

**MALAYSIA**

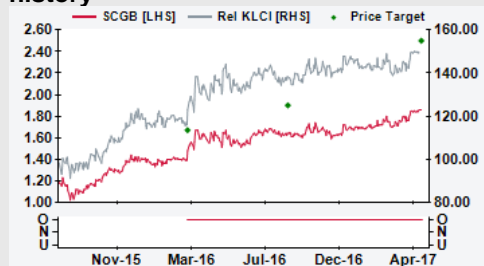
SCGB MK Outperform

Price (at 12:48, 25 Apr 2017 GMT) RM2.00

<b>Valuation</b>	RM	1.80-2.65
- PER		
<b>12-month target</b>	RM	2.50
<b>Upside/Downside</b>	%	+25.0
<b>12-month TSR</b>	%	+28.2
<b>Volatility Index</b>		Low
<b>GICS sector</b>		Capital Goods
<b>Market cap</b>	RMm	2,586
<b>Market cap</b>	US\$m	547
<b>Free float</b>	%	24
<b>30-day avg turnover</b>	US\$m	0.5
<b>Foreign ownership</b>	%	8.0
<b>Number shares on issue</b>	m	1,293

**Investment fundamentals**

Year end 31 Dec		2016A	2017E	2018E	2019E
Revenue	m	1,788.8	2,377.7	2,483.4	2,294.4
EBITDA	m	188.6	248.3	273.3	248.7
EBIT	m	149.6	205.2	225.4	195.5
Adjusted profit	m	123.5	161.2	177.6	156.0
EPS adj	sen	9.6	12.5	13.7	12.1
EPS adj growth	%	-2.9	30.5	10.2	-12.2
PER adj	x	20.9	16.0	14.6	16.6
Total DPS	sen	6.5	6.2	6.9	4.1
Total div yield	%	3.3	3.1	3.4	2.0
ROA	%	9.7	11.8	11.5	9.6
ROE	%	26.2	30.2	28.7	22.2
EV/EBITDA	x	12.0	9.1	8.3	9.1
Net debt/equity	%	-66.9	-72.7	-74.8	-76.9
P/BV	x	5.2	4.5	3.9	3.5

**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, April 2017

(all figures in MYR unless noted)

**Analyst(s)**

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25 April 2017

Macquarie Capital Securities (Malaysia) Sdn. Bhd.

# Sunway Construction Group

## No little league, we major

### Event

- We reiterate our Outperform rating on Sunway Construction (SunCon) as we raise our TP from RM1.90 to RM2.50. We increase SunCon's FY18E EPS multiple from 14x to 16x to match the fwd-PER of KLCON Index. The new TP of RM2.50 carries an implied PE multiple of 18x – 2x above SunCon's fwd-PER multiple of 16x. We believe positive news flows will continue to support SunCon's re-rating, with the awards of LRT3, KL-Klang BRT and Damansara City Centre (superstructure) packages expected to happen in 2Q/3Q 2017. The packages from the aforementioned project could amass a total order win of more than RM1bn for SunCon.
- We believe the Malaysia Securities Commission (SC) will reinstate SunCon's [Shariah-compliant security](#) status in May 2017, after SunCon fell off the list in May 2016. Against this backdrop, we think that SunCon's share price will remain elevated as it would draw interests from the Shariah-compliant funds.

### Impact

- Awards of LRT3 will drive the share price.** We maintain our orderbook replenishment target of RM2bn for SunCon in FY17E. We believe the upcoming awards of LRT3 are the key catalysts for SunCon. We gathered that the packages of LRT3 will value between RM600mn to RM1.5bn each, across 10 different packages – which also includes 1 underground package. The most lucrative packages are: a) 2.6km underground package and; b) 9.2km above ground package.
- Reinstatement of Shariah-compliant security in May 2017.** SC revoked SunCon's Shariah-compliant status in May 2016 after it failed to meet SC's cash requirement in conventional accounts and instruments. The law states that for a security to retain its Shariah-compliant status, the cash placed in conventional accounts and instruments must be less than 33% of total assets. Once the status is revoked, it will take two review periods (a year) before a security can make a comeback to the list. According to SunCon, it has observed the aforementioned limit since January 2016 and it is very confident that it will regain the Shariah-compliant status in the upcoming review.

### Earnings and target price revision

- Post earnings results, we are raising FY17/18/19E earnings by +1.5%/+7.5%/+12.4%, respectively. We increase our target multiple for SunCon to 16x from the previous 14x, and hence raise the TP by 32% from RM1.90 to RM2.50.

### Price catalyst

- 12-month price target: RM2.50 based on a PER methodology.
- Catalyst: award of the LRT3 contract

### Action and recommendation

- In the small mid cap space, we prefer Econpile Holdings (ECON MK, RM2.19, Outperform, TP: RM2.50) over SunCon, as we believe Econpile has the ability to deliver better margins and bag more orders in the piling and foundation services sector. Maintain Outperform.

## Analysis

**Fig 1 SunCon's valuation**

Business Segments	Valuation Method	Stake	Value (RM 'mil)
Construction and Precast	PER of 16x in FY18E	100%	2,842
FY17E estimated net cash			385
Sum of the parts (SOTP)			3,227
No. of shares ('mil)			1,293
<b>Target Price (RM)</b>			<b>2.50</b>

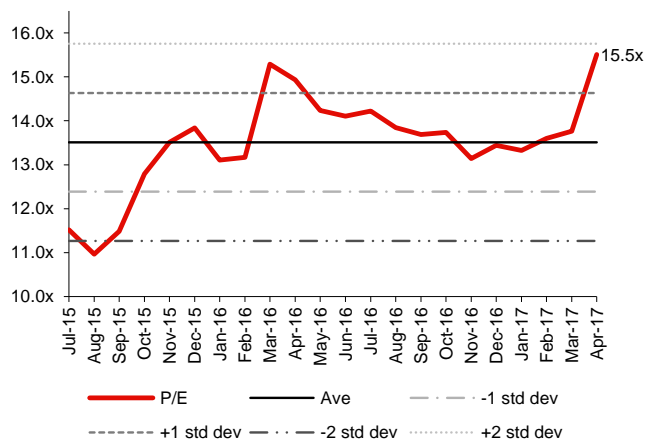
Source: Company data, Macquarie Research, April 2017

**Fig 2 SunCon's outstanding orderbook stands at RM4.8bn**

Project	Completion	Value (RM 'mil)	Outstanding value (RM 'mil)	% completion
<b>External</b>				
Putrajaya Parcel F	Sep-18	1,610	1,187	26%
KLCC (NEC + 2 + 2A)	Mar-18	646	218	66%
MRT V201 (Sg. Buloh - Persiaran Dagang)	Jun-21	1,213	1,126	7%
MRT V201 - Advance Works	Sep-17	53	46	13%
HUKM (MEP works)	Jun-18	66	66	0%
International School of Kuala Lumpur	Jun-18	268	228	15%
SUKE - Cheras to Ulu Klang	Jun-18	18	18	0%
DASH - Puncak Perdana to Kota Damansara	Mar-18	16	16	0%
Gas District Cooling (Plant 1)	Sep-18	152	152	0%
Others - External	Dec-16	26	5	81%
<b>Total</b>		<b>4,068</b>	<b>3,062</b>	<b>25%</b>
<b>Internal</b>				
Sunway Velocity Hotel + Office	Mar-17	101	47	53%
Sunway Velocity Medical Centre	Dec-18	185	151	18%
Sunway Medical Centre Phase 4	Dec-18	428	400	7%
Sunway Iskandar Citrine Service Apartment	Mar-17	213	23	89%
Sunway Geo Retail Shops & Flexi Suites Phase 2	Mar-18	244	123	50%
Sunway Iskandar - Emerald Residences	Dec-18	175	116	34%
Sunway Iskandar - 88 units shoplots	Jun-18	57	56	2%
Sunway Iskandar - Big Box	Dec-17	100	97	3%
Sunway Property - Kelana Jaya condo	Dec-20	449	449	0%
Others - Internal	Mar-18	31	21	32%
<b>Total</b>		<b>1,983</b>	<b>1,483</b>	<b>25%</b>
<b>Precast</b>				
Singapore HDB	Jun-17	703	270	62%
<b>Total</b>		<b>703</b>	<b>270</b>	<b>62%</b>
<b>Grand Total</b>		<b>6,754</b>	<b>4,815</b>	<b>29%</b>
<b>Orderbook replenishment</b>				
FY17E		2,000		
FY18E		1,500		
FY19E		1,500		
<b>Total</b>		<b>5,000</b>		

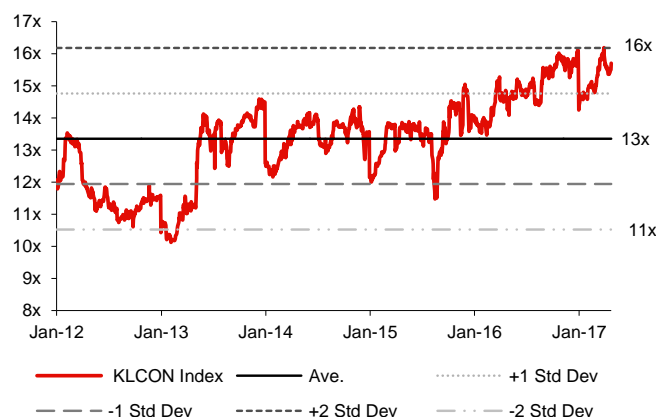
Source: Company data, Macquarie Research, April 2017

**Fig 3 SunCon's fwd-PER now trades at 15.5x**



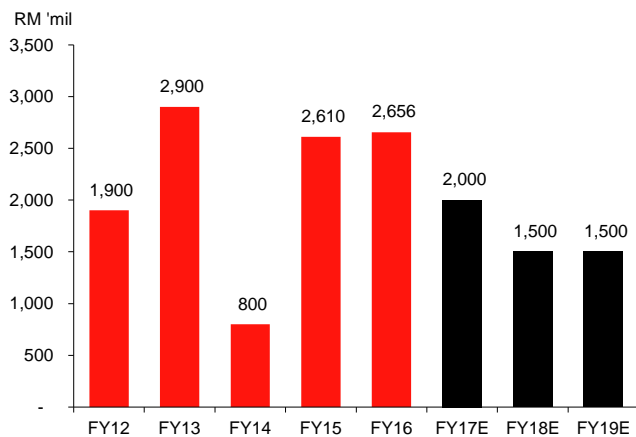
Source: Bloomberg, Macquarie Research, April 2017

**Fig 4 KLCON's fwd-PER now trades at 15.7x**



Source: Bloomberg, Macquarie Research, April 2017

Fig 5 SunCon's historical orderbook replenishments



Source: Company data, Macquarie Research, April 2017

Fig 6 Sensitivity analysis order wins vs. multiple

		FY17E Orderbook Replenishment (RM 'mil)				
		1,500	1,750	2,000	2,250	2,500
PER multiple	13x	2.04	2.06	2.08	2.11	2.13
	14x	2.17	2.20	2.22	2.25	2.27
	15x	2.30	2.33	2.36	2.39	2.41
	16x	2.44	2.47	2.50	2.53	2.55
	17x	2.57	2.60	2.63	2.66	2.70
	18x	2.71	2.74	2.77	2.80	2.84

Source: Macquarie Research, April 2017

Fig 7 Change in estimates

RM 'mil	New estimates			Old estimates			Change in estimates		
	FY17E	FY18E	FY19E	FY17E	FY18E	FY19E	FY17E	FY18E	FY19E
Revenue	2,378	2,483	2,294	2,317	2,486	1,998	2.6%	-0.1%	14.8%
EBIT	205	225	196	192	211	162	6.8%	6.7%	20.6%
Profit before tax	212	234	205	199	217	169	6.8%	7.5%	21.3%
Adjusted net profit	161	178	156	159	165	139	1.5%	7.5%	12.4%
Diluted EPS (sen)	12.5	13.7	12.1	12.3	12.8	10.7	1.5%	7.5%	12.4%

Source: Macquarie Research, April 2017

Fig 8 Macquarie vs. consensus

RM 'mil	Macquarie			Consensus			Difference		
	FY17E	FY18E	FY19E	FY17E	FY18E	FY19E	FY17E	FY18E	FY19E
Revenue	2,378	2,483	2,294	2,218	2,396	2,372	7.2%	3.6%	-3.3%
EBIT	205	225	196	206	203	197	-0.5%	10.9%	-0.6%
Profit before tax	212	234	205	198	211	212	7.4%	10.6%	-2.9%
Adjusted net profit	161	178	156	154	164	166	4.6%	8.1%	-5.7%
Diluted EPS (sen)	12.5	13.7	12.1	12.2	12.8	12.8	2.2%	7.3%	-5.7%

Source: Bloomberg, Macquarie Research, April 2017

Fig 9 SunCon vs. peers under MQ's coverage

Company	Ticker	Rec.	CP (RM)	TP (RM)	Upside (%)	YTD performance (%)	Mkt Cap (USDm)	FY17E PER (x)	FY18E PER (x)	FY17E Yield (%)	Net gearing (%)	FY17E ROE (%)	FY18E ROE (%)	FY17E P/Bv (x)	FY18E P/Bv (x)
<b>Malaysia</b>															
Gamuda	GAM MK	Outperform	5.19	5.60	8%	9%	2,888.5	17.8	15.1	2.3	47.2	9.8	10.9	1.7	1.6
IJM Corporation	IJM MK	Outperform	3.52	3.87	10%	10%	2,914.5	17.3	14.5	3.1	46.7	7.8	8.9	1.3	1.3
Sunway Construction Group	SCGB MK	Outperform	2.00	2.50	25%	18%	592.4	16.0	14.6	3.1	-72.7	30.2	28.7	4.5	3.9
Econpile Holdings	ECON MK	Outperform	2.25	2.50	11%	23%	275.8	13.8	11.6	1.6	-13.6	30.9	30.1	3.9	3.2
<b>Weighted Average</b>								<b>17.3</b>	<b>14.7</b>	<b>2.7</b>	<b>33.9</b>	<b>11.6</b>	<b>12.4</b>	<b>1.9</b>	<b>1.7</b>

Source: Bloomberg, Macquarie Research, April 2017; prices as at 25 April 2017 close

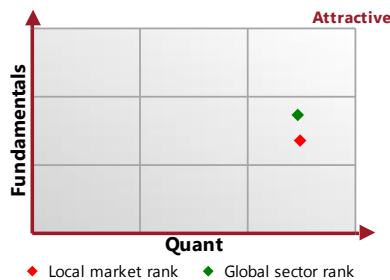
## Macquarie Quant View

The quant model currently holds a reasonably positive view on Sunway Construction Group. The strongest style exposure is Profitability, indicating this stock is efficiently converting investments to earnings; proxied by ratios like ROE or ROA. The weakest style exposure is Valuations, indicating this stock is over-priced in the market relative to its peers.

**345/1921**

Global rank in  
Capital Goods

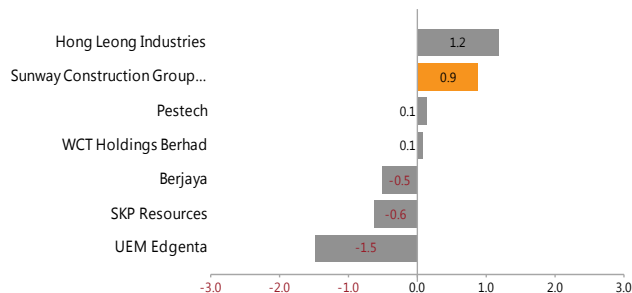
**% of BUY recommendations** 78% (7/9)  
**Number of Price Target downgrades** 0  
**Number of Price Target upgrades** 1



Displays where the company's ranked based on the fundamental consensus Price Target and Macquarie's Quantitative Alpha model.  
 Two rankings: Local market (Malaysia) and Global sector (Capital Goods)

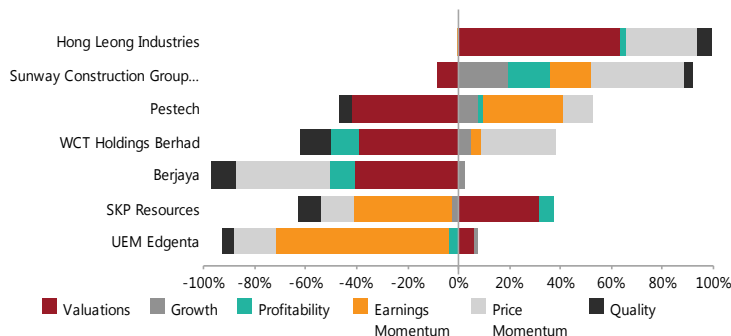
## Macquarie Alpha Model ranking

A list of comparable companies and their Macquarie Alpha model score (higher is better).



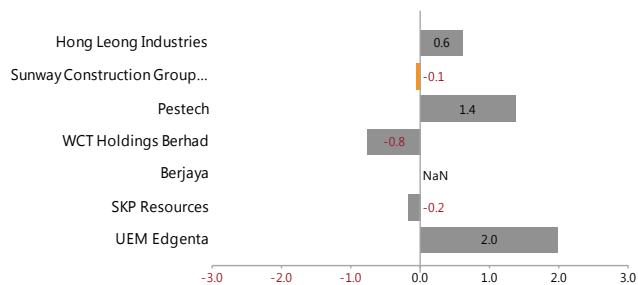
## Factors driving the Alpha Model

For the comparable firms this chart shows the key underlying styles and their contribution to the current overall Alpha score.



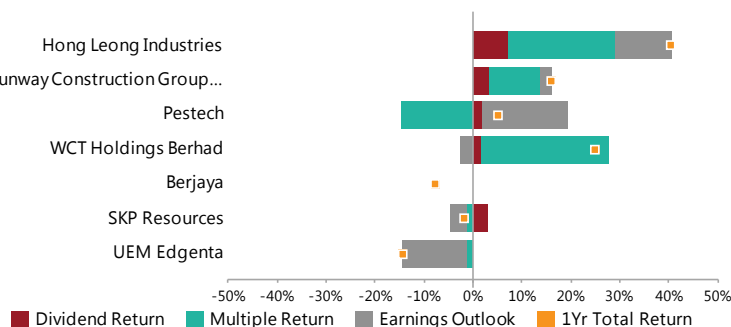
## Macquarie Earnings Sentiment Indicator

The Macquarie Sentiment Indicator is an enhanced earnings revisions signal that favours analysts who have more timely and higher conviction revisions. Current score shown below.



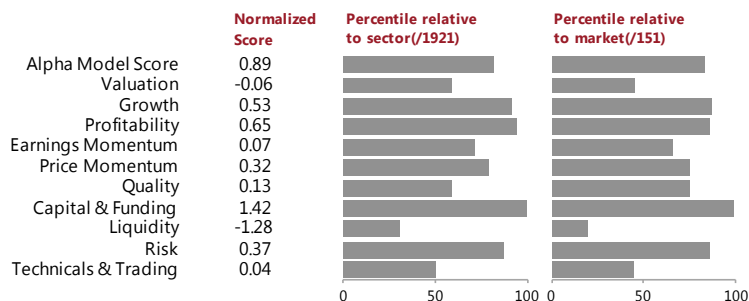
## Drivers of Stock Return

Breakdown of 1 year total return (local currency) into returns from dividends, changes in forward earnings estimates and the resulting change in earnings multiple.



## How it looks on the Alpha model

A more granular view of the underlying style scores that drive the alpha (higher is better) and the percentile rank relative to the sector and market.



Source (all charts): FactSet, Thomson Reuters, and Macquarie Research. For more details on the Macquarie Alpha model or for more customised analysis and screens, please contact the Macquarie Global Quantitative/Custom Products Group ([cpq@macquarie.com](mailto:cpq@macquarie.com))

## Sunway Construction Group (SCGB MK, Outperform, Target Price: RM2.50)

Interim Results					Profit & Loss						
		2H/16A	1H/17E	2H/17E	1H/18E		2016A	2017E	2018E	2019E	
<b>Revenue</b>	m	930	1,141	1,236	1,192	<b>Revenue</b>	m	1,789	2,378	2,483	2,294
<b>Gross Profit</b>	m	98	119	129	131	<b>Gross Profit</b>	m	189	248	273	249
Cost of Goods Sold	m	832	1,022	1,107	1,061	Cost of Goods Sold	m	1,600	2,129	2,210	2,046
<b>EBITDA</b>	m	98	119	129	131	<b>EBITDA</b>	m	189	248	273	249
Depreciation	m	20	21	22	23	Depreciation	m	39	43	48	53
Amortisation of Goodwill	m	0	0	0	0	Amortisation of Goodwill	m	0	0	0	0
Other Amortisation	m	0	0	0	0	Other Amortisation	m	0	0	0	0
<b>EBIT</b>	m	78	98	107	108	<b>EBIT</b>	m	150	205	225	196
Net Interest Income	m	-3	-2	-2	-2	Net Interest Income	m	-6	-4	-4	-4
Associates	m	0	0	0	0	Associates	m	0	0	0	0
Exceptionals	m	0	0	0	0	Exceptionals	m	0	0	0	0
Forex Gains / Losses	m	0	0	0	0	Forex Gains / Losses	m	0	0	0	0
Other Pre-Tax Income	m	5	5	6	6	Other Pre-Tax Income	m	10	11	12	14
<b>Pre-Tax Profit</b>	m	80	102	110	112	<b>Pre-Tax Profit</b>	m	154	212	234	205
Tax Expense	m	-16	-24	-26	-27	Tax Expense	m	-30	-51	-56	-49
<b>Net Profit</b>	m	64	77	84	85	<b>Net Profit</b>	m	124	161	178	156
Minority Interests	m	-0	-0	-0	-0	Minority Interests	m	-0	-0	-0	-0
<b>Reported Earnings</b>	m	64	77	84	85	<b>Reported Earnings</b>	m	124	161	178	156
<b>Adjusted Earnings</b>	m	64	77	84	85	<b>Adjusted Earnings</b>	m	124	161	178	156
EPS (rep)	sen	5.0	6.0	6.5	6.6	EPS (rep)	sen	9.6	12.5	13.7	12.1
EPS (adj)	sen	5.0	6.0	6.5	6.6	EPS (adj)	sen	9.6	12.5	13.7	12.1
EPS Growth yoy (adj)	%	16.8	30.5	30.5	10.2	EPS Growth (adj)	%	-2.9	30.5	10.2	-12.2
						PE (rep)	x	20.9	16.0	14.6	16.6
						PE (adj)	x	20.9	16.0	14.6	16.6
EBITDA Margin	%	10.5	10.4	10.4	11.0	Total DPS	sen	6.5	6.2	6.9	4.1
EBIT Margin	%	8.4	8.6	8.6	9.1	Total Div Yield	%	3.3	3.1	3.4	2.0
Earnings Split	%	52.0	48.0	52.0	48.0	Basic Shares Outstanding	m	1,293	1,293	1,293	1,293
Revenue Growth	%	1.0	32.9	32.9	4.4	Diluted Shares Outstanding	m	1,293	1,293	1,293	1,293
EBIT Growth	%	39.4	37.2	37.2	9.9						
Profit and Loss Ratios					Cashflow Analysis						
		2016A	2017E	2018E	2019E		2016A	2017E	2018E	2019E	
Revenue Growth	%	-6.7	32.9	4.4	-7.6	<b>EBITDA</b>	m	189	248	273	249
EBITDA Growth	%	5.9	31.6	10.1	-9.0	Tax Paid	m	-32	-51	-56	-49
EBIT Growth	%	9.8	37.2	9.9	-13.3	Chgs in Working Cap	m	59	38	-6	0
Gross Profit Margin	%	10.5	10.4	11.0	10.8	Net Interest Paid	m	4	7	8	10
EBITDA Margin	%	10.5	10.4	11.0	10.8	Other	m	-140	0	0	0
EBIT Margin	%	8.4	8.6	9.1	8.5	<b>Operating Cashflow</b>	m	80	243	219	210
Net Profit Margin	%	6.9	6.8	7.2	6.8	Acquisitions	m	0	0	0	0
Payout Ratio	%	68.0	50.0	50.0	33.6	Capex	m	-19	-47	-52	-58
EV/EBITDA	x	12.0	9.1	8.3	9.1	Asset Sales	m	8	0	0	0
EV/EBIT	x	15.1	11.0	10.0	11.5	Other	m	89	0	0	0
						<b>Investing Cashflow</b>	m	79	-47	-52	-58
<b>Balance Sheet Ratios</b>						Dividend (Ordinary)	m	-84	-81	-89	-78
ROE	%	26.2	30.2	28.7	22.2	Equity Raised	m	3	0	0	0
ROA	%	9.7	11.8	11.5	9.6	Debt Movements	m	-0	7	7	8
ROIC	%	100.3	95.4	109.0	88.7	Other	m	-3	0	0	0
Net Debt/Equity	%	-66.9	-72.7	-74.8	-76.9	<b>Financing Cashflow</b>	m	-84	-74	-82	-70
Interest Cover	x	24.7	58.0	60.6	50.1						
Price/Book	x	5.2	4.5	3.9	3.5	<b>Net Chg in Cash/Debt</b>	m	-1	94	86	81
Book Value per Share		0.4	0.4	0.5	0.6	<b>Free Cashflow</b>	m	61	196	167	152
					Balance Sheet						
		2016A	2017E	2018E	2019E		2016A	2017E	2018E	2019E	
						Cash	m	467	561	647	728
						Receivables	m	912	1,107	1,157	1,069
						Inventories	m	24	32	33	31
						Investments	m	0	0	0	0
						Fixed Assets	m	134	166	170	175
						Intangibles	m	4	4	4	4
						Other Assets	m	26	26	26	26
						<b>Total Assets</b>	m	1,567	1,897	2,037	2,033
						Payables	m	925	1,167	1,211	1,121
						Short Term Debt	m	137	143	151	158
						Long Term Debt	m	0	0	0	0
						Provisions	m	0	0	0	0
						Other Liabilities	m	12	12	12	12
						<b>Total Liabilities</b>	m	1,073	1,322	1,374	1,291
						Shareholders' Funds	m	531	612	701	779
						Minority Interests	m	1	1	1	1
						Other	m	-38	-38	-38	-38
						<b>Total S/H Equity</b>	m	494	575	664	742
						<b>Total Liab &amp; S/H Funds</b>	m	1,567	1,897	2,037	2,033

All figures in MYR unless noted.

Source: Company data, Macquarie Research, April 2017

Important disclosures:

**Recommendation definitions**

**Macquarie - Australia/New Zealand**

Outperform – return >3% in excess of benchmark return  
 Neutral – return within 3% of benchmark return  
 Underperform – return >3% below benchmark return

Benchmark return is determined by long term nominal GDP growth plus 12 month forward market dividend yield

**Macquarie – Asia/Europe**

Outperform – expected return >+10%  
 Neutral – expected return from -10% to +10%  
 Underperform – expected return <-10%

**Macquarie – South Africa**

Outperform – expected return >+10%  
 Neutral – expected return from -10% to +10%  
 Underperform – expected return <-10%

**Macquarie - Canada**

Outperform – return >5% in excess of benchmark return  
 Neutral – return within 5% of benchmark return  
 Underperform – return >5% below benchmark return

**Macquarie - USA**

Outperform (Buy) – return >5% in excess of Russell 3000 index return  
 Neutral (Hold) – return within 5% of Russell 3000 index return  
 Underperform (Sell) – return >5% below Russell 3000 index return

**Volatility index definition\***

This is calculated from the volatility of historical price movements.

**Very high–highest risk** – Stock should be expected to move up or down 60–100% in a year – investors should be aware this stock is highly speculative.

**High** – stock should be expected to move up or down at least 40–60% in a year – investors should be aware this stock could be speculative.

**Medium** – stock should be expected to move up or down at least 30–40% in a year.

**Low–medium** – stock should be expected to move up or down at least 25–30% in a year.

**Low** – stock should be expected to move up or down at least 15–25% in a year.

\* Applicable to Asia/Australian/NZ/Canada stocks only

**Recommendations** – 12 months

**Note:** Quant recommendations may differ from Fundamental Analyst recommendations

**Financial definitions**

All "Adjusted" data items have had the following adjustments made:

Added back: goodwill amortisation, provision for catastrophe reserves, IFRS derivatives & hedging, IFRS impairments & IFRS interest expense  
 Excluded: non recurring items, asset revals, property revals, appraisal value uplift, preference dividends & minority interests

**EPS** = adjusted net profit / efpowa\*

**ROA** = adjusted ebit / average total assets

**ROA Banks/Insurance** = adjusted net profit / average total assets

**ROE** = adjusted net profit / average shareholders funds

**Gross cashflow** = adjusted net profit + depreciation

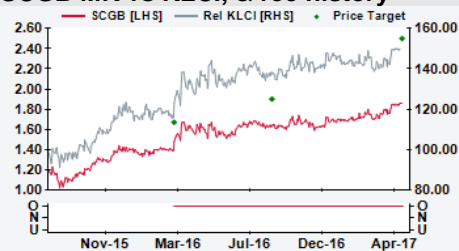
\*equivalent fully paid ordinary weighted average number of shares

All Reported numbers for Australian/NZ listed stocks are modelled under IFRS (International Financial Reporting Standards).

**Recommendation proportions – For quarter ending 31 March 2017**

	AU/NZ	Asia	RSA	USA	CA	EUR	
Outperform	47.26%	55.50%	38.46%	45.47%	59.09%	48.21%	(for global coverage by Macquarie, 8.20% of stocks followed are investment banking clients)
Neutral	38.01%	29.31%	42.86%	48.77%	37.88%	36.79%	(for global coverage by Macquarie, 8.25% of stocks followed are investment banking clients)
Underperform	14.73%	15.19%	18.68%	5.76%	3.03%	15.00%	(for global coverage by Macquarie, 8.00% of stocks followed are investment banking clients)

**SCGB MK vs KLCI, & rec history**



(all figures in MYR currency unless noted)

**GAM MK vs KLCI, & rec history**



(all figures in MYR currency unless noted)

**IJM MK vs KLCI, & rec history**



(all figures in MYR currency unless noted)

**ECON MK vs KLCI, & rec history**



(all figures in MYR currency unless noted)

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, April 2017

**12-month target price methodology**

SCGB MK: RM2.50 based on a PER methodology

GAM MK: RM5.60 based on a Sum of Parts methodology

IJM MK: RM3.87 based on a Sum of Parts methodology

ECON MK: RM2.50 based on a PER methodology

**Company-specific disclosures:**

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Date	Stock Code (BBG code)	Recommendation	Target Price
03-Sep-2016	SCGB MK	Outperform	RM1.90



**Target price risk disclosures:**

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**IJM MK:** Any inability to compete successfully in their markets may harm the business. This could be a result of many factors which may include geographic mix and introduction of improved products or service offerings by competitors. The results of operations may be materially affected by global economic conditions generally, including conditions in financial markets. The company is exposed to market risks, such as changes in interest rates, foreign exchange rates and input prices. From time to time, the company will enter into transactions, including transactions in derivative instruments, to manage certain of these exposures. Updated Sum of parts RNAV. The DCF valuation is subject to changes to the WACC given the expectation of higher interest rates.

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