

Peter Kong, CFA

peter.kong@clsa.com
+60 3 2056 7877

17 May 2019

Malaysia Infrastructure

Reuters SCOG.KL
Bloomberg SCGB MK

Priced on 16 May 2019
KLSE Comp @ 1,599.2

12M hi/lo RM2.15/1.31

12M price target RM2.30
±% potential +19%

Shares in issue 1,292.9m
Free float (est.) 45.6%

Market cap US\$600m

3M ADV US\$0.5m

Foreign s'holding 9.0%

Major shareholders

Sunway Berhad 54.4%
Sungei Way Corp Sdn Bhd 10.1%

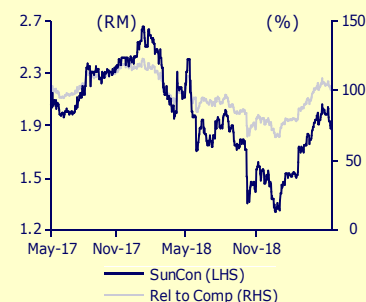
Blended ESG Score (%)*

Overall 73.9
Country average 67.4
GEM sector average 67.2

*Click to visit company page on clsa.com for details

Stock performance (%)

	1M	3M	12M
Absolute	(1.0)	23.6	(9.8)
Relative	0.9	30.5	4.9
Abs (US\$)	(2.6)	20.6	(14.5)



Source: Bloomberg

Slower by (re)design

Softer start but counting on LRT3 pick-up once negotiations finalise

For seasonally slower 1Q19, SunCon reported PATMI of RM31mn (-15% QoQ, -13% YoY). This was 20%/21% of full-year CLSA/consensus forecast, a slim miss if just taken at face value as revenue dipped 17% YoY, although the revenue pace is currently constrained by LRT3 redesign and a sizeable pick-up is expected from 3Q19. Also, its pre-cast segment returned to the black after two quarters of losses, indicating the worst might be over. At 16.2x 19CL PE, SunCon trades above peer average (13.3%), though boasting 31 sen net cash per share (half benefit given in our valuation, which is based on 15.4x 20CL PE). We maintain a target price of RM2.30 and a BUY rating.

LRT3, TNB campus to underpin revenue catch-up

LRT3, at 34% of the order book (of RM5.7bn), sees backlog clearing by c.RM45mn a quarter (past 4-quarter average), a disproportionately small 11% of construction revenue. Assuming LRT3 completion by 2024, quarterly work has to double (to c.RM86mn) to clear its RM1.9bn backlog. The 9.9% construction pre-tax margin in 1Q19 flatters versus norm, as a project reached a profit recognition milestone; the normalised margin is closer to 9%, we estimate. Elsewhere, Putrajaya Parcel F, a design and build project, is nearing completion, but this is supplanted by growing recognition from the recently bagged TNB campus job (RM781mn). Meanwhile, after two quarters in the red, the pre-cast segment eked out a tiny profit, in our view confirming that orders with better margins are beginning to be delivered.

Rail job return plays to SunCon's strong suit

A commendable RM1bn of jobs has been bagged YTD, or 50% of our full-year estimate. Rail job comeback plays to SunCon's strong suit, thus supporting re-rating; it has expressed interest on the Klang Valley Double Track. We believe SunCon will be eyeing piling and specialist work for East Coast Rail Link and MRT3 station work (likely to return, albeit not before 2021, in our view). 90% of job wins YTD have been from external projects. The RM100mn from in-house is low versus historical norm (past 4-year average: RM700mn) but not a concern as the pipeline is sturdy. Sunway Berhad's (N-R) expansion in Penang and four hospital prospects provide uplift for opportunities.

We estimate some overseas projects, such as in India, are for replenishment

Its initiative to look for overseas jobs has yet to bear significant fruit. Having submitted three tenders for India projects, this forms potential backlog replenishment as well; recall that before 2012, SunCon had been involved in at least seven highway projects, underlining its track record, before it refocused to local infrastructure. We maintain a target price of RM2.30 and a BUY rating.

Financials

Year to 31 December	17A	18A	19CL	20CL	21CL
Revenue (RMm)	2,076	2,257	2,482	2,811	2,713
Net profit (RMm)	136	131	154	180	167
EPS (sen)	10.5	10.2	11.9	13.9	12.9
CL/consensus (13) (EPS%)	-	-	101	116	100
EPS growth (% YoY)	10.1	(3.5)	17.6	16.5	(7.1)
PE (x)	18.4	19.1	16.2	13.9	15.0
Dividend yield (%)	3.6	3.6	4.1	4.6	4.6
FCF yield (%)	(0.3)	4.1	5.3	8.5	7.8
PB (x)	4.5	4.2	3.9	3.6	3.3
ROE (%)	26.0	22.9	25.0	26.7	22.8
Net debt/equity (%)	(63.5)	(62.7)	(59.8)	(69.0)	(76.1)

Source: www.clsa.com

Financials at a glance

Year to 31 December	2017A	2018A	2019CL	(% YoY)	2020CL	2021CL
Profit & Loss (RMm)						
Revenue	2,076	2,257	2,482	10	2,811	2,713
Cogs (ex-D&A)	(1,874)	(2,042)	(2,220)		(2,511)	(2,424)
Gross Profit (ex-D&A)	202	215	262	22	301	290
SG&A and other expenses	-	-	-		-	-
Op Ebitda	202	215	262	22	301	290
Depreciation/amortisation	(37)	(53)	(75)		(83)	(90)
Op Ebit	165	162	186	15.1	218	199
Net interest inc/(exp)	7	8	7	(7.9)	8	10
Other non-Op items	0	0	0		-	-
Profit before tax	172	170	193	14	225	209
Taxation	(36)	(38)	(39)		(45)	(42)
Profit after tax	136	132	155	17.6	180	167
Minority interest	0	0	0		0	0
Net profit	136	131	154	17.6	180	167
Adjusted profit	136	131	154	17.6	180	167
Cashflow (RMm)						
Operating profit	165	162	186	15.1	218	199
Depreciation/amortisation	37	53	75	43.1	83	90
Working capital changes	(112)	(11)	(45)		7	(2)
Other items	(43)	(45)	(39)		(45)	(42)
Net operating cashflow	47	159	178	11.3	262	245
Capital expenditure	(55)	(56)	(45)		(50)	(50)
Free cashflow	(8)	103	133	28.3	212	195
M&A/Others	103	(2)	12		13	16
Net investing cashflow	48	(58)	(33)		(37)	(34)
Increase in loans	(3)	(21)	-		-	-
Dividends	(71)	(97)	(104)		(117)	(117)
Net equity raised/other	0	-	0		0	0
Net financing cashflow	(74)	(118)	(104)		(117)	(117)
Incr/(decr) in net cash	21	(16)	41		109	95
Exch rate movements	1	12	(5)		(5)	(5)
Balance sheet (RMm)						
Cash & equivalents	487	485	521	7.5	625	714
Accounts receivable	1,066	885	830	(6.2)	940	907
Other current assets	176	228	198	(13.2)	198	198
Fixed assets	151	164	133	(18.6)	100	60
Investments	0	45	45	0	45	45
Intangible assets	4	4	4	0	4	4
Other non-current assets	2	3	3	0	3	3
Total assets	1,885	1,812	1,733	(4.4)	1,914	1,930
Short-term debt	135	114	137	20.1	137	137
Accounts payable	1,184	995	894	(10.1)	1,011	976
Other current liabs	5	15	-		-	-
Long-term debt/CBs	-	-	-		-	-
Provisions/other LT liabs	6	97	59	(39.3)	58	58
Shareholder funds	554	591	642	8.6	706	757
Minorities/other equity	1	1	2	24.7	2	3
Total liabs & equity	1,885	1,812	1,733	(4.4)	1,914	1,930
Ratio analysis						
Revenue growth (% YoY)	16.1	8.7	10.0		13.3	(3.5)
Ebitda margin (%)	9.7	9.5	10.5		10.7	10.7
Ebit margin (%)	7.9	7.2	7.5		7.7	7.3
Net profit growth (%)	10.1	(3.5)	17.6		16.5	(7.1)
Op cashflow growth (% YoY)	(37.3)	238.7	11.3		47.8	(6.5)
Capex/sales (%)	2.6	2.5	1.8		1.8	1.8
Net debt/equity (%)	(63.5)	(62.7)	(59.8)		(69.0)	(76.1)
Net debt/Ebitda (x)	-	-	-		-	-
ROE (%)	26.0	22.9	25.0		26.7	22.8
ROIC (%)	69.8	52.1	54.6		68.9	74.5

Source: www.clsa.com

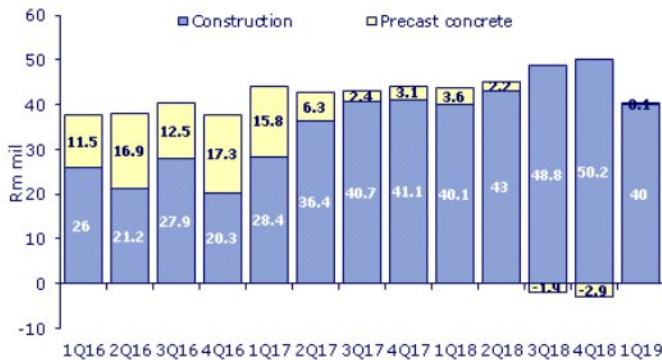
Figure 1

SunCon's financials					
FYE 31 Dec (RM m)	1Q19	1Q18	YoY % Chg	4Q18	QoQ % Chg
Revenue	440.0	529.2	(17%)	626.0	(30%)
Operating expenses	(404.7)	(490.9)	(18%)	(588.6)	(31%)
Other income	2.9	4.6	(37%)	7.8	(63%)
EBITDA	48.3	52.6	(8%)	56.0	(14%)
Depreciation	(10.1)	(9.7)	4%	(10.8)	(7%)
EBIT	38.2	42.9	(11%)	45.2	(16%)
Interest income	4.2	3.8	11%	3.5	20%
Interest expense	(2.3)	(3.1)	(25%)	(2.3)	1%
Joint Venture	-	-	n.m.	0.7	(1)
Pre-tax profit	40.1	43.6	(8%)	47.2	(15%)
Tax	(8.5)	(7.9)	8%	(10.4)	(19%)
Effective tax rate	21.2%	18.1%	17%	22.1%	(4%)
Minority interest	0.62	(0.03)	(2,378%)	0.26	139%
Net profit	31.02	35.77	(13%)	36.48	(15%)
EPS (sen)	2.40	2.77	(13%)	2.82	(15%)
EBIT margin	8.68%	8.10%		7.22%	
PBT margin	9.12%	8.24%		7.54%	

Source: CLSA, SunCon

Figure 2

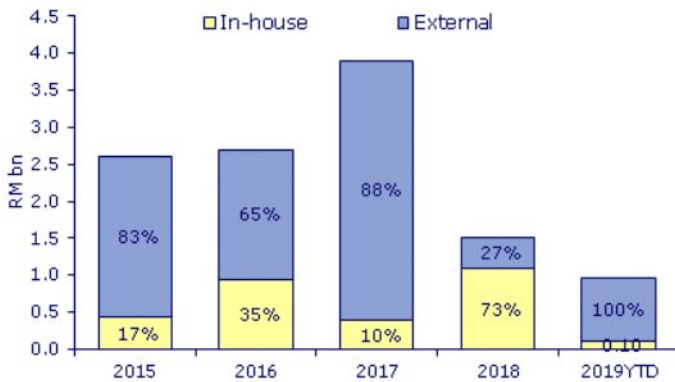
SunCon: pre-tax profit by segment



Source: CLSA, SunCon

Figure 4

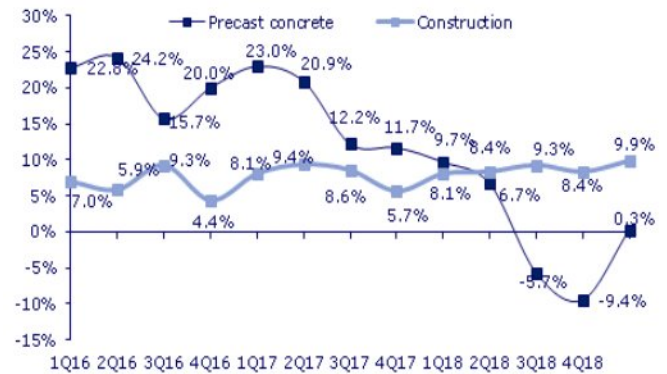
SunCon's order book replenishment history



Source: CLSA, SunCon

Figure 3

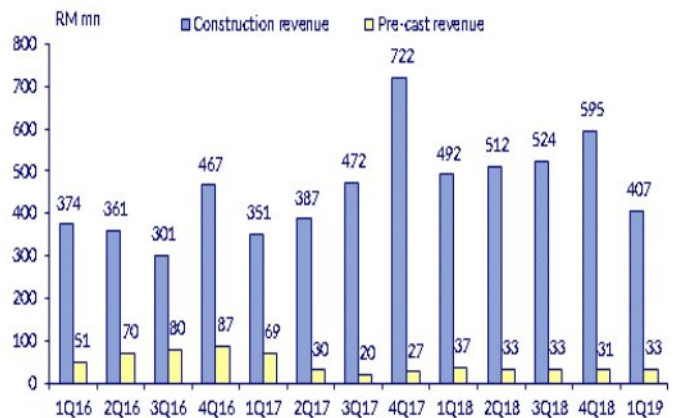
SunCon: pre-tax profit margin by segment



Source: CLSA, SunCon

Figure 5

Construction and pre-cast division revenue breakdown



Source: CLSA, SunCon

Figure 6

Order book: by type (RM5.7bn)

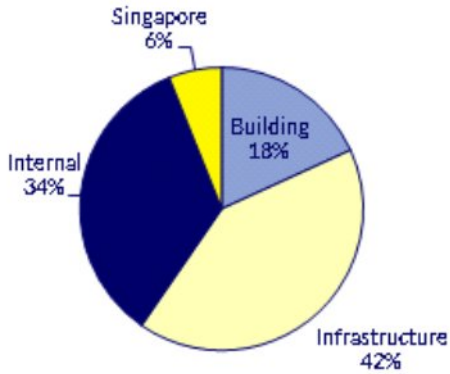
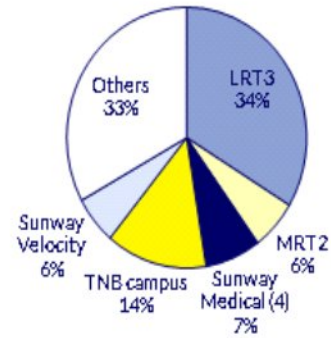


Figure 7

Order book by projects (RM5.7bn)



Source: CLSA, SunCon

Source: CLSA, SunCon

Valuation details

We value SunCon using the price-earnings multiple approach. Its target price is derived from 15.4x 20CL earnings, which is at one standard deviation above 10-year mean PE for the KLCON index. We accord an above-sector average PE given its flow of internal jobs and strong balance sheet.

Investment risks

The investment risks for SunCon mainly stem from construction risk. Specific risks to our estimates would be lower-than-expected margins (below 5-8%) or the amount of projects secured falls below our expectation, either due to an inability to secure projects or caused by a delay on project roll-out. The increase in steel prices beyond anticipated will also creep into margins as SunCon hedges steel needs for a future six-month period. On the pre-cast segment, risks to our earnings will be the timing of a margin recovery currently in doldrums due to competition. SunCon is also susceptible to risk facing the construction industry in general, which includes the risk of disputes and ensuing lengthy negotiations, which are not uncommon, not to mention the fluctuations in raw materials and availability of labour.

Detailed financials

Profit & Loss (RMm)

Year to 31 December	2015A	2016A	2017A	2018A	2019CL	2020CL	2021CL
Revenue	1,917	1,789	2,076	2,257	2,482	2,811	2,713
Cogs (ex-D&A)	(1,739)	(1,601)	(1,874)	(2,042)	(2,220)	(2,511)	(2,424)
Gross Profit (ex-D&A)	178	188	202	215	262	301	290
Research & development costs	-	-	-	-	-	-	-
Selling & marketing expenses	-	-	-	-	-	-	-
Other SG&A	-	-	-	-	-	-	-
Other Op Expenses ex-D&A	-	-	-	-	-	-	-
Op Ebitda	178	188	202	215	262	301	290
Depreciation/amortisation	(42)	(39)	(37)	(53)	(75)	(83)	(90)
Op Ebit	136	149	165	162	186	218	199
Interest income	8	10	13	16	12	13	16
Interest expense	(4)	(6)	(6)	(8)	(5)	(5)	(5)
Net interest inc/(exp)	5	4	7	8	7	8	10
Associates/investments	-	-	-	-	-	-	-
Forex/other income	-	-	-	-	-	-	-
Asset sales/other cash items	-	-	-	-	-	-	-
Provisions/other non-cash items	-	-	-	-	-	-	-
Asset revaluation/Exceptional items	-	-	-	-	-	-	-
Profit before tax	141	154	172	170	193	225	209
Taxation	(13)	(30)	(36)	(38)	(39)	(45)	(42)
Profit after tax	128	124	136	132	155	180	167
Preference dividends	-	-	-	-	-	-	-
Profit for period	128	124	136	132	155	180	167
Minority interest	(1)	0	0	0	0	0	0
Net profit	127	124	136	131	154	180	167
Extraordinaries/others	0	0	0	0	0	0	0
Profit available to ordinary shares	127	124	136	131	154	180	167
Dividends	-	-	-	-	-	-	-
Retained profit	127	124	136	131	154	180	167
Adjusted profit	127	124	136	131	154	180	167
EPS (sen)	9.8	9.6	10.5	10.2	11.9	13.9	12.9
Adj EPS [pre excep] (sen)	9.8	9.6	10.5	10.2	11.9	13.9	12.9
Core EPS (sen)	9.8	9.6	10.5	10.2	11.9	13.9	12.9
DPS (sen)	4.0	5.0	7.0	7.0	8.0	9.0	9.0

Profit & loss ratios

Year to 31 December	2015A	2016A	2017A	2018A	2019CL	2020CL	2021CL
Growth (%)							
Revenue growth (% YoY)	1.9	(6.7)	16.1	8.7	10.0	13.3	(3.5)
Ebitda growth (% YoY)	10.2	5.7	7.5	6.0	22.0	14.9	(3.7)
Ebit growth (% YoY)	16.4	9.5	10.5	(1.9)	15.1	16.9	(8.5)
Net profit growth (%)	39.4	(2.9)	10.1	(3.5)	17.6	16.5	(7.1)
EPS growth (% YoY)	39.4	(2.9)	10.1	(3.5)	17.6	16.5	(7.1)
Adj EPS growth (% YoY)	211.0	(2.9)	10.1	(3.5)	17.6	16.5	(7.1)
DPS growth (% YoY)	(20.0)	25.0	40.0	0.0	14.3	12.5	0.0
Core EPS growth (% YoY)	211.0	(2.9)	10.1	(3.5)	17.6	16.5	(7.1)
Margins (%)							
Ebitda margin (%)	9.3	10.5	9.7	9.5	10.5	10.7	10.7
Ebit margin (%)	7.1	8.3	7.9	7.2	7.5	7.7	7.3
Net profit margin (%)	6.6	6.9	6.5	5.8	6.2	6.4	6.2
Core profit margin	6.6	6.9	6.5	5.8	6.2	6.4	6.2
Op cashflow margin	12.1	4.2	2.3	7.1	7.2	9.3	9.0
Returns (%)							
ROE (%)	30.6	26.2	26.0	22.9	25.0	26.7	22.8
ROA (%)	9.1	8.0	7.5	6.8	8.4	9.6	8.3
ROIC (%)	59.1	65.5	69.8	52.1	54.6	68.9	74.5
ROCE (%)	62.7	82.3	90.0	76.4	77.6	91.0	99.2
Other key ratios (%)							
Effective tax rate (%)	9.2	19.5	21.0	22.4	20.0	20.0	20.0
Ebitda/net int exp (x)	-	-	-	-	-	-	-
Exceptional or extraord. inc/PBT (%)	0.0	0.0	0.0	0.0	0.0	-	-
Dividend payout (%)	40.6	52.3	66.5	68.9	67.0	64.7	69.6

Source: www.clsa.com

Balance sheet (RMm)

Year to 31 December	2015A	2016A	2017A	2018A	2019CL	2020CL	2021CL
Cash & equivalents	390	466	487	485	521	625	714
Accounts receivable	579	732	1,066	885	830	940	907
Inventories	17	24	24	30	0	0	0
Other current assets	230	220	151	198	198	198	198
Current assets	1,217	1,442	1,729	1,597	1,549	1,762	1,819
Fixed assets	162	138	151	164	133	100	60
Investments	0	0	0	45	45	45	45
Goodwill	4	4	4	4	4	4	4
Other intangible assets	1	2	0	0	0	0	0
Other non-current assets	14	11	2	3	3	3	3
Total assets	1,397	1,597	1,885	1,812	1,733	1,914	1,930
Short term loans/OD	137	137	135	114	137	137	137
Accounts payable	796	955	1,184	995	894	1,011	976
Accrued expenses	-	-	-	-	-	-	-
Taxes payable	9	11	5	14	0	0	0
Other current liabs	-	0	0	0	-	0	0
Current liabilities	942	1,103	1,324	1,123	1,031	1,148	1,113
Long-term debt/leases/other	-	-	-	-	-	-	-
Convertible bonds	-	-	-	-	-	-	-
Provisions/other LT liabs	4	1	6	97	59	58	58
Total liabilities	946	1,104	1,331	1,220	1,089	1,206	1,171
Share capital	259	259	259	259	259	259	259
Retained earnings	218	257	324	361	412	476	526
Reserves/others	(25)	(23)	(29)	(28)	(28)	(28)	(28)
Shareholder funds	451	493	554	591	642	706	757
Minorities/other equity	1	1	1	1	2	2	3
Total equity	452	494	555	593	644	708	759
Total liabs & equity	1,397	1,597	1,885	1,812	1,733	1,914	1,930
Total debt	137	137	135	114	137	137	137
Net debt	(254)	(329)	(353)	(371)	(385)	(488)	(578)
Adjusted EV	2,254	2,178	2,156	2,093	2,079	1,976	1,888
BVPS (sen)	34.9	38.2	42.8	45.7	49.7	54.6	58.5

Balance sheet ratios

Year to 31 December	2015A	2016A	2017A	2018A	2019CL	2020CL	2021CL
Key ratios							
Current ratio (x)	1.3	1.3	1.3	1.4	1.5	1.5	1.6
Growth in total assets (% YoY)	5.5	14.3	18.0	(3.9)	(4.4)	10.4	0.8
Growth in capital employed (% YoY)	(16.4)	(16.9)	22.9	9.4	17.1	(15.2)	(17.2)
Net debt to operating cashflow (x)	-	-	-	-	-	-	-
Gross debt to operating cashflow (x)	0.6	1.8	2.9	0.7	0.8	0.5	0.6
Gross debt to Ebitda (x)	0.8	0.7	0.7	0.5	0.5	0.5	0.5
Net debt/Ebitda (x)	-	-	-	-	-	-	-
Gearing							
Net debt/equity (%)	(56.2)	(66.7)	(63.5)	(62.7)	(59.8)	(69.0)	(76.1)
Gross debt/equity (%)	30.3	27.6	24.3	19.2	21.2	19.3	18.0
Interest cover (x)	41.2	26.4	29.3	21.4	39.7	42.3	39.3
Debt Cover (x)	1.7	0.6	0.3	1.4	1.3	1.9	1.8
Working capital analysis							
Inventory days	3.9	4.7	4.7	4.9	2.5	0.0	0.0
Debtor days	121.0	133.8	158.0	157.7	126.1	114.9	124.2
Creditor days	166.6	199.6	208.3	194.7	155.3	138.5	149.6
Working capital/Sales (%)	1.1	0.6	2.5	4.6	5.4	4.5	4.7
Capital employed analysis							
Sales/Capital employed (%)	967.9	1,087.3	1,026.5	1,019.8	958.1	1,280.3	1,492.6
EV/Capital employed (%)	1,137.9	1,323.8	1,065.9	945.7	802.8	900.0	1,038.3
Working capital/Capital employed (%)	11.1	6.1	25.8	46.5	51.3	57.4	70.6
Fixed capital/Capital employed (%)	81.7	84.1	74.6	74.0	51.4	45.7	32.9
Other ratios (%)							
EV/OCF (x)	9.7	29.0	45.8	13.1	11.7	7.5	7.7
EV/FCF (x)	11.7	38.8	(283.0)	20.3	15.7	9.3	9.7
EV/Sales (x)	1.2	1.2	1.0	0.9	0.8	0.7	0.7
Capex/depreciation (%)	92.3	48.7	146.1	106.6	59.6	60.3	55.3

Source: www.clsa.com

Cashflow (RMm)

Year to 31 December	2015A	2016A	2017A	2018A	2019CL	2020CL	2021CL
Operating profit	136	149	165	162	186	218	199
Operating adjustments	(3)	(22)	0	0	0	0	0
Depreciation/amortisation	42	39	37	53	75	83	90
Working capital changes	65	(59)	(112)	(11)	(45)	7	(2)
Interest paid / other financial expenses	(4)	(6)	(6)	(8)	0	0	0
Tax paid	(30)	(26)	(37)	(37)	(39)	(45)	(42)
Other non-cash operating items	25	0	0	1	0	0	0
Net operating cashflow	232	75	47	159	178	262	245
Capital expenditure	(39)	(19)	(55)	(56)	(45)	(50)	(50)
Free cashflow	193	56	(8)	103	133	212	195
Acq/inv/disposals	40	13	89	26	-	-	-
Int, invt & associate div	(57)	89	13	(28)	12	13	16
Net investing cashflow	(56)	83	48	(58)	(33)	(37)	(34)
Increase in loans	2	0	(3)	(21)	-	-	-
Dividends	(70)	(84)	(71)	(97)	(104)	(117)	(117)
Net equity raised/(buybacks)	-	-	-	-	-	-	-
Net financing cashflow	(68)	(84)	(74)	(118)	(104)	(117)	(117)
Incr/(decr) in net cash	107	74	21	(16)	41	109	95
Exch rate movements	5	2	1	12	(5)	(5)	(5)
Opening cash	278	390	465	488	485	521	625
Closing cash	390	465	487	484	521	625	715
OCF PS (sen)	17.9	5.8	3.6	12.3	13.7	20.3	19.0
FCF PS (sen)	14.9	4.3	(0.6)	8.0	10.3	16.4	15.1

Cashflow ratio analysis

Year to 31 December	2015A	2016A	2017A	2018A	2019CL	2020CL	2021CL
Growth (%)							
Op cashflow growth (% YoY)	(19.4)	(67.6)	(37.3)	238.7	11.3	47.8	(6.5)
FCF growth (% YoY)	(20.2)	(70.9)	(113.6)	-	28.3	60.3	(8.0)
Capex growth (%)	(15.4)	(50.8)	187.6	2.7	(19.9)	11.1	0.0
Other key ratios (%)							
Capex/sales (%)	2.0	1.1	2.6	2.5	1.8	1.8	1.8
Capex/op cashflow (%)	16.7	25.3	116.2	35.2	25.3	19.0	20.4
Operating cashflow payout ratio (%)	22.3	86.0	192.2	56.7	58.2	44.3	47.4
Cashflow payout ratio (%)	-	-	-	-	-	-	-
Free cashflow payout ratio (%)	-	-	-	-	-	-	-

DuPont analysis

Year to 31 December	2015A	2016A	2017A	2018A	2019CL	2020CL	2021CL
Ebit margin (%)	7.1	8.3	7.9	7.2	7.5	7.7	7.3
Asset turnover (x)	1.4	1.2	1.2	1.2	1.4	1.5	1.4
Interest burden (x)	1.0	1.0	1.0	1.0	1.0	1.0	1.1
Tax burden (x)	0.9	0.8	0.8	0.8	0.8	0.8	0.8
Return on assets (%)	9.1	8.0	7.5	6.8	8.4	9.6	8.3
Leverage (x)	3.3	3.2	3.3	3.2	2.9	2.7	2.6
ROE (%)	30.7	26.2	26.0	22.9	25.0	26.7	22.8

EVA[®] analysis

Year to 31 December	2015A	2016A	2017A	2018A	2019CL	2020CL	2021CL
Ebit adj for tax	124	120	130	126	149	174	159
Average invested capital	209	183	187	241	273	253	214
ROIC (%)	59.1	65.5	69.8	52.1	54.6	68.9	74.5
Cost of equity (%)	11.2	11.2	11.2	11.2	11.2	11.2	11.2
Cost of debt (adj for tax)	4.5	4.0	3.9	3.9	4.0	4.0	4.0
Weighted average cost of capital (%)	11.2	11.2	11.2	11.2	11.2	11.2	11.2
EVA/IC (%)	47.9	54.3	58.6	40.9	43.4	57.7	63.3
EVA (RMm)	100	100	109	99	118	146	135

Source: www.clsa.com



Research subscriptions

To change your report distribution requirements, please contact your CLSA sales representative or email us at cib@clsa.com. You can also fine-tune your Research Alert email preferences at https://www.clsa.com/member/tools/email_alert/.

Companies mentioned

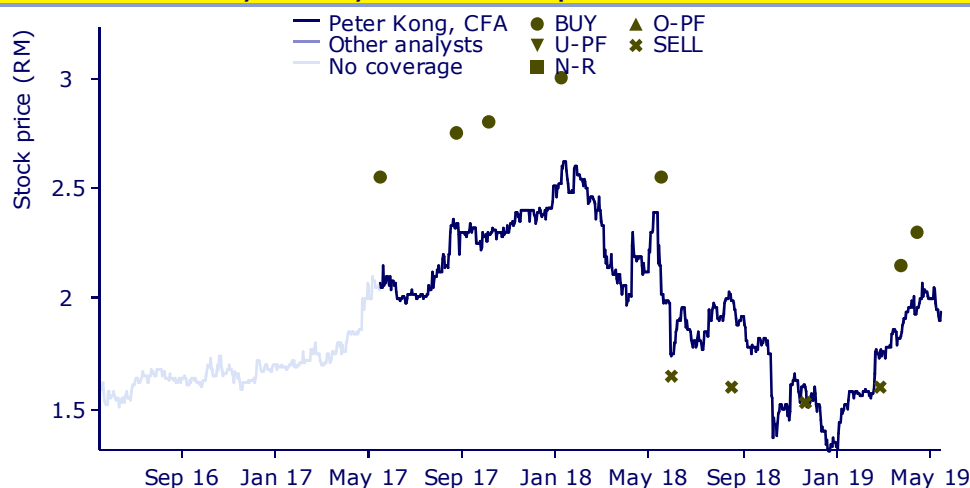
SunCon (SCGB MK - RM1.94 - BUY)
 Sungei Way Corp Sdn Bhd (N-R)
 Sunway Berhad (N-R)

Analyst certification

The analyst(s) of this report hereby certify that the views expressed in this research report accurately reflect my/our own personal views about the securities and/or the issuers and that no part of my/our compensation was, is, or will be directly or indirectly related to the specific recommendation or views contained in this research report.

Important disclosures

Recommendation history of Sunway Construction Group Bhd SCGB MK



Date	Rec	Target	Date	Rec	Target
15 Apr 2019	BUY	2.30	18 May 2018	BUY	2.55
25 Mar 2019	BUY	2.15	08 Jan 2018	BUY	3.00
26 Feb 2019	SELL	1.60	06 Oct 2017	BUY	2.80
21 Nov 2018	SELL	1.53	25 Aug 2017	BUY	2.75
17 Aug 2018	SELL	1.60	18 May 2017	BUY	2.55
31 May 2018	SELL	1.65			

Source: CLSA

The policy of CLSA and CL Securities Taiwan Co., Ltd. ("CLST") is to only publish research that is impartial, independent, clear, fair, and not misleading. Regulations or market practice of some jurisdictions/markets prescribe certain disclosures to be made for certain actual, potential or perceived conflicts of interests relating to a research report as below. This research disclosure should be read in conjunction with the research disclaimer as set out at www.clsa.com/disclaimer.html and the applicable regulation of the concerned market where the analyst is stationed and hence subject to. Investors are strongly encouraged to review this disclaimer before investing.

Neither analysts nor their household members/associates/may have a financial interest in, or be an officer, director or advisory board member of companies covered by the analyst unless disclosed herein. In circumstances where an analyst has a pre-existing holding

in any securities under coverage, those holdings are grandfathered and the analyst is prohibited from trading such securities.

Unless specified otherwise, CLSA/CLST or its respective affiliates, did not receive investment banking/non-investment banking income from, and did not manage/co-manage a public offering for, the listed company during the past 12 months, and it does not expect to receive investment banking compensation from the listed company within the coming three months. Unless mentioned otherwise, CLSA/CLST does not own 1% or more of any class of securities of the subject company, and does not make a market, in the securities.

The analysts included herein hereby confirm that they have not been placed under any undue influence, intervention or pressure by any person/s in compiling this research report. In addition, the analysts attest that they were not in possession of any material,

non-public information regarding the subject company at the time of publication of the report. Save from the disclosure below (if any), the analyst(s) is/are not aware of any material conflict of interest.

As analyst(s) of this report, I/we hereby certify that the views expressed in this research report accurately reflect my/our own personal views about the securities and/or the issuers and that no part of my/our compensation was, is, or will be directly or indirectly related to the specific recommendation or views contained in this report or to any investment banking relationship with the subject company covered in this report (for the past one year) or otherwise any other relationship with such company which leads to receipt of fees from the company except in ordinary course of business of the company. The analyst/s also state/s and confirm/s that he/she/they has/have not been placed under any undue influence, intervention or pressure by any person/s in compiling this research report. In addition, the analysts included herein attest that they were not in possession of any material, nonpublic information regarding the subject company at the time of publication of the report. The analysts further confirm that none of the information used in this report was received from CLSA's Corporate Finance department or CLSA's Sales and Trading business. Save from the disclosure below (if any), the analyst(s) is/are not aware of any material conflict of interest.

Key to CLSA/CLST investment rankings: BUY: Total stock return (including dividends) expected to exceed 20%; O-PF: Total expected return below 20% but exceeding market return; U-PF: Total expected return positive but below market return; SELL: Total return expected to be negative. For relative performance, we benchmark the 12-month total forecast return (including dividends) for the stock against the 12-month forecast return (including dividends) for the market on which the stock trades.

We define as "Double Baggers" stocks we expect to yield 100% or more (including dividends) within three years at the time the stocks are introduced to our "Double Bagger" list. "High Conviction" ideas are not necessarily stocks with the most upside/downside, but those where the Research Head/Strategist believes there is the highest likelihood of positive/negative returns. The list for each market is monitored weekly.

Overall rating distribution for CLSA (exclude CLST) only Universe: Overall rating distribution: BUY / Outperform - CLSA: 70.43%, Underperform / SELL - CLSA: 35.30%, Restricted - CLSA: 0.00%; Data as of 31 March 2019. Investment banking clients as a % of rating category: BUY / Outperform - CLSA: 0.32%, Underperform / SELL - CLSA: 0.16%; Restricted - CLSA: 0.00%. Data for 12-month period ending 31 March 2019.

Overall rating distribution for CLST only Universe: Overall rating distribution: BUY / Outperform - CLST: 52.31%, Underperform / SELL - CLST: 47.69%, Restricted - CLST: 0.00%. Data as of 31 March 2019. Investment banking clients as a % of rating category: BUY / Outperform - CLST: 0.00%, Underperform / SELL - CLST: 0.00%, Restricted - CLST: 0.00%. Data for 12-month period ending 31 March 2019. There are no numbers for Hold/Neutral as CLSA/CLST do not have such investment rankings. For a history of the recommendation, price targets and disclosure information for companies mentioned in this report please write to: CLSA Group Compliance, 18/F, One Pacific Place, 88 Queensway, Hong Kong and/or; (c) CLST Compliance (27/F, 95, Section 2 Dun Hua South Road, Taipei 10682, Taiwan, telephone (886) 2 2326 8188). EVA® is a registered trademark of Stern, Stewart & Co. "CL" in charts and tables stands for CLSA estimates, "CT" stands for CLST estimates, "CRR" stands for CRR Research estimates and "CS" for Citic Securities estimates unless otherwise noted in the source.

This publication/communication is subject to and incorporates the terms and conditions of use set out on the www.clsa.com website (<https://www.clsa.com/disclaimer.html>). Neither the publication/communication nor any portion hereof may be reprinted, sold, resold, copied, reproduced, distributed, redistributed, published, republished, displayed, posted or transmitted in any form or media or by any means without the written consent of CLSA and/or CLST. CLSA and/or CLST has/have produced this publication/communication for private circulation to professional, institutional and/or wholesale clients only, and may not be distributed to retail investors. The information, opinions and estimates herein are not directed at, or intended for distribution to

or use by, any person or entity in any jurisdiction where doing so would be contrary to law or regulation or which would subject CLSA, and/or CLST to any additional registration or licensing requirement within such jurisdiction. The information and statistical data herein have been obtained from sources we believe to be reliable. Such information has not been independently verified and we make no representation or warranty as to its accuracy, completeness or correctness. Any opinions or estimates herein reflect the judgment of CLSA and/or CLST at the date of this publication/communication and are subject to change at any time without notice. Where any part of the information, opinions or estimates contained herein reflects the views and opinions of a sales person or a non-analyst, such views and opinions may not correspond to the published view of CLSA and/or CLST. Any price target given in the report may be projected from one or more valuation models and hence any price target may be subject to the inherent risk of the selected model as well as other external risk factors. Where the publication does not contain ratings, the material should not be construed as research but is offered as factual commentary. It is not intended to, nor should it be used to form an investment opinion about the non-rated companies.

This publication/communication is for information purposes only and it does not constitute or contain, and should not be considered as an offer or invitation to sell, or any solicitation or invitation of any offer to subscribe for or purchase any securities in any jurisdiction and neither this publication/communication nor anything contained herein shall form the basis of any investment decision, contract or commitment whatsoever. This is not intended to provide professional, investment or any other type of advice or recommendation and does not take into account the particular investment objectives, financial situation or needs of individual recipients. Before acting on any information in this publication/communication, you should consider whether it is suitable for your particular circumstances and, if appropriate, seek professional advice, including tax advice. Investments involve risks, and investors should exercise prudence and their own judgment in making their investment decisions. The value of any investment or income may go down as well as up, and investors may not get back the full (or any) amount invested. Past performance is not necessarily a guide to future performance. CLSA and/or CLST do/does not accept any responsibility and cannot be held liable for any person's use of or reliance on the information and opinions contained herein. To the extent permitted by applicable securities laws and regulations, CLSA and/or CLST accept(s) no liability whatsoever for any direct or consequential loss arising from the use of this publication/communication or its contents.

To maintain the independence and integrity of our research, our Corporate Finance, Sales Trading, Asset Management and Research business lines are distinct from one another. This means that CLSA's Research department is not part of and does not report to CLSA Corporate Finance department or CLSA's Sales and Trading business. Accordingly, neither the Corporate Finance nor the Sales and Trading department supervises or controls the activities of CLSA's research analysts. CLSA's research analysts report to the management of the Research department, who in turn report to CLSA's senior management. CLSA has put in place a number of internal controls designed to manage conflicts of interest that may arise as a result of CLSA engaging in Corporate Finance, Sales and Trading, Asset Management and Research activities. Some examples of these controls include: the use of information barriers and other controls designed to ensure that confidential information is only shared on a "need to know" basis and in compliance with CLSA's Chinese Wall policies and procedures; measures designed to ensure that interactions that may occur among CLSA's Research personnel, Corporate Finance, Asset Management, and Sales and Trading personnel, CLSA's financial product issuers and CLSA's research analysts do not compromise the integrity and independence of CLSA's research.

Subject to any applicable laws and regulations at any given time, CLSA, CLST, their respective affiliates, officers, directors or employees may have used the information contained herein before publication and may have positions in, or may from time to time purchase or sell or have a material interest in any of the securities mentioned or related securities, or may currently or in future have or

have had a business or financial relationship with, or may provide or have provided corporate finance/capital markets and/or other services to, the entities referred to herein, their advisors and/or any other connected parties. As a result, you should be aware that CLSA and/or CLST and/or their respective affiliates, officers, directors or employees may have one or more conflicts of interest. Regulations or market practice of some jurisdictions/markets prescribe certain disclosures to be made for certain actual, potential or perceived conflicts of interests relating to research reports. Details of the disclosable interest can be found in certain reports as required by the relevant rules and regulation and the full details are available at http://www.clsa.com/member/research_disclosures/. Disclosures therein include the position of CLSA and CLST only. Unless specified otherwise, CLSA did not receive any compensation or other benefits from the subject company, covered in this publication/communication, or from any third party. If investors have any difficulty accessing this website, please contact webadmin@clsa.com on +852 2600 8111. If you require disclosure information on previous dates, please contact compliance_hk@clsa.com.

This publication/communication is distributed for and on behalf of CLSA Limited (for research compiled by non-US and non-Taiwan analyst(s)), and/or CLST (for research compiled by Taiwan analyst(s)) in Australia by CLSA Australia Pty Ltd; in Hong Kong by CLSA Limited; in India by CLSA India Private Limited, (Address: 8/F, Dalamal House, Nariman Point, Mumbai 400021. Tel No: +91-22-66505050. Fax No: +91-22-22840271; CIN: U67120MH1994PLC083118; SEBI Registration No: INZ000001735 as Stock Broker, INM000010619 as Merchant Banker and INH000001113 as Research Analyst; in Indonesia by PT CLSA Sekuritas Indonesia; in Japan by CLSA Securities Japan Co., Ltd.; in Korea by CLSA Securities Korea Ltd.; in Malaysia by CLSA Securities Malaysia Sdn. Bhd.; in the Philippines by CLSA Philippines Inc (a member of Philippine Stock Exchange and Securities Investors Protection Fund); in Singapore by CLSA Singapore Pte Ltd and solely to persons who qualify as an "Institutional Investor", "Accredited Investor" or "Expert Investor"; in Thailand by CLSA Securities

(Thailand) Limited; in Taiwan by CLST and in United Kingdom by CLSA (UK).

United States of America: Where any section is compiled by non-US analyst(s), it is distributed into the United States by CLSA solely to persons who qualify as "Major US Institutional Investors" as defined in Rule 15a-6 under the Securities and Exchange Act of 1934 and who deal with CLSA Americas. However, the delivery of this research report to any person in the United States shall not be deemed a recommendation to effect any transactions in the securities discussed herein or an endorsement of any opinion expressed herein. Any recipient of this research in the United States wishing to effect a transaction in any security mentioned herein should do so by contacting CLSA Americas.

United Kingdom: In the United Kingdom, this research is a marketing communication. It has not been prepared in accordance with the legal requirements designed to promote the independence of investment research, and is not subject to any prohibition on dealing ahead of the dissemination of investment research. The research is disseminated in the EU by CLSA (UK), which is authorised and regulated by the Financial Conduct Authority. This document is directed at persons having professional experience in matters relating to investments as defined in Article 19 of the FSMA 2000 (Financial Promotion) Order 2005. Any investment activity to which it relates is only available to such persons. If you do not have professional experience in matters relating to investments you should not rely on this document. Where the research material is compiled by the UK analyst(s), it is produced and disseminated by CLSA (UK). For the purposes of the Financial Conduct Rules this research is prepared and intended as substantive research material.

For all other jurisdiction-specific disclaimers please refer to <https://www.clsa.com/disclaimer.html>. The analysts/contributors to this publication/communication may be employed by any relevant CLSA entity or CLST, which is different from the entity that distributes the publication/communication in the respective jurisdictions. © 2019 CLSA Limited and/or CL Securities Taiwan Co., Ltd. ("CLST").