

Sunway Construction upgraded to Buy by AmlInvest Research

ANALYST REPORTS

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KUALA LUMPUR: AmlInvestment Research has upgraded Sunway Construction (SunCon) from Hold to Buy and it also raised the earnings outlook for FY17 to FY18 as it expects the company to secure new jobs this year and a firm order book.


The research house had on Friday raised its FY17-19F net profit forecasts by 1%, 29% and 29% respectively. It also increased its fair value by 29% to RM2.60 from RM2.01 previously.

"This follows an upward revision in our assumption for new job wins in FY17 to RM3.5bil (from RM2.5bil previously), while keeping our new order book replenishment assumption of RM2bil annually in FY18-19F.

"Our FV is based on 15 times revised FY18F EPS, in line with our benchmark forward PE of 14-16x for large-cap listed construction companies," it said.

AmlInvest Research said it came away from a recent visit to the company feeling more upbeat on the prospects.

SunCon appeared confident that its FY17 job wins will surpass its initial target of RM2bil by a huge margin. Year-to-date, SunCon has bagged new jobs worth RM1.6bil, including the RM582mil government servant housing project PP1AM to build 2,160 apartments in Kota Bharu secured on Thursday.

"SunCon is particularly bullish in the rail-related space, as well as internal projects from parent [Sunway Bhd](#) .

"For FY18-19F, SunCon reiterated its guidance for annual job wins normalising to RM2bil," it added.

The first factor was internal contracts from parent Sunway Bhd comprising building jobs for new property launches, and up to five new hospital projects.

The second factor was external jobs from key mega infrastructure projects such the HSR, ECRL and MRT3.

AmlInvest Research pointed out SunCon is awaiting the outcome of its tender, via a 50:50 JV with a Singaporean partner, for an integrated construction precast hub (ICPH) yard in Pulau Punggol Barat in Singapore which should be made known by mid-2018.

SunCon intends to build on the yard a fully automated robotic precast plant with an annual capacity of 300m³ (vs. its total capacity of 156.6 m³ in Iskandar and Senai at present).

"SunCon guided for a capex of S\$40-S\$60mil (RM120-RM180mil) for the venture, which it has no problem funding, given its net cash of RM360mil as at end-1HFY17," it said.

The new plant, which takes about three years to be completed, will ride on the growing demand for precast products in Singapore, driven by government initiatives with the latest being mandatory requirement for prefabricated bathrooms in new HDB flats by 2019.

"We continue to like SunCon for: 1) its good earnings visibility underpinned by an outstanding order book of RM4.9bil, which will keep it busy for the next two to three years; 2) its strong prospects for new job wins underpinned by various mega infrastructure projects, particularly the rail-related ones, in the market; and 3) its proven track record with various blue-chip clients in the market," it said.