

19 April 2018

Malaysia

## EQUITIES

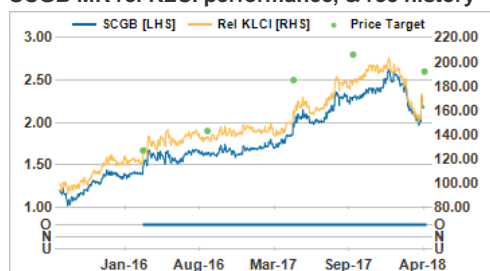
SCGB MK Outperform  
Price (at 13:01, 18 Apr 2018 GMT) RM2.18

Valuation	RM	2.15-2.98
- PER		
12-month target	RM	2.60
Upside/Downside	%	+19.3
12-month TSR	%	+23.3
Volatility Index		Low
GICS sector		Capital Goods
Market cap	RMm	2,819
Market cap	US\$m	725
Free float	%	24
30-day avg turnover	US\$m	0.8
Number shares on issue	m	1,293

## Investment fundamentals

Year end 31 Dec		2017A	2018E	2019E	2020E
Revenue	m	2,076.3	2,577.6	2,959.3	2,741.2
EBITDA	m	202.4	261.8	309.8	290.2
EBITDA growth	%	7.5	29.3	18.4	-6.3
EBIT	m	164.6	218.2	259.4	290.2
EBIT growth	%	10.3	32.5	18.9	11.9
Reported profit	m	137.8	180.5	216.1	255.0
Adjusted profit	m	137.8	180.5	216.1	255.0
EPS rep	sen	10.7	14.0	16.7	19.7
EPS rep growth	%	11.9	31.0	19.7	18.0
EPS adj	sen	10.7	14.0	16.7	19.7
EPS adj growth	%	11.9	31.0	19.7	18.0
PER rep	x	20.4	15.6	13.0	11.1
PER adj	x	20.4	15.6	13.0	11.1
Total DPS	sen	7.0	8.5	9.5	10.0
Total div yield	%	3.2	3.9	4.4	4.6
ROA	%	9.5	11.5	13.2	14.2
ROE	%	26.3	30.7	32.2	33.9
EV/EBITDA	x	12.1	9.4	8.0	8.5
Net debt/equity	%	-63.5	-47.0	-66.4	-76.8
P/BV	x	5.1	4.5	3.9	3.6

## SCGB MK rel KLCI performance, &amp; 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 2018

(all figures in MYR unless noted)

## Macquarie Governance and Risk Score (MGRS)

On our proprietary [Governance and Risk Score](#) Sunway Construction Group scores in the third quartile of our current universe coverage.

## Analysts

Macquarie Capital Securities (Malaysia) Sdn. Bhd.

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## Sunway Construction Group

### High earnings visibility

## Key points

- Following SunCon's earnings miss in FY17, we adjust our estimates and arrive at a new TP of RM2.60 from RM2.80 previously.
- We increase our FY18E orderbook replenishment target from RM1.5bn to RM2.0bn.
- Our new TP implies a 16x multiple to SunCon's FY19E EPS.

## Event

- We maintain our Outperform rating on Sunway Construction (SunCon) with a revised TP of RM2.60 (-7% from the previous RM2.80) as we roll forward and adjust our earnings estimates. The new TP implies a 16x multiple to SunCon's FY19E EPS. YTD SunCon has secured a total of RM541mn new orders, taking its orderbook balance to c.RM6.5bn. SunCon is the only pure-play construction company in Malaysia with an orderbook size of >RM5bn, running its operations with a net cash position. We assume cumulative order wins of RM5bn in FY18-20E, which brings a 13% EPS CAGR in FY17-20E.

## Impact

- Focusing on large-scale real estate jobs.** YTD SunCon has already obtained c.RM500mn of new orders from its parent company, Sunway Berhad, and we understand that Sunway will begin the construction of its hospital projects in FY18E, which could bring further construction contracts to SunCon. According to SunCon, external real estate projects – BBCC office tower and Dayabumi 2 with a combined value of Rm1.5bn, are among SunCon's key targets in FY18E. Management has set an orderbook replenishment target of RM1.5bn-2.0bn in FY18E, focusing mainly on real estate projects.
- Precast orders may range between RM160mn-200mn in FY18E.** With heightened competition in the Singapore HDB precast market, SunCon expects to replenish its precast orderbook by another RM160mn-200mn (vs RM250mn pa in previous years). In January 2018, SunCon [agreed to form a JV](#) with HL Building Materials (HLBM) to set up an integrated building system (IBS) plant. This plant will take SunCon's total capex to c.RM100mn pa in FY18E-19E. HLBM is a subsidiary of Hong Leong Asia and is one of SunCon's closest competitors in the Singapore HDB precast market.

## Earnings and target price revision

- We roll forward our estimates to FY19E and adjust the pace of SunCon's revenue recognition and thus cut our FY18-19E earnings estimates by -15% and -4%, respectively. We revise our TP to RM2.60 from RM2.80.

## Price catalyst

- 12-month price target: RM2.60 based on a PER methodology.
- Catalyst: awards of large-scale real estate works in the Central Region.

## Action and recommendation

- Maintain Outperform. Our top picks in the sector are Gabungan AQRS, Econpile and HSS Engineers.

## Analysis

In our new estimates, we made the following changes to arrive at our new TP of RM2.60:

- Reduced our target PE to 15x (LT-Ave.) from the previous target PE of 16x. We believe that there will be limited participation by SunCon in the next mega infrastructure projects – East Coast Railway Link (ECRL), KL-Singapore High Speed Rail (HSR) and MRT3 projects, as these projects are likely to be dominated by the Chinese players.
- SunCon's net cash position is impacted as it embarks on the new IBS plant, following its JV agreement with HBLM, which will cost SunCon RM200mn throughout FY18E-19E, in order to set up the plant.
- Given the earnings miss recorded in FY17, we have adjusted the pace of earnings recognition across SunCon's ongoing projects. As such, we reduce our FY18E-19E EPS estimates by 15% and 4%, respectively.
- In our estimates, every RM100mn increase in order wins in the construction division will move SunCon's fair value by 0.4%. However, for every RM100mn increase in precast orders, fair value will move by 2.7%. The impact to earnings is stronger from the precast division as the margins for the division is almost triple that of the construction division (20% EBIT margin in precast vs. 6-8% margins in construction division).

**Fig 1 SunCon's valuation**

Business Segments	Valuation Method	Stake	New Estimates (RM 'mil)	Old Estimates (RM 'mil)	Change (%)
Construction and Precast	PER of 14x in FY19E	100%	3,069	3,239	-5%
FY18E estimated net cash			291	387	-25%
Sum of the parts (SOTP)			3,360	3,626	-7%
No. of shares (mil)			1,293	1,293	0%
<b>Target Price (RM)</b>			<b>2.60</b>	<b>2.80</b>	<b>-7%</b>
Implied PE			16x	17x	

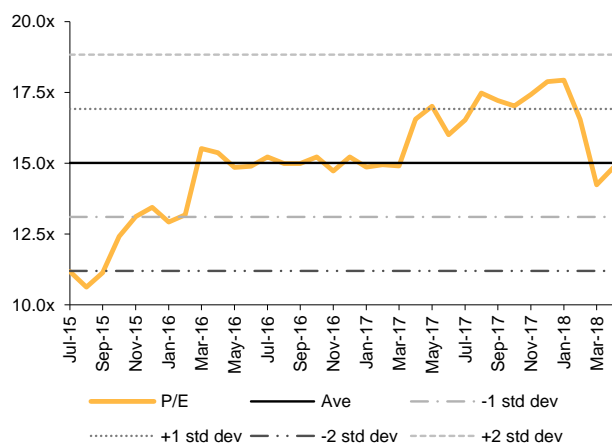
Scenario	Bear	Base	Bull
<b>Fair value (RM)</b>	<b>2.15</b>	<b>2.60</b>	<b>2.98</b>
Upside (%)	-1.3%	19.2%	36.6%
Dividend Yield (%)	3.9%	3.9%	3.9%
TSR (%)	2.6%	23.1%	40%
Implied PE	<b>14x</b>	<b>16x</b>	<b>18x</b>

Key Assumptions			
Orderbook replenishment FY18E	1,000	2,000	2,500
Orderbook replenishment FY19E	1,000	1,500	1,500
<b>Target PE</b>	<b>13x</b>	<b>15x</b>	<b>17x</b>

Source: Company data, Bloomberg, Macquarie Research, April 2018; prices as at 18 April 2018 close.

**Fig 2 Rolling-fwd PE band**



Source: Bloomberg, Macquarie Research, April 2018

**Fig 3 SunCon's order wins vs. PE multiple**

PER multiple	FY18E-19E Orderbook Replenishment (RM 'mil)				
	2,500	3,000	3,500	4,000	4,500
13x	2.19	2.24	2.28	2.32	2.37
14x	2.35	2.39	2.44	2.49	2.53
15x	2.50	2.55	2.60	2.65	2.70
16x	2.65	2.70	2.76	2.81	2.87
17x	2.80	2.86	2.92	2.98	3.03
18x	2.95	3.02	3.08	3.14	3.20

Source: Macquarie Research, April 2018

Fig 4 Change in estimates

RM 'mil	New estimates			Old estimates			Change in estimates		
	FY18E	FY19E	FY20E	FY18E	FY19E	FY20E	FY18E	FY19E	FY20E
Revenue	2,578	2,959	2,741	2,972	2,748	-	-13.3%	7.7%	nmf
EBIT	218	259	236	259	268	-	-15.7%	-3.3%	nmf
Profit before tax	229	270	251	268	280	-	-14.6%	-3.5%	nmf
Adjusted net profit	181	216	201	211	224	-	-14.6%	-3.5%	nmf
Diluted EPS (sen)	14	17	16	16	17	-	-14.6%	-3.5%	nmf

Source: Company data, Macquarie Research, April 2018

- Our FY18E earnings estimates are lower vs consensus as we believe the recognition of revenue will be slightly delayed in FY18E and hence will be recognised in FY19E. We believe that in our previous estimates we were too aggressive on the pace of revenue recognition for SunCon, as such, for FY18E onwards we have adjusted the burn rate of the orderbook. Meanwhile for our FY20E estimates, we believe our orderbook replenishment targets in FY19-20E play a major part in our lower-than-consensus estimates.

Fig 5 Macquarie vs. consensus

RM 'mil	Macquarie			Consensus			Difference		
	FY18E	FY19E	FY20E	FY18E	FY19E	FY20E	FY18E	FY19E	FY20E
Revenue	2,578	2,959	2,741	2,777	3,035	3,149	-7.2%	-2.5%	-13.0%
EBIT	218	259	236	239	254	269	-8.6%	2.0%	-12.2%
Profit before tax	229	270	251	243	265	287	-5.8%	1.9%	-12.4%
Adjusted net profit	181	216	201	188	205	223	-4.2%	5.6%	-9.7%
Diluted EPS (sen)	14	17	16	14	16	17	-3.0%	5.1%	-10.1%

Source: Company data, Macquarie Research, April 2018

Fig 6 Malaysia Construction comps table

Company	Ticker	Rec.	CP (RM)	TP (RM)	Upside (%)	Mkt Cap (USDm)	1m ADTV (USDm)	FY18E Yield (%)	FY18E Net gearing (%)	FY18E PER (x)	FY19E PER (x)	FY18E ROE (%)	FY19E ROE (%)	FY18E P/Bv (x)	FY19E P/Bv (x)
<b>Malaysia</b>															
Gamuda	GAM MK	UP	5.13	4.00	-22%	3,246	6.7	2.3	50.6	14.8	13.8	11.6	11.5	1.7	1.5
IJM Corp	IJM MK	N	2.81	3.55	26%	2,622	1.9	2.8	29.5	12.3	12.8	7.8	7.1	0.9	0.9
MRCB	MRC MK	OP	1.03	1.15	12%	1,163	2.8	1.7	26.7	26.9	21.0	3.2	4.0	0.9	0.8
SunCon	SCGB MK	OP	2.18	2.60	19%	724	0.7	3.9	-47.0	15.6	13.0	30.7	32.2	4.5	3.9
Kerjaya Prospek	KPG MK	OP	1.61	1.90	18%	514	0.2	2.1	-25.2	12.9	11.5	16.9	16.8	2.1	1.8
Econpile	ECON MK	OP	1.13	1.35	19%	389	0.6	2.3	-18.4	12.5	12.0	29.6	25.8	3.4	2.9
AQRS	AQRS MK	OP	1.80	3.00	67%	216	0.8	2.7	16.5	12.3	10.3	17.7	18.5	2.0	1.8
HSS Engineers	HSS MK	OP	1.57	1.90	21%	200	0.3	0.7	16.5	24.2	13.4	15.9	17.2	2.5	2.1
<b>Mkt. Cap. Weighted Average</b>								<b>2.3</b>	<b>31.2</b>	<b>16.9</b>	<b>14.8</b>	<b>11.6</b>	<b>11.6</b>	<b>1.7</b>	<b>1.5</b>

Source: Company data, Bloomberg, Macquarie Research, April 2018; share price as at 18 April 2018 close

### SunCon's Orderbook

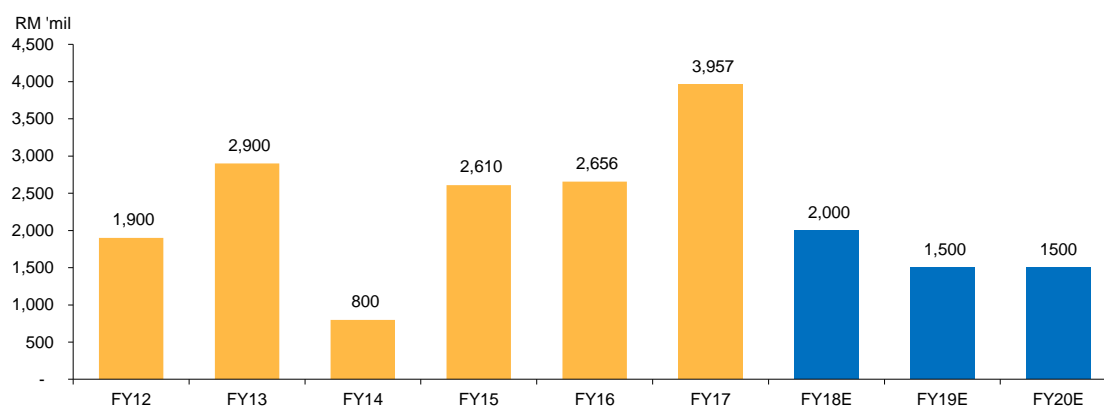
- Including the YTD order wins, we estimate SunCon's orderbook balance is at c.RM6.5bn. We have assumed an orderbook replenishment target of RM2bn/RM1.5bn/RM1.5bn in FY18E-20E, respectively. We increased orderbook replenishment in FY18E to RM2bn from RM1.5bn, previously. We maintained the RM1.5bn order win target for FY19E.

Fig 7 SunCon's outstanding orderbook

Project	Completion Period	Contract Value (RM 'mil)	Outstanding value (RM 'mil)	% Completion
<b>External</b>				
Putrajaya Parcel F	1Q19	1,610	707	56%
KLCC (NEC + 2 + 2A)	2Q18	646	98	85%
HUKM (MEP works)	2Q18	66	45	32%
International School of Kuala Lumpur	2Q18	268	133	50%
Gas District Cooling (Plant 1)	3Q18	152	102	33%
PP1AM Kota Bharu	1Q20	582	540	7%
Warehouse in Shah Alam	3Q19	70	70	0%
MRT V201 (Sg. Buloh - Persiaran Dagang)	2Q21	1,213	871	28%
MRT V201 - Advance Works	1Q18	53	19	64%
SUKE & DASH (Piling)	2Q18	34	21	38%
BBCC (Piling)	1Q18	108	78	28%
LRT3 (GS07 & GS08)	4Q20	2,178	2,150	1%
	<b>Total</b>	<b>6,980</b>	<b>4,834</b>	<b>31%</b>
<b>Internal</b>				
Sunway Velocity Hotel + Office	4Q17	101	3	97%
Sunway Velocity Medical Centre	4Q18	185	128	31%
Sunway Medical Centre Phase 4	1Q19	428	383	11%
Sunway Iskandar Citrine Service Apartment	1Q18	213	12	94%
Sunway Geo Retail Shops & Flexi Suites Phase 2	1Q18	244	19	92%
Sunway Iskandar - Emerald Residences	1Q18	175	32	82%
Sunway Iskandar - 88 units shoplots	2Q18	57	13	77%
Sunway Iskandar - Big Box	1Q18	100	70	30%
Sunway Serene	4Q20	449	426	5%
Sunway Carnival 2	4Q20	274	274	0%
SunGeo Lake	2Q21	223	223	0%
	<b>Total</b>	<b>2,226</b>	<b>1,360</b>	<b>39%</b>
<b>Precast</b>				
Singapore HDB	2Q19	846	252	70%
	<b>Total</b>	<b>846</b>	<b>252</b>	<b>70%</b>
	<b>Grand Total</b>	<b>10,052</b>	<b>6,446</b>	<b>36%</b>
<b>Orderbook replenishment</b>				
FY18E		2,000		
FY19E		1,500		
FY20E		1,500		
	<b>Total</b>	<b>5,000</b>		

Source: Company data, Macquarie Research, April 2018

Fig 8 SunCon's order wins history and forecast



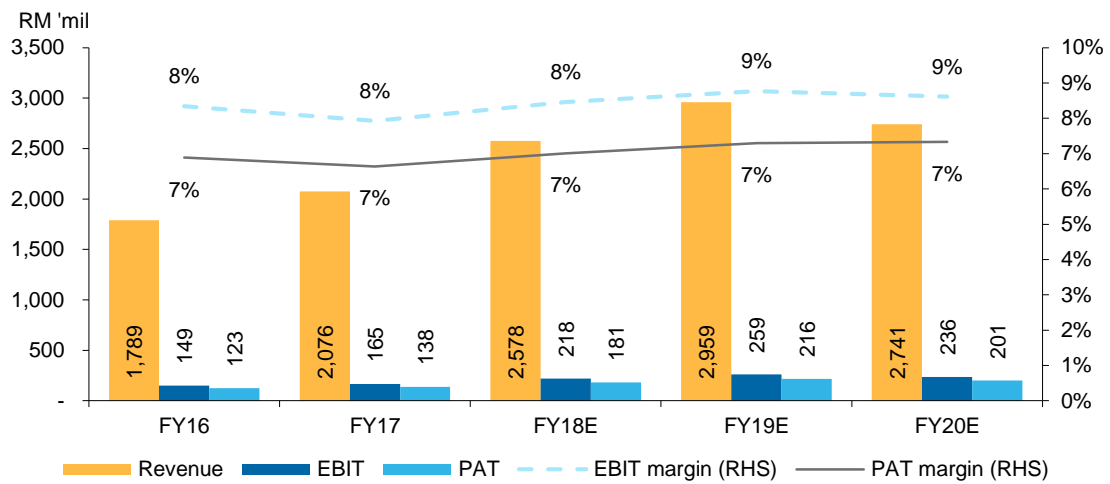
Source: Company data, Macquarie Research, April 2018

### SunCon's Financials

#### Profitability

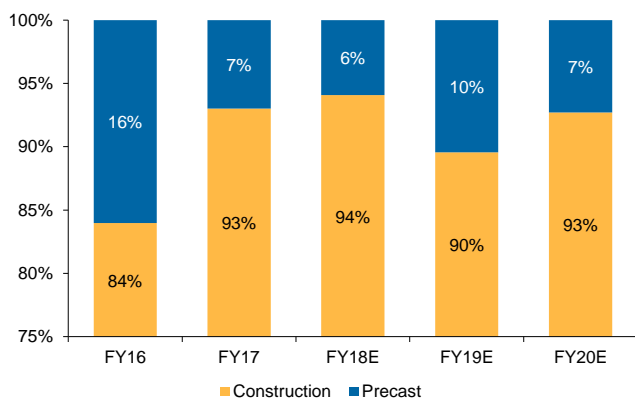
- SunCon's record orderbook size of c.RM6.5bn could ensure strong earnings visibility over the next five years. Given the tenure mix of SunCon's ongoing projects, we believe margins should remain stable across its construction projects with EBIT margins hovering between 8%-9% in FY18E-20E. According to management, its precast products have reached the normalised margins of c.20%. As such, in our estimates we do not see any significant margin expansion, going ahead.

**Fig 9 SunCon's margins to remain stable in FY18-20E**



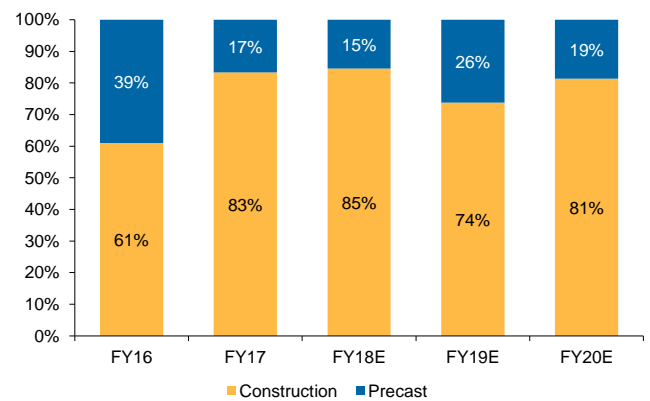
Source: Company data, Macquarie Research, April 2018

**Fig 10 Contribution to revenue by segment**



Source: Company data, Macquarie Research, April 2018

**Fig 11 Contribution to EBIT by segment**



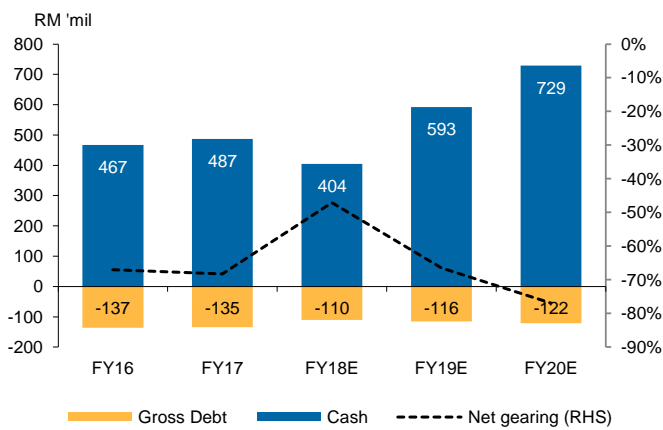
Source: Company data, Macquarie Research, April 2018

**Balance sheet and cashflow**

SunCon is among a few construction companies in Malaysia that is running its operations with a net cash position. For companies with an outstanding orderbook of >RM5bn, SunCon is the only one with a net cash position. We estimate the net cash position is sustainable over the next three years, even after taking into account the total capex requirement of RM200mn in FY18-19E to setup SunCon's new IBS plant.

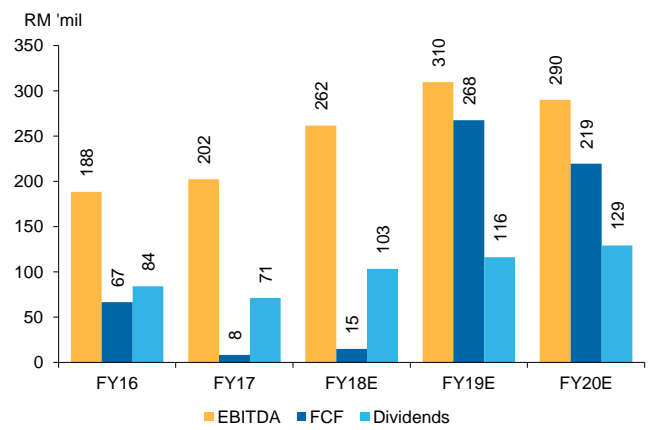
Given the strong cashflows, we believe there is minimal risk of a dividend downgrade going ahead. SunCon has a minimum payout policy of 35% and has been giving a weighted average payout ratio of more than 50% since its listing in FY15. In FY18E, we assume a dividend of 8.5sen, tantamount to a 3.9% dividend yield.

**Fig 12 Net cash position to sustain in FY18E-20E**



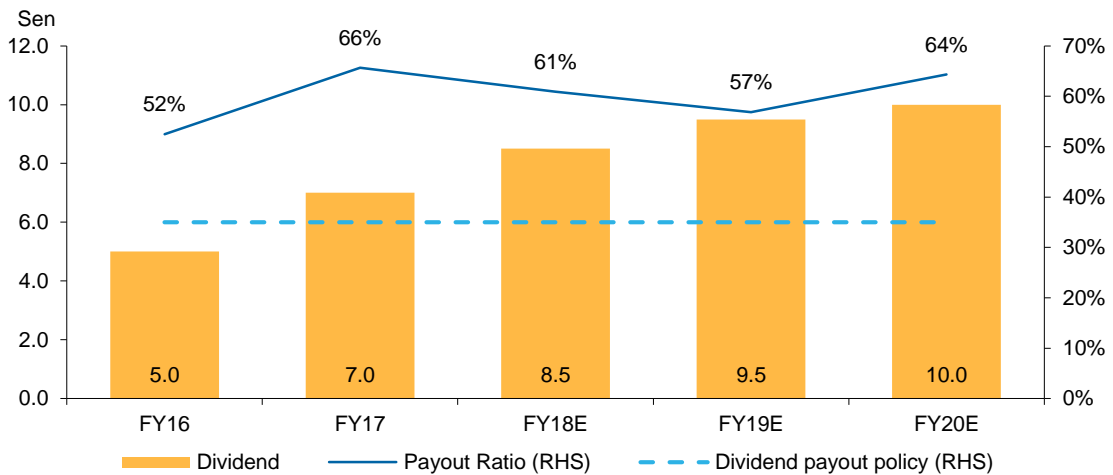
Source: Company data, Macquarie Research, April 2018

**Fig 13 Strong cashflows, minimal dividend downgrade risk**



Source: Company data, Macquarie Research, April 2018

**Fig 14 SunCon's dividend payout has been above its dividend payout policy of 35%**



Source: Company data, Macquarie Research, April 2018

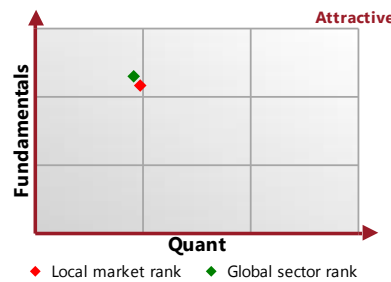
### Macquarie Quant View

The quant model currently holds a marginally negative 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 Price Momentum, indicating this stock has had weak medium to long term returns which often persist into the future.

**1354/1942**

Global rank in Capital Goods

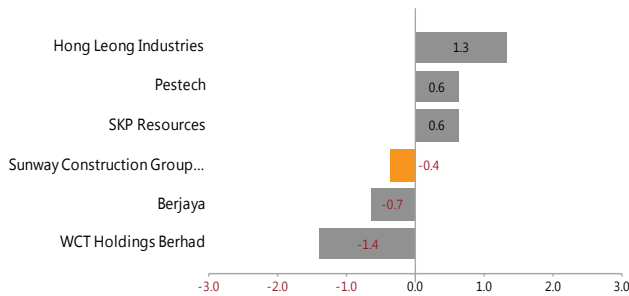
% of BUY recommendations: 62% (8/13)  
 Number of Price Target downgrades: 1  
 Number of Price Target upgrades: 0



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)

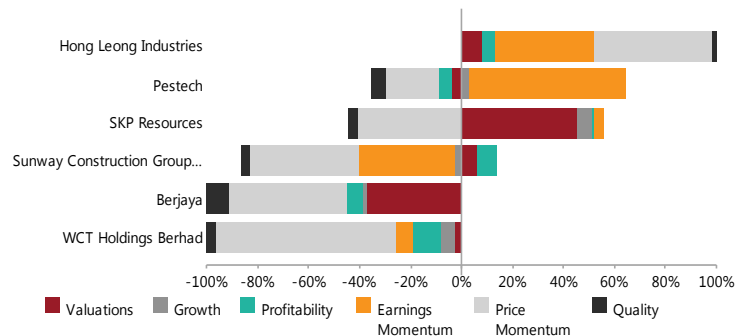
### Macquarie Alpha Model ranking

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



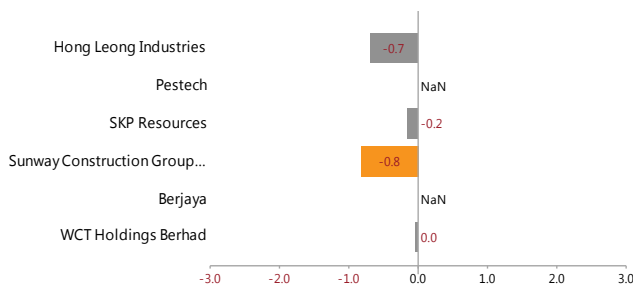
### Factors driving the Alpha Model

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



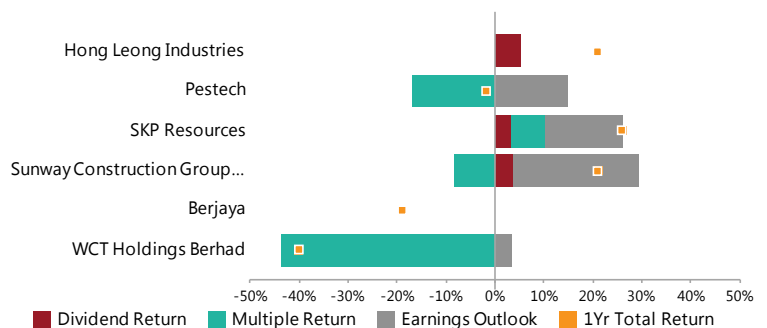
### Macquarie Earnings Sentiment Indicator

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.



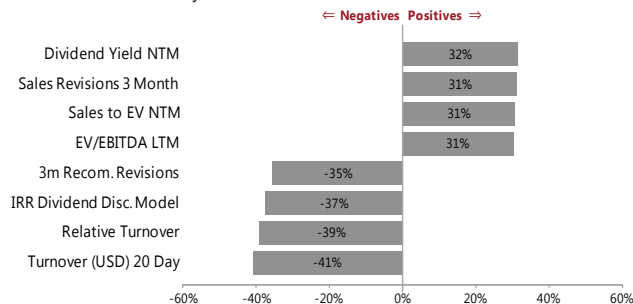
### Drivers of Stock Return

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



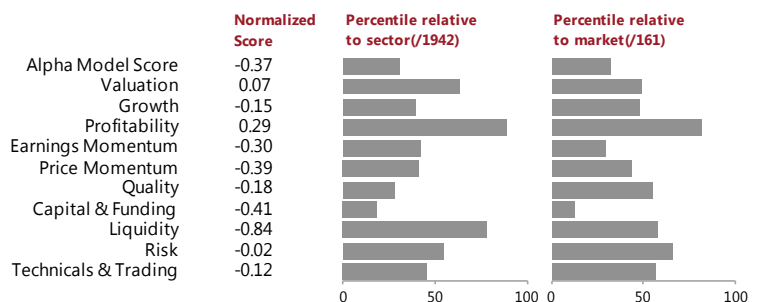
### What drove this Company in the last 5 years

Which factor score has had the greatest correlation with the company's returns over the last 5 years.



### 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: RM2.60)

Interim Results					Profit & Loss						
		2H/17A	1H/18E	2H/18E	1H/19E		2017A	2018E	2019E	2020E	
Revenue	m	1,240	1,160	1,418	1,332	Revenue	m	2,076	2,578	2,959	2,741
Gross Profit	m	126	118	144	139	Gross Profit	m	202	262	310	290
Cost of Goods Sold	m	1,113	1,042	1,274	1,192	Cost of Goods Sold	m	1,874	2,316	2,650	2,451
EBITDA	m	126	118	144	139	EBITDA	m	202	262	310	290
Depreciation	m	19	20	24	23	Depreciation	m	38	44	50	0
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
EBIT	m	107	98	120	117	EBIT	m	165	218	259	290
Net Interest Income	m	-4	-1	-1	-1	Net Interest Income	m	-6	-3	-3	-3
Associates	m	1	0	1	0	Associates	m	2	1	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	8	5	7	6	Other Pre-Tax Income	m	13	12	14	18
Pre-Tax Profit	m	112	103	126	122	Pre-Tax Profit	m	174	229	270	305
Tax Expense	m	-21	-22	-26	-24	Tax Expense	m	-36	-48	-54	-50
Net Profit	m	92	81	99	97	Net Profit	m	138	181	216	255
Minority Interests	m	-0	-0	-0	-0	Minority Interests	m	-0	-0	-0	-0
Reported Earnings	m	91	81	99	97	Reported Earnings	m	138	181	216	255
Adjusted Earnings	m	91	81	99	97	Adjusted Earnings	m	138	181	216	255
EPS (rep)	sen	7.1	6.3	7.7	7.5	EPS (rep)	sen	10.7	14.0	16.7	19.7
EPS (adj)	sen	7.1	6.3	7.7	7.5	EPS (adj)	sen	10.7	14.0	16.7	19.7
EPS Growth yoy (adj)	%	34.8	74.7	8.7	19.7	EPS Growth (adj)	%	11.9	31.0	19.7	18.0
						PE (rep)	x	23.5	15.6	13.0	11.1
						PE (adj)	x	23.5	15.6	13.0	11.1
EBITDA Margin	%	10.2	10.2	10.2	10.5	Total DPS	sen	7.0	8.5	9.5	10.0
EBIT Margin	%	8.6	8.5	8.5	8.8	Total Div Yield	%	2.8	3.9	4.4	4.6
Earnings Split	%	66.3	45.0	55.0	45.0	Basic Shares Outstanding	m	1,293	1,293	1,293	1,293
Revenue Growth	%	26.0	38.6	14.4	14.8	Diluted Shares Outstanding	m	1,293	1,293	1,293	1,293
EBIT Growth	%	30.1	69.6	12.4	18.9						
Profit and Loss Ratios					Cashflow Analysis						
		2017A	2018E	2019E	2020E		2017A	2018E	2019E	2020E	
Revenue Growth	%	16.1	24.1	14.8	-7.4	EBITDA	m	202	262	310	290
EBITDA Growth	%	7.5	29.3	18.4	-6.3	Tax Paid	m	-37	-48	-54	-50
EBIT Growth	%	10.3	32.5	18.9	11.9	Chgs in Working Cap	m	112	-103	109	20
Gross Profit Margin	%	9.7	10.2	10.5	10.6	Net Interest Paid	m	7	9	11	15
EBITDA Margin	%	9.7	10.2	10.5	10.6	Other	m	-222	0	0	0
EBIT Margin	%	7.9	8.5	8.8	10.6	Operating Cashflow	m	63	121	375	275
Net Profit Margin	%	6.6	7.0	7.3	9.3	Acquisitions	m	0	0	0	0
Payout Ratio	%	65.7	60.9	56.8	50.7	Capex	m	-55	-106	-108	-56
EV/EBITDA	x	14.1	9.4	8.0	8.5	Asset Sales	m	6	0	0	0
EV/EBIT	x	17.3	11.3	9.5	8.5	Other	m	83	0	0	0
Balance Sheet Ratios						Investing Cashflow	m	35	-106	-108	-56
ROE	%	26.3	30.7	32.2	33.9	Dividend (Ordinary)	m	-71	-103	-116	-129
ROA	%	9.5	11.5	13.2	14.2	Equity Raised	m	-1	0	0	0
ROIC	%	79.9	85.2	62.7	100.3	Debt Movements	m	-2	-24	6	6
Net Debt/Equity	%	-63.5	-47.0	-66.4	-76.8	Other	m	-0	0	0	0
Interest Cover	x	27.1	80.1	90.7	96.6	Financing Cashflow	m	-74	-128	-111	-123
Price/Book	x	5.9	4.5	3.9	3.6	Net Chg in Cash/Debt	m	20	-83	188	136
Book Value per Share		0.4	0.5	0.6	0.6	Free Cashflow	m	8	15	268	219
						Balance Sheet		2017A	2018E	2019E	2020E
						Cash	m	487	404	593	729
						Receivables	m	1,066	1,130	1,054	976
						Inventories	m	24	30	35	32
						Investments	m	0	0	0	0
						Fixed Assets	m	150	176	195	157
						Intangibles	m	4	4	4	4
						Other Assets	m	156	156	156	156
						Total Assets	m	1,887	1,900	2,036	2,054
						Payables	m	794	761	798	739
						Short Term Debt	m	135	110	116	122
						Long Term Debt	m	0	0	0	0
						Provisions	m	0	0	0	0
						Other Liabilities	m	403	403	403	403
						Total Liabilities	m	1,332	1,275	1,318	1,264
						Shareholders' Funds	m	592	662	755	827
						Minority Interests	m	1	1	1	1
						Other	m	-38	-38	-38	-38
						Total S/H Equity	m	555	625	718	790
						Total Liab & S/H Funds	m	1,887	1,900	2,036	2,054

All figures in MYR unless noted.

Source: Company data, Macquarie Research, April 2018



## 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 / epowa\*

**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 2018

	AU/NZ	Asia	RSA	USA	CA	EUR	
Outperform	54.38%	58.90%	48.35%	43.91%	69.03%	45.26%	(for global coverage by Macquarie, 3.69% of stocks followed are investment banking clients)
Neutral	32.48%	27.88%	34.07%	48.73%	21.29%	38.95%	(for global coverage by Macquarie, 3.07% of stocks followed are investment banking clients)
Underperform	13.14%	13.21%	17.58%	7.37%	9.68%	15.79%	(for global coverage by Macquarie, 0.39% of stocks followed are investment banking clients)

## SCGB MK vs KLCI, &amp; 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 2018

## 12-month target price methodology

SCGB MK: RM2.60 based on a PER methodology

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Date	Stock Code (BBG code)	Recommendation	Target Price
19-Apr-2018	SCGB MK	Outperform	RM2.60
06-Oct-2017	SCGB MK	Outperform	RM2.80
26-Apr-2017	SCGB MK	Outperform	RM2.50
03-Sep-2016	SCGB MK	Outperform	RM1.90
11-Mar-2016	SCGB MK	Outperform	RM1.67

## Target price risk disclosures:

**SCGB 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.

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## Sales Trading cont'd

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