2 October 2020
Equity Research
Asia Pacific | Malaysia

CREDIT SUISSE

SunCon

Safe proxy for pump priming

Engineering & Construction | Initiation

SCOG.KL

Target price (12M, RM)
2.50
Outperform

- **We initiate coverage on Sunway Construction (SunCon) with an OUTPERFORM rating and a TP of RM2.50, implying 36% potential upside**. We believe that SunCon is a safer choice and is better positioned to weather the turbulent economic and political conditions.
- **A safer choice**. SunCon is the largest pure-play construction group in Malaysia, with a market capitalisation of US$573.9 mn, and is the flagship construction arm for a prominent property developer. We believe that SunCon is better positioned given its: (1) experienced management team that has guided the group through multiple economic downturns; (2) healthy balance sheet with net cash position; and (3) large construction orderbook backlog which is supplemented by a steady stream of order flow from its parent company.
- **Expect a pick-up in public infrastructure**. We are cautiously optimistic on the construction sector in Malaysia and believe that there could be scope for pick-up in construction order flow, as the government needs to urgently roll out infrastructure projects as part of its recovery plan to cushion the effects of COVID-19. The pipeline of job opportunities that could emerge in the near-to-medium term include: ECRL, Klang Valley MRT 3, Bandar Malaysia, and KL-SIN HSR.
- **Ex-cash valuation below historical average**. We derive our TP by pegging our FY21E earnings to SunCon's long-term historical average P/E excluding net cash of 16.5x. SunCon is currently trading at an FY21E P/E of 16.6x which is below its historical average of 19.6x. While on a P/B basis, SunCon is trading at 3.4x, close to 1 SD below its historical average of 4.0x. The stock trades on a market cap-to-orderbook of 0.41x (below historic average of 0.45x), and with possible expansion of its orderbook, there is room for re-rating. Potential events ahead that could be catalysts for price re-rating include: (1) upcoming budget announcement, (2) further evidence of a pick-up in property activity that could generate in-house jobs, and (3) in-house hospital developments (RM1-1.5 bn).

Price (1 Oct 20, RM)	1.84
Upside/downside (%)	35.9
Mkt cap (RM/US$ mn)	2,379 / 573.51
Enterprise value (RM mn)	1,938
Number of shares (mn)	1,293
Free float (%)	19.7
52-wk price range (RM)	2.10-1.29
ADTO-6M (US$ mn)	0.3

Research Analysts

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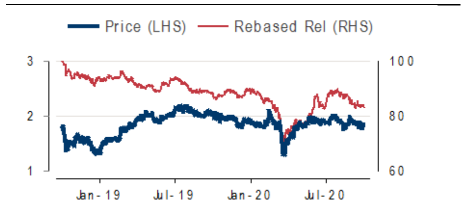
Financial and valuation metrics

Year	12/19A	12/20E	12/21E	12/22E
Revenue (RM mn)	1,768.7	1,413.6	2,264.2	2,388.5
EBITDA (RM mn)	181.3	127.7	242.4	247.6
EBIT (RM mn)	141.0	90.3	200.3	201.9
Net profit (RM mn)	129.3	73.1	157.2	163.8
EPS (CS adj.) (RM)	0.1	0.06	0.12	0.13
Chg. from prev. EPS (%)	n.a	n.a	n.a	n.a
Consensus EPS (RM)	n.a.	0.06	0.11	0.11
EPS growth (%)	(10.3)	(43.5)	115.1	4.2
P/E (x)	18.4	32.5	15.1	14.5
Dividend yield (%)	3.8	1.7	4.0	4.1
EV/EBITDA (x)	10.9	15.1	7.2	7.0
P/B (x)	3.81	3.62	3.3	3.03
ROE (%)	21.3	11.4	22.9	21.8
Net debt/equity (%)	(63.6)	(69.1)	(86.4)	(81.0)

Source: Company data, Refinitiv, Credit Suisse estimates

Share price performance

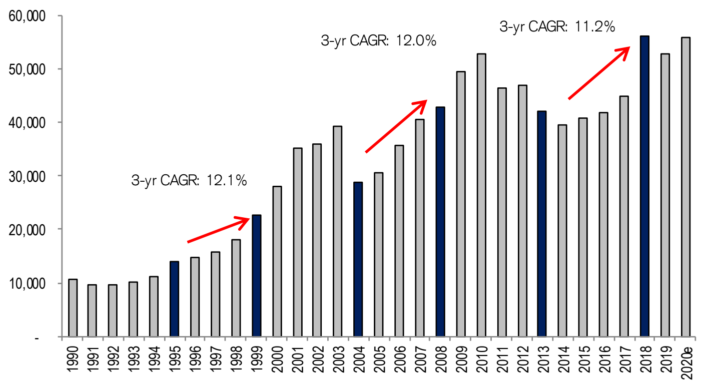


The price relative chart measures performance against the FTSE BURSA MALAYSIA KLCI IDX which closed at 1,496.77 on 01/10/20. On 01/10/20 the spot exchange rate was RM4.15/US$1

Performance	1M	3M	12M
Absolute (%)	(4.2)	(2.1)	(10.2)
Relative (%)	(2.5)	1.5	(5.3)

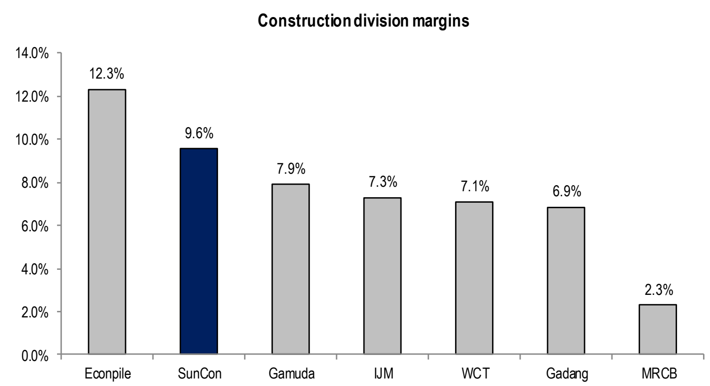
Focus charts

Figure 1: Development expenditure increased in the build-up to general elections



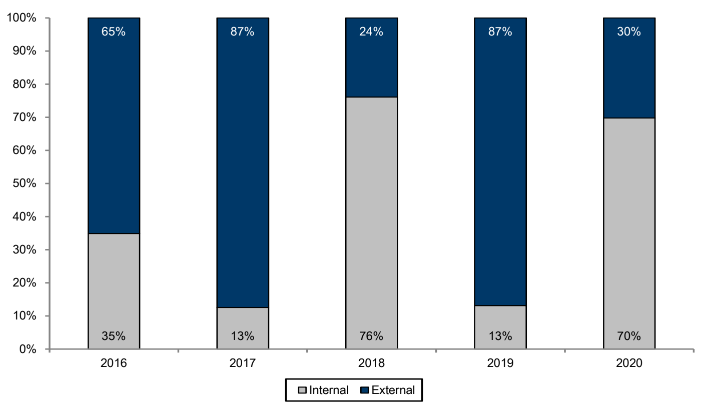
Source: Ministry of Finance (MoF), Credit Suisse estimates

Figure 2: Above peers' margins



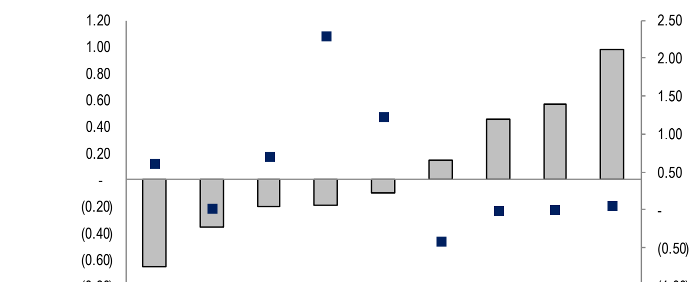
Source: Company data, Credit Suisse estimates

Figure 3: Sunway group-related jobs provide some certainty



Source: Company data, Credit Suisse estimates

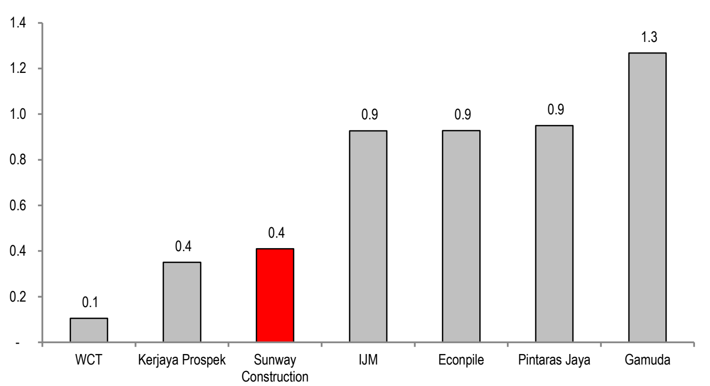
Figure 4: SunCon's free cash flow debt coverage ratio higher relative to contractors with property development operations



	Sunway Construction	George Kent	Pintaras Jaya	Kerjaya Prospek	Hock Seng Lee	Econpile	Gamuda	IJM	WCT
Net gearing [LHS]	(0.65)	(0.36)	(0.21)	(0.20)	(0.10)	0.15	0.46	0.57	0.99
FCFDC [RHS]	0.63	0.04	0.72	2.30	1.24	(0.40)	(0.00)	0.01	0.07

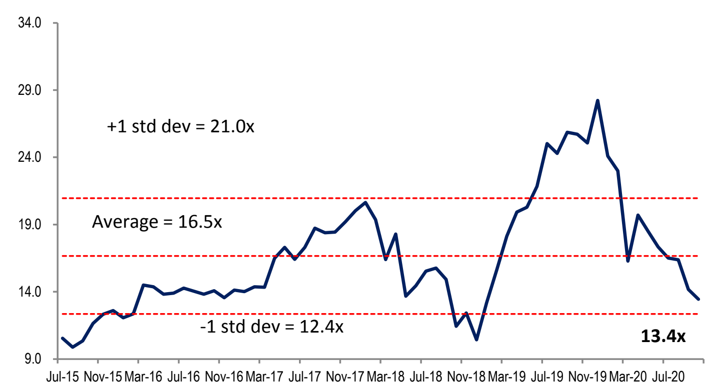
Source: Company data, Credit Suisse estimates

Figure 5: Healthy market cap/orderbook ratio



Source: Company data, Credit Suisse estimates

Figure 6: Ex-cash P/E valuation below historical average



Source: Company data, Credit Suisse estimates

Safe proxy for pump priming

Expect pick-up in public infrastructure spending

We expect a pick-up in mega infrastructure projects to help cushion the negative impact of COVID-19.

We are cautiously optimistic on the construction sector in Malaysia and we believe that there could be scope for pick-up in construction order flow, as the government needs to urgently roll out infrastructure projects as part of its recovery plan to cushion the effects of COVID-19. Bank Negara Malaysia (BNM) estimates 2020 GDP growth would come in at -3.5% to -5.5%, which is in line with our expectation of Malaysia's economy potentially shrinking by 5.4% in 2020. The construction industry remains an important contributor to Malaysia and makes up close to 5% of the country's GDP. The construction industry is also one of the main employers of the country, employing 8.8% of the total workforce. In light of the global pandemic and expected reduction in private consumption, we are of the opinion that the construction industry is the ideal sector which the federal government could positively influence to generate substantial economic multiplier effect. We could potentially see projects such as the ECRL, MRT3, Bandar Malaysia, KL-SIN HSR be expedited/revived.

Largest pure-play contractor with strong track record

SunCon has a strong track record, experienced management team which has been through multiple economic cycles, as well as a healthy balance sheet with a net cash position.

SunCon is the largest pure-play construction group in Malaysia, with a market capitalisation of US$573.9 mn, and is the flagship construction arm for its parent, a prominent property developer in Malaysia (which has a 54.4% stake in SunCon). Having been in the industry for close to 40 years, SunCon has successfully navigated through both the Asian Financial Crisis (AFC) as well as Global Financial Crisis (GFC). With most of the senior management personnel having over 20 years of experience in the construction industry, we are confident that SunCon would be able to ride through the COVID-19 pandemic and any adverse fallout which may follow. Its track record includes the construction of commercial, retail, hospitality assets, medical centres, as well as infrastructure-related projects both locally and overseas. Additionally, being a pure-play contractor, SunCon is not exposed to other businesses that might face earnings headwinds such as property development and infrastructure concessions. By also not needing to embark on landbanking and development activities, SunCon would be able to better utilise its balance sheet and have superior cash flow compared to peers. SunCon has one the strongest free cash flow debt coverage ratios—0.63x as at end-Jun 2020—and the healthiest balance sheet, with a net cash-to-equity position of 0.65x.

A safer choice

Parent company's property development projects to provide SunCon with a steady orderflow of job prospects.

SunCon's parent company, a major developer in Malaysia, would give SunCon a steady order flow of job prospects. While SunCon does not rely solely on its parent for orderbook replenishment, in-house property development projects do provide it with a stable bedrock of construction works, particularly when there is a lull in construction activities. This was particularly evident in 2018 when there was a slowdown in construction activities post-GE14, as the then government administration had decided to review all mega projects, and 76% of SunCon's new orderbook wins of RM1.6 bn were mainly internal jobs awarded by its parent. Having a stable flow of in-house jobs also lowers SunCon's exposure to payment risk.

Initiate with OUTPERFORM, TP of RM2.50

SunCon's ex-cash FY21E P/E valuation of 14.2x is below its historical average of 16.5x.

We initiate coverage on SunCon with an OUTPERFORM rating and a TP of RM2.50, which implies potential 36% upside. We derive our TP by pegging our FY21E earnings to SunCon's long-term historical average P/E excluding net cash of 16.5x. SunCon is currently trading on an FY21E P/E of 16.6x which is below its historical average of 19.6x. After excluding its net cash position of RM387.2 mn as at end-June 2020 (16% of its market capitalisation), SunCon is trading on an FY21E P/E of only 14.6x. We believe that SunCon should trade at a premium due to: (1) order flow from parent company which will provide some certainty; (2) SunCon being a pure-play contractor is not exposed to other businesses that might face earnings headwinds such as property development and infrastructure concessions; (3) healthy balance sheet; and (4) a steady dividend stream.

CREDIT SUISSE

SunCon (SCOG.KL / SCGB MK)

Analyst: **Jae Ang**

Price (01 Oct 2020): **RM1.84** Target Price: **RM2.50** Rating: **Outperform**

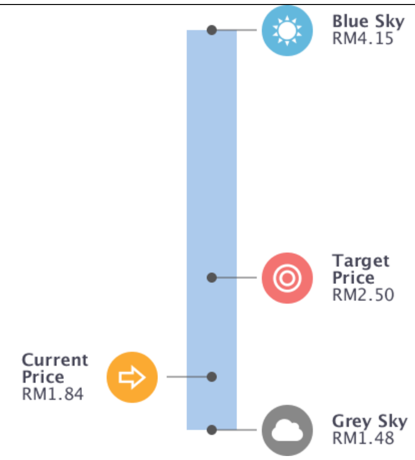
Income Statement (RM mn)	**12/19A**	**12/20E**	**12/21E**	**12/22E**
Sales revenue	**1,769**	**1,414**	**2,264**	**2,389**
Cost of goods sold	1,391	1,174	1,844	1,954
EBITDA	**181**	**128**	**242**	**248**
EBIT	**141**	**90**	**200**	**202**
Net interest expense/(inc.)	(12)	(2)	(4)	(11)
Recurring PBT	**157**	**97**	**208**	**217**
Profit after tax	**130**	**74**	**158**	**165**
Reported net profit	**129**	**73**	**157**	**164**
Net profit (Credit Suisse)	**129**	**73**	**157**	**164**
Balance Sheet (RM mn)	**12/19A**	**12/20E**	**12/21E**	**12/22E**
Cash & cash equivalents	693	650	693	708
Current receivables	847	802	1,160	1,224
Inventories	25	23	35	37
Other current assets	145	145	145	145
Current assets	**1,710**	**1,619**	**2,034**	**2,114**
Property, plant & equip.	139	156	169	178
Investments	48	53	57	62
Intangibles	4	4	4	4
Other non-current assets	4	4	4	4
Total assets	**1,905**	**1,836**	**2,268**	**2,362**
Current liabilities	**1,120**	**1,037**	**1,428**	**1,456**
Total liabilities	**1,280**	**1,178**	**1,546**	**1,574**
Total debt	295	195	70	70
Shareholders' equity	**623**	**656**	**719**	**784**
Minority interests	2	2	3	3
Total liabilities & equity	**1,905**	**1,836**	**2,268**	**2,362**
Cash Flow (RM mn)	**12/19A**	**12/20E**	**12/21E**	**12/22E**
EBIT	**141**	**90**	**200**	**202**
Net interest	17	2	4	11
Tax paid	(38)	(23)	(50)	(52)
Working capital	33	46	122	(38)
Other cash & non-cash items	46	37	42	46
Operating cash flow	**199**	**153**	**319**	**168**
Capex	(8)	(55)	(55)	(55)
Free cash flow to the firm	**191**	**98**	**264**	**113**
Investing cash flow	**(268)**	**(55)**	**(55)**	**(55)**
Equity raised	0	0	0	0
Dividends paid	(90)	(40)	(94)	(98)
Financing cash flow	**19**	**(140)**	**(220)**	**(99)**
Total cash flow	**(50)**	**(43)**	**44**	**14**
Adjustments	263	0	0	0
Net change in cash	**213**	**(43)**	**44**	**14**
Per share	**12/19A**	**12/20E**	**12/21E**	**12/22E**
Shares (wtd avg.) (mn)	1,291	1,291	1,291	1,291
EPS (Credit Suisse) (RM)	**0.10**	**0.06**	**0.12**	**0.13**
DPS (RM)	0.07	0.03	0.07	0.08
Operating CFPS (RM)	0.15	0.12	0.25	0.13
Earnings	**12/19A**	**12/20E**	**12/21E**	**12/22E**
Growth (%)				
Sales revenue	(21.6)	(20.1)	60.2	5.5
EBIT	(19.5)	(36.0)	121.9	0.8
EPS	(10.3)	(43.5)	115.1	4.2
Margins (%)				
EBITDA	10.2	9.0	10.7	10.4
EBIT	8.0	6.4	8.8	8.5
Valuation (x)	**12/19A**	**12/20E**	**12/21E**	**12/22E**
P/E	18.4	32.5	15.1	14.5
P/B	3.81	3.62	3.30	3.03
Dividend yield (%)	3.8	1.7	4.0	4.1
EV/sales	1.1	1.4	0.8	0.7
EV/EBITDA	10.9	15.1	7.2	7.0
EV/EBIT	14.0	21.3	8.8	8.6
ROE analysis (%)	**12/19A**	**12/20E**	**12/21E**	**12/22E**
ROE	21.3	11.4	22.9	21.8
ROIC	50.9	31.8	100.9	123.7
Credit ratios	**12/19A**	**12/20E**	**12/21E**	**12/22E**
Net debt/equity (%)	(63.6)	(69.1)	(86.4)	(81.0)
Net debt/EBITDA (x)	(2.19)	(3.56)	(2.57)	(2.58)

Source: Company data, Refinitiv, Credit Suisse estimates

Company Background

SunCon is Msia's largest pure-play construction group that provides a full range of integrated design and construction services including building, infrastructure, MEP, manufacturing of precast concrete products and renewable energy services.

Blue/Grey Sky Scenario



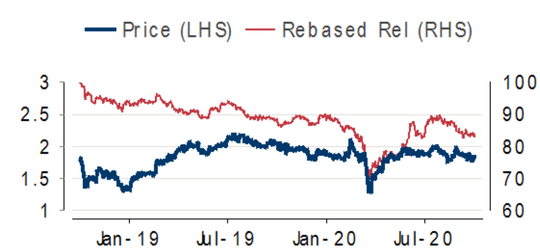
Our Blue Sky Scenario (RM) **4.15**

We based our RM4.15 Blue Sky value on Sunway Construction's historical peak ex-cash P/E of 28x and RM4bn in new orderbook replenishment.

Our Grey Sky Scenario (RM) **1.48**

We based our RM1.48 Grey Sky value on Sunway Construction's historical trough ex-cash P/E of 9x and no new orderbook replenishment.

Share price performance



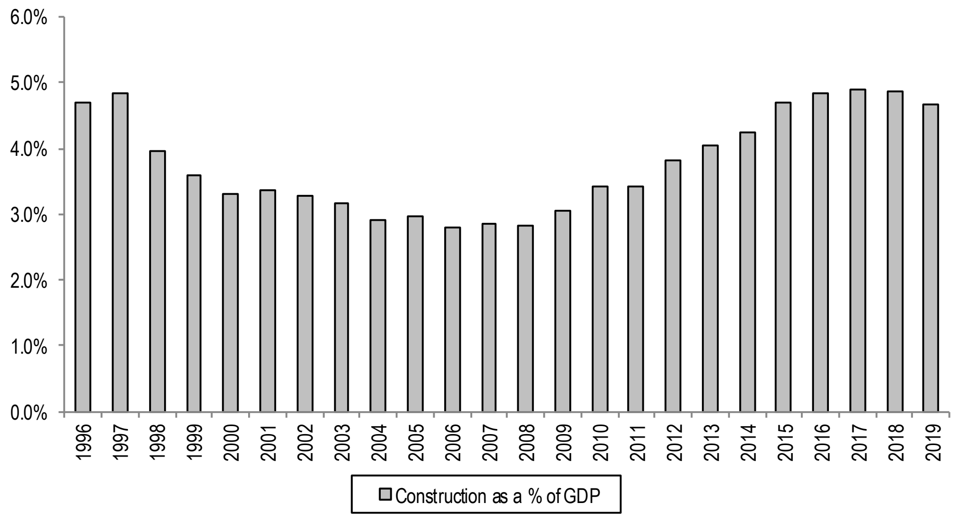
The price relative chart measures performance against the FTSE BURSA MALAYSIA KLCI IDX which closed at 1,496.77 on 01-Oct-2020

On 01-Oct-2020 the spot exchange rate was RM4.15/US$1

Expect pick-up in public infrastructure spending

We remain cautiously optimistic on the construction sector in Malaysia despite the multiple headwinds it has encountered since 2018. We believe that there could be scope for pick-up in construction order flow as the government needs to urgently roll out infrastructure projects as part of its recovery plan to cushion the effects of COVID-19. The construction industry remains an important contributor to Malaysia and directly makes up close to 5% of the country's GDP with a significant multiplier effect. In 2020, the government expects a pick-up in implementation of RM15 bn large-scale infrastructure projects to add 1 pp to GDP. Furthermore, the construction industry is also one of the main employers of the country, employing 8.8% of the total workforce. In light of the global pandemic and expected reduction in private consumption which would in turn negatively impact the services (58% of GDP) and manufacturing (22% of GDP) sectors, we are of the opinion that the construction industry is the ideal sector which the federal government could positively influence to generate substantial economic multiplier effect.

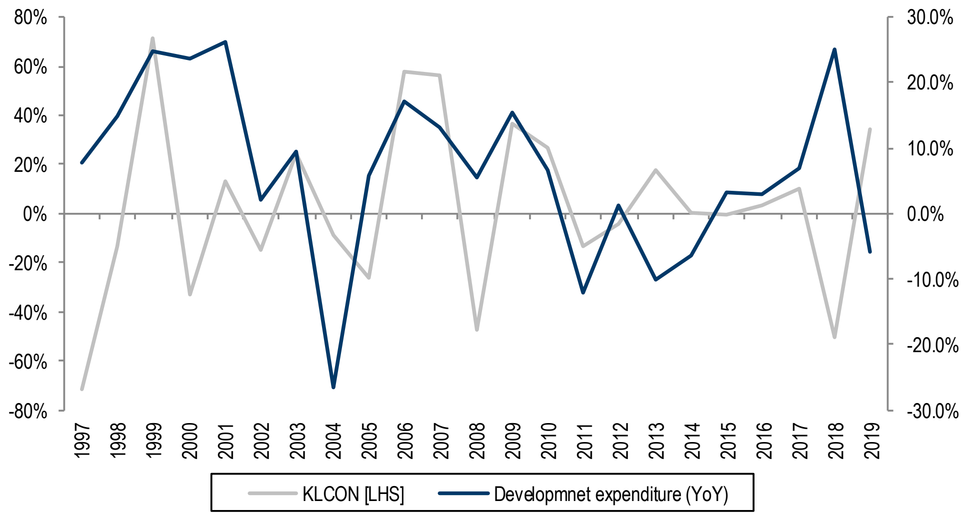
Figure 7: Construction as a % of GDP has been increasing since GFC



Source: Department of Statistics Malaysia (DOSM), Credit Suisse Estimates

Historically, we have seen the government engaging in pump-priming activities during years of crisis to stimulate the economy. For example, during the AFC, the federal government's development expenditure spending increased by 14.9% and 24.9% to RM18.1 bn and RM22.6 bn in 1998 and 1999, respectively. This led to Malaysia's GDP growth recovering to +6.1% YoY in 1999 and +8.9% YoY in 2000, respectively. A similar scenario was also experienced during the GFC period where the federal government increased development expenditure spending by 15.6% in 2009, which helped GDP growth to recover to +7.4% in 2010.

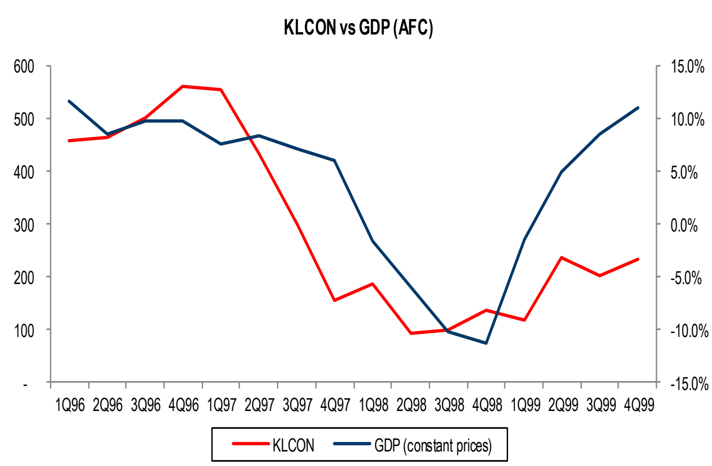
Figure 8: An increase in development expenditure leads to a rebound in the KLCON the following year



Source: DOSM, The BLOOMBERG PROFESSIONAL™ service, Credit Suisse estimates

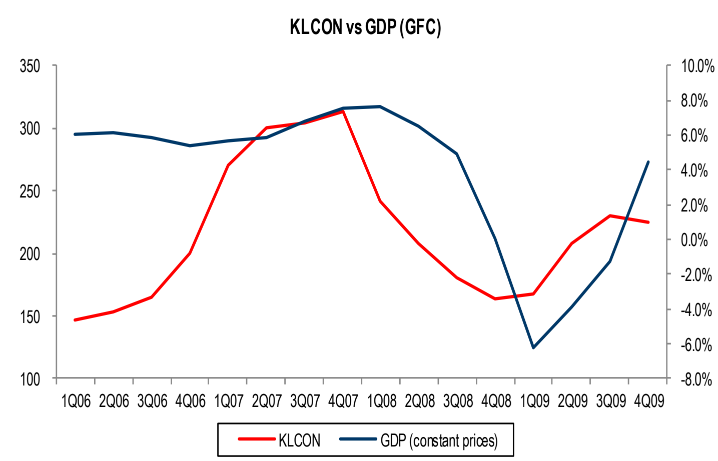
Based on our observations, we also conclude that, historically, the construction sector generally recovers ahead of the market during a crisis. During both the AFC and GFC, the KL Construction Index (KLCON) had recovered one quarter ahead of GDP (figure 9 & 10). In our view, this share price phenomenon is likely due to the countercyclical measures undertaken by the government to step up infrastructure spending as a means of cushioning the domestic economy from external economic headwinds.

Figure 9: KLCON Index vs quarterly GDP during the AFC



Source: DSOM, The BLOOMBERG PROFESSIONAL™ service, Credit Suisse estimates

Figure 10: KLCON Index vs quarterly GDP during the GFC



Source: DSOM, The BLOOMBERG PROFESSIONAL™ service, Credit Suisse estimates

GDP could contract by over 5% in 2020

Malaysia's 2Q20 GDP contracted 17.1% YoY (-16.5% QoQ, vs +0.7% in 1Q20), falling short of consensus median estimate of -9%. Most sectors suffered a sharp decline, namely services (-16.2% YoY), manufacturing (-18.3% Yoy), mining (-20% YoY) and construction (-44.5%). Only the agriculture sector grew YoY in 2Q20 by 1%. Domestic demand, which accounts for 94% of GDP, was weaker by 18.7% YoY in 2Q20, while net exports was sharply lower by 38.6% YoY. 2Q20 GDP was hit by the lockdown imposed under the MCO (movement control order) that stared on 18 March 2020 and partially relaxed from 4 May to 9 June, followed by an almost full relaxation from 10 June to 31 December.

BNM revised its 2020 GDP estimate to -3.5% to -5.5% and projects a rebound of 5.5% to 8% in 2021. The assumption is not too different compared to our estimates for 2020 of -5.4% contraction before recovering by +6% in 2021. BNM's 2021 GDP estimate assumes a pick-up in external demand, gradual improvement in job market implementation of new investment projects and ramp-up of commodity-related production. However, the estimates do not take into consideration expectations of a vaccine that completely allay fears of COVID-19.

Meanwhile, the federal government is projecting a potential 4.7% GDP contraction in 2020. The government projects a rise in fiscal deficit to 5.8%-6% of GDP in 2020 and the debt-to-GDP ratio could surpass the 55% ceiling, albeit temporarily. Additionally, unemployment rate could rise to 5.5% (4.9% in June 2020) over the course of the rest of 2020.

Leading the way for private investments

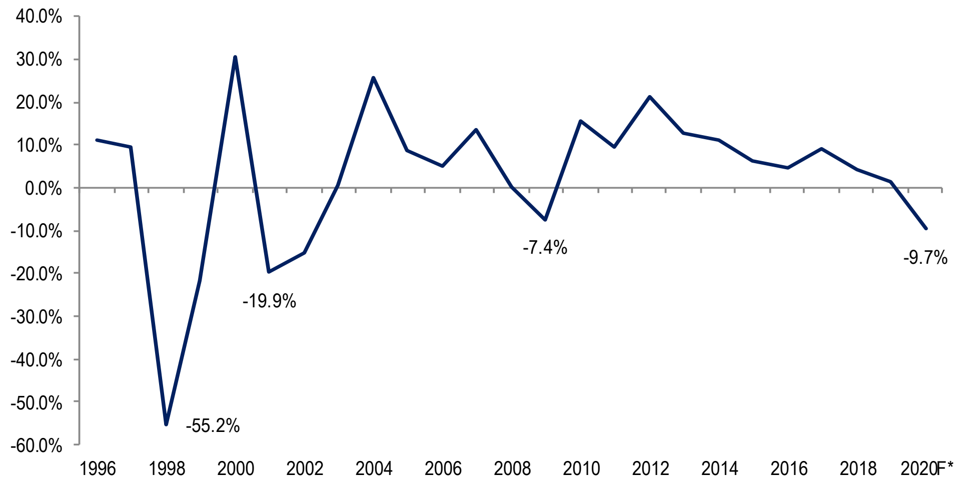
With the COVID-19 pandemic, low oil price environment as well as political instability currently in play, private investments are expected to contract due to the uncertain environment. We think that businesses and corporates will most likely hold back investments for expansion. BNM forecasts private investments to contract by 9.7% YoY for 2020. A similar scenario occurred during the AFC and GFC. During the AFC, private investments contracted by -55.2% and -21.8% in 1998 and 1999, respectively. Meanwhile, during the GFC, private investments reduced by -7.4% YoY in 2009.

While we acknowledge that the current crisis which we are going through could potentially be more severe than both the AFC and GFC, we continue to think that the federal government will be engaging in counter cyclical pump priming activities to support economic growth. This should in turn provide the business community some confidence on the recovery of the economy and encourage them to continue or accelerate investments.

Looking back at the AFC, while public investments weakened in 1998 by -8.4% YoY, the federal government boosted public spending by +15.9% in 1999 which led to private investments growing strongly by 30.4% YoY in 2000, after two years of contraction. Back in 2009, public investments maintained a positive growth of +2.9% YoY which gave the confidence to the private sector and saw a jump in private investments by 15.5% in 2010.

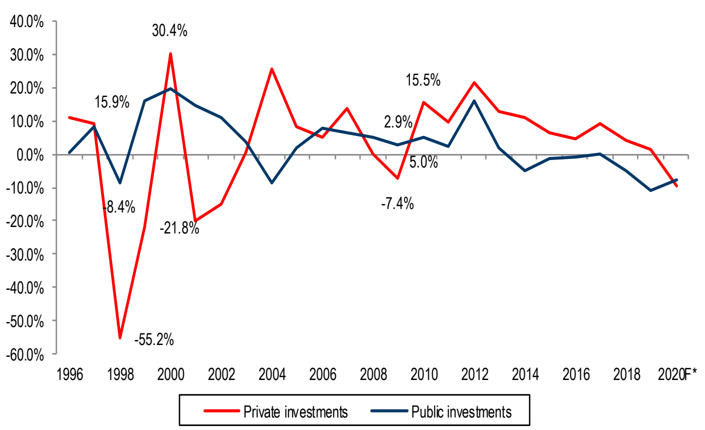
Furthermore, the federal government boosted development expenditure spending by a two-year CAGR of 19.8% in 1997-98 to help stimulate the economy. Similarly, development expenditure was also increased by a two-year CAGR of 11% in 2009-10. With rumors of a general election surfacing and with the next general election due by 2023, we believe that pump priming initiatives are inevitable. Historically, the government has boosted development expenditure two to three years before an election year. In the build-up to the 2004 elections, development expenditures saw a three-year CAGR of 15.6%, while not forgetting that before the 1999 elections, it expanded by 12.1% (3-year CAGR). Development expenditure also grew by 12% (three-year CAGR) and 11.2% (three-year CAGR) building up to the 2008 and 2018 general elections, respectively. As the trickle-down and multiplier effect from the construction industry typically takes three to four years, we are cautiously optimistic that 2020 would see acceleration in the roll-out of mega projects to support the economy amidst a global pandemic.

Figure 11: Private investment growth



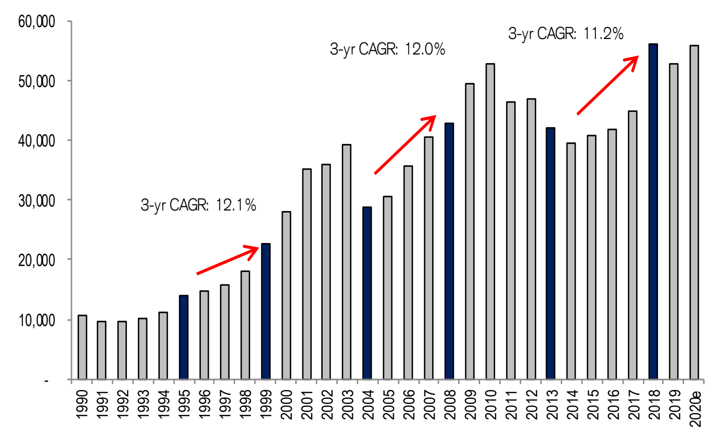
Source: DOSM, BNM. *BNM estimate

Figure 12: Private investments vs public investments



Source: DOSM, BNM

Figure 13: Development expenditure increased in the building up to general elections

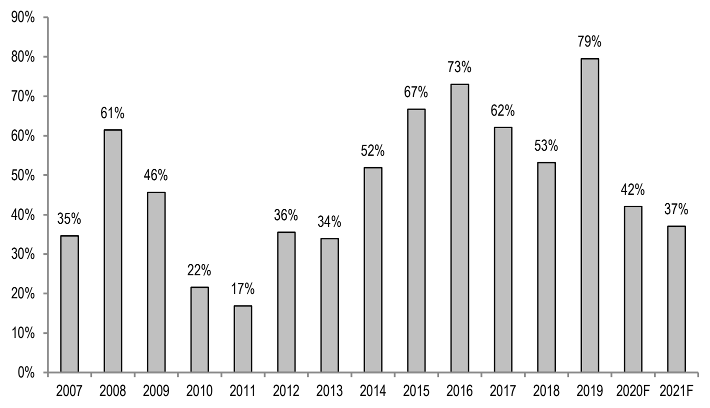


Source: Ministry of Finance (MoF), Credit Suisse estimates

Leveraging on private-sector balance sheet

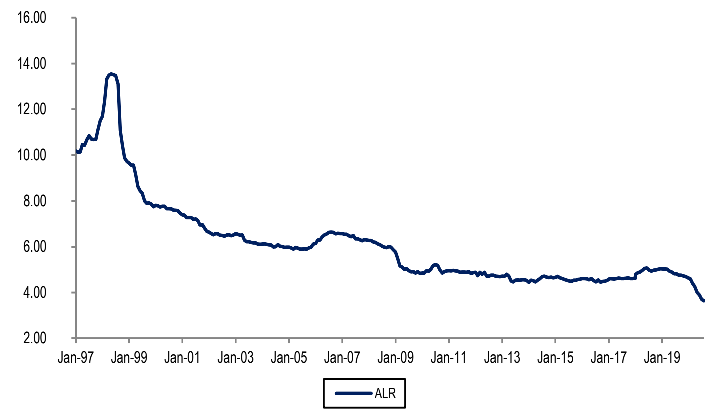
Meanwhile, with the ongoing pandemic and fiscal stimulus measures introduced by the government to counter the adverse impact, there appears to be some strain on the government's balance sheet. The government is projecting a fiscal deficit of 5.8-6% of GDP in 2020 and the debt-to-GDP ratio could surpass the 55% ceiling (which has been temporarily increased to 60%). As such, public investments may not be the sole avenue relied upon and there may be a need for a combination of public and private partnership (PPP) which would be a catalyst for greater private-sector participation. In our opinion, PPP initiatives such as private finance initiatives (PFIs) could be an avenue in which the federal government leverages the private-sector balance sheet to embark on its development initiatives. The private-sector balance sheet remains healthy, with a net gearing ratio of 0.42x for 2021 as per our estimates. Coupled with the low interest rate environment where average lending rates are at an all-time low, we believe that the private sector would be able to contract more debt to fund infrastructure development projects. Furthermore, given the lack of progress in the construction industry since GE14, Malaysian contractors should have sufficient capacity to further replenish its orderbook while giving the government a better negotiating position on pricing of a project.

Figure 14: Market net gearing ratio



Source: Company data, Credit Suisse estimates

Figure 15: Average lending rate at all-time low



Source: Company data, Credit Suisse estimates

G-to-G funding an alternative funding avenue

Another avenue in which the federal government could lighten its financing burden for infrastructure projects would be via a government-to-government (G-to-G) funding agreement. Such arrangements will also allow Malaysia to leverage the expertise of reputable global contractors as well as facilitate a transfer of knowledge to local contractors, especially in highly technical areas such as the High Speed Rail project. An example of the G-to-G funding arrangement would be for the East Coast Rail Link (ECRL) where the Exim Bank of China will be financing 85% of the RM44 bn project. The proposed Kuala Lumpur-Singapore High-Speed Rail project could also feature a similar financing agreement with Japan. Apart from financing capabilities, Japan is well-versed with high-speed rail transportation, as demonstrated by the Shinkansen high-speed railway system.

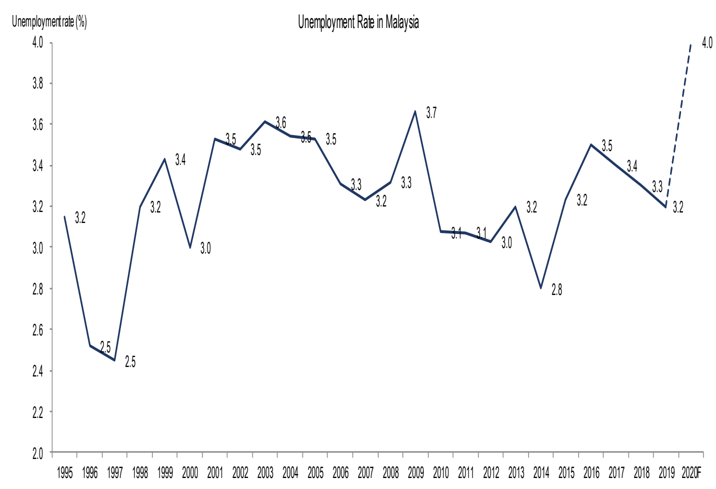
Construction industry one of the main employers in Malaysia

The unemployment rate as of end-June 2020 registered at 4.9% as Malaysia reported a 48.3% increase in unemployed persons in light of the MCO. BNM forecasts unemployment rate of 4-5% for 2020. However, a survey by the DOSM suggests that the unemployment rate could potentially be worse than BNM's expectations. According to the survey, 46.6% of self-employed respondents lost their jobs due to COVID-19 and the MCO. The agriculture (21.9%) and services (15%) sectors recorded the highest percentages of job losses due to the COVID-19 outbreak. Within the agriculture sector, 33.0% of workers in the fisheries lost jobs, while 21.1% of those in the agriculture and plantation sub-segments lost jobs. Job losses in the services sector: F+B: 35.4%, transport and storage: 18.7%.The vulnerable segments in the DOSM account for some 43% of the total labour force. It appears that some 32% (tourism-related segments) of the labour force could be directly impacted by COVID-19.

The construction industry is the fifth-largest employer in Malaysia, employing close to 9% of the workforce. In the current pandemic situation where we are expecting the unemployment rate to potentially surpass 4%, this would also have a negative knock-on effect on private consumption, which has been the main driver of GDP growth (57% of 2019 GDP) and has been growing at an average of 7% a year since 2015. As such, we estimate that private consumption would contract marginally by 1% in 2020.

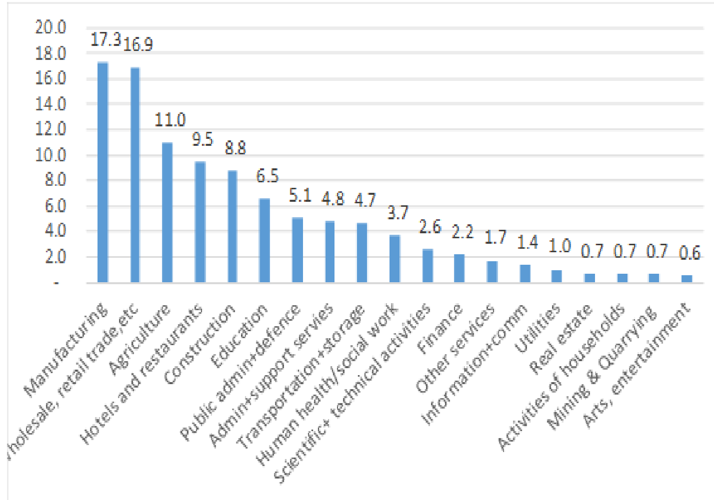
If the unemployment rate continues to rise, there could be further downside risk to private consumption and ultimately lead to further downside risk to 2020 GDP growth expectations. With the importance of private consumption to GDP as well as the construction industry's significant participation in the labour force, we are of the opinion that the government would expedite the roll-out of infrastructure projects, as these would lead to further job creation.

Figure 16: Unemployment rate



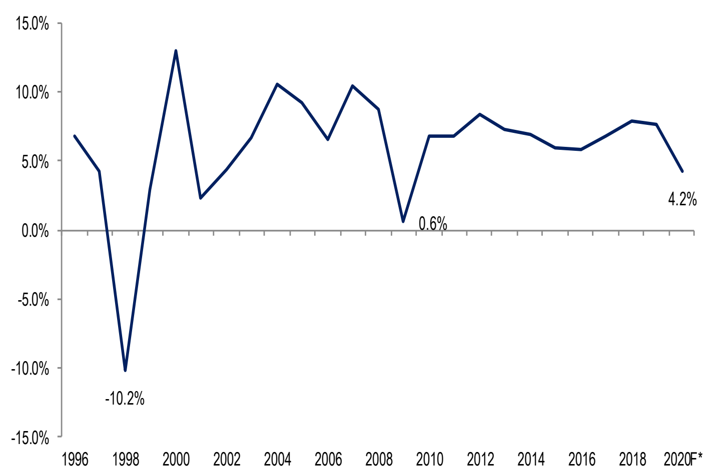
Source: BNM

Figure 17: Breakdown of labour force by sectors



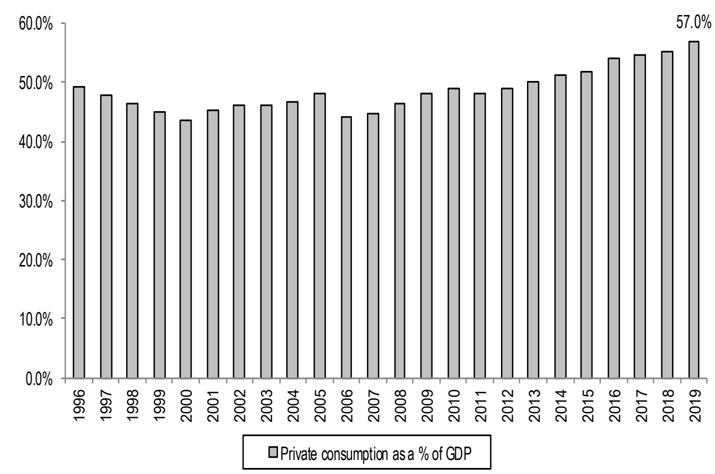
Source: DOSM

Figure 18: Private consumption growth



Source: DOSM, BNM. *BNM estimates

Figure 19: Private consumption as a % of GDP



Source: DOSM

Low-hanging fruits with projects ready to roll out

We highlight some of the likely developments on potential mega projects, which we view as "shovel ready" and are ripe for implementation by the government:

- **ECRL**. The ECRL has been revived at a reduced cost of RM44 bn, from RM65.5 bn. With completion of the pre-qualification process as well as realignment design, more news flow on civil work tenders can be expected.
- **Klang Valley MRT 3**. The MRT 3 project has been postponed by the previous Pakatan Harapan government. We view that the MRT 3 (or Circle line) is an important link to complete MRT 1 (Sungai Buloh – Kajang) and MRT 2 (Sungai Buloh-Serdang-Putrajaya) which are supposed to connect the entire Klang Valley. Gamuda, the turnkey contractor for MRT 1 and MRT 2 has been in talks with the government to revive the MRT 3 project on a revised design that would reduce the project cost to RM21 bn (from RM45 bn initially) and that the government could make a decision soon.

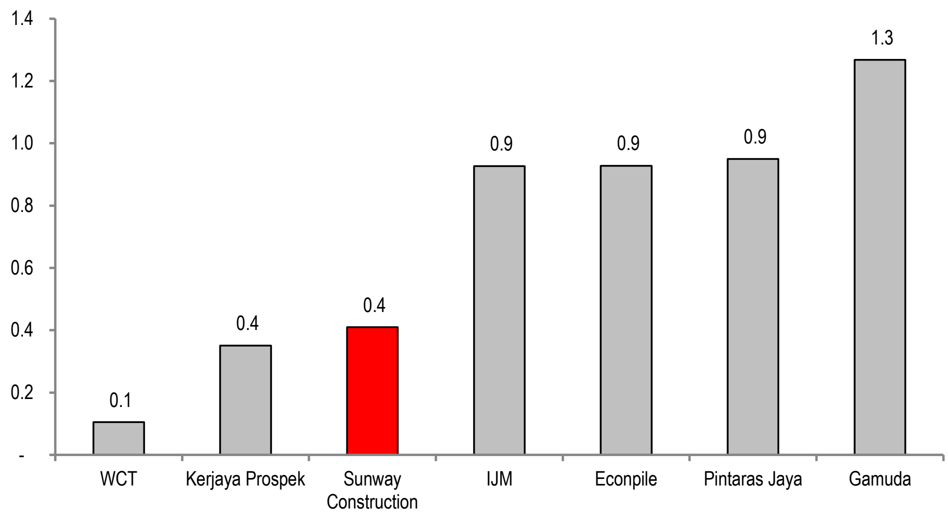
- **Bandar Malaysia**. The Bandar Malaysia project has been officially revived in December 2019 with an estimated GDV of RM140 bn. IWH-CREC will be the master developer and has a 60% stake in the development, with the Ministry of Finance holding the remaining 40%. It has been reported that construction works is expected to commence in June 2021 and Phase 1 of the project will see an estimated GDV of RM10 bn consisting of several Grade A office towers, hotels, service apartments, and luxury residences.
- **Kuala Lumpur-Singapore High-Speed Rail** (KL-SIN HSR). As part of the revival of Bandar Malaysia, it is highly likely that the government will also proceed with the KL-SIN HSR. However, the terms of the project are still being negotiated between the two countries and an announcement is expected by December 2021. The Gamuda-led consortium has submitted a revised design and alignment for the project which could reduce the cost to RM30-35 bn.

Largest listed pure-play contractor with strong track record

SunCon is the largest pure-play construction group in Malaysia with a market capitalisation of US$573.9 mn. SunCon is the flagship construction arm for its parent company, a prominent property developer in Malaysia. In FY2019, SunCon contributed 27% and 11% to its parent's revenue and net profit, respectively.

SunCon started its journey mainly by providing construction services to the group. It has 39 years of experience in the construction industry and is able is able to provide a full range of integrated design and construction services including building, infrastructure, foundation and geotechnical engineering; mechanical, electrical and plumbing (MEP) services; manufacturing and sale of precast concrete products as well as renewable energy services.

Figure 20: Construction peers market cap/orderbook



Source: Company data, Credit Suisse estimates

Figure 21: Construction-sector peer comparison

Name	Rating	Mkt cap (USD mn)	P/E 2020	P/E 2021	P/B 2020	Div yield 2020	ROE 2020
Malaysia							
Sunway Construction	O	573.9	32.5	15.1	3.6	1.7%	11.1%
Gamuda	O	2,104.2	16.0	12.0	0.8	2.5%	6.1%
IJM	O	1,229.8	15.6	11.7	0.5	2.6%	2.9%
Econpile	O	150.0	30.8	14.8	1.5	0.7%	4.8%
WCT	NC	135.1	17.2	8.8	0.2	2.5%	1.1%
Kerjaya Prospek	NC	299.6	11.6	8.3	1.1	2.7%	10.0%
Hock Seng Lee	NC	121.6	14.0	8.6	0.6	1.6%	3.9%
Pintaras Jaya	NC	92.0	9.3	7.3	1.1	5.8%	12.4%
George Kent	NC	92.4	10.7	7.9	0.7	2.6%	6.5%
Average			**17.8**	**11.8**	**1.1**	**2.4%**	**6.0%**
Indonesia							
Waskita Karya	NC	467.1	(9.9)	56.6	0.5	0.6%	-4.4%
Wijaya Karya	NC	677.9	13.0	7.6	0.7	3.1%	5.2%
Wijaya Karya Beton	NC	131.7	7.9	4.7	0.6	7.6%	10.1%
PTPP	NC	351.4	21.4	7.0	0.4	2.9%	2.7%
Waskita Beton	NC	249.0	14.7	9.5	0.5	5.4%	3.1%
Average			**8.8**	**19.7**	**0.5**	**3.1%**	**2.4%**
Thailand							
Ch Karnchang	N	896.3	13.3	11.0	1.0	3.0%	7.4%
Sino Thai Engineering	N	536.4	11.7	12.2	1.1	4.5%	9.6%
Average			**12.7**	**11.4**	**1.0**	**3.6%**	**8.2%**

Source: Company data, Credit Suisse estimates, IBES estimates

Strong technical know-how with established track record

SunCon has a track record of 39 years and is a reputable contractor in both civil engineering and building works. It was instrumental in the development of Bandar Sunway where it was involved in works for iconic developments such as Sunway Pyramid, Sunway Resort Hotel & Spa, Sunway Lagoon Theme Park, Menara Sunway, amongst others.

Having been in the industry for close to 40 years, SunCon has successfully navigated through both the AFC and GFC and has since grown from strength to strength. With an experienced management team where most of its senior management personnel have over 20 years of experience in the construction industry, we are confident that SunCon would be able to ride through the COVID-19 pandemic and any adverse fallout which may follow.

Its experience of working on in-house related jobs is not only in the construction of commercial offices, but also in the construction of malls, hospitality assets and medical centres. The vast experience working on various property types has also helped it gained a foothold in the private construction space. Apart from group-related jobs, which contributed about 30% to its historical outstanding orderbook, SunCon has also completed substantial jobs in the private space which further enhances its reputation as a dependable and reliable contractor. High-profile, completed private jobs include the construction of Dataran Maybank, Ministry of Finance's building, Monash University Malaysia Campus and Price Court Medical Centre, amongst others.

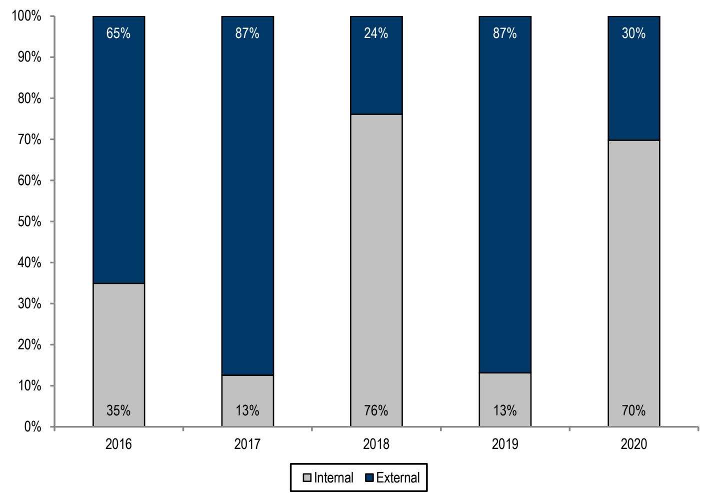
On the infrastructure front, SunCon is an experienced contractor in building highways locally as well as internationally where it had been involved in a number of projects in India. In recent years, it has started to expand its expertise in the mass transport system arena. SunCon has successfully completed works on the Kelana Jaya LRT extension and participated in works for MRT 1. It is currently working on jobs for the MRT 2 and LRT 3 with an outstanding orderbook of RM829 mn as at end-June 2020 (original contract sum: RM2.5 bn). Besides local projects, SunCon has also successfully completed numerous highway projects in India. Its experience in the infrastructure space should place it in a favourable position to benefit for mega infrastructure projects which are expected to be rolled out.

Figure 22: Notable ongoing and completed projects

Completed projects	Ongoing projects
Buildings	**Buildings**
Menara Sunway, Sunway City	Sunway Medical Centre Phase 4, Sunway City
Sunway Resort Hotel & Spa, Sunway City	Nippon Express Malaysia new warehouse, Shah Alam
Dataran Maybank, KL	Sunway Medical Centre Seberang Jaya, Penang
Ministry of Finance, Putrajaya	TNB HQ Campus Phase 2, KL
Kuala Lumpur Convention Centre, KL	Petronas Leadership Centre, Bangi
Prince Court Medical Centre, KL	
Monash University Malaysia Campus, Sunway City	
Legoland Malaysia, Iskandar, Johor	
Sunway Putra Mall, KL	
Solaris Dutamas, KL	
Infrastructure	**Infrastructure**
Combined Cycle Power Plant, Taiwan	MRT SSP Line Package S201, KL
Perlis Power Station, Perlis	MRT SSP Line Package V201, KL
KL-Putrajaya Highway, Package 3	LRT3 Package GS 07-08, KL
South Klang Valley Expressway - Section 1B	Thorapalli Agraharam – Jittandahalli Highway Tamil Nadu, India
East-West Corridor, State of Uttar Pradesh, India	
East-West Corridor, State of Rajasthan, India	
Dharwad-Belgaum Highway, State of Karnataka, India	
Sultan Abdul Azlan Shah Airport, Ipoh	
Bus Rapid Transit, Sunway Line	
LRT - Kelana Jaya Line Extension	
Coastal Highway Southern Link, Johor	
MRT SBK Line Package V4	
Foundation and geotechnical	**Foundation and geotechnical**
MRT V201	LRT3 Package GS 06 & GS 10, KL
KLCC North-East Carpark	BBCC, KL
	Transit Oriented Development at Plot 7MD7, Putrajaya
MEP	**MEP**
BioXCell Central Utilities Facility	Oxley Tower, KL
Solar energy, Sunway City	IOI Mall Phase 2, Putrajaya
MRT Pasar Seni Underground Station	
Precast manufacturing	
The Peak, Singapore	
INZ Residence, Singapore	
Treasure Crest, Singapore	

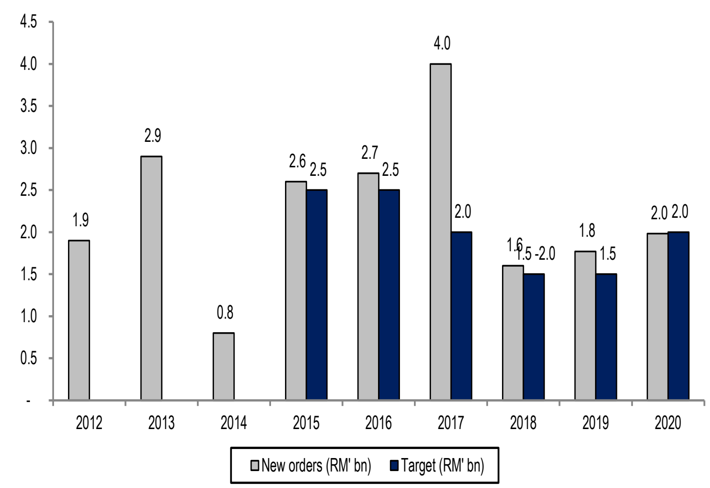
Source: Company data

Figure 23: New orderbook wins – internal vs external



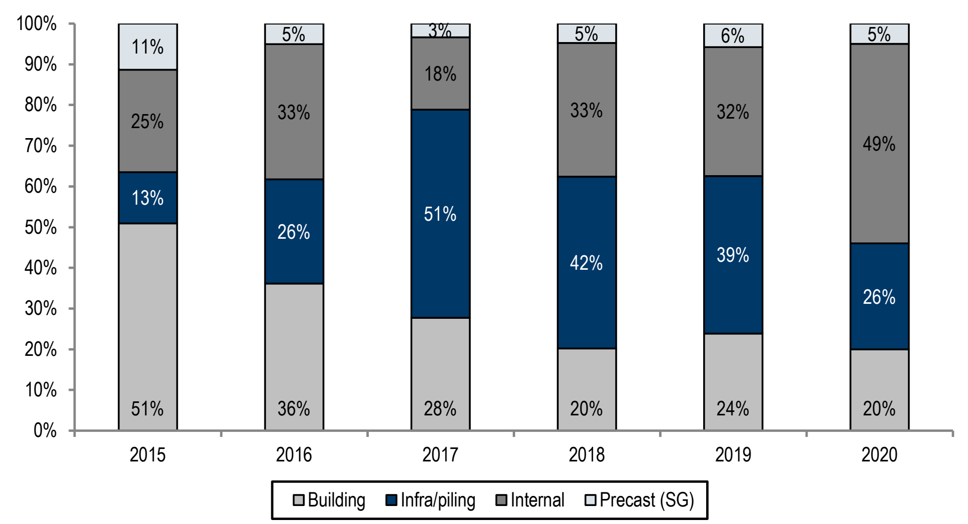
Source: Company data

Figure 24: Historical new orderbook wins



Source: Company data

Figure 25: Breakdown of historical orderbook



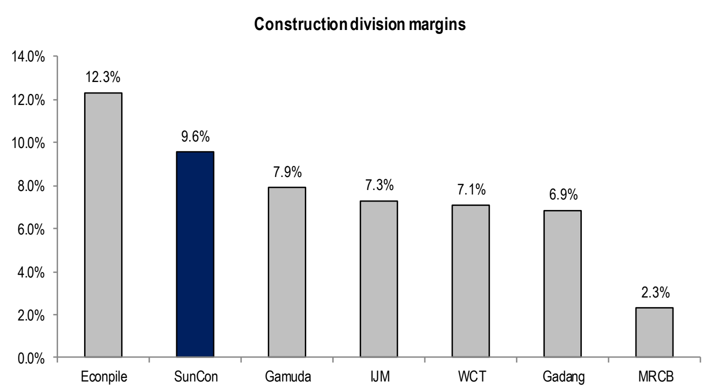
Source: Company data, Credit Suisse estimates

Since 2012, SunCon's outstanding orderbook has grown steadily and is currently at RM5.8 bn (from a low of RM3.0 bn as of end-December 2014). The majority of the contracts won were through external open tenders rather than direct negotiations, including jobs from its parent, proving its strong technical know-how and solid reputation. In the last four years, in-house construction made up only 13% of its new orderbook wins (except for 76% in 2018 when the construction industry was impacted by the review of mega projects). Historically, revenue from internal projects only contributed 20-40% to SunCon, while the majority (60-80%) came from external jobs. Despite the negative sentiment surrounding the construction industry, SunCon has won RM1.8 bn (87% external, 13% internal) worth of jobs and exceeded management's RM1.5 bn target for FY19. For FY20, management has set an orderbook replenishment target of RM2 bn, supported by the expected revival of mega infrastructure projects as well as a healthy pipeline of in-house jobs. YTD, the company has secured RM2.0 bn worth of jobs despite the macroeconomic headwinds arising from the COVID-19 pandemic.

Cost competitive with better control measures

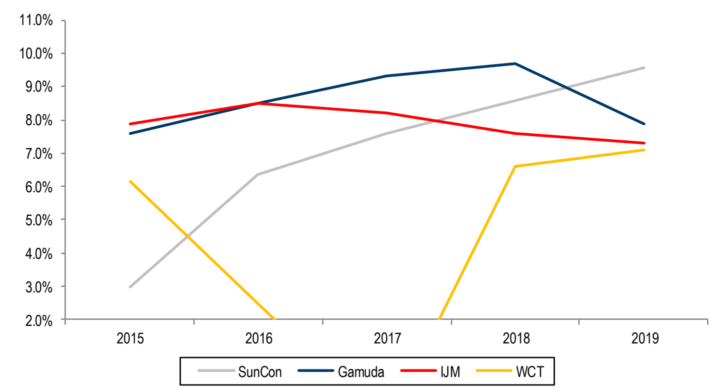
SunCon's expertise in being an end-to-end contractor has provided the company with better control over a given project's progress and thereby minimising errors that could lead to hefty liquidated and ascertained damages. The full control also ensures timely handover of projects. Furthermore, SunCon would also be able to benefit from economies of scale in the purchasing of raw materials. These savings would ultimately lead to healthier margins for the company. This is evident in its better-than-peers' construction division margins. In 2019, SunCon's construction sector margins registered at 9.6% as compared to its peers' average of 7.3%. Its margin trend which has been improving consistently in the last four years further demonstrates SunCon's capabilities with a consistent track record.

Figure 26: Above peers' construction margins



Source: Company data, Credit Suisse estimates

Figure 27: Construction margins have been gradually improving



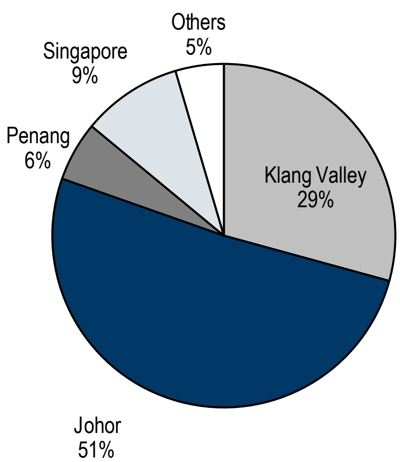
Source: Company data, Credit Suisse estimates

A safer choice

Order flow from parent company should provide some orderbook replenishment certainty

SunCon is the flagship construction arm of its parent where the latter has a 54.4% stake. While the parent company started off as a tin mining outfit, it has successfully maneuvered itself and is now involved in 12 different business divisions where property-related operations contributed ~70% of its profit in FY19 (property development: 26%, property investment: 44%). The Group (SunCon's parent company) is one of the most prominent property developers in Malaysia, with a total land bank of 3,338 acres and a GDV of RM57.1 bn which can be developed for up to 15 years. Its land banks are primarily located in prime locations with 51% in Johor. This is followed by the Klang Valley (29%), Singapore (9%), Penang (6%) and others (5%).

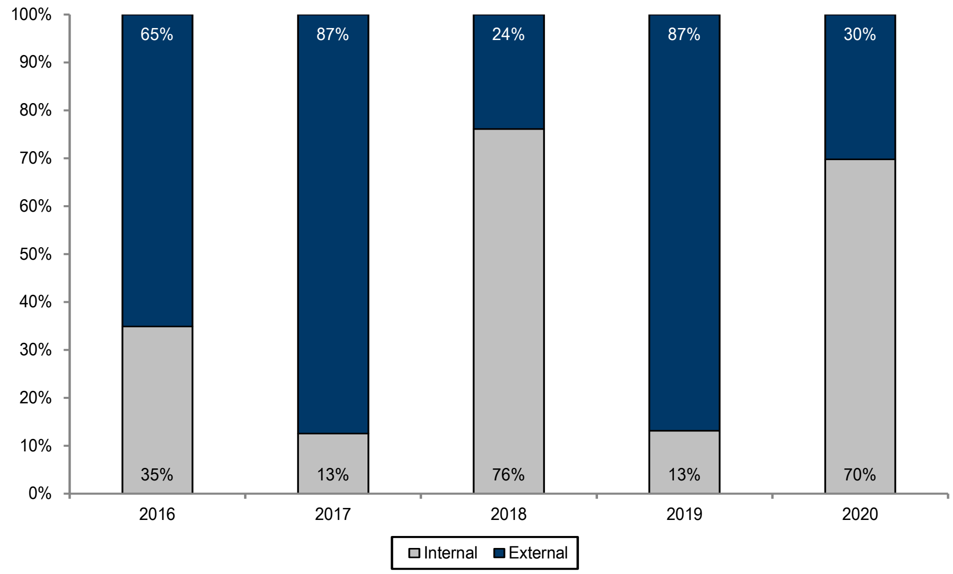
Figure 28: Large remaining land back with a GDV of RM57.1 bn



Source: Company data, Credit Suisse estimates

While SunCon does not rely solely on its parent for orderbook replenishment, in-house property development projects does provide it with a stable bedrock of construction works. This was particularly evident in 2018 when there was a lull in construction activities post-GE14 as the then government administration decided to review all mega projects. In 2018, SunCon's new orderbook wins stood at RM1.6 bn, of which 76% were internal jobs. It is important to note that these contracts were awarded on an arm's length basis where open tender and competitive bids had been submitted in which SunCon's award was based solely on its merits. SunCon's outstanding orderbook stood at RM5.8 bn, of which internal jobs constituted 44%, which is slightly higher than the previous years' range of around 25-30%.

Figure 29: New orderbook wins – internal vs external

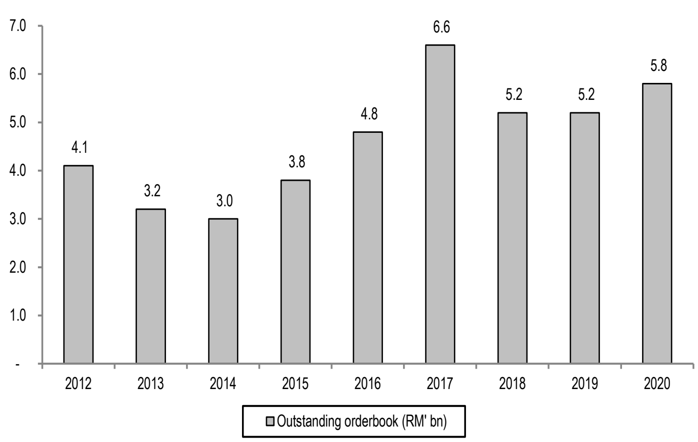


Source: Company data, Credit Suisse estimates

Ultimately, SunCon would still primarily be bidding for external jobs, but if the construction sector remains sluggish, we are comforted that, with the backing of its parent, the flow of tenderbook would remain intact. While SunCon would still need to go through an open tender process, we believe that its strong track record and vast experience would give it an additional advantage. With a massive undeveloped land bank of RM57.1 bn in GDV, the group's future property developments could provide SunCon, with a steady orderbook flow. SunCon's parent company's ambition to expand its healthcare presence in the country with additional five hospitals (RM200-300 mn each) over the next few years could be a near-term orderbook replenishment catalyst for SunCon.

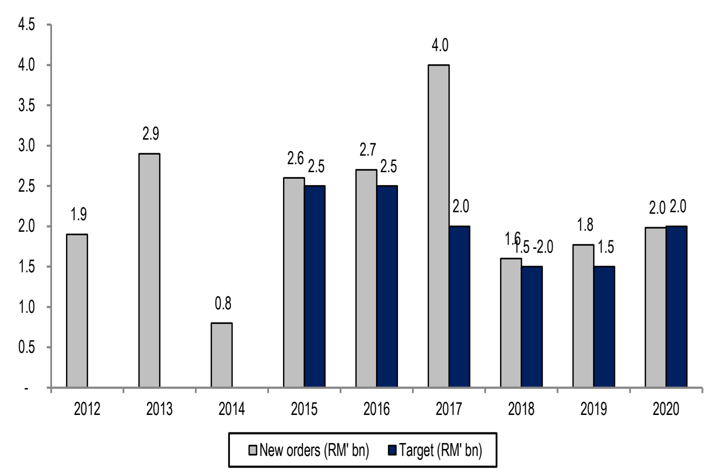
SunCon's management has set a target of RM2 bn new orderbook wins for 2020 and YTD, it has managed to secure RM2bn in new orderbook. Internal projects had made up 70% of the new jobs won.

Figure 30: SunCon's outstanding orderbook



Source: Company data, Credit Suisse estimates

Figure 31: Historical new orderbook wins



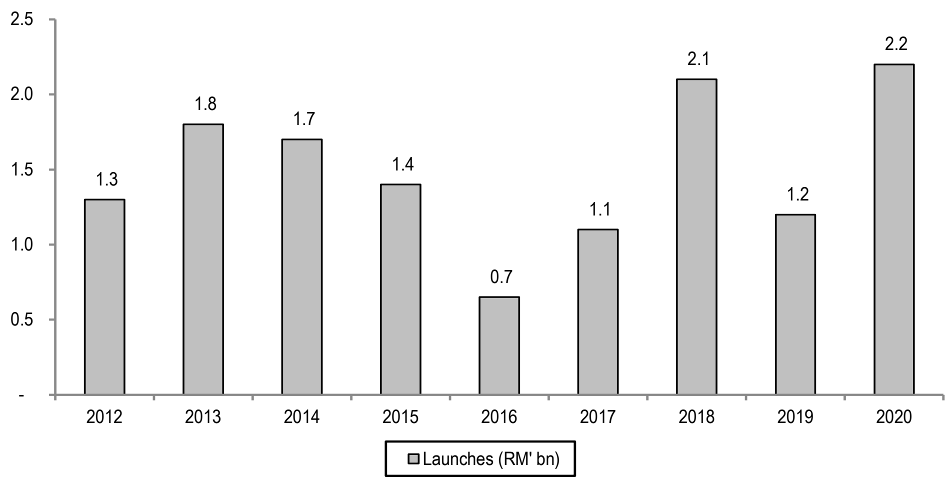
Source: Company data, Credit Suisse estimates

Figure 32: In-house indicative launches and projects

Projects	Product type	Location	GDV (RM' mn)
Sunway Velocity Two (Tower C)	Service apartments	Jalan Peel, KL	300
Sunway Belfield	Service apartments	Jalan Belfield, KL	360
Ki Residence, Clementi	Private condominiums	Singapore	1000
Sunway Medical Centre Damansara	Hospital	Selangor	
Sunway Medical Centre Ipoh	Hospital	Perak	
Sunway Medical Centre Paya Terubong	Hospital	Penang	
Sunway Medical Centre Sunway City Iskandar	Hospital	Johor	
Sunway Medical Centre Kota Bharu	Hospital	Kelantan	

Source: Company data, Credit Suisse estimates

Figure 33: Historical property launches by the group



Source: Company data

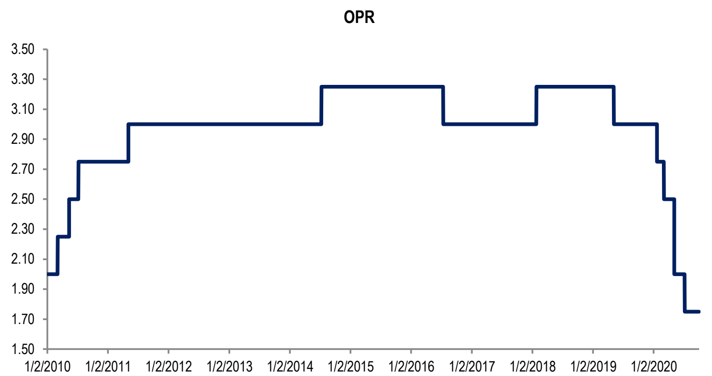
Property market showing signs of bottoming out

In our view, the property market have been showing sign of bottoming out with activities picking up in 2019, partly fueled by the Home Ownership Campaign (HOC) and in part due to the pent-up demand following several years of wait-and-see. Furthermore, favorable government policies as part of its efforts to combat the effects of the COVID-19 outbreak as well has the low interest rate environment have been supportive of the local housing market.

As part of the Economic Recovery Plan, the government has reintroduced the HOC which will run from 1 June 2020 until 31 May 2021. The current HOC will include stamp duty exemption for the purchase of residential properties priced between RM300k and RM2.5 mn, subject to at least a 10% discount by property developers. The HOC in 2019 garnered property sales of RM24 bn which surpassed the Housing Ministry's initial target of RM15 bn. An exemption of the real property gains tax (RGPT) was also granted for disposal of residential homes from 1 June 2020 to 31 December 2021 (limited to three residential properties per individual). Finally, the current 70% margin of financing limit applicable for third housing loan onwards for properties valued at above RM600k, will be uplifted during the period of HOC, subject to the banks' policies. Separately, the low interest rate environment is also conducive for the property market. The Overnight Policy Rate (OPR) is at a ten-year low of 1.75% after the 150 bp reduction by BNM since May 2019. According to BNM's data, we have seen an increase in residential mortgage application since June 2020. Residential mortgage loans application grew by +20.0% YoY in June, +19.3% YoY in July and +16.8% YoY in August. Approval rates for residential mortgage loans have also recovered from the low of 24.6% in June 2020 to 35.9% as at end-August.

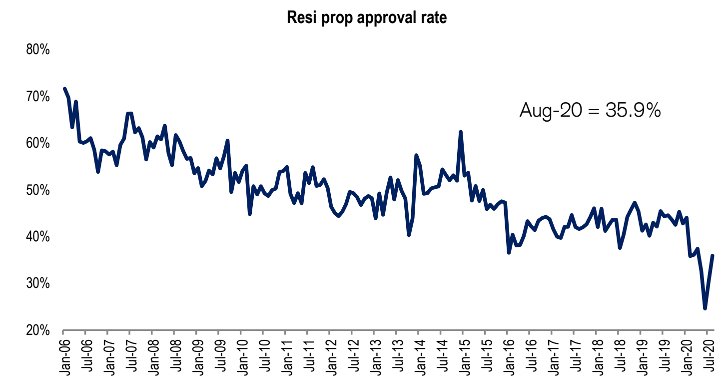
As a result, we think that the property launch pipeline for SunCon's parent company will remain robust going forward. The majority of its residential property products are priced between RM600 and RM700 psf and well positioned to benefit from the ongoing initiatives.

Figure 34: OPR at a 10-year low of 1.75%



Source: BNM, Credit Suisse estimates

Figure 35: Approval rates for residential mortgages rebounded



Source: BNM, Credit Suisse estimates

Eyeing contracts from mega projects as well

On the external jobs front, SunCon is targeting to bid for works on the KL-SIN HSR, ECRL (RM8.8 bn to RM11.0 bn), Penang Transport Masterplan (RM24 bn), Bayan Lepas LRT (RM8.4 bn), MRT 3, Sarawak Coastal Network (RM6 bn) and second trunk road (RM5 bn). It is also exploring jobs in India, Myanmar and the Philippines as part of its ASEAN expansion plan. While we acknowledge that undertaking construction works overseas could expose the company to greater uncertainties, SunCon does have a successful track record completing multiple highway projects in India. Management indicated that it would be bidding for jobs, which would have a higher-than-usual margin to provide it with a cushion for any unforeseen circumstances. Furthermore, any overseas project SunCon participates in would be in tandem with an established local partner and the ultimate paymaster for the project should have a strong credit background in order to minimize payment risk.

Separately, its strong balance sheet position also allows it to be bid for fixed annuity payment project such as the recently secured RM508 mn Thorapalli Agraham-Jittandahalli Highway project in India. The payment for this contract will be 40% during the construction phase and 60% fixed annuity during a 15-year concession/maintenance period. Management indicated that given the high capital requirement for such a build-operate-transfer method, there has been reduced competition during tenders. SunCon is currently in the midst of tendering for another similar project in India worth approximately RM500 mn and is confident on securing the contract.

Lower payment risk from in-house construction works

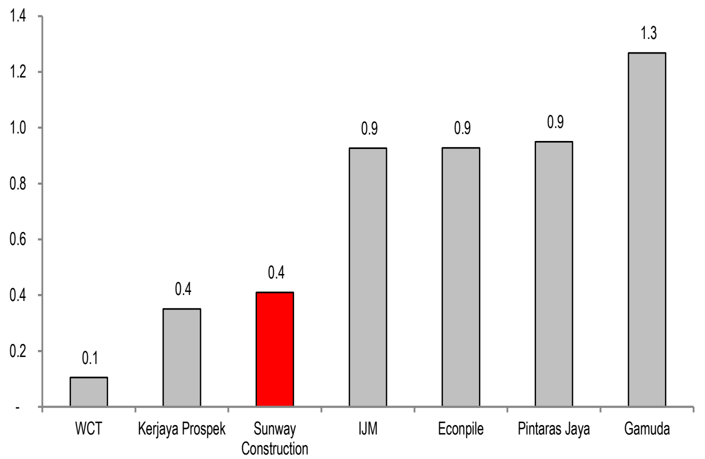
Another advantage of SunCon having a stable flow of in-house jobs would be that it is exposed to lower payment risks as compared to other contractors. Its parent co, which is a major source of in-house jobs, has a healthy balance sheet, with net gearing of 0.5x. Since GE14, we have seen most contractors', receivables day increasing significantly as property development project owners' delay on payments. Also to note, SunCon's funds from operations debt coverage ratio is strong at 0.7x as at end-Dec 2019.

Healthier balance sheet and cash flow compared to peers

Unlike other major contractors such as Gamuda, IJM and WCT, all of which have property development arms as well as property investment divisions, being a pure-play construction outfit provides some form of certainty to SunCon's earnings as it would not be exposed to other businesses that might face earnings headwinds such as property, infrastructure concessions, etc. The weak residential and commercial property segment in the past few years have weighed on other contractors' earnings as well as cash flow due to the high level of unsold inventories.

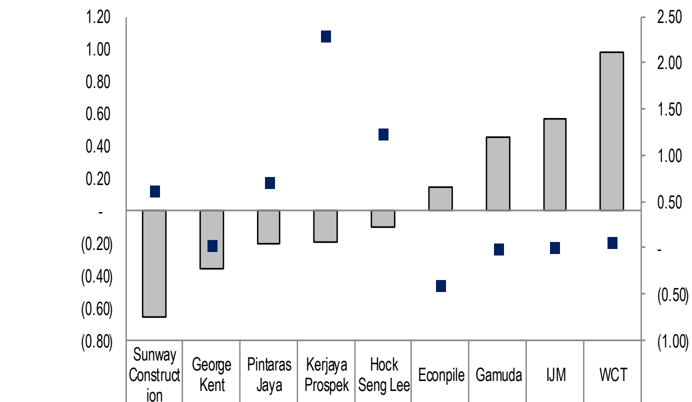
Furthermore, by not needing to embark on landbanking and development planning activities, SunCon would also be able to better utilise its balance sheet more efficiently. SunCon had a free cash flow debt coverage ratio of 0.63x as of end-June 2020, which is stronger than most of its peers, especially those with property development divisions. SunCon also has the healthiest balance sheet with a net-cash-to-equity ratio of 0.65x as of end-June 2020. Its net cash position—RM387.2 mn as of end-June 2020—accounts for 70% of its book value and 16% of its market capitalisation. While SunCon will still inevitably be impacted by an overall slowdown in the construction sector, the company would still be able to rely on new contracts from its parents' property development activities.

Figure 36: Construction peers market cap/orderbook (x)



Source: Company data

Figure 37: SunCon's free cashflow debt coverage ratio higher relative to contractors with property development operations



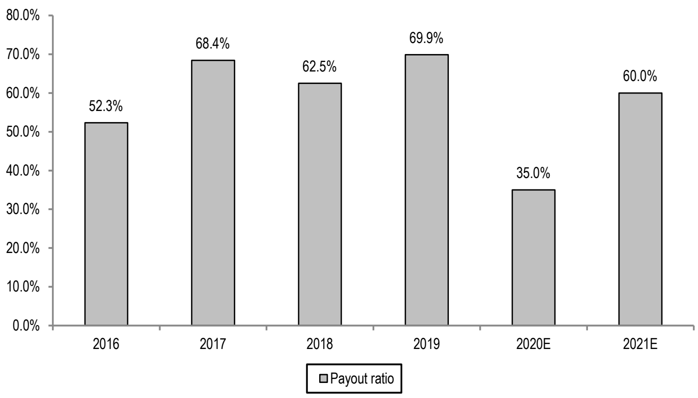
	Sunway Construction	George Kent	Pintaras Jaya	Kerjaya Prospek	Hock Seng Lee	Econpile	Gamuda	IJM	WCT
Net gearing [LHS]	(0.65)	(0.36)	(0.21)	(0.20)	(0.10)	0.15	0.46	0.57	0.99
FCFDC [RHS]	0.63	0.04	0.72	2.30	1.24	(0.40)	(0.00)	0.01	0.07

Source: Company data, Credit Suisse estimates

Above-industry-average dividend yield

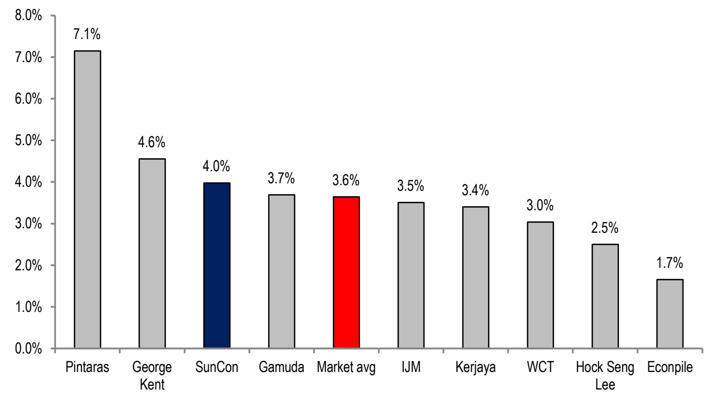
In addition to SunCon's healthy balance sheet as well as strong cash flow metrics, it is also one of the rare construction companies with an above-industry-average dividend yield. SunCon has an official dividend payout policy of at least 35% of its core profit, but it has maintained a payout ratio of over 50% in the last five years; its dividend payout ratio for FY19 was close to 70%. The tough operating environment in 2020 would negatively impact its dividend payout ratio this year, but we think that SunCon should still be able to sustain a dividend payout ratio of 55% which translates to a DPS of 3sen (1.7% dividend yield). We forecast its dividend payout ratio to recover to 60% in 2021 and 2022.

Figure 38: Dividend payout ratio consistently above 35% official policy



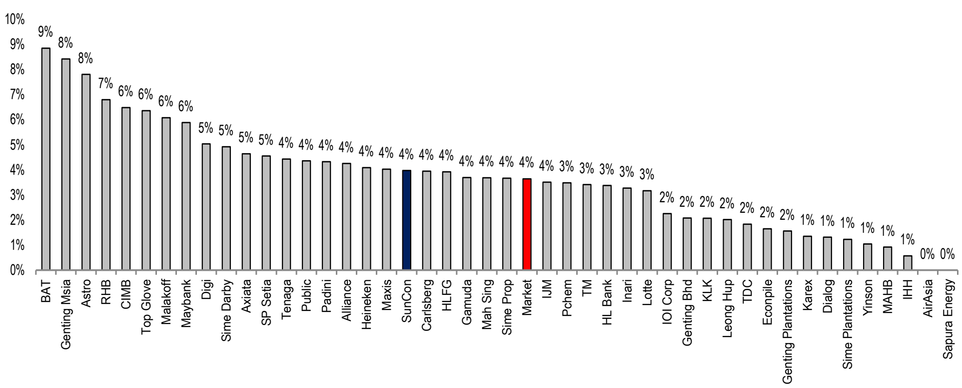
Source: Company data, Credit Suisse estimates

Figure 39: Above-industry-average dividend yield



Source: Company data, Credit Suisse estimates

Figure 40: CS coverage universe dividend yield



Source: Company data, Credit Suisse estimates

Initiate with OUTPERFORM; TP of RM2.50

We initiate coverage on SunCon with an OUTPERFORM rating and a TP of RM2.50, implying a potential 36% upside. We derive our TP by pegging our FY21E earnings to SunCon's long-term historical average P/E excluding net cash of 16.5x.

SunCon is currently trading on FY21E P/E of 16.6x which is below its historical average of 19.6x. While on a P/B basis, SunCon is trading at 3.4x, close to 1 SD below its historical average of 4.0x. After excluding its net cash position of RM387.2 mn as at end-June 2020 (16% of its market capitalisation), SunCon is trading on FY21E P/E of only 14.6x.

Among the upcoming events that could be potential catalyst for the stock are:

- **Budget 2021 (6-Nov).** The upcoming Budget 2021 is due to be announced on 6 November 2020, and we remain cautiously optimistic that there could be positive development on the revival of mega infrastructure projects as part of the government's recovery plan to cushion the effects of COVID-19. Projects which we view as "shovel ready" and ripe for implementation by the government are: (1) expedite the roll-out of contracts for the ECRL, (2) revival of the Klang Valley MRT3, (3) Bandar Malaysia, and (4) reintroducing the KL-SIN HSR project.
- **Positive data points indicating a pick-up in property activity.** The local property market has been bottoming out with activities picking up in 2019, partly due to the HOC and pent-up demand. Furthermore, favorable government policies as part of its efforts to combat the effects of the COVID-19 outbreak as well has the low-interest-rate environment have been supportive of the local housing market. According to BNM's data, we have seen an increase in residential mortgage application since June 2020. Residential mortgage loans application grew by 20.0% YoY in June, 19.3% YoY in July, and 16.8% YoY in August. Approval rates for residential mortgage loans have also recovered from the low of 24.6% in June 2020 to 35.9% as at end-Aug. As a result, a continued recovery in property market activities could be supportive of further in-house projects.
- **In-house hospital development projects.** SunCon's parent company is embarking on an expansion strategy to increase its healthcare presence in the country. It targets to invest RM1-RM1.5bn on a network of mid-sized tertiary medical centres with an average number of beds per hospital of 200-250. Its expansion plan consists of six new hospitals, as well as the expansion of Sunway Medical Centre, Bandar Sunway, which would bring its total number of beds to around 2,000 from 856 currently. SunCon is currently working on the Sunway Medical Centre expansion as well as construction of Sunway Medical Centre Seberang Jaya,

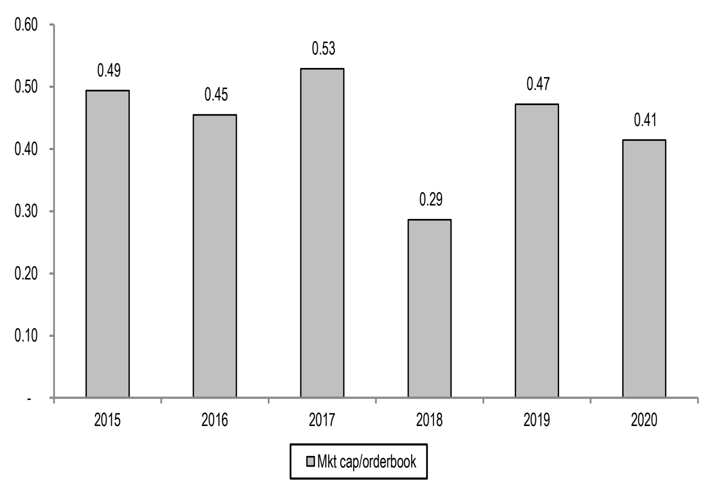
We are of the opinion that SunCon should be trading at a premium to other contractors due to the following reasons:

- **Order flow from parent company to provide some certainty.** In FY19, SunCon contributed 27% and 11% to its parent's revenue and net profit, respectively. As one of the most prominent property developers in Malaysia, we believe that its parent company's property development projects should provide SunCon with a stable bedrock of construction works. For FY20, SunCon's management has set a target of RM2 bn new orderbook wins for 2020 and it has achieved this target in which 70% were from in-house development projects. While SunCon would still be going through an open tender process, we believe that its strong track record and vast experience would give it an additional advantage in the process. Furthermore, having a stable flow of in-house jobs would mean that SunCon is potentially exposed to lower payment risk as compared to its peers.
- **Good track record achieving new construction order targets.** With over 30 years of experience in the construction industry, SunCon has established itself as a reliable and reputable contractor which ultimately helped it achieve its new construction order targets. In the past five years, SunCon has consistently met its orderbook replenishment targets and we think that going forward its orderbook replenishment prospect should be intact. We

believe that SunCon is well positioned to benefit from the roll-out of mega infrastructure projects which will complement the stable of property development jobs from its parent.

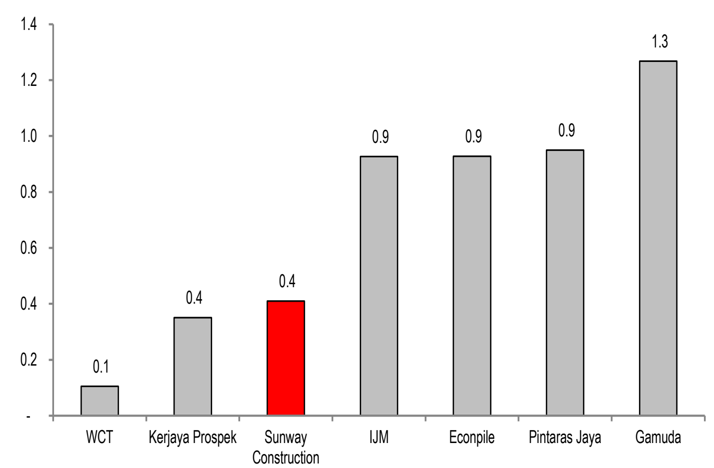
- **Construction pure-play.** SunCon is one of the few listed pure-play contractors in Malaysia. Most listed peers on the KLCON Index would have some exposure to property development which has historically commanded a lower valuation.
- **Healthy balance sheet.** SunCon had the healthiest balance sheet with a net-cash-to-equity ratio of 0.65x as of end-June 2020. Its net cash position which amounted to RM387.2 mn as of end-June 2020, accounting for 70% of its book value and 16% of its market capitalisation. SunCon also had a free cash flow debt coverage ratio of 0.43x as of end-June 2020 which is stronger than most of its peers, especially those with property development divisions. Being a pure-play construction outfit, SunCon be able to better utilise its balance sheet more efficiently as it would not need to embark on landbanking and development planning activities.
- **Steady dividend stream.** SunCon is one of the rare construction companies which provide an above-industry-average dividend yield. SunCon has an official dividend payout policy of at least 35% of its core profit, but it has maintained a payout ratio of over 50% in the past five years; its dividend payout ratio for FY19 was close to 70%. While we acknowledge that the tough operating environment in 2020 could negatively impact its dividend payout ratio this year, we think that SunCon should still be able to sustain a dividend payout ratio of 55% which translates to a DPS of 3 sen (1.7% dividend yield). Looking ahead, we are forecasting SunCon's dividend payout ratio to revert to 60% for 2021 and 2022, respectively.

Figure 41: SunCon's market cap/orderbook trend



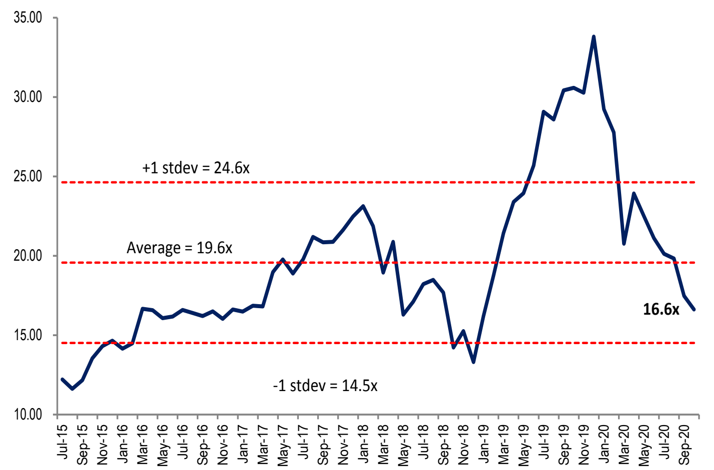
Source: Company data, Credit Suisse estimates

Figure 42: SunCon's market cap/orderbook below peers



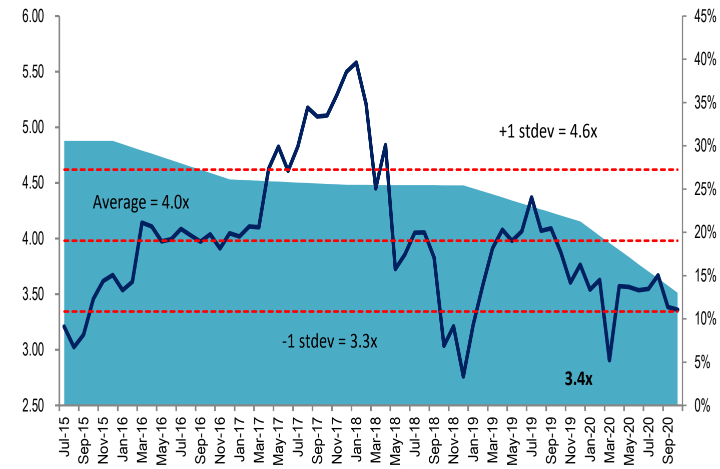
Source: Company data, Credit Suisse estimates

Figure 43: SunCon P/E trend



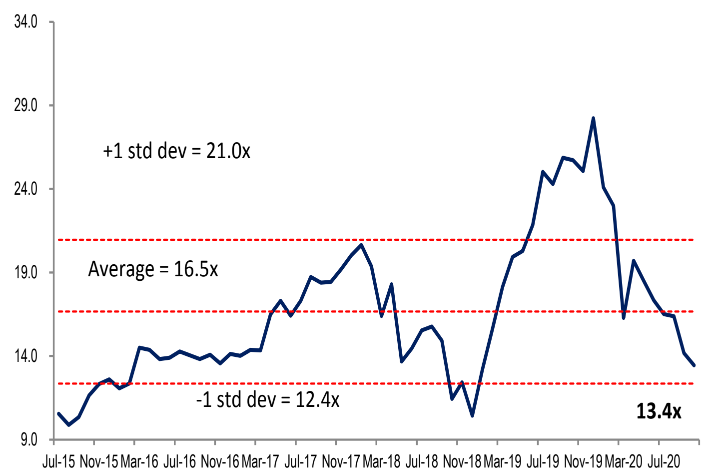
Source: Company data, Credit Suisse estimates

Figure 44: SunCon P/B



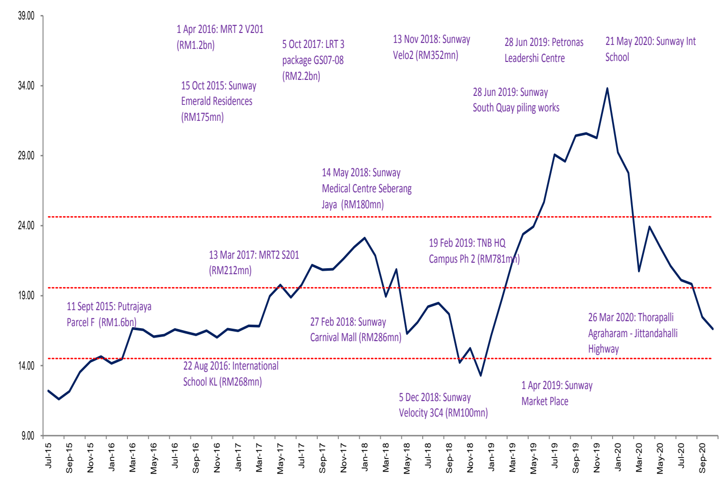
Source: Company data, Credit Suisse estimates

Figure 45: SunCon's P/E trend excluding net cash



Source: Company data, Credit Suisse estimates

Figure 46: SunCon major orderbook wins vs P/E



Source: Company data, Credit Suisse estimates

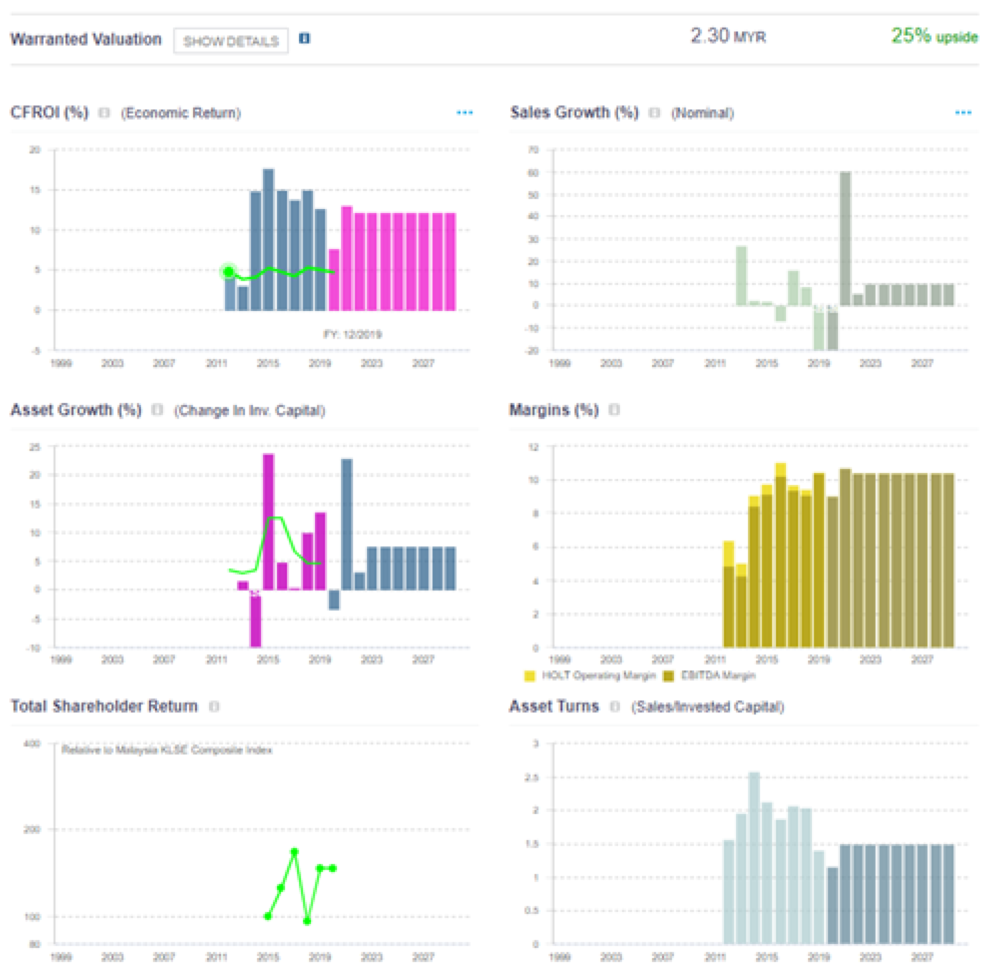
HOLT® View on SunCon

CS HOLT uses a proprietary economic return measure, Cash Flow Return on Investment (CFROI®) to assess corporate performance and valuation. By removing accounting and inflation distortions, CFROI allows for global comparability and is a more comprehensive metric than the traditional ROE or ROA.

SunCon has delivered consistent double-digit CFROI in the last six years, underpinning its HOLT eCAP (Empirical Competitive Advantage Period) status, which is awarded to a subset of companies in our database, with good track records in delivering high and persistent economic returns over time.

Figure 47 reflects our CS analyst's forecast sales and EBITDA margins for SunCon for the next three years. Due to delayed construction progress during the COVID-19 pandemic, 2020 CFROI is forecast to drop to 8% but should rebound in 2021 and 2022, supported by the resumption of construction work progress as well as a faster rollout of infrastructure projects as part of the government's fiscal stimulus. Beyond that, if we assume the company's EBITDA margins improve gradually back to the pre-COVID-19 level of 10.4% and maintaining sales growth stable at 10% by 2029, supported by its margin accretive ASEAN expansion plan and a healthy pipeline of in-house jobs, this would yield a HOLT fair value of RM2.30, in line with our analyst's OUTPERFORM rating and target price of RM2.50.

Figure 47: HOLT Upside Scenario for SunCon



Source: Credit Suisse HOLT

Key investment risks

Government policy risk

The operational outlook for construction sector players such as SunCon is highly dependent on government's fiscal spending measures and also stimulus measures to spur housing demand. The current ruling coalition under Perikatan Nasional appears to be in favour of stepping up fiscal spending to stimulate the economy and create more jobs. The property sector has also benefitted from favourable measures to increase home ownership. Hence, any changes in political leadership could lead to uncertainty over the government support for the sector. However, it is worth noting that the authorities have historically relied on infrastructure spending as an effective means of stimulating the economy during challenging periods of the economic cycle. As such, we believe that should there be a change in political leadership, it merely causes a temporary disruption on the infrastructure spending plans and efforts to kick-start major infrastructure projects should resume once there is political stability.

Payment risk

The full and prompt payment from the project owners or main contractors presents itself as a risk to SunCon's cash flow management. However, we believe that payment risk for SunCon should be more manageable compared to its peers, given the healthy balance sheet of its parent company, which is also one of SunCon's main clients. For external projects, SunCon has always participated in projects backed by a project owner with a strong credit profile, which minimises non-payment risks.

Spike in raw material cost

Any sharp increase in building material prices will negatively impact construction margins for SunCon.

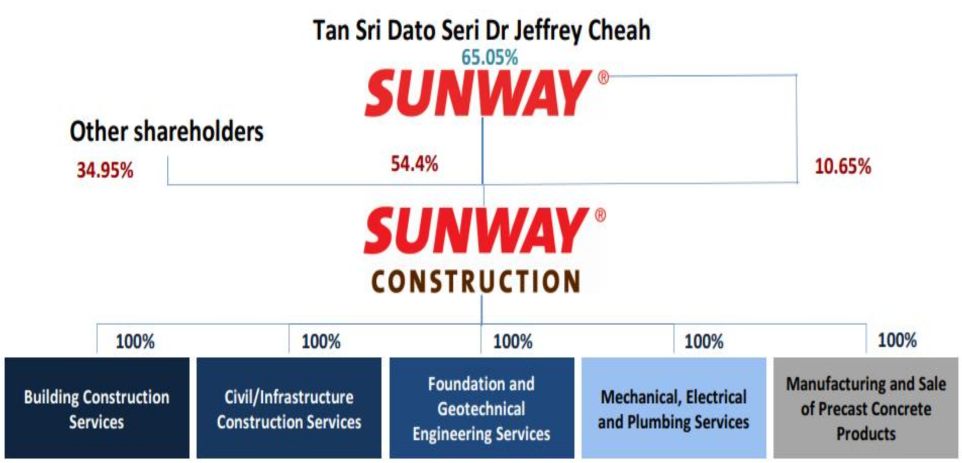
Appendix: Company background

SunCon is Malaysia's largest pure-play construction group that provides a full range of integrated design and construction services, including building, infrastructure, foundation and geotechnical engineering, mechanical, electrical and plumbing services, manufacturing and sale of precast concrete products, as well as renewable energy services. Incorporated in 1976 and listed under the construction sector of the Main Market of Bursa on 28 July 2015, SunCon has amassed over 39 years of experience in the construction sector.

Summary of business divisions

- **Building construction services.** Design and construction services provider in the residential, commercial, institutional and specialty projects. International portfolio includes several large building construction services projects in Singapore, the UAE, and Trinidad & Tobago.
- **Civil/infrastructure construction services.** Major provider of civil/infrastructure construction services and have participated in various roads, highways, airports, bridges and rail transportation infrastructure projects over the last 30 years. Overseas projects include seven highways and bridges in India.
- **Foundation and geotechnical engineering services.** Core services include piling solutions and earth retaining systems.
- **Mechanical, electrical and plumbing services.** Main services are categorised into mechanical, electrical, plumbing, and specialised engineering solutions.
- **Manufacturing and sale of precast concrete products.** Develops, design, manufactures, and supplies precast concrete products, with manufacturing plants located in Iskandar and Senai, Johor, Malaysia. Precast concrete products manufactured, includes Industrialised Building System (IBS) components, for residential, commercial and infrastructure development projects.

Figure 48: SunCon's shareholding and business structure



Source: Company data

Appendix II: Key management personnel

Dato' Ir Goh Chye Koon, Chairman & Independent Non-Executive Director

Dato' Ir Goh Chye Koon was appointed to the board on 17 October 2014. He started his career as an engineer in the Ministry of Works, where he served for 11 years before joining IJM Corporation in 1984. He rose to the position of Deputy Group Managing Director and was subsequently re-designated Deputy CEO and Deputy MD in 2004. Upon his retirement in 2008, Dato' Ir Goh continued to serve as an Executive Director of IJM Corporation until June 2009 and thereafter non-executive director from July 2009 until June 2013.

Mr Chung Soo Kiong, Group Managing Director & Non-Independent Executive Director

Mr Chung began his career with Taisei Corporation in 1990 where over a period of seven years he rose to the position of Section Manager Quantity Surveying. In 1997, he joined SunCon and served in various roles including Contract Manager of Business Development and Marketing Department, as well as Country Manager/Project Director in Abu Dhabi. After his stint in Abu Dhabi, Mr Chung took up the role of Deputy MD of Sunway Construction Sdn Bhd and was promoted to Group MD in January 2020. He has over 20 years of experience in the construction sector.

Ms Ng Bee Lien, Chief Financial Officer

Ms Ng joined SunCon in 2005, after working for 14 years at another group company where she was in charge of the finance department within SunCon Group. She has been heading the Finance Department since 1 January 2010 and was subsequently appointed the Chief Financial Officer on 1 January 2016. Prior to her career at SunCon, Ms Ng was an auditor with Ernst & Young from 1994 to 1997 before joining Muhibbah Engineering.

Valuation, Methodology and Risks

Target Price and Rating
Valuation Methodology and Risks: (12 months) for Airasia Group (AIRA.KL)

Method: Our RM0.75 target price for AirAsia is based 0.5x FY21E P/B (price-to-book; in line with the valuation for other airlines in APAC with similar 'asset light' model at this point in the cycle) and half of the calculated value for its tech ventures. Given the potential uncertainties related to its liquidity (a fund raising exercise is imminent), we continue to rate the stock NEUTRAL until there is more clarity.

Risk: Key downside risks to our NEUTRAL rating and RM0.75 target price include: (1) accelerated competitive pressure, (2) viability of Indonesia AirAsia (and other associates besides Thailand), (3) disease, natural disasters & terrorism affecting air travel, and (4) sharp upward movements in crude oil prices. Key upside risks to our NEUTRAL rating and RM0.85 target price include: (1) better-than-expected passenger traffic; and (2) crude oil prices to trend downwards.

Target Price and Rating
Valuation Methodology and Risks: (12 months) for Alliance Bank Malaysia Berhad (ALLI.KL)

Method: Our RM1.50 target price for Alliance is based on the Gordon growth model, assuming a sustainable ROE of 6.3%. We have applied a cost of equity of 10.5% which we derived from assuming a risk-free rate of 3.9%, risk premium of 7.3%, and beta of 0.84. We have also assumed a 30% dividend payout ratio. We have a UNDERPERFORM rating on Alliance due to concerns over asset quality.

Risk: Potential risks to our RM1.50 target price and UNDERPERFORM rating for Alliance are: (1) hiccups in execution of management's strategy, (2) change in ownership and/or management, (3) change in regulatory environment, and (4) change in economic outlook.

Target Price and Rating
Valuation Methodology and Risks: (12 months) for Astro Malaysia Holdings Bhd (ASTR.KL)

Method: We have used discounted cash flow (DCF) as our primary valuation methodology due to its strong cash flow generating abilities. As such, we have derived an equity valuation of RM5.4bn (TP of RM1.03/share), assuming a 8.2% WACC and a terminal growth rate of -2%. We rate the stock OUTPERFORM as we see value emerging from current levels and like its high dividend-paying ability.

Risk: Key downside risks to our RM1.03 TP and OUTPERFORM rating for Astro include: (1) rampant video piracy; (2) loss of key sports content rights; (3) strenghtening of USD; and (4) weak consumer sentiment.

Target Price and Rating
Valuation Methodology and Risks: (12 months) for Axiata Group Berhad (AXIA.KL)

Method: Our RM5.10 target price for Axiata is arrived at using a 100% stake in Celcom (attributable equity value RM2.93), 66.4% stake in XL (target price Rp3,900), ~2% stake in Vodafone Idea (attributable equity value RM0.01), 80.0% stake in NCell (attributable equity value RM0.45), other op-cos including Dialog in Sri Lanka, Smart in Cambodia, Robi in Bangladesh, and Axiata Digital Services (attributable equity value totals RM1.41) and Axiata Group's (hold-co) FY20 net debt position (-RM0.51). Given better risk-reward, we rate the stock OUTPERFORM.

Risk: Risks to our RM5.10 target valuation and OUTPERFORM rating for Axiata include: (1) faster-than-expected or slower-than-expected growth in the cellular market, from the current penetration level in each respective market; (2) the prospect that competitors take a larger or smaller proportion of the market share of net additions in each respective market; (3) that capex forecasts prove higher- or lower-than-expected due to competitive pressure or pressure from the regulator in each respective market; and (4) that competition leads to higher or lower attrition of revenue per user than expected in each respective market, for example through a price war. (5) Axiata fails to monetise its digital assets successfully.

Target Price and Rating
Valuation Methodology and Risks: (12 months) for BAT Malaysia (BATO.KL)

Method: Our target price of RM11.50 for BAT Malaysia is based on a DCF (discounted cash flow)-valuation methodology, which uses a 10.6% WACC (weighted average cost of capital) and a 3.0% terminal growth rate. Our NEUTRAL is premised on the weak cigarette volumes that we expect while clampdown on illicit market is unlikely to happen in the near future. The stock still offers an attractive 8% yield.

Risk: Key upside risks to our target price of RM11.50 and NEUTRAL rating: Continued rise in illicit market, excise tax hikes, dividend disappointment, or an outright ban of vaping. Key downside risks: Successful clampdown of illicit market, positive dividend surprise, legalisation of vaping.

Target Price and Rating
Valuation Methodology and Risks: (12 months) for CIMB Group Holdings Bhd (CIMB.KL)

Method: Our target price of RM2.72 for CIMB Group is based on the Gordon growth model, assuming a sustainable return-on-equity (ROE) of 6.2%. We have applied a cost of equity of 10.1% p.a. (using a beta of 0.85) and terminal growth of 2.8% p.a. Our ROE forecast is predicated on the assumption that management will pay out 55% of net earnings in dividends. We rate the stock UNDERPERFORM. Given the asset quality headwinds, we believe earnings visibility for the stock remains poor and its comparatively weaker capital position compared to peers poses challenges for management to distribute dividends.

Risk: Risks to our RM2.72 target price and UNDERPERFORM rating for CIMB Group include: (1) change in regulatory environment, (2) drastic change in economic outlook, (3) management change, and (4) ownership changes.

Target Price and Rating
Valuation Methodology and Risks: (12 months) for Carlsberg Brewery Malaysia Bhd (CBMS.KL)

Method: Our RM22.50 target price for Carlsberg is based on a DCF (discounted cash flow) valuation methodology, using a WACC (weighted average cost of capital) of 8.4% and terminal growth rate of 4.5%. Our Neutral rating is premised on the lofty valuations given earnings pressure this year; however, we think most of the negatives have been priced in and the stock is still viewed as a defensive yielding stock.

Risk: Key risks to our Neutral rating and RM22.50 target price: Key upside risks - volumes recover quicker than expected and cost rationalisation exercises bear fruit. Key downside risks - further deterioration in sales volume, dividend disappointment, excise hikes and policy changes in Malaysia.

Target Price and Rating
Valuation Methodology and Risks: (12 months) for Ch Karnchang (CK.BK)

Method: Our Bt18.60 target price and NEUTRAL rating for Ch Karnchang are based on SOTP (sum-of-the-parts) valuation, where we apply a 0.1x price-to-forward backlog multiple to our 12-month forward backlog forecast to calculate the value of CK's core business. In addition, we take the market value of listed associates it holds, applying a 15% discount. Our Neutral rating for Ch Karnchang reflects our view that although backlog growth should resume in the next 12-18 months, we see limited near-term catalysts and much uncertainty for bidding.

Risk: Downside risks to our target price of Bt18.60 and NEUTRAL rating for Ch Karnchang include: delays in government implementation for infrastructure projects and political risks which may delay bidding progress. Upside risks include faster-than-expected implementation of projects and higher-than-expected market share for contract awards.

Target Price and Rating
Valuation Methodology and Risks: (12 months) for DiGi.Com (DSOM.KL)

Method: Our discounted cash flow (DCF) analysis, based on an estimated 7.5% weighted average cost of capital (using a historical average beta of 1.2x) and a 2.5% terminal growth rate, supports our target price of RM4.10/share for DiGi. Given that the market has already factored in Digi's on-going cost savings initiative into the share price, we rate the stock NEUTRAL.

Risk: The risks to our RM4.10 target price and NEUTRAL rating for the stock are (1) either faster-than-expected, or slower-than-expected growth in the cellular market, from the current penetration level; (2) the prospect that competitors take a larger or smaller proportion of the market share of net additions; (3) that capex forecasts prove higher- or lower than expected due to competitive pressures or pressures from the regulator; and (4) that competition leads to higher or lower attrition of revenue per user than expected, for example through a price war.

Target Price and Rating
Valuation Methodology and Risks: (12 months) for Dialog Group Bhd (DIAL.KL)

Method: Our target price of RM4.20/share for Dialog Group Bhd is based on (i) NPV estimates for FCFE from its tank terminal and upstream services projects, discounted at 6-13% (ii) an Economic Value Added approach for the traditional aspects of the business (SPS, EPC, Fab, Maintenance, Catalysts) and Jubail, using WACC of 7-8% and LT growth of 3%. Our estimates are largely dependent on the wide economic moat being built in Pengerang, as well as the existing tank terminal in Kertih, and the resilience of the business throughout a low oil price environment. Given the solid growth prospects over the next 5 years, we rate the stock Outperform.

Risk: Risks to our RM4.20 target price for Dialog Group Bhd and Outperform rating include: (1) Lower-than-anticipated contribution from Pengerang Deepwater Phase 1 (2) Cancellation or delay of Phase 2 (3) Weak oil and gas prices, affecting sentiment on related stocks. Key upside risks: (1) faster-than-expected expansion of tank terminal business; and (2) oil price rallies further.

Target Price and Rating
Valuation Methodology and Risks: (12 months) for Econpile Holdings Berhad (ECOH.KL)

Method: Our target price of RM0.72 for Econpile is based on a PEG valuation method at P/E (price-to-earnings)-to-growth multiple of 0.70x (consistent with the methodology used for other contractors) and a two-year EPS (earnings per share) CAGR of 36%. We rate the stock OUTPERFORM. Econpile's dominant position in the niche piling and foundation segment gives it a solid footing for future job wins once the roll-out of mega projects picks up

Risk: The main risks to our target price of RM0.72 and OUTPERFORM rating for Econpile include: (1) changes in government policy, (2) increase in payment risk from customers on the back of a prolonged slowdown in the construction and property sector, and (3) a spike in raw material prices.

Target Price and Rating
Valuation Methodology and Risks: (12 months) for Gamuda (GAMU.KL)

Method: Our target price of RM4.28 for Gamuda is based on an average of sum-of-the-parts method and price-to-earnings (P/E)-to-growth method. We have used a price-to-earnings (P/E)-to-growth ratio of 1.0x. In our sum-of-the-parts value, we use a discounted cash flow method to value most of its operating units based on discount rates ranging 10% p.a. We rate the stock OUTPERFORM. We believe that the new government could step up infrastructure spending to cushion effects of COVID-19 on the economy and create jobs. Gamuda appears well positioned to secure some shovel-ready large-scale projects such as MRT 3 and could also be a front runner for KL-Singapore Highspeed Rail.

Risk: The main risks to our target price of RM4.28 and OUTPERFORM rating for Gamuda include: (1) changes in government policy on its privatised infrastructure projects, (2) raw material price fluctuations, (3) changes in management and/or ownership, (4) possible changes in economic environment could have significant bearing on its property and tollroad operations and (5) changes in government policy on infrastructure spending.

Target Price and Rating
Valuation Methodology and Risks: (12 months) for Genting Berhad (GENT.KL)

Method: Our RM5.40 target price for Genting is derived by a bottom-up RNAV of Genting using the Credit Suisse target prices for Genting Malaysia (RM3.40, Genting Plantations (RM12.10), Genting Singapore (S$0.72) and its other assets (oil & gas, power and DCF of management fees from GENM). We then apply a holding company discount of ~25%. Given that the stock is still trading at a significant discount to RNAV, we believe there is upside when the discount narrows. Therefore, we rate the stock OUTPERFORM.

Risk: The risks to our target price of RM5.40 and OUTPERFORM rating for Genting are if Malaysia suffers a severe economic depression or if visitation to Genting Highlands or its Singapore casino falls dramatically due to unforeseen circumstances like the outbreak of disease or terrorist attack, or if its Singapore casino suffers from exceptionally poor luck in the VIP gaming segment for an extended period.

Target Price and Rating
Valuation Methodology and Risks: (12 months) for Genting Malaysia Bhd (GENM.KL)

Method: Our RM3.40 target price for Genting Malaysia is based on our sum-of-the-parts (SOTP) valuation. We apply 9x multiple to FY21E EBITDA for Malaysia, the UK, the US and other business but excluding property (combined), book value to its property assets and we add its one year forward net cash and the investment tax allowance. Driven by favourable risk-reward, we rate the stock OUTPERFORM.

Risk: Key downside risks to our RM3.40 target price and OUTPERFORM rating for Genting Malaysia include: (1) Malaysian economy to suffer from a severe recession to the extent that domestic leisure spending is hampered or (2) an epidemic or terror attack takes place and causes a severe reduction in visitor arrivals to the resort. Other stock-specific concerns are: (1) competition from regional casinos, and (2) earnings risk from the UK and the US. Key upside risks: (1) faster-than-expected resolution of Fox/Disney litigation and (2) higher-than-expected growth for UK/US businesses.

Target Price and Rating
Valuation Methodology and Risks: (12 months) for Genting Plantations Bhd (GENP.KL)

Method: Our RM9.40/share target price for Genting Plantations Bhd is derived based on a combination of its EV/mature ha and EV/EBITDA multiples, equally weighted. The stock is fairly valued at current levels; coupled with the lack of near-term catalysts, we rate the stock NEUTRAL

Risk: Upside risks to our RM9.40 target price and NEUTRAL rating for Genting Plantations Bhd include: (1) sharp recovery in palm oil price; (2) significant cost reduction, and (3) healthy growth in the premium outlet segment. Downside risks include: (1) lower-than-expected CPO prices and FFB production; (2) loss-making manufacturing segment; and (3) decline in premium outlet segment.

Target Price and Rating
Valuation Methodology and Risks: (12 months) for Heineken Malaysia Bhd (HEIN.KL)

Method: Our DCF (discounted cash flow) valuation methodology uses a 8.4% WACC (weighted average cost of capital) and 4.5% terminal growth rate to arrive at our target price of RM21.10. We have a NEUTRAL rating on the stock; while the worst is over for the Group, we expect recovery to be slow. Meanwhile, the ongoing regulatory risks will likely cast a cloud over the stock.

Risk: Key upside risks to our Neutral and target price of RM21.10 include stronger than expected recovery in beer volumes, dividend upside surprise. Key downside risks to our Neutral rating and target price include a sharp decline in volumes along with collapse in consumer spending, sustained weakness in MYR leading to higher cost pressures, dividend disappointment and further regulatory pressures.

Target Price and Rating
Valuation Methodology and Risks: (12 months) for Hong Leong Bank (HLBB.KL)

Method: Our RM14.30/sh target price for Hong Leong Bank is based on the Gordon growth model. We have assumed a sustainable return-on-equity (ROE) of 10.3%, applied a cost of equity of 10.0% and assigned a terminal growth of 5.5% pa. Our ROE assigned is based on a 38% long-term dividend payout ratio. We rate Hong Leong Bank NEUTRAL as we believe that the upside is limited and dividend yield is unattractive compared to peers.

Risk: The following risks could impede the achievement of our RM14.30 target price and our NEUTRAL rating for Hong Leong Bank: (1) changes in shareholding, (2) regulatory changes, (3) management changes, (4) potential acquisitions that could alter earnings trajectory, (5) drastic shift in economic outlook.

Target Price and Rating
Valuation Methodology and Risks: (12 months) for Hong Leong Financial Group Berhad (HLCB.KL)

Method: Our target price of RM16.90 for Hong Leong Financial Group is based on our sum-of-parts valuation, where we assigned a RM14.30/sh value for HLFG's 64% stake in HL Bank. The value assigned to HL Bank is based on our price target derived from a Gordon Growth model, which assumes a 10.0% sustainable return-on-equity, 10.3% cost of equity and 5.5% terminal growth. We rate the stock OUTPERFORM as it looks attractively priced and offers a much cheaper exposure to HL Bank. The group's life insurance business and associate stake in MSIG is also an encouraging growth area.

Risk: The achievement of our target price of RM16.90 and OUTPERFORM rating for Hong Leong Financial Group could be impeded by: (1) change in regulatory environment, (2) movements in interest rates, (3) changes in the investment climate, (4) management and ownership changes, (5) potential acquisitions that could alter the earnings outlook of the group, (6) change in corporate structure of the group.

Target Price and Rating
Valuation Methodology and Risks: (12 months) for IHH Healthcare Berhad (IHHH.KL)

Method: We derive our target price of RM6.10 for IHH Healthcare using a DCF (discounted cash flow)-based valuation methodology, assuming a 7.4% WACC (weighted average cost of capital) and a 2.5% terminal growth rate. We believe IHH's multi-market strategy gives it the ability to capture the growing healthcare demand across Asia, warranting an OUTPERFORM rating.

Risk: Key risks to our RM6.10 target price and OUTPERFORM rating for IHH Healthcare include: (1) government regulations, (2) execution risk, (3) intensifying competition, and (4) foreign exchange headwinds.

Target Price and Rating
Valuation Methodology and Risks: (12 months) for IJM Corporation Berhad (IJMS.KL)

Method: Our target price of RM2.46/sh for IJM is based on an average estimated ''fair'' value of the group using sum-of-parts valuation and price-to-earnings (P/E)-to-growth methods. The sum-of-the-parts ''fair'' value of RM2.97/sh is derived from applying a 10% discount to the aggregate discounted cash flows of the group's various operating units (using 10% discount rate). The ''fair'' value derived using the price-to-earnings (P/E)-to-growth method of RM1.75/sh is based on 0.7x price-to-earnings (P/E)-to-growth and two-year growth rate for its earnings per share of 29.0%. We rate the stock OUTPERFORM. We continue to see scope for value creation through asset monetisation.

Risk: Factors which could impede the achievement of our target price of RM2.46 and OUTPERFORM rating for IJM include: (1) changes in government's policy on infrastructure spending that could influence pipeline of public sector jobs in Malaysia and India (where IJM has large exposures), (2) interest rate movements that could have a bearing on property demand and private sector funded construction activity, (3) fluctuations in raw material prices such as cement and steel that could affect profit margins, (4) drastic changes in the economic outlook that could have a major bearing on construction activity, (5) significant movements in crude palm oil prices that could impact IJM's plantation profits.

Target Price and Rating
Valuation Methodology and Risks: (12 months) for IOI Corporation Berhad (IOIB.KL)

Method: Our RM4.50/share target price for IOI Corporation is derived based on a combination of EV/EBITDA and EV/mature ha valuation methods, equally weighted. We rate the stock NEUTRAL as the stock is fairly valued based on our valuations.

Risk: Upside risks to our RM4.50/share target price and NEUTRAL rating for IOI Corp include: (1) stronger-than-expected output growth; (2) earnings-accretive M&A. Downside risks: (1) weaker-than-expected output growth; (2) earnings dilutive M&A; (3) weak manufacturing margins.

Target Price and Rating
Valuation Methodology and Risks: (12 months) for Inari Amertron (INAR.KL)

Method: We value Inari using the P/E methodology. We peg Inari's FY21E EPS to its +1SD above mean P/E, which is 30x, deriving a target price of RM2.50 per share. We rate the stock OUTPERFORM as we believe the stock should rerate in the near term due to the smartphone replacement cycle driven by 5G post COVID-19.

Risk: Key downside risks that may impact earnings and in turn, our RM2.50 target price and OUTPERFORM rating for Inari are: (1) single customer risk (revenue from Inari's key client forms ~75% of its total revenue today); (2) contraction in demand for smartphones/smart devices; and (3) forex risk (90% revenue in USD, but only 55% of COGS are in USD). Key upside risks are: (1) better-than-expected prospects for RF; (2) faster-than-expected market share gains for BRCM opportunity; and (3) proliferation of iris scan in mainstream smartphones.

Target Price and Rating
Valuation Methodology and Risks: (12 months) for Karex Bhd (KARE.KL)

Method: Our target price of RM0.80 is pegged to 1.2x PB. Our UNDERPERFORM rating is premised on lofty valuations that does not justify the gradualy earnings recovery.

Risk: Key risks to our RM0.80 target price and UNDERPERFORM rating include a strong recovery in condom demand, sharp fall in operating costs or weakening of MYR vs USD.

Target Price and Rating
Valuation Methodology and Risks: (12 months) for Kuala Lumpur Kepong (KLKK.KL)

Method: Our target price of RM25.00 for KLK is derived using a combination of EV/EBITDA & EV/mature ha valuation methods. We see an opportunity to accumulate the stock as it has derated recently to multi-year low. Also, its integrated business model makes it defensive amidst a volatile CPO price environment. Hence, we rate the stock OUTPERFORM.

Risk: Upside risks to our target price of RM25.00 and OUTPERFORM rating for Kuala Lumpur Kepong include: include: (1) stronger-than-expected CPO prices and FFB production; and (2) earnings-accretive M&A. Key downside risks include: (1) weaker-than-expected CPO prices and FFB production; (2) trading losses; and (3) earnings-dilutive M&A.

Target Price and Rating
Valuation Methodology and Risks: (12 months) for Leong Hup Intl (LEOG.KL)

Method: Our target price of RM0.80 for Leong Hup Int'l is pegged to 15x P/E (price-to-earnings), in line with regional poultry players. We have a NEUTRAL rating as we expect livestock prices to remain volatile in the coming months. Their expansion in the downstream business should help provide some margin stability but takes time to scale up.

Risk: Key upside risks to our target price of RM0.80 and NEUTRAL rating for Leong Hup Intl are: Sharp spike in livestock prices, quicker than expected demand recovery. Key downside risks: Collapse in demand, upward cost pressure from raw materials and sudden slump in broiler and DOC prices.

Target Price and Rating
Valuation Methodology and Risks: (12 months) for Lotte Chemical Titan (LOTT.KL)

Method: We set our target price of RM2.1 for Lotte Chemical Titan (LCT) based on P/B of 0.4x with ROE of 0%, implying EV/EBITDA of 1.5x on FY20E. This is at 50% discount from its regional peers in SEA. We have an UNDERPERFORM rating on LCT as we expect margins to suffer from weak demand and supply increase especially in domestic market which would hurt its premium on domestic prices.

Risk: Risks to our target price of RM2.1 and UNDERPERFORM rating include any upside from petrochemical demand that may come if there is a conclusion on trade war between China and the US, resulting in higher petrochemical margins. In additions, weaker Malaysian Ringgit may contribute positively to LCT which is a USD-based company. Delayed startup of new supply by its competitors would also lend support to product margins.

Target Price and Rating
Valuation Methodology and Risks: (12 months) for Mah Sing Group Bhd (MAHS.KL)

Method: Our target price of RM0.90 for Mah Sing is derived by applying 12.5x PE, which is the stock's 5-year average multiple. Our OUTPERFORM on is premised on our expectation that the property market has bottomed and should improve with supportive interest rates.

Risk: Key risks to our RM0.90 target price and Outperform rating include worsening of property market, dividend disappointment, poor execution or landbanking terms as well as value-destructive M&As.

Target Price and Rating
Valuation Methodology and Risks: (12 months) for Malakoff Bhd (MALA.KL)

Method: Our target price of RM0.90 for Malakoff is primarily based upon: (1) DCF (discounted cash flow) of Malaysian IPPs (independent power producers), up to the firm expiry of the PPAs; potential residual values of power plants are taken into consideration. WACC (weighted average cost of capital) of 6%; (2) 8 P/E for international associates; (3) a final discount factor of 40% on the total intrinsic worth calculated, to increase the margin of safety for our estimate. We rate the stock UNDERPERFORM as we see heightened risk of unfavourable M&As which could be value destructive.

Risk: Risks to our target price of RM0.90 and UNDERPERFORM rating for Malakoff include stronger than expected earnings rebound, lucrative M&As, dividend upside surprise.

Target Price and Rating
Valuation Methodology and Risks: (12 months) for Malayan Banking (MBBM.KL)

Method: Our target price of RM5.80 for Maybank is based on the Gordon growth model assuming a sustainable return-on-equity (ROE) of 8.6%. We have applied a cost of equity of 10.0% and terminal growth of 3.0% p.a. Our ROE is predicated on the assumption that management will maintain a dividend payout ratio of 65%. We rate Maybank UNDERPERFORM. We expect further asset quality weakness to be a major earnings headwind and dividend prospects seems less certain.

Risk: Risks to our RM5.80 target price and UNDERPERFORM rating for Maybank include the following: (1) potential acquisitions could alter the earnings growth trajectory, (2) changes in the regulatory environment, (3) drastic change in the economic environment, (4) change in management, and (5) ownership changes.

Target Price and Rating
Valuation Methodology and Risks: (12 months) for Malaysia Airports Holdings Bhd (MAHB.KL)

Method: We derive our RM6.40 target price for discounting the cash flows of both Malaysia and Turkey operations over its concession periods, using a WACC of 9.9% for Malaysia and 20.3% for Turkey. Our OUTPERFORM rating is premised on the long-term passenger traffic outlook for MAHB, potential RAB which could lift returns of its Malaysia operations and monetisation of its stake in ISG.

Risk: Risks to our target price of RM6.40 and OUTPERFORM rating for MAHB include: (1) political or regulatory changes significantly affecting concessions, (2) slower than expected recovery in air travel demand and (3) operating costs rising much faster/slower than inflation expectations.

Target Price and Rating
Valuation Methodology and Risks: (12 months) for Maxis Berhad (MXSC.KL)

Method: Our RM6.45 target price for Maxis is based on discounted cash flows; we have applied a beta of 1.0 (similar to other telcos in Malaysia) and a WACC (weighted average cost of capital) of 7.1%. We believe there is scope for the share price to perform well due to easing of competition (underpinned by Telenor-Axiata's merger) and potential growth in the enterprise segment. Hence, we rate the stock OUTPERFORM.

Risk: Potential risks to our target price of RM6.45 and OUTPERFORM rating for Maxis include: (1) lower-than-expected EBITDA margins for its cellular business; (2) Maxis continues to lose revenue and subscriber market share; (3) higher-than-expected 5G spectrum fees; and (4) competitive landscape deteriorate further.

Target Price and Rating
Valuation Methodology and Risks: (12 months) for Padini Holdings Berhad (PDNI.KL)

Method: Our target price of RM2.50 for Padini is based on a 144bp spread over current MGS (Malaysian government securities) of 2.56% This implies a dividend yield compression to 4.0% for Pandini. Our Outperform rating is premised on the strong earnings growth recovery that we expect and attractive dividend yield.

Risk: Key risks to our target price of RM2.50 and Outperform rating include worse-than-expected consumption recovery, spike in operating costs and dividend disappointment.

Target Price and Rating
Valuation Methodology and Risks: (12 months) for Petronas Chemicals Group BHD (PCGB.KL)

Method: We set our target price for Petronas Chemicals Group BHD at RM6/sh based on P/B in FY21E of 1.7x which is -1SD below its historical average and then discount our valuation to 2020 with its cost of equity of 14% to derive our target price. Our NEUTRAL rating on PCHEM is due to our view of limited downside at its gas-based cracker as oil prices may be already close to a floor while we have medium term concerns on weak demand due to COVID-19 outbreak and oversupply from new capacity addition.

Risk: Risks to our target price of RM6.0/sh and NEUTRAL rating for Petronas Chemicals Group BHD include downside risks from 1) lower oil prices, hence, its product prices, 2) weak demand recovery. On the upside, 1) sharp recovery in oil prices, 2) weaker Malaysian Ringit would positively push up its earnings.

Target Price and Rating
Valuation Methodology and Risks: (12 months) for Public Bank (PUBM.KL)

Method: Our target price of RM14.60 for Public Bank is based on the Gordon growth model, assuming a sustainable long-term ROE (return on equity) of 11.1%. We have applied a cost of equity of 10.0% (using beta of 0.83) and terminal growth of 5.3%. Our ROE forecast is predicated on the assumption that management will maintain a 50% payout ratio. Our UNDERPERFORM rating is based on the the uncertain dividend payout and more cautious asset quality outlook.

Risk: Risks to our target price of RM14.60 and UNDERPERFORM rating for Public Bank include: (1) potential acquisitions could alter its earnings growth outlook, (2) change in regulatory environment, (3) a drastic change in the economic outlook, (4) management change that could alter strategic plans, and (5) ownership changes.

Target Price and Rating
Valuation Methodology and Risks: (12 months) for RHB Bank Berhad (RHBC.KL)

Method: Our target price of RM5.50 for RHB Bank is based on the Gordon growth model, assuming a sustainable return-on-equity (ROE) of 9.1%. We have applied a cost of equity of 10.1% p.a. (using a beta of 0.8) and terminal growth of 4.5% p.a. Our ROE forecast is predicated on the assumption that management will pay out 55% of net earnings in dividends. We rate the stock OUTPERFORM. The group's strong capital position should enable management to at least maintain its dividends.

Risk: The following risks could impede achievement of our RM5.50 target price and OUTPERFORM rating for RHB Bank: (1) potential acquisitions could alter its earnings growth trajectory, (2) change in regulatory environment, (3) drastic change in the economic outlook, (4) management change and (5) ownership changes.

Target Price and Rating
Valuation Methodology and Risks: (12 months) for SP Setia (SETI.KL)

Method: Our target price of RM1.20 for SP Setia is based on a 75% discount to its fully-diluted RNAV. Our OUTPERFORM rating is premised on cheap valuations, the Group's strong track record and branding power, and a recovery in the property market that we expect.

Risk: Key risks for SP Setia's OUTPERFORM rating and RM1.20 target price include a downturn in the property market, execution risk, further equity raising resulting in another round of dilution and also any related party transaction risk.

Target Price and Rating
Valuation Methodology and Risks: (12 months) for Sapura Energy (SAEN.KL)

Method: Sapura Energy's target price of RM0.09 is based on (1) an EVA approach for the oilfield services segments (drilling, OCSS, fabrication), using a WACC of ~20%, (2) NPV (FCFE) for E&P, using US$36-60/bbl, US$2-3/mmbtu and a 10% discount rate, and including a rough valuation for SK408 discoveries; (3) estimated compensation payment for Berantai; and (4) SAEN's fully diluted shares (ESOS+RCPS-i+warrants). As we believe Sapura Energy's earnings prospects remain weak in the near term, we rate the stock NEUTRAL.

Risk: Risks that could impede achievement of our RM0.09 target price and NEUTRAL rating for Sapura Energy include (1) contract renewals/wins well below expectations for oilfield services segments or significant margin expansion; (2) lower-than-expected production at SEKP's E&P assets; and (3) weak oil prices.

Target Price and Rating
Valuation Methodology and Risks: (12 months) for Sime Darby (SIME.KL)

Method: Our RM2.70 target price for Sime Darby Berhad is based on sum-of-the-parts. We value its motor division at 10x CY21E P/E, industrial division at 13x CY21E P/E, logistics at invested capital, healthcare division at 20x CY21E EV/EBITDA (total value at RM23bn). We also value its other assets collectively at RM3.6bn and deduct ~RM280mn from the total value to factor in its net debt position for FY21E. We then attach a 20% holding company discount, resulting in total value of RM18.4 bn or RM2.70 per share. We rate the stock OUTPERFORM as the company's earnings are still growing.

Risk: Risks to our target price of RM2.70 and OUTPERFORM rating for Sime Darby Berhad include: (1) regulatory risks related to its motor and industrial divisions; (2) uncertain timeline for asset disposals; and (3) competition.

Target Price and Rating
Valuation Methodology and Risks: (12 months) for Sime Darby Plantation Bhd (SIPL.KL)

Method: Our target price of RM4.50 is derived based on a combination of EV/EBITDA & EV/mature ha valuation methods, equally weighted. Given its high earnings sensitivity to CPO price and our bearish outlook for 2021, we rate the stock UNDERPERFORM.

Risk: Key upside risks to our RM4.50 target price and UNDERPERFORM rating include: (1) stronger than expected CPO ASP, (2) higher-than-expected FFB (fresh fruit bunch) growth and (3) effective cost optimization efforts.

Target Price and Rating
Valuation Methodology and Risks: (12 months) for Sime Darby Property (SIPR.KL)

Method: Our target price of RM0.85 for Sime Property is based on a 70% discount to RNAV. We believe the worst is over with resumption of activities while historic low interest rates should help provide a much needed boost to the property sector. We have an OUTPERFORM rating premised on distressed valuations and ongoing asset monetisation which should help a re-rating.

Risk: Key risks to our OUTPERFORM and RM0.85 target price for Sime Darby Property include a downturn in the property market, execution risks, any related party transaction risk or if our thesis of asset disposal takes a much longer than expected time.

Target Price and Rating
Valuation Methodology and Risks: (12 months) for Sino Thai Engr & Const PCL (STEC.BK)

Method: Our 12-month target price of Bt15 for Sino Thai Engineering and Construction is based on a forward price/backlog multiple of 0.3x, which is equal to -0.5 standard deviation below STEC's price/backlog multiple average since 2010. We have a NEUTRAL rating on the stock because we believe that backlog growth has peaked in the medium term and see risk in the execution of infrastructure projects, but at current valuations we see limited downside.

Risk: Upside risks to our Bt15 target price and NEUTRAL rating for Sino Thai Engineering and Construction include: (1) faster-than-expected execution in the bidding of public infrastructure projects by the Thai government; (2) higher-than-expected margin from private projects; and (3) if STEC gets a higher-than-expected market share in bidding for projects. Downside risks include (1) unexpected delays in the bidding for large infrastructure projecs, such as the Orange Line; (2) longer-than-expected impact from the COVID-19 outbreak, which may make the government prioritise other items over the bidding of infrastructure projects.

Target Price and Rating
Valuation Methodology and Risks: (12 months) for SunCon (SCOG.KL)

Method: Our target price of RM2.50 is derived by pegging FY21e estimates to Sunway Construction's historical ex-cash P/E average of 16.5x. We rate the stock OUTPERFORM. We believe that SunCon is a safer choice and is better positioned to weather through the turbulent economic and political conditions.

Risk: The main risks to our target price of RM2.50 and OUTPERFORM rating for Sunway Construction include: (1) changes in government policy, (2) increase in payment risk from customers on the back of a prolonged slowdown in the construction and property sector, and (3) a spike in raw material prices.

Target Price and Rating
Valuation Methodology and Risks: (12 months) for Telekom Malaysia (TLMM.KL)

Method: Our target price of RM5.50 for Telekom Malaysia is based on discounted cash flow (DCF) analysis, using an estimated weighted average cost of capital (WACC) of 8.4% and a terminal growth rate of 2%. Driven by low fixed broadband penetration in Malaysia and higher demand for fixed broadband services post Covid-19, we rate TM OUTPERFORM.

Risk: The key risks to our RM5.50 target price and OUTPERFORM rating for Telekom Malaysia include (1) faster cannibalisation of voice revenue per line by cellular competition, (2) slower rollout of broadband lines than expected, and (3) higher than expected operating cost.

Target Price and Rating
Valuation Methodology and Risks: (12 months) for Tenaga (TENA.KL)

Method: Our target price of RM13.70 for Tenaga is based on a two-stage EVA calculation, using WACC of 7%, long-term excess return assumption of 0.8% and long-term growth of 2.4%, to derive the fair value. Our OUTPERFORM rating is premised on the stock's defensive characteristics, postive catalyst from a potential break-up as well as cost rationalisation efforts that could provide uplift to earnings.

Risk: Risks to our RM13.70 target price and OUTPERFORM rating for Tenaga include liberalisation happening sooner and more drastically than expected as well as dividend disappointment.

Target Price and Rating
Valuation Methodology and Risks: (12 months) for Time Dotcom Berhad (TCOM.KL)

Method: We believe the best valuation methodology to capture Time's near-to-mid term strong earnings growth potential is discounted cash flow. We have applied a WACC (weighted average cost of capital) of 8.2% (4.0% risk-free rate, 8.0% equity risk premium and 0.8x beta). Our explicit forecast period goes up to FY25 and we have assumed a terminal growth rate of 2.0%. Combining these financial metrics with our discounted cash flow estimates, we derive a target price of RM13.00 per share. Given we believe its prospects are relatively better than the other Malaysian telecommunication companies, we rate it OUTPERFORM.

Risk: We highlight three key risks to our target price of RM13.00 and OUTPERFORM rating for Time Dotcom Berhad: (1) a slower-than-expected growth rate for its subscriber base; (2) lower-than-expected capacity sales for its subsea cables (APG and AAE-1); and (3) a large decline in wholesale bandwidth pricing if market leader (TM) decides to lower prices.

Target Price and Rating
Valuation Methodology and Risks: (12 months) for Top Glove Corporation Bhd (TPGC.KL)

Method: Our target price of RM16.20 for Top Glove Corporation Bhd is pegged to 12x P/E (price-to-earnings), which is at 1SD below mean P/E. Our Outperform is premised on the strong earnings expectation, cheap valuations and attractive dividend yield of the stock.

Risk: Key risks to our target price of RM16.20 and OUTPERFORM rating for Top Glove Corporation Bhd include: (1) a sharp and sudden collapse in glove ASP (average selling price), (2) volatility in USD/MYR; (3) unexpected movement in raw material costs; and (4) any reputational damage from its labour practices.

Target Price and Rating
Valuation Methodology and Risks: (12 months) for Yinson Holdings (YINS.KL)

Method: Our target price of RM6.76 for Yinson Holdings relies on a DCF (discounted cash flow)-based valuation of its FPSO business (WACC (weighted average cost of capital) varies from asset to asset). We have assumed no contract wins for Yinson for now amid low oil prices. Safe optional extensions assumed to be exercised as well. No redeployment for FPSOs assumed. Given that prospects within the FPSO sector look encouraging, we rate the stock OUTPERFORM.

Risk: Risks that could impede achievement of our RM6.76 target price and OUTPERFORM rating for Yinson Holdings include: FPSO conversion is a critical phase for the company and risks are asymmetric; execution failure during this period can have a big negative financial impact. Contract wins (or indications of wins) below/above expectations could move the price substantially due to their lumpy nature. Yinson operates in some countries with higher than average geopolitical and reputation risk.

Companies Mentioned *(Price as of 01-Oct-2020)*
Airasia Group (AIRA.KL, RM0.67)
Alliance Bank Malaysia Berhad (ALLI.KL, RM2.2)
Astro Malaysia Holdings Bhd (ASTR.KL, RM0.77)
Axiata Group Berhad (AXIA.KL, RM2.93)
BAT Malaysia (BATO.KL, RM10.04)
CIMB Group Holdings Bhd (CIMB.KL, RM3.08)
Carlsberg Brewery Malaysia Bhd (CBMS.KL, RM20.3)
Ch Karnchang (CK.BK, Bt16.7)
DiGi.Com (DSOM.KL, RM4.01)
Dialog Group Bhd (DIAL.KL, RM3.82)
Econpile Holdings Berhad (ECOH.KL, RM0.47)
Gamuda (GAMU.KL, RM3.47)
Genting Berhad (GENT.KL, RM3.17)
Genting Malaysia Bhd (GENM.KL, RM2.08)
Genting Plantations Bhd (GENP.KL, RM9.69)
George Kent (GKMS.KL, RM0.68)
Heineken Malaysia Bhd (HEIN.KL, RM20.9)
Hock Seng Lee (HSLB.KL, RM0.865)
Hong Leong Bank (HLBB.KL, RM15.0)
Hong Leong Financial Group Berhad (HLCB.KL, RM14.0)
IHH Healthcare Berhad (IHHH.KL, RM5.08)
IJM Corporation Berhad (IJMS.KL, RM1.4)
IOI Corporation Berhad (IOIB.KL, RM4.39)
Inari Amertron (INAR.KL, RM2.31)
Karex Bhd (KARE.KL, RM0.71)
Kerjaya Prospek (KREJ.KL, RM1.0)
Kuala Lumpur Kepong (KLKK.KL, RM22.7)
Leong Hup Intl (LEOG.KL, RM0.73)
Lotte Chemical Titan (LOTT.KL, RM2.18)
Mah Sing Group Bhd (MAHS.KL, RM0.67)
Malakoff Bhd (MALA.KL, RM0.94)
Malayan Banking (MBBM.KL, RM7.18)
Malaysia Airports Holdings Bhd (MAHB.KL, RM4.8)
Maxis Berhad (MXSC.KL, RM5.03)
PT PP (Persero) Tbk (PTPP.JK, Rp840)
PT Waskita Karya (Persero) Tbk (WSKT.JK, Rp510)
PT Wijaya Karya (Persero) Tbk (WIKA.JK, Rp1,120)
PT Wijaya Karya Beton (Persero) Tbk (WTON.JK, Rp224)
Padini Holdings Berhad (PDNI.KL, RM2.32)
Petronas Chemicals Group BHD (PCGB.KL, RM5.65)
Pintaras Jaya (PINT.KL, RM2.3)
Public Bank (PUBM.KL, RM15.78)
RHB Bank Berhad (RHBC.KL, RM4.5)
SP Setia (SETI.KL, RM0.77)
Sapura Energy (SAEN.KL, RM0.11)
Sime Darby (SIME.KL, RM2.48)
Sime Darby Plantation Bhd (SIPL.KL, RM4.79)
Sime Darby Property (SIPR.KL, RM0.58)
Sino Thai Engr & Const PCL (STEC.BK, Bt11.1)
SunCon (SCOG.KL, RM1.84, OUTPERFORM, TP RM2.5)
Telekom Malaysia (TLMM.KL, RM4.09)
Tenaga (TENA.KL, RM10.38)
Time Dotcom Berhad (TCOM.KL, RM12.16)
Top Glove Corporation Bhd (TPGC.KL, RM8.43)
WCTH (WCTE.KL, RM0.395)
Waskita Beton (WSBP.JK, Rp140)
Yinson Holdings (YINS.KL, RM5.63)

Disclosure Appendix

Analyst Certification

I, Jae Ang, certify that (1) the views expressed in this report accurately reflect my personal views about all of the subject companies and securities and (2) no part of my compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

As of December 10, 2012 Analysts' stock rating are defined as follows:

Outperform (O) : The stock's total return is expected to outperform the relevant benchmark* over the next 12 months.
Neutral (N) : The stock's total return is expected to be in line with the relevant benchmark* over the next 12 months.
Underperform (U) : The stock's total return is expected to underperform the relevant benchmark* over the next 12 months.

**Relevant benchmark by region: As of 10th December 2012, Japanese ratings are based on a stock's total return relative to the analyst's coverage universe which consists of all companies covered by the analyst within the relevant sector, with Outperforms representing the most attractive, Neutrals the less attractive, and Underperforms the least attractive investment opportunities. As of 2nd October 2012, U.S. and Canadian as well as European (excluding Turkey) ratings are based on a stock's total return relative to the analyst's coverage universe which consists of all companies covered by the analyst within the relevant sector, with Outperforms representing the most attractive, Neutrals the less attractive, and Underperforms the least attractive investment opportunities. For Latin America, Turkey and Asia (excluding Japan and Australia), stock ratings are based on a stock's total return relative to the average total return of the relevant country or regional benchmark (India - S&P BSE Sensex Index); prior to 2nd October 2012 U.S. and Canadian ratings were based on (1) a stock's absolute total return potential to its current share price and (2) the relative attractiveness of a stock's total return potential within an analyst's coverage universe. For Australian and New Zealand stocks, the expected total return (ETR) calculation includes 12-month rolling dividend yield. An Outperform rating is assigned where an ETR is greater than or equal to 7.5%; Underperform where an ETR less than or equal to 5%. A Neutral may be assigned where the ETR is between -5% and 15%. The* *overlapping rating range allows analysts to assign a rating that puts ETR in the context of associated risks. Prior to 18 May 2015, ETR ranges for Outperform and Underperform ratings did not overlap with Neutral thresholds between 15% and 7.5%, which was in operation from 7 July 2011.*

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