sunway Construction. He is assisted by CFO Ms Ng Bee Lien who has more than 20 years of experience in the finance and audit fields, including 10 years with Sunway Construction (see Figure 11).

Figure 11: Sunway Construction's senior management team

Position	Name	Highlights of career
Senior Managing Director	Kwan Foh Kwai	Graduated with a Bachelor of Engineering (Hons) degree from the University of Malaya in 1977
		Before joining Sunway Construction in 1996, he worked for Public Works Department, Promet Construction Sdn Bhd, Alam Baru Sdn Bhd and Taisei (M) Sdn Bhd from 1977 to 1996
		President of Masters Builders Association of Malaysia for the 2012-2016 term
CFO	Ng Bee Lien	Graduated with a Bachelor of Commerce majoring in Finance from the University of Western Australia in 1994
		Before joining Sunway Construction in 2005, she worked for Ernst & Young and Muhibbah Engineering (M) from 1994 to 2005

Source: Company data

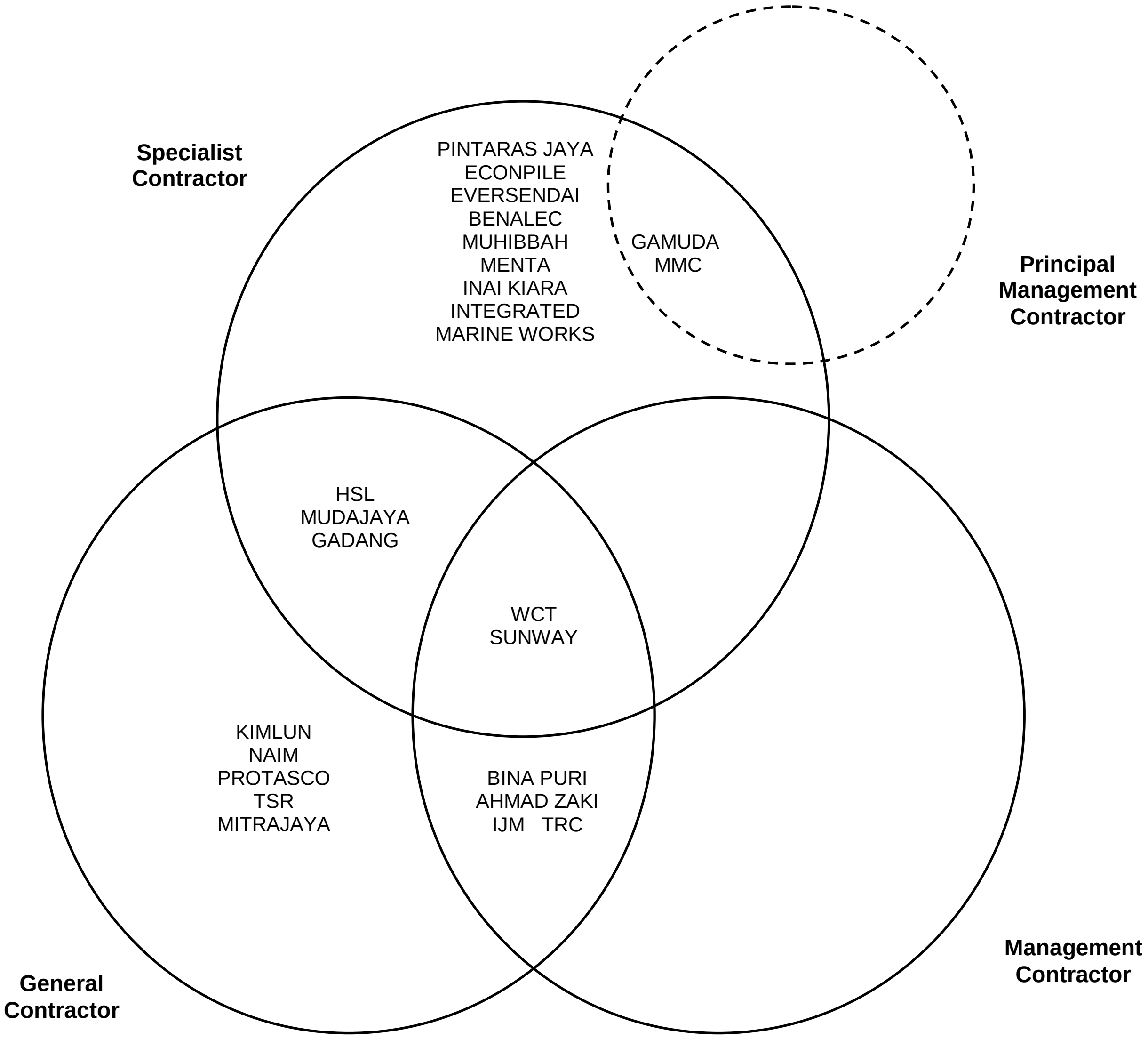
Industry Outlook

Malaysia's construction sector

Industry structure. The construction sector in Malaysia is well developed with a large pool of players comprising management, general and specialist contractors (see Figure 12). By our definition, a management contractor does not get involved in the actual physical work of a construction job. It sub-divides a job into many packages and awards them to various subcontractors with different capabilities. Its key responsibilities are to ensure: i) quality and timeliness of works done by its subcontractors, and ii) as hassle-free process as possible during the interfacing of works carried out by the different sub-contractors.

Given its size and complexity, the Klang Valley MRT project has given rise to a new breed of management contractors that we term as "principal management contractors". These are effectively a manager of management contractors. The 50:50 MMC-Gamuda joint-venture (JV) does exactly this in its role as the project delivery partner (PDP) for the elevated portions of the MRT1 and MRT2 works. Given the effectiveness of this private sector-led model, the same model has been emulated in the implementation of LRT3 (by Prasarana, the owner and operator of LRT1 and LRT2) and the Penang Transport Master Plan (by the Penang State Government).

Figure 12: Key players in the construction sector in Malaysia



Source: RHB

Meanwhile, RHB defines "general contractor" as a contractor that is engaged in parts of a construction job or types of construction jobs that does not require specialised skills and equipment. These include common building construction and road jobs. The definition for "specialist contractor" is vice versa and it comprises contractors that are engaged in foundation and geotechnical engineering, MEP, large-scale earthworks, land reclamation, marine works, dredging, structural steel, power plant works, etc.

Often times, the lines between management, general and specialist contractors may be blurred or lost as many participants play a dual or multiple roles in the industry. For instance, while the MMC-Gamuda JV is the PDP for the MRT1 and MRT2 projects as principal management contractor, it is also the tunnelling contractor for MRT1 and potentially MRT2 (as a specialist contractor). On the other hand, while Sunway Construction is a management/general contractor for the LRT2 and MRT1 works, it also has certain niche strengths that make it a specialist contractor, eg foundation & geotechnical engineering and MEP.

Strong prospects. The prospects of the construction sector in Malaysia are strong, backed by: i) sizeable gross development expenditure in the Government's annual budget, and ii) a long list of ongoing and shovel-ready mega infrastructure, property and industrial projects that are largely funded by the national oil company, the national sovereign wealth fund, government-owned special purpose vehicles (SPVs), government-linked companies (GLCs) or the private sector.

In the 2015 Budget announced in Oct 2014, the Government set aside gross development expenditure of MYR48.5bn for this year, which was up 15% from the MYR42.2bn estimated for 2014. This amount was kept unchanged in the revised Budget 2015 announced in January to reflect lower oil revenue. This speaks volume for the Government's strong commitment towards public spending. The key recipients of allocations under development expenditure are rural infrastructure (including the Pan-Borneo Highway), water projects (including the MYR3bn Langat 2 water treatment plant), affordable housing, and property/facility maintenance works (see Figure 13).

Figure 13: Key recipients of allocations under development expenditure

Project	Value (MYRm)
Highway	
♦ Pan-Borneo Highway	27,000
Rail project	
♦ Upgrading of the East Coast railway line (Gemas-Mentakab-Jerantut-Sungai Yu and Gua Musang-Tumpat)	150
Water	
♦ Langat 2 water treatment plant	3,000
♦ Water pipe replacement	112
Rural infrastructure	4,500
♦ Electricity connection (15,000 houses)	1,100
♦ Rural roads (including former logging roads) (635km)	943
♦ Water supply (7,500 houses)	394
♦ Infrastructure & facilities for the *Orang Asli*	352
♦ Refurbishment of dilapidated houses (9,500 units)	200
♦ Street lighting in villages	56
Affordable housing	
♦ Under *1Malaysia Public Housing Programme (PR1MA)* (80,000 units)	1,300
♦ Under *Program Perumahan Rakyat* (26,000 units)	644
♦ Under *Syarikat Perumahan Negara Bhd* (37,000 units)	n.a.
♦ Under *1Malaysia Civil Servants' Housing (PPA1M)* (5,380 units)	n.a.
Property/facility maintenance	
♦ Education facilities	800
♦ Quarters for military, police, teachers and staff	500
♦ Houses in fishing villages	250
♦ Public/private low-cost houses	140
♦ Government quarters	105

Source: Budget 2015, RHB

On the other hand, the key mega infrastructure, property and industrial projects currently under construction or slated for implementation over the near term include Iskandar Malaysia (MYR383bn), Sarawak Corridor of Renewable Energy (SCORE) (MYR334bn), the Refinery and Petrochemical Integrated Development (RAPID) (MYR89bn), the Klang Valley MRT (comprising MRT1, MRT2 and MRT3) (MYR80bn), the Kuala Lumpur-Singapore High-Speed Rail (HSR) (MYR40bn), Pan-Borneo Highway (MYR27bn), Penang Transport Master Plan (MYR27bn) and West Coast Expressway (MYR5bn) (see Figure 14).

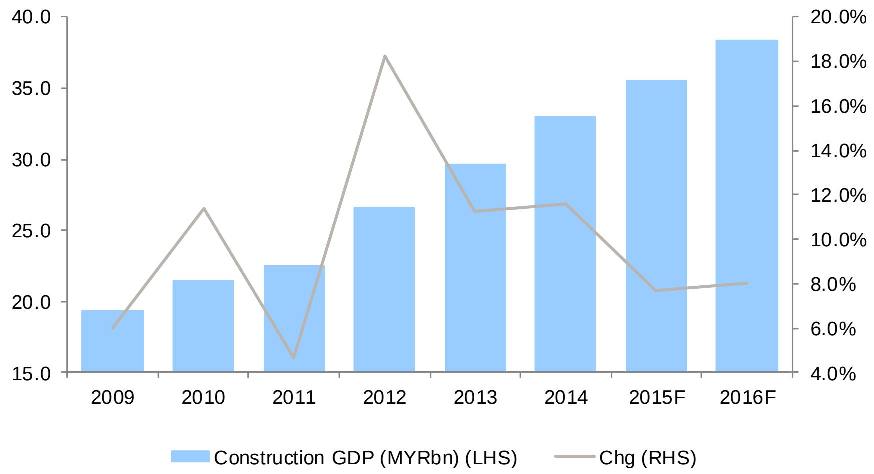
Figure 14: Key mega projects in Malaysia

Project	Type/Nature	MYRbn
Iskandar Malaysia	Economic zone/Property	383
SCORE	Industrial	334
Bandar Malaysia	Property	150
RAPID	Industrial	89
Klang Valley MRT	Infrastructure	80
Kwasa Damansara	Property	50
Kuala Lumpur-Singapore HSR	Infrastructure	40
Tun Razak Exchange (TRX)	Property	40
Pan Borneo Highway	Infrastructure	27
Penang Transport Master Plan	Infrastructure	27
Bukit Bintang City Centre (BBCC)	Property	10
LRT3 (Bandar Utama-Klang)	Infrastructure	9
Gemas-Johor Bahru double-tracking	Infrastructure	8
Penang Undersea Tunnel	Infrastructure	6
Train 9, Malaysia liquefied natural gas (MLNG), Bintulu	Industrial	6
West Coast Expressway	Infrastructure	5
Kuala Lumpur 118	Property	5

Source: RHB, media reports

Construction GDP and value of projects awarded. Statistically, the solid performance of the construction sector in Malaysia in recent years and its strong prospects ahead are reflected in: i) a sustained uptrend in the construction GDP of Malaysia, and ii) the rising value of projects awarded annually. The construction GDP in Malaysia grew to MYR33.0bn in 2014 from MYR19.3bn in 2009, translating into an impressive CAGR of 11.2% (see Figure 15). RHB projects the uptrend in Malaysia's construction GDP to continue, albeit at a more moderate pace of 7.7% and 8% in 2015 and 2016 respectively. Sustained public infrastructure spending will more than cushion the slowdown in oil & gas and property projects.

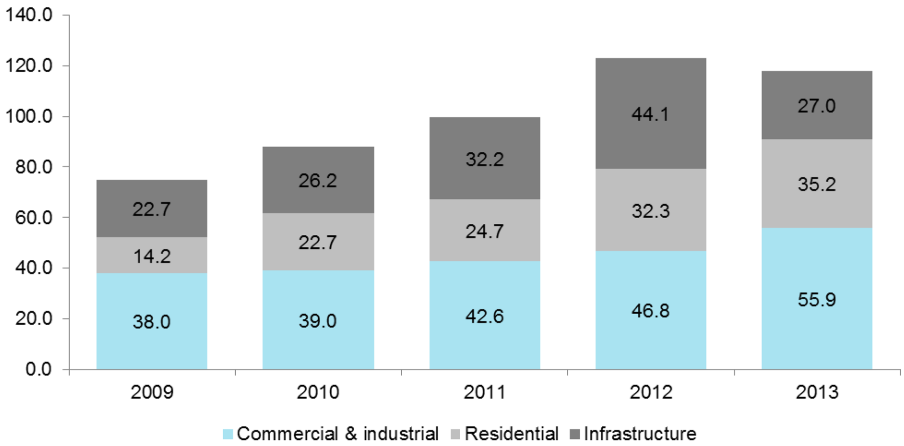
Figure 15: Construction GDP in Malaysia



Source: RHB, Bank Negara Malaysia (BNM)

On the other hand, according to independent market researcher Smith Zander, the construction industry in Malaysia as measured by value of projects awarded, grew to MYR118.1bn in 2013 from MYR74.9bn in 2009, translating into a CAGR of 12.1% (see Figure 16). Among the sub-segments, residential construction registered the highest CAGR of 25.3% during the period, on the back of a residential property boom. This was followed by commercial & industrial construction that achieved a CAGR of 10.1%, driven largely by the buoyant commercial/office market. Infrastructure construction only recorded a CAGR of 4.4% as the number recorded in 2013 (end-year in the CAGR calculation) happened to be exceptionally low. This was after two consecutive years of strong numbers in terms of value of infrastructure projects awarded in 2011 and 2012. Infrastructure construction tends to fluctuate from year to year due to the lumpy nature of certain public infrastructure projects, such as the Klang Valley MRT. Looking forward, Smith Zander forecasts value of projects awarded to grow at a CAGR of 10% to MYR173bn in 2017 from MYR118.1bn in 2013. Smith Zander is of the view that “the percentage contribution of infrastructure, commercial and residential development projects will not significantly change over the forecast period”.

Figure 16: Value of projects awarded in Malaysia (MYRbn)



Source: Smith Zander

Key Risks

Dependence on public infrastructure spending and the property sector. Generally, fortunes of construction companies are tied closely to government infrastructure spending and the strength of the property sector, as they are the main sources of new jobs for construction companies.

There is a concern that the Government may cut back on public infrastructure spending on falling oil and gas revenues. The mitigating factors are: i) the availability of a new income source to the Government with the implementation of the goods and services tax (GST) from 1 Apr 2015 as well as savings from the recent abolition of the petrol and diesel subsidies, ii) mega infrastructure projects such as MRT and LRT takes years to complete and payments made to contractors are on a progressive basis (It is not unreasonable to assume that oil & gas prices, being cyclical in nature, will recover at some point in the near future), and iii) the proposition that the Government should even accelerate the implementation of mega projects under an environment of low energy costs, given the resulting lower costs for inputs such as diesel, cement and steel bars.

Meanwhile, while the outlook of the property sector in Malaysia is challenging at present due to credit tightening, oversupply and cost pressures stemming from the GST. We believe its prospects over the long-term remain positive, backed by sustained demand from new household formation (underpinned by population growth), shrinking average household size (including growing single-adult households), urbanisation and properties as a asset class for investment purposes.

Operating and financial risks. The key operating and financial risks of a construction company include:

i. The ability to replenish its orderbook with new contracts that fetch reasonable margins, against a backdrop of a highly competitive and crowded construction market

ii. The availability of key inputs including construction materials (such as steel bars, ready mixed concrete and diesel), foreign workers, and services provided by general and specialist subcontractors

iii. The ability to manage the volatility in prices of construction materials (via financial hedges, forward buying, etc) and cope with the rising costs of labour and services provided by subcontractors, particularly specialist subcontractors

iv. The ability to prevent cost overruns that could erode its margins and late completion of projects that will subject it to liquidated and ascertained damages (LAD) arising from late delivery

v. The availability of an independent legal system or arbitrators to resolve disputes with project owners and subcontractors

vi. The credit risk of clients or the ability to secure payments from clients for works certified as done

vii. Potential gains or losses arising from marketing-to-the-market the value or profits generated from contracts denominated in foreign currencies

Precast operating premises in Singapore. Sunway Construction's lease renewal on its precast concrete operating premises hinges on approval from the HDB. In striving for greater automation in precast concrete production, the government body has prioritised the lease renewal for precast players with ICPH setup. Sunway Construction is currently deliberating the ICPH investment, estimated to range from SGD60m-80m.

Given the possibility that the HDB may not renew the lease upon Sunway Construction's decision to forgo its investment in an ICPH – and its inability to secure a premise – the supply of precast concrete products will be solely dependent on its Malaysia-based operations in nearby Senai, Johor. Invariably, higher logistics and raw material costs, and potential duties and taxes on the import of precast concrete products, may affect profitability moving forward.

Security of sand supply. Sand, a key material to concrete and concrete-based products such as precast concrete, is imported to Singapore from regional countries such as Bangladesh, Myanmar and the Philippines following the restrictions on the export of sand from countries like Malaysia, Indonesia and Vietnam. In 2007, for instance, Indonesia, the biggest supplier of sand to Singapore at that time, banned the export of sand. This led to a surge in the price of sand. Consequently, the price of ready-mixed concrete in Singapore surged 72% that year.

Evidently, Singapore has since diversified its sources for sand. However, there remains a possibility of similar sand supply disruptions stemming from restrictions on sand imports. As a result, the whole construction industry in Singapore at large could possibly see a temporary spike in costs to produce concrete.

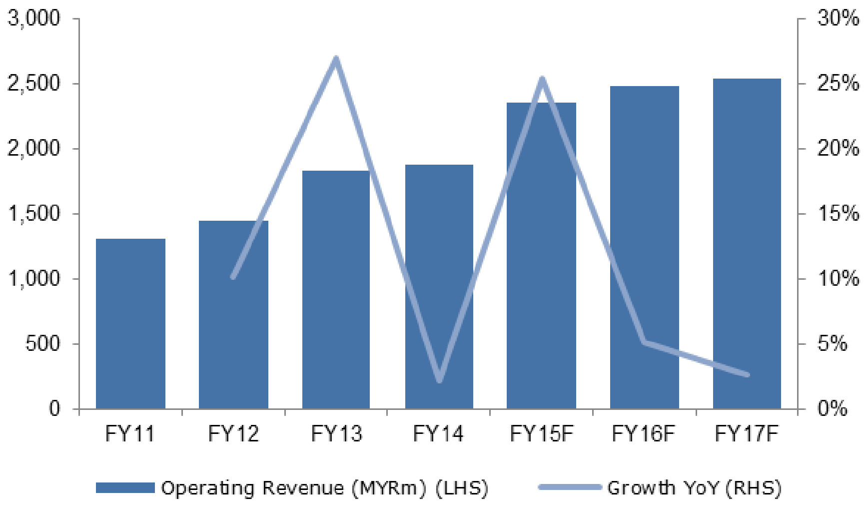
Financial Analysis And Forecasts

Earnings review and forecasts

Sunway Construction's revenue grew by 10.1% and 27.0% in FY12 and FY13 respectively, driven by progress billings from LRT2, MRT1, BRT Sunway Line, Pinewood Iskandar Malaysia Studios and Sunway Velocity, as well as rising sales of precast concrete products in Singapore. Its revenue growth rate slowed down to 2.2% in FY14 from a relatively high base in FY13.

In FY15, however, we expect its annual revenue growth to accelerate to 25.4%, backed by recognition of progress billings from its outstanding construction orderbook of MYR2.74bn as at end-FY14, more specifically, lumpy final billings from LRT2, MRT1 and BRT Sunway Line. This also includes new job wins, which we have assumed at MYR2.2bn in FY15 (YTD, it has secured new contracts worth a total of MYR2.0bn). Similar to FY13, we project Sunway Construction's FY16 and FY17 revenues to only inch up by 5.2% and 2.7% from the year before due to a high base. We also assume the company to secure MYR2.2bn worth of new jobs annually in FY16 and FY17.

Figure 17: Revenue vs growth YoY



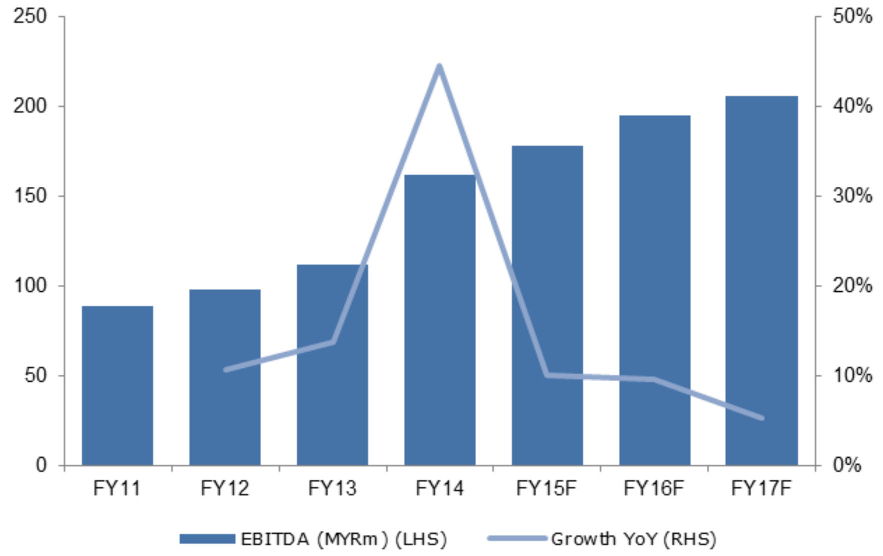
Source: Company data, RHB

Sunway Construction's growth in EBITDA of 10.7% in FY12 very much tracked that of 10.1% in revenue. However, while its EBITDA growth accelerated to 13.7% in FY14, this was at a slower pace vis-à-vis a 27% growth in revenue. The lower growth in EBITDA versus revenue in FY13 was largely due to additional costs incurred at certain construction projects. The situation reversed completely in FY14 with its EBITDA rising 44.7% despite a flattish topline growth of 2.2%. This was largely due to: i) a notable recovery in construction margins and – hence – profit due to the finalisation of accounts, and ii) similarly, strong margins realised from precast concrete products from the finalisation of accounts and lower input costs.

We project Sunway Construction's EBITDA to only grow by 10.1% in FY15 vis-à-vis a steeper 25.4% increase in revenue. We expect Sunway Construction to realise a lower blended construction margin as remaining works from LRT2 and MRT1 command thin margins as they are largely nominated subcontractor works where Sunway Construction only earns small attendance fees. Also, margins of precast concrete products will normalise from exceptionally high levels in FY14.

For FY16-17, we project Sunway Construction's EBITDA growth to moderate to 9.7% and 5.3% respectively, but still stronger than revenue growth of 5.2% and 2.7% respectively. This will be driven largely by an improving blended construction margin on reduced nominated subcontractor works.

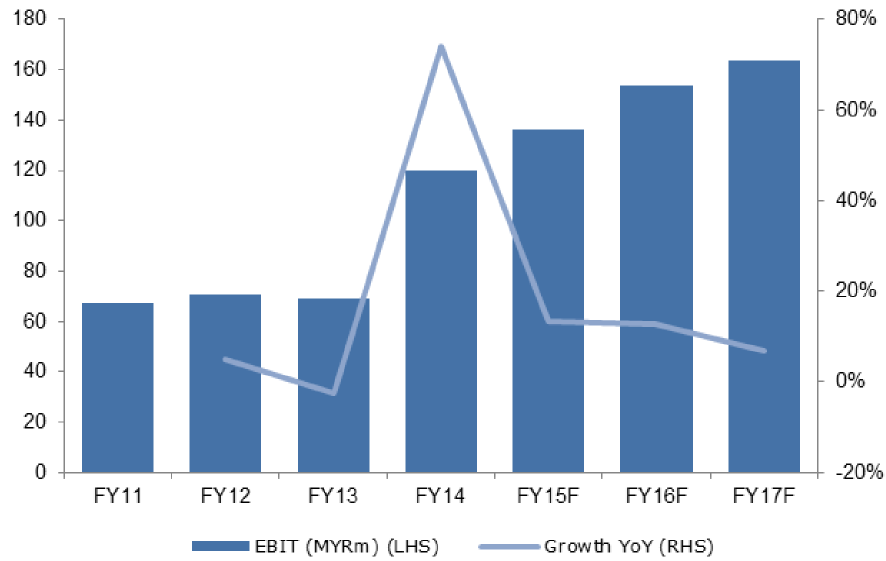
Figure 18: EBITDA vs growth YoY



Source: Company data, RHB

Sunway Construction's EBIT only grew 4.9% in FY12 (compared with 10.7% at the EBITDA level) and declined by 2.5% in FY13 (compared with an increase of 13.7% at the EBITDA level) largely due to lumpy depreciation charges as it invested rather heavily in property, plant and equipment to cope with an expanding business. However, its EBIT surged 74.1% in FY14 (compared with 44.7% at the EBITDA level) as depreciation charges eased with its capex cycle having already peaked in FY12 and FY13. For FY15-17, we project growth in EBIT to moderate to 13.3%, 12.7% and 6.7% respectively –but still higher than the EBITDA of 10.1%, 9.7% and 5.3% respectively – as we assume depreciation charges to stay flat in the absence of major capex.

Figure 19: EBIT vs growth YoY



Source: Company data, RHB

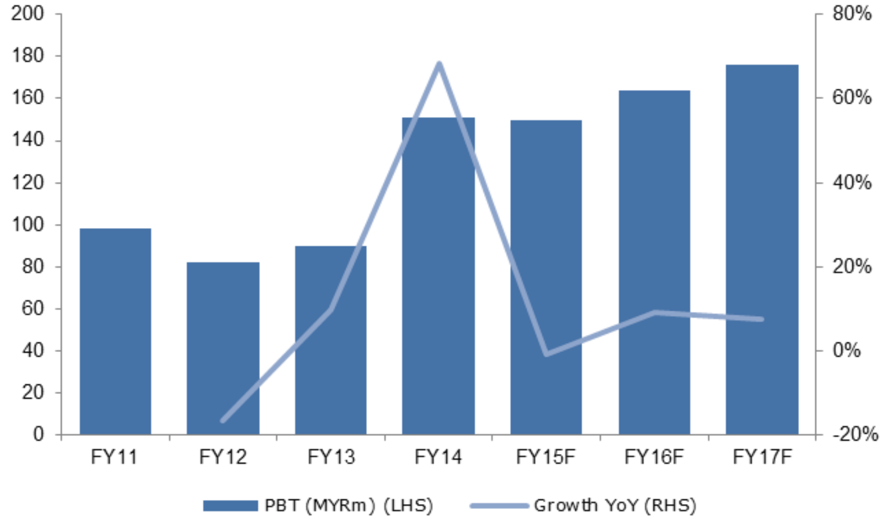
Sunway Construction's PBT contracted 16.7% despite a 4.9% expansion in EBIT in FY12. This was mainly due to the distortion from several one-off items comprising: i) a MYR16.8m "write-back of a loss position" pertaining to a project in Trinidad & Tobago, resulting in a high base in FY11, ii) recognition of MYR10.6m in additional "land acquisition compensation expenses" related to the Kajang Dispersal Ring Road project in FY12, and iii) realisation of MYR13.5m forex losses on repatriation of funds from Trinidad & Tobago and India as Sunway Construction exited the two markets in

FY12. The decline in PBT in FY12, to a certain extent, was mitigated by an improved share of results from JVs engaged in: i) the Rihan Heights building job in Abu Dhabi (UAE), ii) the delivery of glass facades for building projects, and ii) the Sunway Alam Suria property development project.

In FY13, the company's PBT grew 9.7% despite a 2.5% contraction at the EBIT level. This was largely due to a low base in FY12 arising from several one-off items as mentioned, despite a MYR24.4m provision for "advances made for the Al-Reem project" in Abu Dhabi, UAE, in FY13. Also helping, was continued improvement in its share of results from JVs. Sunway Construction's PBT only grew at 68.4% in FY14 (as compared with 74.1% at the EBIT level) due to a lower share of results from JVs as their projects were already at the tail-end.

We project Sunway Construction's PBT to ease 0.8% in FY15 (vis-à-vis a 13.3% growth at the EBIT level) largely due to: i) a high base in FY14 due to certain one-off items, and ii) lower share of results from JVs. Similarly, in FY16, we expect Sunway Construction's PBT to grow at a slower rate of 9.2% (vis-à-vis 12.7% at the EBIT level) due to a continued decline in share of results from JVs. However, we project its FY17 PBT to rise at a faster rate of 7.4% (vis-à-vis 6.7% at the EBIT level) thanks to a higher interest income on it growing cash reserves.

Figure 20: PBT vs growth YoY

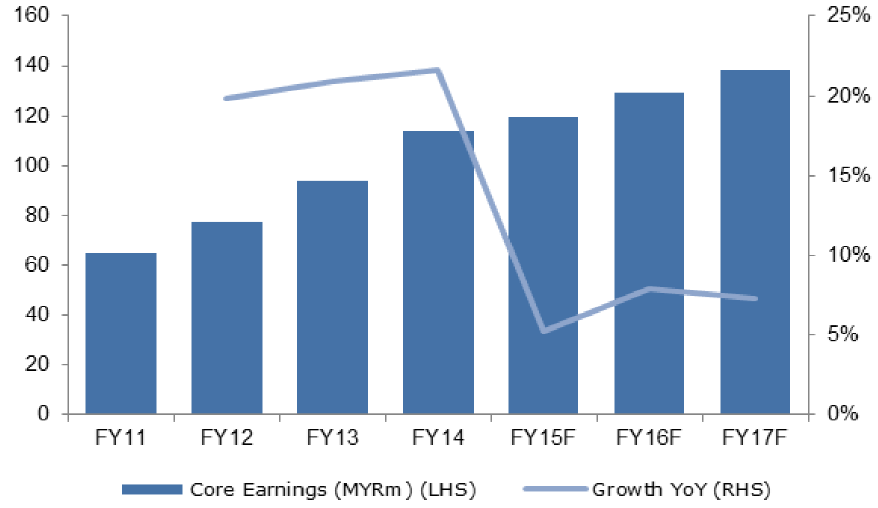


Source: Company data, RHB

Sunway Construction delivered strong and consistent core earnings growth in FY12-14 at 19.8%, 20.9% and 21.6% respectively, driven by expansion in both toplines and margins. We project a sustained growth in core earnings in FY15-17 albeit at slower rates of 5.2%, 7.9% and 7.3% from a relatively high base.

As at 31 Dec 2014, Sunway Construction was in a net cash of MYR156.4m. We project its net cash to rise to MYR229.4m, MYR316.7m and MYR413.5m as at end-FY15, FY16 and FY17 respectively thanks to strong operating cash flow projected at MYR150-170m per annum while annual capex is capped at about MYR40m.

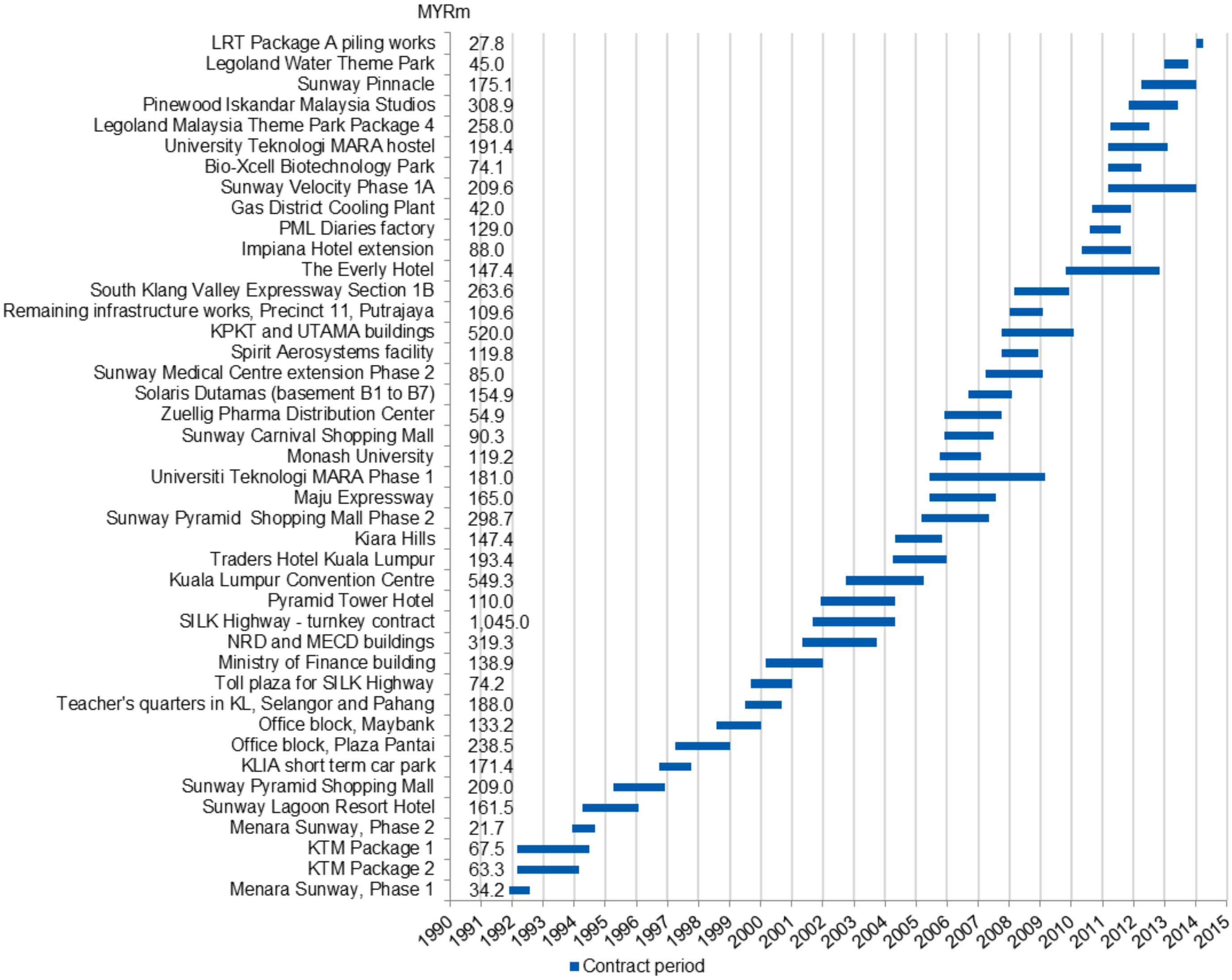
Figure 21: Core earnings vs growth YoY



Source: Company data, RHB

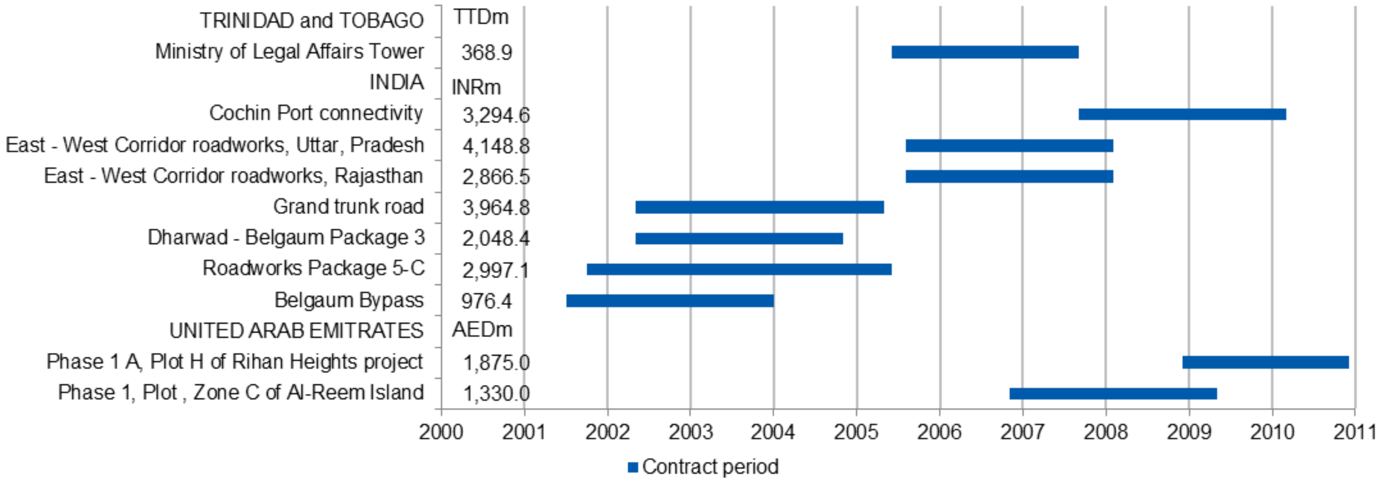
Appendix

Figure 22: Completed major building and construction services projects in Malaysia



Source: Company data

Figure 23: Completed major building and construction services projects overseas



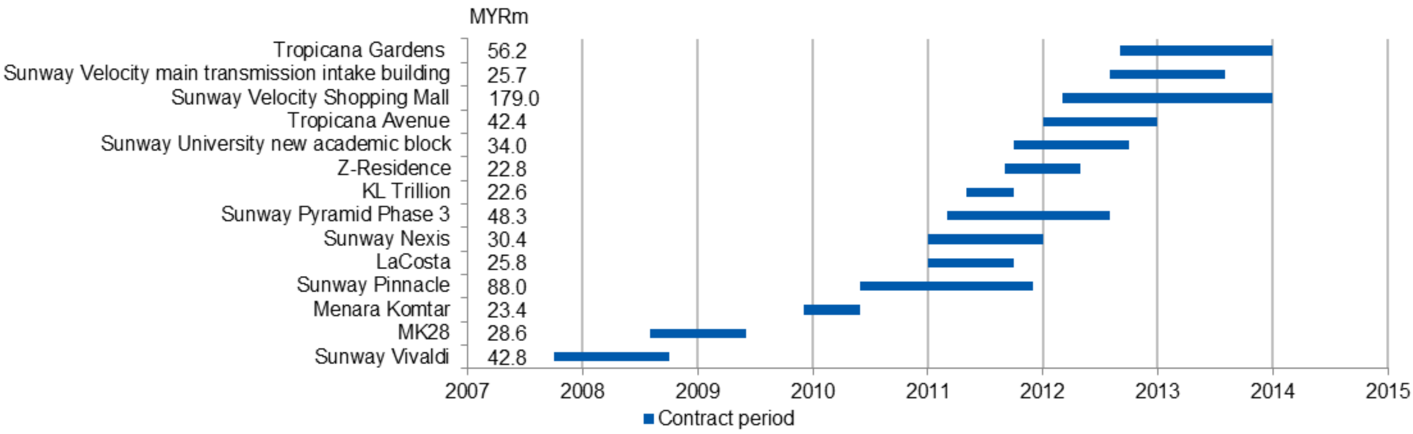
Source: Company data

Figure 24: Current major ongoing building and construction services projects in Malaysia

Project and location	Client	Contract commencement	Value (MYRm)
LRT Package B (Kelana Jaya Line Extension)	Syarikat Prasarana Negara	Oct 2011	569.0
Sunway University new academic block, Bandar Sunway, Selangor	Sunway Destiny	Sep 2012	203.9
Klang Valley MRT Package V4, Section 17 Petaling Jaya to Semantan Portal	MMC Gamuda KVMRT (PDP)	Jun 2012	1,172.8
BRT - Sunway Line, Selangor	Syarikat Prasarana Negara Berhad	Mar 2013	452.5
Sunway Putra Mall, Jalan Putra, Kuala Lumpur	Sunway REIT Management	May 2013	258.4
Sunway Velocity Shopping Mall, Kuala Lumpur	Sunway Velocity Mall	Mar 2013	349.7
KLCC North East Car Park, Kuala Lumpur	Cititower	Jul 2013	304.0
KLCC Package II, Kuala Lumpur	Cititower	Jul 2013	222.0
Sunway Pyramid Phase 3, Bandar Sunway, Selangor	Sunway Pyramid Hotel	Mar 2013	192.6
Afiniti Medini mixed development project, Iskandar Malaysia Johor	Pulau Indah Ventures	Sep 2013	282.9
Sunway Geo Retail and Flexi Suites, Bandar Sunway, Selangor	Sunway South Quay	Jun 2014	152.5
Total			**4,160.3**

Source: Company data

Figure 25: Completed major foundation and geotechnical engineering services projects in Malaysia



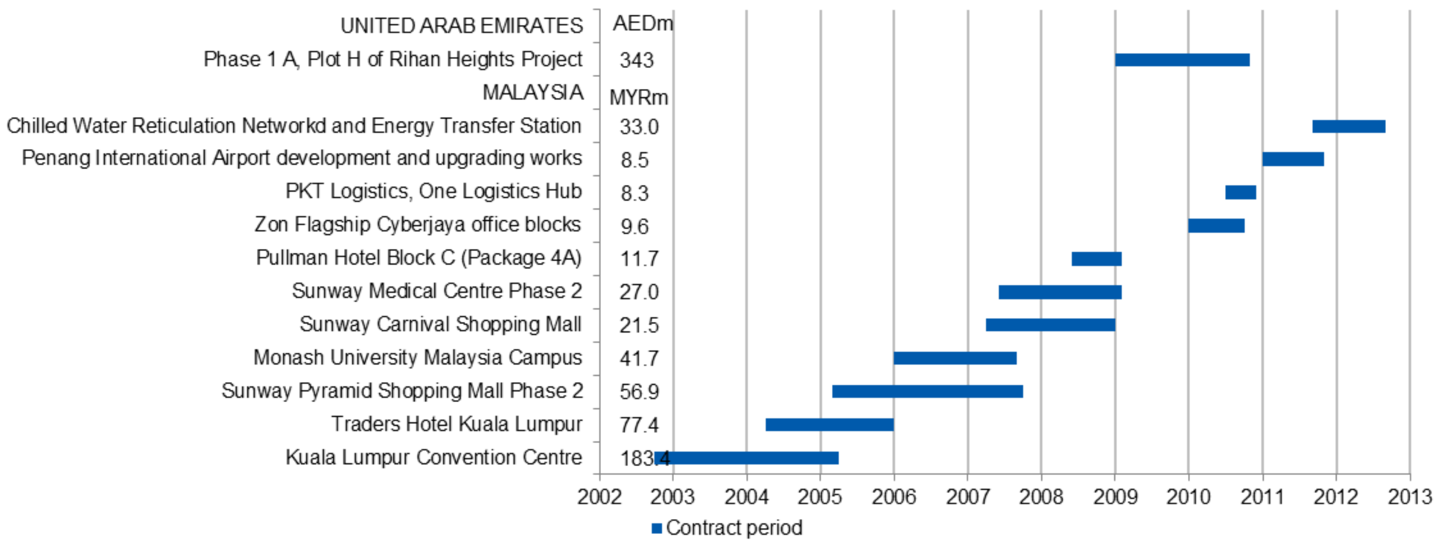
Source: Company data

Figure 26: Current major ongoing foundation and geotechnical services projects in Malaysia

Project and location	Client	Contract commencement	Value (MYRm)
Sunway Velocity Phase 3, Seksyen 90A, Kuala Lumpur	Sunway Integrated Properties	Dec 2011	290.5
Mengkuang Dam expansion, Seberang Prai, Penang	Gerbang Kesuma	Aug 2012	47.3
Sunway South Quay Commercial Precinct 4, Bandar Sunway, Selangor	Sunway South Quay	Nov 2012	81.8
Sunway Velocity tunnelling, Section 90, Kuala Lumpur	Sunway City	Jan 2013	77.6
Sunway South Quay Commercial Precinct 3, Bandar Sunway, Selangor	Sunway South Quay	Aug 2013	99.4
Total			**596.6**

Source: Company data

Figure 27: Completed major mechanical, electrical and plumbing services projects



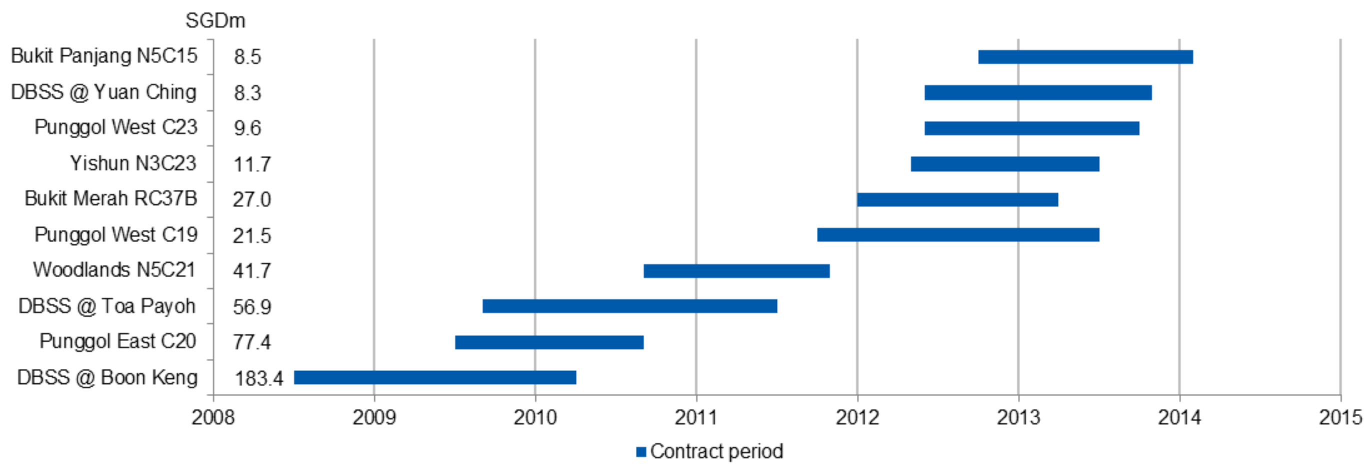
Source: Company data

Figure 28: Major ongoing mechanical, electrical and plumbing services projects

Project and location	Client	Contract commencement	Value (MYRm)
Sunway Putra Mall, Jalan Putra, Kuala Lumpur	Sunway Construction	May 2013	55.1
Total			**55.1**

Source: Sunway Construction

Figure 29: Completed the manufacture and supply of precast concrete products to the following major projects in Singapore



Source: Company data

Figure 30: Ongoing major manufacture and supply of precast concrete products projects in Singapore

Project and location	Client	Contract commencement	Value (SGDm)
Clementi N3C18B	Teambuild Engineering & Construction	Dec 2012	19.5
Kallang Whampoa	Singapore Piling & Civil Engineering	Dec 2012	20.1
Punggol West C31	Progressive Builders	Mar 2013	28.6
Sembawang N1C7 and 8	Right Construction	Nov 2013	22.4
Bukit Merah RC53	Straits Construction Singapore	Dec 2013	21.2
Bukit Merah C50	Straits Construction Singapore	Jan 2014	30.6
Punggol West C36	Hi-Tek Construction	Feb 2014	18.6
Total			**160.9**

Source: Company data

Financial Exhibits

Profit & Loss (MYRm)	Dec-13	Dec-14	Dec-15F	Dec-16F	Dec-17F
Total turnover	1,840	1,881	2,359	2,481	2,548
Cost of sales	(1,475)	(1,485)	(1,933)	(2,038)	(2,094)
Gross profit	**365**	**395**	**426**	**443**	**454**
Gen & admin expenses	(310)	(288)	(300)	(300)	(300)
Other operating costs	14	13	10	10	10
Operating profit	**69**	**120**	**136**	**153**	**164**
Operating EBITDA	112	162	178	195	206
Depreciation of fixed assets	(43)	(42)	(42)	(42)	(42)
Operating EBIT	**69**	**120**	**136**	**153**	**164**
Net income from investments	45	19	10	5	5
Interest income	2	1	4	5	7
Exceptional income - net	(27)	11	-	-	-
Pre-tax profit	**90**	**151**	**150**	**164**	**176**
Taxation	(24)	(26)	(30)	(35)	(37)
Minority interests	1	0	-	-	-
Profit after tax & minorities	**67**	**125**	**120**	**129**	**139**
Reported net profit	**67**	**125**	**120**	**129**	**139**
Recurring net profit	**94**	**114**	**120**	**129**	**139**

Source: Company data, RHB

Cash flow (MYRm)	Dec-13	Dec-14	Dec-15F	Dec-16F	Dec-17F
Operating profit	**69**	**120**	**136**	**153**	**164**
Depreciation & amortisation	**43**	**42**	**42**	**42**	**42**
Change in working capital	**(67)**	**(24)**	**-**	**-**	**-**
Other operating cash flow	58	74	-	-	-
Operating cash flow	**103**	**212**	**178**	**195**	**206**
Interest received	2	1	-	-	-
Tax paid	(20)	(28)	(30)	(35)	(37)
Cash flow from operations	**85**	**185**	**148**	**161**	**168**
Capex	(49)	(46)	(40)	(40)	(40)
Other investing cash flow	(20)	395	-	-	-
Cash flow from investing activities	**(69)**	**349**	**(40)**	**(40)**	**(40)**
Dividends paid	(20)	(429)	(39)	(39)	(39)
Increase in debt	32	39	-	-	-
Other financing cash flow	(5)	(7)	4	5	7
Cash flow from financing activities	**7**	**(397)**	**(35)**	**(33)**	**(31)**
Cash at beginning of period	94	126	278	365	452
Total cash generated	**23**	**136**	**73**	**87**	**97**
Forex effects	8	1			
Implied cash at end of period	**125**	**263**	**351**	**452**	**549**

Source: Company data, RHB

Financial Exhibits

Balance Sheet (MYRm)	Dec-13	Dec-14	Dec-15F	Dec-16F	Dec-17F
Total cash and equivalents	156	292	365	452	549
Inventories	26	20	20	20	20
Accounts receivable	1,020	738	738	738	738
Other current assets	5	9	9	9	9
Total current assets	**1,208**	**1,058**	**1,131**	**1,218**	**1,315**
Total investments	48	24	34	39	44
Tangible fixed assets	181	179	177	175	173
Intangible assets	4	4	4	4	4
Total other assets	2	7	7	7	7
Total non-current assets	234	214	222	225	228
Total assets	**1,442**	**1,272**	**1,353**	**1,443**	**1,543**
Short-term debt	75	135	135	135	135
Accounts payable	731	791	791	791	791
Other current liabilities	9	13	13	13	13
Total current liabilities	**815**	**940**	**940**	**940**	**940**
Total long-term debt	15	0	0	0	0
Other liabilities	2	4	4	4	4
Total non-current liabilities	**17**	**4**	**4**	**4**	**4**
Total liabilities	**832**	**944**	**944**	**944**	**944**
Share capital	614	333	333	333	333
Retained earnings reserve	-	-	81	171	271
Shareholders' equity	**614**	**333**	**414**	**505**	**605**
Minority interests	(4)	(5)	(5)	(5)	(5)
Other equity	0	0	0	0	0
Total equity	**610**	**328**	**409**	**500**	**599**
Total liabilities & equity	**1,442**	**1,272**	**1,353**	**1,443**	**1,543**

Source: Company data, RHB

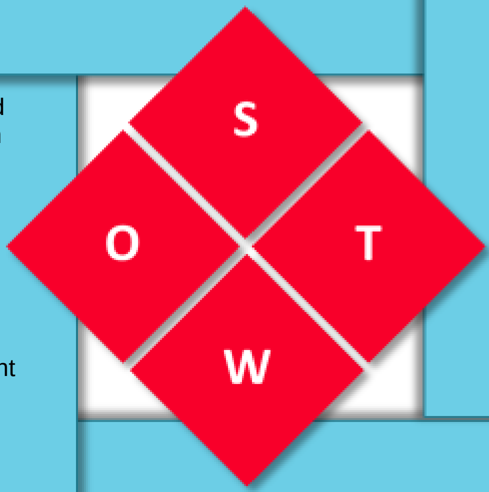
Key Ratios (MYR)	Dec-13	Dec-14	Dec-15F	Dec-16F	Dec-17F
Revenue growth (%)	27.0	2.2	25.4	5.2	2.7
Operating profit growth (%)	(2.5)	74.1	13.3	12.7	6.7
Net profit growth (%)	22.2	86.5	(4.1)	7.9	7.3
EPS growth (%)	22.2	86.5	(4.1)	7.9	7.3
BVPS growth (%)	9.6	(45.7)	24.3	21.8	19.8
Operating margin (%)	3.8	6.4	5.8	6.2	6.4
Net profit margin (%)	3.6	6.6	5.1	5.2	5.4
Return on average assets (%)	4.6	9.2	9.1	9.2	9.3
Return on average equity (%)	11.4	26.3	32.0	28.1	25.0
Net debt to equity (%)	(10.8)	(47.6)	(56.0)	(63.4)	(69.0)
DPS	0.00	0.00	0.03	0.03	0.03
Recurrent cash flow per share	0.07	0.14	0.11	0.12	0.13

Source: Company data, RHB

SWOT Analysis

- A wide range of capabilities - building construction, civil & infrastructure, foundation & geotechnical engineering and mechanical, electrical & plumbing
- A strong external client base comprising Putrajaya Holdings, KLCC Group, Prasarana, MRT Co and Khazanah

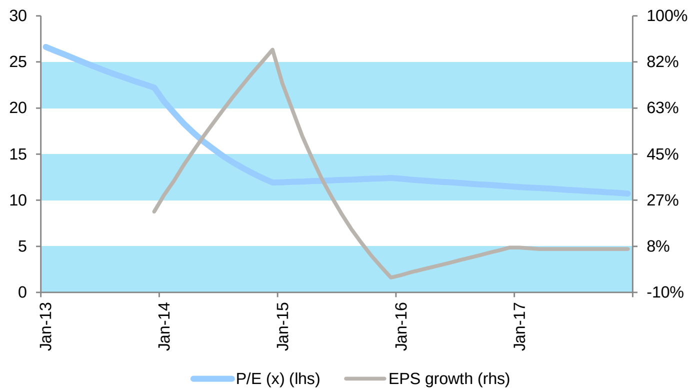
- Intense competition in general contracting service
- Volatility in construction material costs



- Well positioned to capitalise on spending on mass rapid transit developments in Malaysia
- Recurring construction jobs from parent

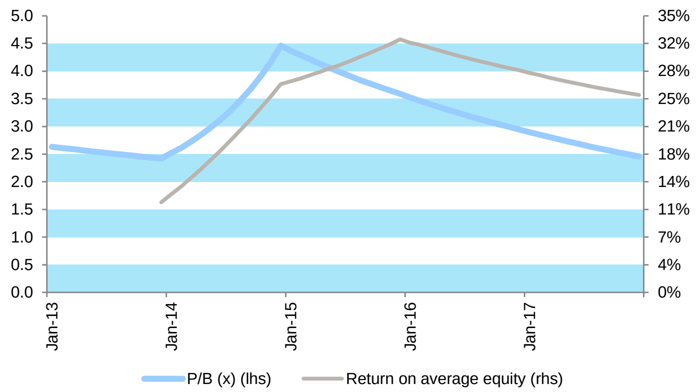
- Reliance on construction jobs in Malaysia
- Vulnerable to prolonged slowdown in the local property market
- Substantial head office costs

P/E (x) vs EPS growth



Source: Company data, RHB

P/BV (x) vs ROAE



Source: Company data, RHB

Company Profile

Sunway Construction is one of the largest construction companies in Malaysia. Apart from the bread and butter building and civil & infrastructure construction services, the company also provides the more specialised: i) foundation & geotechnical engineering services, and ii) mechanical, electrical & plumbing (MEP) services. In addition, it runs a highly profitable precast concrete products manufacturing operation in Singapore, supplying largely to Housing & Development Board (HDB) projects in the island republic.

Recommendation Chart

Source: RHB, Bloomberg

Date	Recommenda	Target Price	Price
2015-09-17			

Source : RHB, Bloomberg

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