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<b>Stock:</b>	SCGB MK
<b>Name:</b>	Sunway Construction Group
<b>Price:</b>	RM2.33 (At 08:50, 21 August 2017 GMT)
<b>Recommendation:</b>	Outperform
<b>12mth price target:</b>	RM2.50
<b>12-month TSR:</b>	10.1%
<b>Volatility index:</b>	Low
<b>Market Cap (m):</b>	RM3,012
<b>Market Cap (m):</b>	US\$701
<b>Free float:</b>	24%
<b>Current valuation (PER):</b>	RM1.80 - 2.65

#### Event

- Today we hosted Sunway Construction Group (SunCon) MD and CFO at the Macquarie ASEAN Conference 2017.

#### Impact

- **Order book replenishment:** SunCon is guiding for RM2bn FY17, consistent with the guidance we received at the beginning of this FY. SunCon is gunning for the LRT3 packages and the BRT packages. SunCon is confident to meet the target after having achieved c.RM1bn order win YTD, with future order wins to be backed by an RM14bn tender book.
- **Precast:** SunCon is finalizing its plans to expand its precast plant in Singapore, partnering with a local firm. SunCon will spend RM40mn in capex for its effective stake in the plant expansion. The plant will add its capacity by 150,000m<sup>3</sup> annually, mainly focusing on the potential demand by the Singapore HDB.
- **In-house ordebook support:** YTD its parent, Sunway Berhad, had purchased over 5 land banks taking its land bank portfolio's total GDV to c.RM53bn. According to SunCon, its parent is keen to monetize the new land bank purchases soon, which in turn means new order flows coming from the parent are imminent. SunCon is relying 30-40% of its annual order win from its parent.
- **Governance:** They are reassuring the investors that their foreign workers are legal as they execute mostly government or government linked companies' projects, which have stricter rules on employing legal workers. SunCon spends RM5,618 per foreign worker to keep hire them legally. Currently, SunCon has between 500 to 600 foreign workers under its payroll.
- **Miscellaneous:** SunCon will not be participating in the ECRL and Pan Borneo highway projects as these projects will potentially involve third party involvement as their JV partners to undertake the packages. They have had a bad experience with their former JV partners in the past projects that they have undertaken/bided.

#### Action and recommendation

- YTD SunCon has rallied 39% (outperforming the FBM KLCI by 31%), and we believe the upcoming potential newsflows on LRT3 will bring another positive tone to the share price. We have imputed a target orderbook replenishment of RM2bn for SunCon in FY17E. Maintain Outperform.

December		2016A	2017E	2018E	2019E
Revenue	m	1,788.8	2,377.6	2,483.4	2,294.4
EBIT	m	149.6	205.2	225.4	195.5
EBIT growth	%	9.8	37.2	9.9	-13.3
Adjusted profit	m	123.5	161.2	177.6	156.0
Capex	m	19.0	46.9	52.1	57.8
EPS rep	sen	9.6	12.5	13.7	12.1
EPS rep growth	%	-2.9	30.5	10.2	-12.2
EPS adj	sen	9.6	12.5	13.7	12.1
EPS adj growth	%	-2.9	30.5	10.2	-12.2
PER rep	x	24.4	18.7	17.0	19.3
PER adj	x	24.4	18.7	17.0	19.3
Total DPS	sen	6.5	6.2	6.9	4.1
Total div yield	%	2.8	2.7	2.9	1.7

ROA	%	9.7	11.8	11.5	9.6
ROE	%	26.2	30.2	28.7	22.2
EV/EBITDA	x	14.2	10.8	9.8	10.8
Net debt/equity	%	-66.9	-72.7	-74.8	-76.9
P/BV	x	6.1	5.2	4.5	4.1
EBITDA	m	188.6	248.3	273.3	248.7
Net Debt/EBITDA	x	-1.8	-1.7	-1.8	-2.3
Payout ratio	%	68.0	50.0	50.0	33.6
FCF Yield	%	2.0	6.5	5.6	5.0

\*All values are in MYR unless otherwise stated.

Source: Company data, Macquarie Research, Aug 2017.

### SCGB MK rel KLCI performance, & rec history



Note: Recommendation timeline - if not a continuous line, then there was no Macquarie coverage at the time or there was an embargo period.

Source: FactSet, Macquarie Research, August 2017

(all figures in MYR unless noted)

### Analyst(s)

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