



Sunway Construction Group Berhad

Malaysia Largest Pure Construction Player

TP: RM1.36(+13.3%)

Main Market Listing

BUY

THIS REPORT IS STRICTLY FOR INTERNAL CIRCULATION ONLY*

TA Research Team Coverage

Tel: +603-2167 9612

benghooi@ta.com.my

www.taonline.com.my

We are initiating coverage on Sunway Construction Group Berhad (SCG) with a BUY recommendation. We derive a target price of RM1.36 based on a PE multiple of 14x CY16 EPS. This represents a potential total return of 16.5% (including 3.2% estimated dividend yield).

SCG is an integrated construction services provider, mainly involved in:

- building and civil infrastructure construction services;
- foundation and geotechnical engineering services;
- mechanical, electrical and plumbing services; and
- manufacturing and sale of precast concrete products.

Investment Case

- Strong track records
- Integrated construction player
- Solution provider to infrastructure inadequacies
- Largest pure construction stock in Malaysia
- Internal jobs as bedrock orders
- Net cash position with minimum dividend payout of 35%

Forecast & Assumptions

We assume order book replenishment of RM2.0bn per year for FY15 to FY17. Given the slower-than-expected new job wins in FY14 and 1HFY15, we expect the revenue to ease in FY16 and FY17, while earnings to drop at slower pace on the back of margin improvement. Should the order book replenishment recovers to the region of RM2.0bn a year in FY16 and FY17, we expect the revenue to rebound in FY18.

Valuation

We initiate coverage on **SCG** with target price of **RM1.36**, based on 14x FY16 earnings. Given the upside of 16.5% (including estimated dividend yield of 3.2%), we recommend a **BUY** call on **SCG**.

Earnings Summary

FYE Dec (RMmn)	2013	2014	2015F	2016F	2017F
Revenue	1,839.6	1,880.7	2,138.0	1,947.0	1,736.0
Gross profit	338.0	395.4	470.4	428.3	381.9
EBITDA	85.2	161.8	204.4	198.7	179.0
EBITDA margin (%)	4.6	8.6	9.6	10.2	10.3
EBIT	42.4	120.2	161.8	157.2	136.9
PBT	89.8	151.3	162.7	158.5	138.5
PAT	66.9	124.8	127.1	125.3	109.6
Core net profit	94.5	114.1	127.1	125.3	109.6
Core EPS (sen)	7.3	8.8	9.8	9.7	8.5
PER (x)	16.4	13.6	12.2	12.4	14.2
Gross dividend (sen)	na	na	3.9	3.9	3.4
Dividend yield (%)	na	na	3.3	3.2	2.8
ROE (%)	na	na	36.1	29.3	22.0

Share Information

Listing	Main Market
Enlarged Share Capital (mn)	1292.9
Market Cap @ RM1.20 (RM mn)	1551.5
Par Value (RM)	0.20
Issue price (RM)	1.20*
Oversubscription rate	N/A
Estimated free float (%)	36.8
Tentative listing date	28 Jul 2015

Tentative Listing Dates

Event	Tentative Date
Opening of the IPO	29 Jun 2015
Closing of the IPO	6 Jul 2015
Balloting of Applications	8 Jul 2015
Allotment of Shares	23 Jul 2015
Listing	28 Jul 2015

*final retail price will equal the lower of RM1.20 or institutional price

Ratio & Analysis

NTA per share (post IPO) (sen)	24.1
Price to NTA (x)	5.00
Proforma ROE (%)	36.1
Proforma ROA (%)	36.6
Proforma Gearing (x)	net cash

Utilisation of Proceeds

RM(mn)	%
Not applicable	

(12-Mth) Share Price relative to the FBM KLCI



Source: Bloomberg

About the Company

Commenced operations in 1981 as Sungei Way Quarry & Construction Sdn Bhd. SCG is an integrated construction company, which is mainly involved in the provision of:

- i) building and civil/ infrastructure construction service;
- ii) foundation and geotechnical engineering services;
- iii) mechanical, electrical and plumbing services; and manufacturing and sale of precast concrete products.

Among the giant construction companies in Malaysia, SCG will be the largest listed pure construction company in Bursa Malaysia upon listing.

Its building construction services target mainly residential, commercial, institutional and purpose-built or specialty projects, while its civil/ infrastructure construction covers roads, bridges, highways, airports and rail related infrastructure projects. SCG had also completed numerous sizeable overseas projects.

In 1992, Sunway Precast Industries was incorporated to produce and deliver precast products such as architectural façade systems, decorative balustrades and panels, flooring systems, and infrastructural components. It has 2 wholly-owned manufacturing plants located in Senai, Johor (65,600m³/year), and Tampines, Singapore (124,000m³/year). In 1994, SCG made successful inroads into Singapore to tap into the commercial and residential development sector in Singapore. It has been supplying precast concrete products to various HDB projects in Singapore.

The corporate structure of SCG is as shown in Exhibit 7 in the Appendix.

Major Shareholder and Management

Post distribution of SCG shares and listing, Sunway Berhad will remain as the controlling shareholder of SCG with a 55.6% stake, followed by Tan Sri Jeffrey Cheah and family with 7.6%, and the remaining of 36.8% being held by minority shareholders.

SCG is led by Mr Kwan Foh Kwai who began his engineering career in 1977. He joined Sunway Construction Berhad in 1996 as an Executive Director, and was promoted to Managing Director of Sunway Construction Berhad in 2004 before being appointed as the Senior Managing Director of SCG in 2014. Mr. Kwan is the immediate past president of Master Builders Association of Malaysia for the term of 2012 to 2016. Mr. Kwan won the Chief Executive Officer of the Year Award at MCIEA 2013.

Listing Statistics

The offering of up to 573.7mn SCG shares comprising:

Distribution	
Entitled shareholders of Sunway Berhad by way of dividend-in-specie	175.0mn shares
Offer for Sale (Institutional Offering) – Institutional price based on bookbuilding	
Selected investors, including Bumiputera investors approved by MITI at the institutional price (by way of book-building)	327.6mn shares
Offer for Sale (Retail Offering) – IPO price at RM1.20 or institutional price, whichever is lower	
i) eligible directors, employees of SCG and its subsidiaries; and Sunway Berhad	19.4mn shares
ii) Malaysian public, of which 25.9mn shares are set aside for Bumiputera individuals, companies, co-operatives, societies and institutions	51.7mn shares

Investment thesis

Our thesis for investment in SCG is premised on:

- Strong track records;
- Integrated construction player;
- Solution provider to infrastructure inadequacies;
- Largest pure construction stock;
- Internal jobs as bedrock order; and
- Net cash position with minimum dividend payout of 35%.

In short, we expect the group's core competence and key advantages as mentioned above to ensure long-term earnings growth.

1) Strong Track Records. SCG is one of the major and established construction players in Malaysia. Over the last 30 years, it has completed a diverse range of projects including major infrastructure projects, landmark and iconic building projects, townships and mixed development projects, as well as specialist engineering projects.

It is the only construction company to have won the Builder of the Year award at the MCIEA 3 times, in 2003, 2005 and 2013. It has also won the International Achievement Award at the MCIEA in 2010 and 2012.

Besides, the company is strengthened by the use of Virtual Design and Construction, a computer-aided design and modelling technology that covers all aspects of design, build and project management.

The group is competitive and is capable of competing with foreign contractors in the international arena, having completed several sizeable overseas projects in India, Middle East and Trinidad and Tobago.

Given its strong track records, its clients comprise repeat customers such as the KLCC Corporation Berhad group and Putrajaya Holdings Berhad group. In Johor, through synergies with Sunway Group's property division, it has established a strong presence and secured multiple projects from affiliate companies of Khazanah Nasional Berhad.

SCH has won several awards and accolades, as shown in Exhibit 10 in the Appendix.

2) Integrated Construction Player. Being an integrated construction group that provides full range of integrated services and products including foundation and geotechnical engineering services, mechanical, electrical and plumbing services, and manufacturing and supply of precast concrete products, SCG provides customers an integrated solutions from initial planning and design, feasibility studies and surveys, project management, construction, construction supervision, and machinery and logistics. In other words, SCG can provide end-to-end total construction solution to its clients, saving the clients from having to deal with various parties along the value chain, minimizing potential delays from interfacing works among different contractors, providing better flexibility in site coordination works, and optimising resources across different business units.

3) Solution Provider to infrastructure inadequacies. Unlike typical contractors who compete to secure construction contracts through competitive biddings, SCG is able to work with the authorities in providing solutions to infrastructure inadequacies. Projects awarded through negotiations typically generate better margin than those secured through conventional competitive biddings. Recently, the first Bus Rapid Transit (BRT) known as Sunway line was successfully completed by the group.

The Land Public Transport Authority has proposed altogether 12 BRT lines with an estimated total length of 215km. Assuming construction cost of RM85mn/km, the cost of entire 215km of BRT is estimated at RM1.8bn.

We believe SCG would be the front-runner for the upcoming BRT projects given its successful track record and completing the Sunway line BRT in time.

4) Largest pure construction stock in Malaysia. According to the independent market research, upon SCG's listing, it is one of the largest construction companies in Malaysia, as well as the largest pure play (solely in construction and construction-related activities) listed construction company in Malaysia, based on its revenue of about RM1.9bn in FY14.

Being one of the largest construction group in Malaysia that provides integrated services and products, SCG is well-positioned to bid for and undertake an expansive and varied portfolio of large and complex projects, including overseas opportunities in other emerging markets.

SCG is supported by a large fleet of construction machinery and equipment. It has invested in 23 boring rigs, 20 hydraulic excavators, 16 tower cranes, 5 launching girders and 13 crawler cranes. It has also invested in approximately 25,000m² of system formworks that enable faster construction times as well as allowing the group to undertake multiple large-scale projects concurrently.

Based on retail price of RM1.20/share (subject to final retail price equals to the lower of retail price of RM1.20/share or the institutional price), SCG will have a market capitalization of RM1,551.5mn. Couple with estimated free float of 36.8%, SCG offers better investability to investors.

5) Internal Jobs as Bedrock Order. With Sunway Berhad being a major shareholder in SCG, we expect SCG would continue to tender for construction jobs from Sunway Berhad. As long as SCG remains competitive, Sunway Berhad is expected to provide bedrock orders to SCG, even in the downcycle in the construction sector. This reduces SCG cyclical risk in the construction industry. Currently, about 37.7% of its outstanding construction order book (as of March 2015) comes from internal jobs.

Sunway Berhad has huge landbank with an estimated total undeveloped GDV of RM50bn with development period of more than 10 years. SCG is expected to benefit from this long term bedrock orders. We expect the recurring bedrock orders ranging between RM500mn and RM800mn a year from its holding company, Sunway Berhad.

6) Net cash position with minimum dividend payout 35%. Post listing, the proforma balance sheet carries net cash of RM85.2mn, or about 6.6sen/share. The Board has a policy to recommend and distribute minimum dividend of 35% of the group's core net profit.

Key Risks

1. Delay in completion of project;
2. Slow order book replenishment;
3. Labour shortage;
4. Availability and fluctuations in prices of construction materials; and
5. Renewal of land lease for manufacturing of precast concrete products.

1) Delay in project completion. A project may suffer delay in completion due to various factors such as inclement weather, shortage of labour, disruption in supply of construction materials or the project manager fails to perform his duty expediently. If the delay is due to the contractor's fault, late ascertained damages (LAD) will usually be imposed on the contractor. This will in turn affect the profitability of the project and track records of the contractor. Historically, SCG has not experienced any material adverse financial effects from the delay in completion of construction projects.

2) Slow order book replenishment. The financial results of SCG depend on the group's ability to secure contracts on a timely basis. The replenishment of contractors' construction order book largely depends on the demand in the property sector and government infrastructure spending. Any slowdown in the economy of SCH's target markets may negatively affect the rollout of new construction and property projects, leading to depleting outstanding construction order book, affecting the revenue and profitability of the group.

3) Labour Shortage. The construction industry in Malaysia is heavily dependent on the employment of foreign workers due to the shortage of local workers in the local construction industry. Any shortage or delay in the supply of foreign workers would adversely affect the progress of works on site, and negatively impacting the financial performance of the project.

4) Availability and Fluctuations in Price of Construction Materials. Contractors source wide range of raw materials such as steel bars, ready-mixed concrete, diesel, premix, etc from construction materials suppliers. Prices of construction materials fluctuate and the risks are borne by the contractor if there is no material prices fluctuation clause in the contracts. Any shortage in the supply of construction materials may disrupt the construction progress at site and cause delay to the overall completion of the projects.

5) Renewal of land lease for manufacturing of precast concrete products. Currently, SCG has a precast concrete plant in Singapore, which occupies 2 parcels of land leased from the Housing and Development Board, Singapore (HDB) on short term leases. SCG has been informed that the land lease may no longer be renewed upon the expiry in 2017. The Singapore government changes its policy to encourage Singapore precast players to automate their production with priority for land lease given to precast players who set up

Integrated Construction and Precast Hubs (ICPH). Investment in an ICPH is expected to cost between S\$60.0mn to S\$80.0mn. The group has not decided whether to invest into ICPH. However, if the group is unable to get the land lease renewed, SCG will be relying on its Senai precast plant to supply the products to its clients in Singapore. However, this may affect its competitiveness in Singapore and profitability due to higher logistics and/or raw materials costs.

Outstanding Order Book

Currently, the company has an outstanding order book of about RM2.8bn (see Exhibit 1), which translates into 1.5x FY14 revenue. This could provide earning visibility for the next 1 to 2 years.

Exhibit 1: Ongoing projects (as of 31 March 2015)

Project	Contract Value (RMmn)	Outstanding Amount (RMmn)
Infrastructure		
MRT Package V4 (Section 17 to Semantan)	1,173	502
LRT Kelana Jaya Line Extension (Package B)	569	129
BRT Sunway line	453	62
Johor		
Urban Wellness Centre	283	113
Coastal Highway Southern Link	170	165
Others		
KLCC NEC	304	215
KLCC Package 2 (Piling and Substructure)	222	113
Others	71	61
Internal		
Sunway Velocity 2 Mall	350	223
Sunway University New Academic Block	204	8
Sunway Pyramid 3	193	106
Sunway Geo Retail Shop & Flexi Suites	153	129
Sunway Medical Centre Phase 3 (Sub & Superstructure)	167	157
Sunway Iskandar – Citrine Service Apartment (Superstructure)	180	171
Others	626	247
Singapore		
Precast	598	359
	5,714	2,760

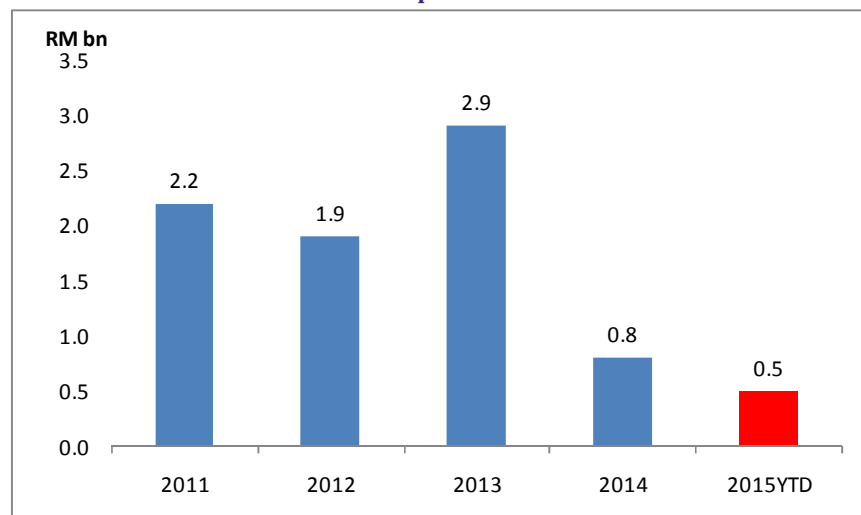
Source: Company, TA Research

New Contracts Secured in 2015:

We gather that YTD, the company has secured contracts worth RM470mm in FY15. They are i) construction works for Sunway Geo Commercial Precinct at Sunway South Quay with a contract sum of RM244mn; ii) Bukit Lenang project in Johor worth RM96mn; new precast orders of RM100mn; and others amounting to RM30mn.

The historical order book replenishments were as follows:

Exhibit 2: Historical Order Book Replenishment



Source: Company; TA Research

Outlook for Construction Industry in Malaysia

While construction activities are expected to stay healthy in 2015, we expect the growth in the construction sector to normalize after experiencing strong double-digit construction GDP growths since 2011. Going forward, the potential downside could come from delay in implementation of new mega projects.

Boosted by rail infrastructure works MRT line 1 and LRT extension projects, as well as strong performance of other construction sub-sectors, the construction sector recorded strong double digit GDP growth of between 10.8% and 18.1% between 2012 and 2014. However, we expect the construction activity to slow down as the civil works for MRT line 1 and LRT extension enter tail-end phases. While both the MRT line 2 and LRT line 3 are expected to commence in 2016, it is likely to take at least a year to pick up the momentum before running at full pace. For this reason, we expect the construction activities in the rail projects to slow down in 2016, before building up the momentum again in 2017.

Some of the notable large construction projects in the pipeline are shown in Exhibit 3.

Exhibit 3: Potential Major Construction Contracts

Project	Estimated Value (RMbn)	Expected Commencement
Kwasa Damansara Civil Works	1	2015
Menara Warisan Merdeka (Building works)	2.5 – 3	2015
Tun Razak Exchange Civil Works	2	2015
East Klang Valley Expressway	1.6	2015
KVMRT Line 2	28	2016
LRT line 3	9	2016
Penang Transport Master Plan	27	2016
Southern Double Track	8	?
BRT	?	?
KL-Singapore High Speed Rail	40	?
Kinrara-Damansara Highway (KIDEX)	2.4	?
Damansara-Shah Alam Highway (DASH)	1.2	?
Sungai Besi-Ulu Klang Expressway (SUKE)	4.8	?

Source: TA Research

While it appears there are quite a number of mega projects in the pipelines, it should be noted that some are reiteration of legacy projects that have yet to take off such as Southern Double Track, KIDEX, SUKE and DASH, as witnessed by the delays in the rollouts of these projects.

Separately, for the proposed KL-Singapore High Speed Rail project, both Malaysia and Singapore governments are reassessing the 2020 target for the completion due to the scale and complexity of the mega project. A new timeline is expected to be available end-2015.

Outlook of Construction Industry in Singapore

According to the independent market research, the construction industry in Singapore grew from S\$22.5bn in 2009 to S\$35.8bn in 2013 at a CAGR of 12.3%. The government has several plans to continue to invest heavily in land transportation to upgrade and enhance the transportation system in Singapore. It plans to increase the country's MRT network to 360km by 2030.

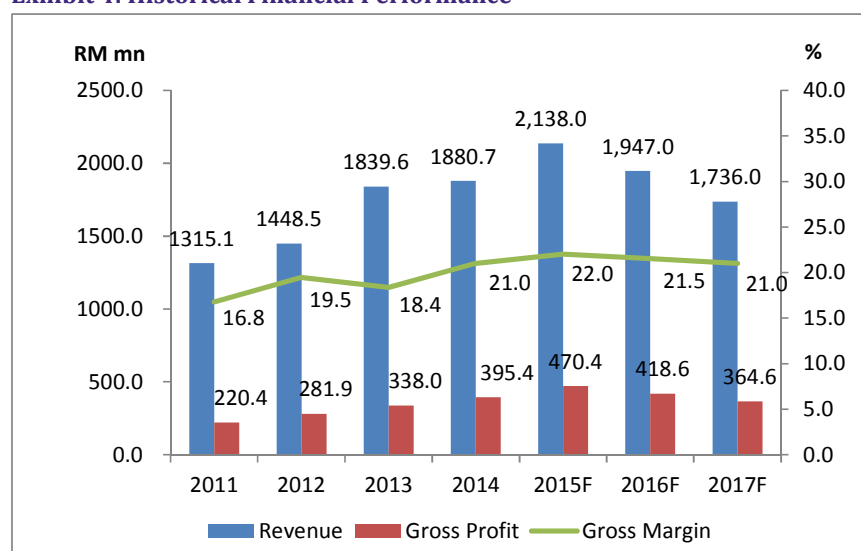
As the government focuses on growing the tourism industry in Singapore, it will start with the new Changi Terminal 4 airport. Besides, some of the project identified to promote the social well-being and increase the standard of living in Singapore include the Garden in a City project, and more hospitals are in the midst of construction.

The independent market research expects the construction industry in Singapore to grow at a CAGR of 10.3% between 2013 and 2017. Besides, the government has announced plans to construct additional 80,000 units of public housing over the coming 3 years.

These developments bode well for the precast concrete industry in Singapore, including SCG which supplies precast concrete products for residential projects.

Financial Highlights

Exhibit 4: Historical Financial Performance



Source: Company; TA Research

The revenue has grown at a CAGR of 12.7% from RM1,315.1mn in to RM1,880.7mn. This was mainly due to significant increase in revenue in the civil/infrastructure construction segment as the group was undertaking the construction of LRT Kelana Jaya Line Extension (Package B) and MRT line 1 Package V4, as well as significant growth in the manufacturing and sale of precast concrete segment.

With its current outstanding order book depleting to RM2.8bn, about 1.5x of FY14 revenue, unless there are substantial contract wins above our order book replenishment assumptions of RM2bn each year for FY15 to FY17, we forecast revenue to peak in FY15 and decline in FY16 and FY17.

Exhibit 5: Historical Gross Margin by Segments

Gross margin (%)	FY11	FY12	FY13	FY14
Building construction	6.7	14.6	12.0	11.0
Civil/ infrastructure construction	16.1	5.4	9.8	16.3
Foundation and geotechnical engineering	15.3	14.1	18.3	19.7
Mechanical, electrical and plumbing	13.2	20.6	20.4	12.5
Manufacturing and sale of precast concrete	48.9	19.9	24.4	35.9
Others	20.2	55.9	(0.3)	95.5

Source: Company: TA Research

While expecting the revenue to decline in FY16 and FY17, we expect the margins to improve going forward. The gross margin of 16.8% in FY11 was dragged by the building construction segment as shown in Exhibit 5. The civil/infrastructure construction segment recorded single digit gross margin in FY12 and FY13, the lowest among all the segments. We believe this was dragged by the MRT line 1 project as experienced as majority of the contractors in MRT line 1 project, but it has rebounded to mid teen in FY14. Going forward, we expect the gross margin for the civil/ infrastructure construction to remain in teens, and the overall gross margin to hover around 20%, supported by decent margins in the i) foundation and geotechnical engineering segment; ii) mechanical, electrical and plumbing segment; and iii) manufacturing and sale of precise concrete segment.

Future Plans and Business Strategy

Enhance its leading position and increase its market share in the local market

According to the independent market research report, SCG is one the of the largest construction companies in Malaysia with a market share of 1.5% in 2013 based on the total value of projects awarded to SCG. In other words, there is ample room for the company to grow. Having said that, SCG will be facilitated by fully utilizing its construction techniques, taking advantage of economies of scale, using the capital effectively and procuring advanced equipment and facilities while improving construction technology and consolidating the group's resources. SCG will also leverage on its advantages as an integrated construction company to reinforce its leading position in the industry. It will focus on large scale and complex projects, which will allow the group to better deploy its design technology and provide integrated solutions across different phases of a project from project design to completion.

Maintain its presence in Singapore and expand its manufacture and sale of precast concrete business in Malaysia

SCG's precast concrete business has primarily focused in Singapore as precast IBS components are widely used in the construction industry. With future anticipated growth in the construction industry in Singapore, SCG is well positioned to maintain its overall business and market presence in Singapore.

SCG also intends to grow its precast concrete business in Malaysia. With its track record and experience in precast IBS in Singapore, SCG intends to expand its presence in Malaysia by leveraging on the growth in the precast concrete market. Based on estimated production volume, the industry size for concrete products in Malaysia is expected to grow to 39.1mn MT in 2017, from 33.8mn MT in 2013. Also, SCG intends to leverage on its experience built from its successful IBS business in Singapore for further penetration into the domestic IBS market. It plans to promote the use of IBS components to projects planned by the property division of Sunway Berhad. SCG is expanding its plant capacity in Senai from 65,600m³/year to 76,000m³/year by 2015. Besides, SCG is setting up new precast concrete operations in Sunway Iskandar with total annual capacity of 93,150m³, of which 41,400m³ of capacity is expected to be ready by Feb 2016 while the remaining 51,750m³ to be ready by Aug 2016.

Expand its external income from foundation and geotechnical engineering services, and mechanical, electrical and plumbing services

The foundation and geotechnical engineering services accounted for approximately 14.8% of the group's total revenue in 2014 while its mechanical, electrical and plumbing services accounted for approximately 16.2% of the group's total revenue in 2014.

Besides bundling the foundation and geotechnical engineering services, and mechanical, electrical and plumbing services with its building and civil/infrastructure construction services, SCG also provides these as standalone services to external customers. SCG intends to expand the external income of these divisions by offering more standalone services to external customers.

Increase the use of technology and automation efforts to further improve its core competitiveness

SGC has successfully incorporated the 3D facet of VDC in its operations and have delivered several design and build projects. SCG is presently studying the application and deployment of 4D (project scheduling is integrated) and 5D (integration of cost elements) in its construction operations for implementation in 2015. The successful deployment of 4D and 5D VDC will thrust the group into more advanced levels of operational efficiencies.

Besides, SCG intends to intensify automation in its precast concrete business, specifically to study the adoption of automation of plant processes to increase productivity and optimize cost.

Forecast

We assume order book replenishment of RM2.0bn per year for FY15 to FY17. Given the slower-than-expected new job wins in FY14 and 1HFY15, we expect the revenue to ease in FY16 and FY17, while earnings to drop at slower pace on the back of margin improvement. Should the order book replenishment recovers to the region of RM2.0bn a year in FY16 and FY17, we expect revenue to rebound in FY18.

Dividend

Based on minimum payout ratio of 35%, we project SCG to distribute 3.9sen/share in FY15 and FY16 and 3.4sen/share in FY17, yielding between 2.8% to 3.3% based IPO price of RM1.20.

Valuation

Exhibit 6 below compares SCG with other pure construction players listed on Bursa Securities. There is no construction company listed on Bursa Securities that are directly comparable to SCG, in terms of market capitalization, capability, services provided, balance sheet etc.

We assign a target PE multiple of 14x to SCG, which is also our target PE multiple for midcap construction stocks. This has also taken into consideration its balance sheet, growth prospect and investability of the stock.

We initiate coverage on SCG and derive a target price of **RM1.36** based on PE ratio of 14x CY16 earnings. With the upside of 16.5% (inclusive of 3.2% dividend yield), we recommend a **BUY** call on SCG.

Exhibit 6: Peer Comparison

Stock	Share price (RM)	Market Cap (RMmn)	EPS* (sen)	P/E ratio (x)	DPS (sen)	Div Yield^ (%)	Net gearing (%)	P/B ratio (x)
ECONBHD	1.07	572.5	7.5	14.2	na	na	net cash	2.8
MTDACPI	0.30	69.5	(14.1)	na	0.0	0.0	net cash	1.4
PESONA	0.585	349.0	2.1	28.1	1.0	1.7	4.5	3.1
PTARAS	3.83	623.1	38.0	10.1	15.0	3.9	net cash	1.8
SENDAI	0.94	727.6	5.9	15.9	1.3	1.3	net cash	0.7
AVERAGE				17.1		1.7		2.0
SCG	1.20	1551.5	8.8	13.6	na	na	net cash	4.9

* most recent 4 quarters

^ previous financial year

Financial Statements

Profit & Loss (RMmn)

YE Oct 31	2013	2014	2015F	2016F	2017F
Revenue	1839.6	1880.7	2138.0	1947.0	1736.0
EBITDA	85.2	161.8	204.4	198.7	179.0
Dep. & amortisation	42.8	41.6	42.6	41.5	42.1
Net finance cost	(2.1)	(0.7)	(0.9)	(1.3)	(1.6)
PBT	89.8	151.3	162.7	158.5	138.5
Taxation	(23.7)	(26.5)	(35.8)	(33.3)	(29.1)
MI	(0.8)	(0.1)	(0.2)	(0.1)	(0.2)
Net profit	66.9	124.8	127.1	125.3	109.6
Core net profit	94.5	114.1	127.1	125.3	109.6
GDPS (sen)	na	na	3.9	3.9	3.4
Div Yield (%)	na	na	3.3	3.2	2.8

Cash Flow (RMmn)

YE Oct 31	2013	2014	2015F	2016F	2017F
PBT	89.8	151.3	162.7	158.5	138.5
Non cash expenses	33.5	14.7	42.6	41.5	42.1
Non Operating expenses	(1.2)	3.4	(0.9)	(1.3)	(1.6)
Changes in WC	(68.3)	14.1	1.6	1.5	1.7
Operational cash flow	53.9	183.5	206.0	200.2	180.7
Capex	(49.4)	(45.7)	(48.9)	(52.1)	(49.7)
Others	(19.7)	394.9	8.0	9.1	8.3
Investment cash flow	(69.1)	349.2	(40.9)	(43.0)	(41.4)
Debt raised/(repaid)	29.2	46.5	(22.5)	(25.0)	(22.5)
Dividend	(14.5)	(428.0)	(50.8)	(50.1)	(43.9)
Others	(5.1)	(0.7)	0.0	0.0	0.0
Financial cash flow	9.7	(382.1)	(73.3)	(75.1)	(66.4)
Forex effect	8.2	0.6	0.0	0.0	0.0
Net cash flow	23.7	151.0	56.8	50.1	45.5
Beginning cash	94.0	125.9	277.6	334.4	384.5
Ending cash	125.9	277.6	334.4	384.5	430.0

Balance Sheet (RMmn)

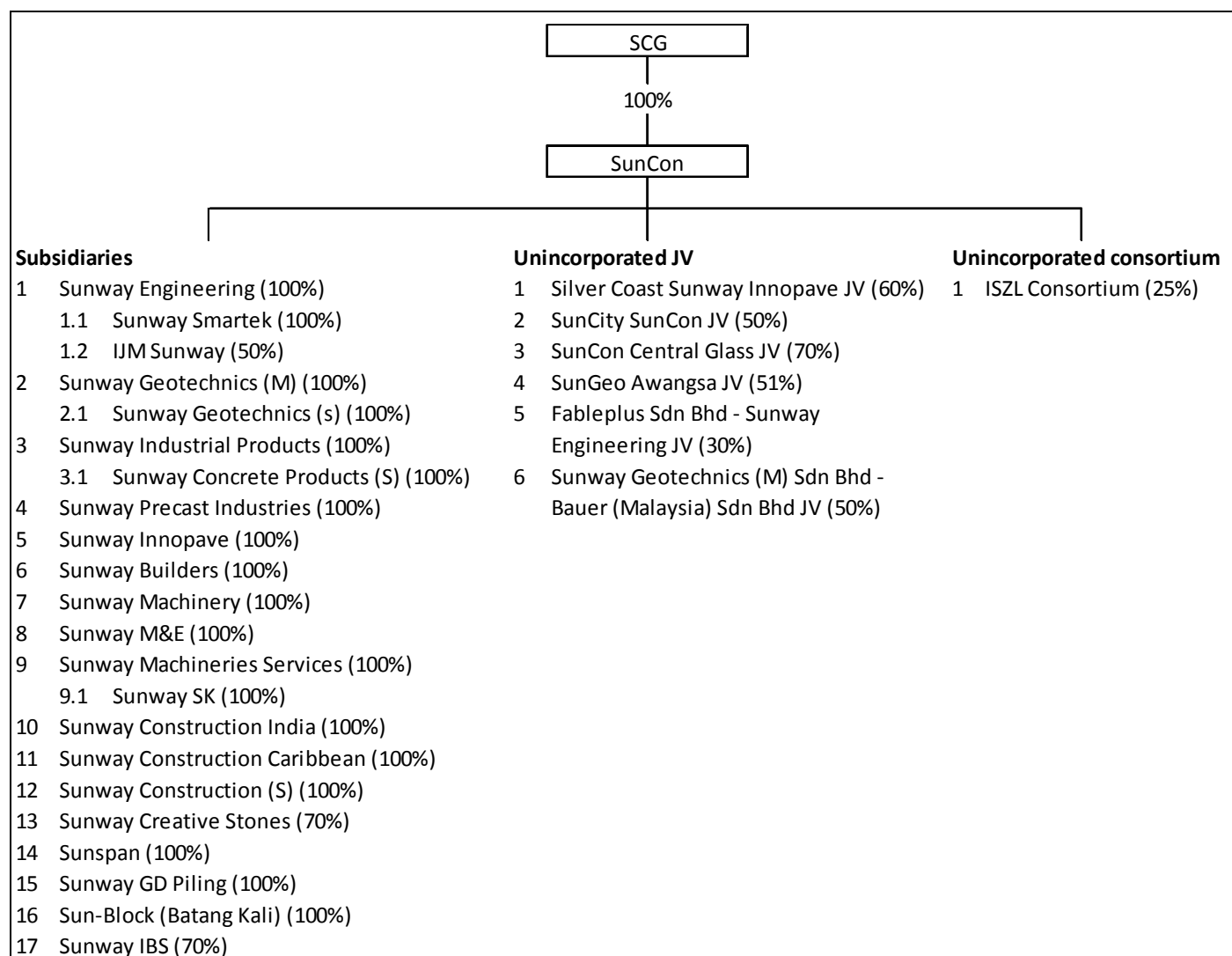
YE Oct 31	2013	2014^	2015F	2016F	2017F
Fixed assets	na	178.7	177.0	178.5	177.8
Others	na	35.3	35.3	35.3	35.3
NCA	na	214.0	212.3	213.8	213.1
Cash	na	220.4	277.3	327.4	372.8
Others	na	818.6	910.1	829.6	740.6
CA	na	1,039.0	1,187.4	1,157.0	1,113.5
Total assets	na	1,253.0	1,399.7	1,370.8	1,326.5
ST borrowings	na	135.1	105.1	75.1	45.1
Other liabilities	na	804.5	897.6	818.6	731.3
CL	na	939.6	1,002.8	893.8	776.5
Shareholders' funds	na	314.2	390.5	465.7	531.4
MI	na	(5.2)	(5.4)	(5.5)	(5.7)
LT borrowings	na	0.1	7.6	12.6	20.1
Other LT liabilities	na	4.3	4.3	4.3	4.3
Total capital	na	1,253.0	1,399.7	1,370.8	1,326.5

Ratio

YE Oct 31	2013	2014	2015F	2016F	2017F
EBITDA Margins (%)	4.6	8.6	9.6	10.2	10.3
Core EPS (sen)	7.3	8.8	9.8	9.7	8.5
EPS Growth (%)	na	20.8	11.4	(1.4)	(12.5)
PER (x)	16.4	13.6	12.2	12.4	14.2
GDPS (sen)	na	na	3.9	3.9	3.4
Div Yield (%)	na	na	3.3	3.2	2.8
Net cash (RMmn)	na	85.2	164.6	239.7	307.6
Net gearing (%)	na	net cash	net cash	net cash	net cash
ROE (%)	na	na	36.1	29.3	22.0
ROA (%)	na	na	36.6	29.7	22.2
NTA (sen)	na	24.3	30.2	36.0	41.1
P/NTA(x)	na	4.9	4.0	3.3	2.9

Appendix:

Exhibit 7: Corporate Structure



Source: Company, TA Research

Exhibit 8: Principal Activities of Subsidiaries/ JVs/ Consortium

Entities	Effective Stake (%)	Principal Activities
SunCon	100	Turnkey, construction related design and build, civil engineering and building works
Subsidiaries of SunCon		
Sunway Innopave	100	Construction of civil and building works and provision of project management
Sunway M&E	100	Dormant (ceased operation)
Sunway Machinery	100	Renting of machinery and site equipment and undertaking subcontract work
Sunway Engineering	100	Provision of mechanical and engineering works
Sunway Builders	100	Construction of building and civil works
Sunway Geotechnics (M)	100	Providing geotechnical services and related products and hire of heavy machineries
Sunspan	100	Dormant (ceased operation)
Sunway Industrial Products	100	Investment holding
Sunway Machineries Services	100	Investment holding
Sunway Construction India	100	Dormant (ceased operation)
Sunway Creative Stones	70	Dormant (ceased operation)
Sunway GD Piling	100	Dormant (ceased operation)
Sunway Construction Caribbean	100	Dormant (ceased operation)
Sunway Precast Industries	100	Manufacturing precast concrete building components and undertaking of precast concrete building contracts
Sunway IBS	70	Dormant (has not commenced operation)
Sun-Block (Batang Kali)	100	Dormant (ceased operation)
Sunway Construction (S)	100	Dormant (ceased operation)
Subsidiary of Sunway Industrial Products		
Sunway Concrete Products (S)	100	Manufacturing and sale of precast concrete building components
Subsidiary of Sunway Machineries Services		
Sunway SK	100	Construction of building and civil works
Subsidiary of Sunway Engineering		
Sunway Smartek	100	Dormant (has not commenced operation)
Subsidiary of Sunway Geotechnics (M)		
Sunway Geotechnics (S)	100	Dormant (ceased operation)
Jointly controlled entity of Sunway Engineering		
IJM Sunway	50	Investment holding
Unincorporated JV and Unincorporated Consortium		
SunCity Suncon JV	50	Property development
SunCon Central Glass JV	70	Completion of curtain walling works
SunGeo Awangsa JV	50.8	Piling and substructure works
Silver Coast Sunway Innopave JV	60	Construction works
ISZL Consortium	25	Construction
Fableplus Sdn Bhd-Sunway Engineering JV	30	Provision of mechanical and engineering works
Sunway Geotechnics (M) Sdn Bhd – Bauer (Malaysia) Sdn Bhd JV	50	Bored piling works, installation of plunge in column and associated ancillary works

Source: Company, TA Research

Exhibit 9: Key Milestones of SCG since Inception

Date	Event
1981	SunCon commenced active operations as Sungei Way Quarry & Construction Sdn Bhd
1984	Sungei Way Quarry & Construction Sdn Bhd changed its name to Sungei Way Construction Sdn Bhd
1992	Incorporated Sunway Precast Industries (incorporated as Aktiviti Setia (M) Sdn Bhd) for the manufacture and sale of precast concrete products
1994	Incorporated Sunway Concrete Products (S) for the manufacture and sale of precast concrete products
1995	Incorporated Sunway Engineering Sdn Bhd to deliver mechanical, electrical and plumbing services
1996	<p>Sungei Way Construction Sdn Bhd converted its status from a private company to a public company and assumed the name of Sungei Way Construction Berhad</p> <p>Incorporated Sunway Machinery (incorporated as SWC Machinery Sdn Bhd) for machinery and logistics support</p> <p>Incorporated Sunway Geotechnics (M) (incorporated as Sunway Pipe Pro Sdn Bhd) to deliver foundation and geotechnical engineering services</p>
1997	<p>Public listing on the Main Board of KLSE</p> <p>SunCon certified ISO 9002:1994 compliant</p>
1999	Sungei Way Construction Berhad changed its name to SunCon
2001	SunCon certified OHSAS 18001:1999 compliant
2002	SunCon upgraded certification to ISO 9001:2000 for the scope of design and construction services
2004	SunCon taken private by Sunway Holdings Incorporated Berhad, now known as Sunway Holdings Sdn Bhd
2009	<p>Implemented VDC</p> <p>SunCon upgraded certifications to ISO 9001:2008 and OHSAS 18001:2007</p> <p>SunCon certified ISO 14001:2004 compliant</p>
2010	Launched internal quality commitment initiative, "Journey Towards Total Quality Management"

Source: Company, TA Research

Exhibit 10: Key Awards and Recognitions

Date	Event
1992	<ul style="list-style-type: none"> Won Prime Minister's Golden Hands Award at Annual National Skills Competition 1992
1994	<ul style="list-style-type: none"> Won Prime Minister's Golden Hands Award at Annual National Skills Competition 1994
1997	<ul style="list-style-type: none"> Won Prime Minister's Golden Hands Award at Annual National Skills Competition 1997
1998	<ul style="list-style-type: none"> Won the International Federation of Asian and Western Pacific Contractors' Association Gold Medal Award
2000	<ul style="list-style-type: none"> Received MSOSH Gold Award for the Year 2000 for the Construction Sector
2001	<ul style="list-style-type: none"> Received Overall Team Champion and Winner of the Minister of Works Challenge Trophy in Malaysian Construction Skill Competition 2001 organised by CIDB.
2003	<ul style="list-style-type: none"> Won Builder of the Year at MCIEA 2003
2005	<ul style="list-style-type: none"> Won Builder of the Year at MCIEA 2005 Won National Occupational Safety and Health Excellence Award 2005
2006	<ul style="list-style-type: none"> Won MCIEA Award 2008 in the Information and Communication Technology category
2009	<ul style="list-style-type: none"> Won the Grade G7 Contractor Award at MCIEA 2009 Won National Award of Management Accounting 2009 Presented MSOSH Gold Class II Award 2009 for project Parcel 17, Ministry of Housing and Local Government and Ministry of Women, Family and Community Development, Putrajaya by the Malaysian Society for Occupational Safety and Health
2010	<ul style="list-style-type: none"> Sunway Geotechnics (M) wins Best OSH in Piling and Geotechnics Award by Malaysian Occupational Safety and Health Professional's Association Awarded Export Excellence Award (Services) 2010 by Ministry of International Trade and Industry Won Special Mention Award in International Achievement Category at MCIEA 2010 Won Malaysia Business Award 2010 for Most Promising Contractor in the Middle East Sunway Concrete Products (S) ranked as a Singapore 1000 Company 2010 by DP Information Group
2011	<ul style="list-style-type: none"> Awarded Export Excellence Award (Services) 2010 by the MITI Sunway Concrete Products (S) ranked as a Singapore 1000 Company – Emerging 2011 by DP Information Group Achieved 4 Star Ratings for Safety and Health Assessment System in Construction for Parcel 7 and 8 Phase 2 Package A, Putrajaya, and The Everly Hotel Putrajaya
2012	<ul style="list-style-type: none"> Achieved 85% Score in QCLASSIC for Impiana KLCC Hotel extension project Won International Achievement Award for the construction of Phase 1A, Plot H of the Rihan Heights project in the UAE, at MCIEA 2012 Sunway Concrete Products (S) ranked as a Singapore 1000 Company 2012 by DP Information Group
2013	<ul style="list-style-type: none"> Won Builder of the Year at MCIEA 2013 Awarded Prominent Player Award in recognition of Tan Sri Jeffrey Cheah at MCIEA 2013 Won Chief Executive Officer of the Year Award in recognition of Kwan Foh Kwai at MCIEA 2013 Won SIRIM Quality Award (Organisation Category)
2014	<ul style="list-style-type: none"> Sunway Engineering won the Electrical and Electronics Association of Malaysia Best Contractor Award for 2014 for Industrial Category Achieved 5 Star Ratings for Safety and Health Assessment System in Construction for project Klang Valley MRT Package V4, viaduct guideway and associated works from Section 17 PJ to Semantan Portal Awarded Industry Excellence Award (Services) by Ministry of International Trade and Industry
2015	<ul style="list-style-type: none"> Won IEM Award for Contribution to Engineering Industry in Malaysia 2015 at IEM's 56th Annual Dinner and Awards Night Sunway Engineering achieved five – star SCORE rating for the year 2015 under CIDB's SCORE Programme

Source: Company, TA Research

Exhibit 11: Major Completed Buildings and Civil/ Infrastructure Construction Projects in Malaysia

Completion Date	Project	Client	Value (RMmn)
May 1994	KTM Package 2, KL-Port Klang, KL-Rawang, KL-Seremban	Panzana Enterprise Sdn Bhd	63.3
Jun 1994	KTM Package 1, KL-Port Klang, KL-Rawang, KL-Seremban	Bumi Teraju Development Sdn Bhd	67.5
Jan 1996	Sunway Lagoon Resort Hotel	Sunway Resort Hotel Sdn Bhd	161.5
Nov 1996	Sunway Pyramid Shopping Mall	Bandar Sunway Bhd	209.0
Sep 1997	KLIA short term car park	Malaysia Airports Berhad	171.4
Dec 2001	Ministry of Finance building, Putrajaya	Putrajaya Holdings Sdn Bhd	138.9
Sep 2003	National Registration Department and Ministry of Entrepreneur and Cooperative Development buildings, Putrajaya	Putrajaya Holdings Sdn Bhd	319.3
Apr 2004	SILK Highway – Turnkey contract for design, construction and maintenance	Sistem Lingkaran Lebuhraya Kajang Sdn Bhd	1,045.0
Mar 2005	KL Convention Centre	Kuala Lumpur Convention Centre Sdn Bhd	549.3
Dec 2005	Traders Hotel, KL	Kuala Lumpur Convention Centre Sdn Bhd	193.4
Jan 2007	Monash University Malaysia Campus	Sunway City Berhad	119.2
Apr 2007	Sunway Pyramid Shopping Mall Phase 2	Sunway Pyramid Sdn Bhd	298.7
Jul 2007	Maju Expressway Package 3	Leighton Contractors (M) Sdn Bhd	165.0
Nov 2009	South Klang Valley Expressway Section 1B	MEB Construction Sdn Bhd	263.6
Jan 2010	Ministry of Housing and Local Government and Ministry of Women, Family and Community Development buildings, Putrajaya	Putrajaya Holdings Sdn Bhd	520.0
Jun 2012	Legoland Malaysia Theme Park Package 4, Johor	IDR Assets Sdn Bhd	258.0
Jan 2013	Universiti Teknologi MARA hostel, Jeram, Selangor	TRIPLC Industries Sdn Bhd and Haluan Prisma Sdn Bhd	191.37
May 2013	Pinewood Iskandar Malaysia Studio, Pulau	Iskandar Malaysia Studios Sdn Bhd	308.9
Dec 2013	Sunway Velocity Phase 1A	Sunway City Berhad	209.6
Mar 2015	Sunway Putra Mall, KL	Sunway REIT Management Sdn Bhd	258.4

Source: Company, TA Research

Exhibit 12: Major Completed Buildings and Civil/ Infrastructure Construction Projects Overseas

Completion Date	Project	Client	Value (AEDmn)
Apr 2009	Phase 1, Plot 1, Zone C of Al-Reem Island, Abu Dhabi	Tamouh Investments LLC	1,330.0
Nov 2010	Phase 1A, Plot H of Rihan Heights project, Abu Dhabi	Mubadaia Capitaland Real Estate LLC	1,875.0
Completion Date	Project	Client	Value (Rs mn)
Dec 2003	Belgaum Bypass, Karnataka, India	NHAI	976.4
Mar 2005	Roadworks Package 5-C, India	NHAI	2,997.1
Oct 2004	Dharwad – Belgaum Package 3, Karnataka, India	NHAI	2,048.4
Apr 2005	Grand trunk road, India	NHAI	3,964.8
Jan 2008	East – West Corridor roadworks, Rajasthan, India	NHAI	2,866.5
Jan 2008	East – West Corridor roadworks, Uttar Pradesh, India	NHAI	4,148.8
Feb 2010	Cochin Port connectivity, Vallarpadam, Cochin, India	NHAI	3,294.6
Completion Date	Project	Client	Value (TTS mn)
Aug 2007	Ministry of Legal Affairs Tower, Trinidad and Tobago	The Urban Development Corporation of Trinidad and Tobago	368.9

Source: Company, TA Research

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for TA SECURITIES HOLDINGS BERHAD(14948-M)
(A Participating Organisation of Bursa Malaysia Securities Berhad)
Kaladher Govindan – Head of Research