

## Better-than-expected construction margin bolstered SunCon's 9M earnings

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KUALA LUMPUR: Sunway Construction Group Bhd's (SunCon) nine-month (9M) financial year 2021 (FY21) net profit of RM52.4 million came in better than expected, Hong Leong Investment Bank Bhd (HLIB) said.

This accounted for 72 per cent of its and 67 per cent of consensus' expectations, respectively, the bank-backed research firm noted.

"It is also due to the better-than-expected construction margin from upwards recalibration.

"SunCon's earnings are expected to be back-loaded with operations fully ramped up in Q4 2021," it said.

HLIB said SunCon's replenishment has been below expectations, achieving RM796 million due to customer conversion delays.

The firm believes this may have led to lagging share price performance versus KL Construction Index (KLCON) since the peak political impasse on August 21.

"We think lumpy awards could still materialise given a portion of tenders are internal and are individually quite sizable.

"However, with time running out, we reduce our financial year 2021 (FY21) assumption from RM1.7 billion (including precast) to RM1.5 billion," it said.

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Meanwhile, the research house said SunCon should mitigate tax implications in 2022.

According to HLIB, SunCon anticipates negligible impact from the one-off Cukai Makmur as its subsidiaries individually are not expected to generate more than RM100 million in FY22.

SunCon's unutilised capital allowances could help to this extent, it said.

"Another tax measure introduced is the removal of tax exemption for foreign-sourced income upon remittance.

"We note SunCon's foreign operations in India and Singapore are subject to double taxation avoidance agreements with Malaysia, and the impact could be largely mitigated through tax credits claims, in our view," it said.

HLIB has cut its FY22-23 earnings on SunCon by 4-5 per cent.

"We maintain 'Buy' with a lower target price of RM1.80 on SunCon.

"Existing presence in infrastructure friendly India and the strong internal pipeline is comforting post-uninspiring 2022 Budget," it added.