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|---------------------------------|---|
| Stock: | SCGB MK |
| Name: | Sunway Construction Group |
| Price: | RM2.46 (At 14:00, 26 February 2018 GMT) |
| Recommendation: | Outperform |
| 12mth price target: | RM2.80 |
| 12-month TSR: | 17.0% |
| Volatility index: | Low |
| Market Cap (m): | RM3,181 |
| Market Cap (m): | US\$812 |
| Free float: | 25% |
| Current valuation (PER): | RM2.02 - 3.12 |

Event

- Sunway Construction (SunCon) reported its 4Q17 results after market hours today. Overall the FY17 results missed MQ's estimates as we estimated stronger revenue and margins in FY17. SunCon's FY17 adj. PAT came in at RM135.7mn (+9.8% YoY) tracking at 86% of MQ's FY17 estimates of RM157.1mn.
- The miss was led by the lower-than-expected revenue from both construction and precast divisions. The blended EBIT margins for both divisions also came short of MQ's expectations at 7.9% vs. MQ's estimates of 8.8%.

Impact

- **Current orderbook:** As at end of FY17, SunCon's outstanding orderbook was at RM6.1bn, after securing over RM4bn in new orders in FY17. YTD SunCon has bagged two construction contracts from its parent - Sunway Berhad and new precast orders, with a combined value of RM456mn.
- **Orderbook replenishment target:** SunCon targets to secure another RM1.5bn-2.0bn of new orders in FY18E. Among others, its main target would be the government-led affordable housing projects, which uses precast/IBS as the main building blocks - one of SunCon's specialization.
- **Key rerating catalyst:** We believe SunCon, along with its JV partners, stands a strong chance to bag the PDP role of the HSR project given the strong construction capacity that the JV has to offer. Recall that SunCon-IJM-Jalinan Rejang-Maltimur Resources JV are among the 4 JVs that have submitted their tenders for the HSR PDP role. For the HSR PDP role, we recommend investors to remain overweight in SunCon rather than IJM (IJM MK, RM2.84, Neutral, TP RM3.55), given the former's higher order win impact to EPS.

Action and recommendation

- Maintain Outperform.

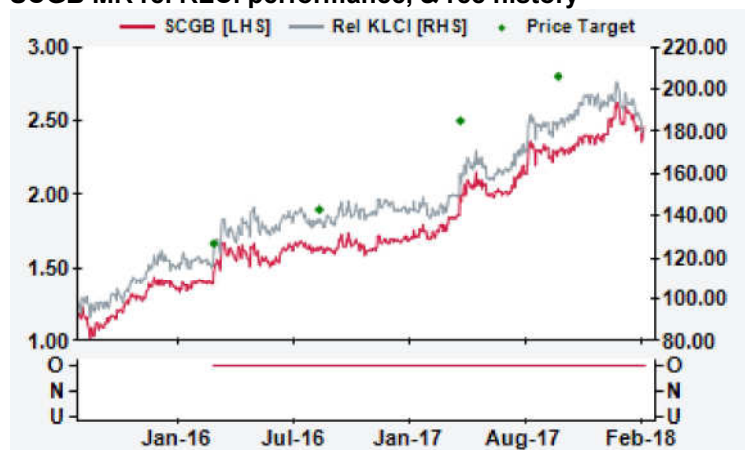
| December | | 2016A | 2017E | 2018E | 2019E |
|-----------------|-----|---------|---------|---------|---------|
| Revenue | m | 1,788.8 | 2,173.7 | 2,971.8 | 2,747.6 |
| Adjusted profit | m | 123.5 | 157.1 | 211.3 | 223.8 |
| Capex | m | 19.0 | 21.3 | 22.4 | 23.5 |
| EPS rep | sen | 9.6 | 12.2 | 16.3 | 17.3 |
| EPS rep growth | % | -2.9 | 27.2 | 34.5 | 5.9 |
| EPS adj | sen | 9.6 | 12.2 | 16.3 | 17.3 |
| EPS adj growth | % | -2.9 | 27.2 | 34.5 | 5.9 |
| PER rep | x | 25.8 | 20.2 | 15.1 | 14.2 |
| PER adj | x | 25.8 | 20.2 | 15.1 | 14.2 |
| Total DPS | sen | 6.5 | 6.1 | 8.2 | 4.1 |
| Total div yield | % | 2.6 | 2.5 | 3.3 | 1.6 |
| ROA | % | 9.7 | 11.9 | 14.9 | 14.6 |
| ROE | % | 26.2 | 29.5 | 33.8 | 30.5 |
| EV/EBITDA | x | 15.0 | 12.1 | 9.3 | 9.0 |
| Net debt/equity | % | -66.9 | -67.6 | -80.6 | -84.5 |
| P/BV | x | 6.4 | 5.6 | 4.7 | 4.0 |
| EBITDA | m | 188.6 | 233.7 | 302.7 | 314.5 |
| Net Debt/EBITDA | x | -1.8 | -1.7 | -1.8 | -2.1 |

| | | | | | |
|--------------|---|------|------|------|------|
| Payout ratio | % | 68.0 | 50.0 | 50.0 | 23.4 |
| FCF Yield | % | 1.9 | 5.1 | 8.3 | 7.3 |

*All values are in MYR unless otherwise stated.

Source: Company data, Macquarie Research, Feb 2018.

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, February 2018

(all figures in MYR unless noted)

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