**THE MALAYSIAN RESERVE – 25 FEBRUARY 2022**

# MIDF Research optimistic on SunCon's earnings outlook

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MIDF Amanah Investment Bank Bhd (MIDF Research) is optimistic on Sunway Construction Group Bhd's (SunCon) earnings outlook, supported by its solid orderbook, massive solar project and focus to diversify overseas.

The investment bank stated the defensive nature of SunCon is underpinned by its well-balanced orderbook portfolio which is made up of its sizable in-house projects and overseas job wins, especially from India, which now constitutes 17% of the group's orderbook.

"Domestically, the group noted it is actively pursuing opportunities in the private and public sectors, including any private funding initiatives, pipeline projects from parent Sunway Bhd and in the sustainable energy segment.

"This will bode well with the group's earnings momentum moving onwards," MIDF Research noted in a report yesterday.

The bank noted that in the intermediate term, SunCon's prospects, also well-supported by its strong outstanding orderbook, will provide earnings visibility over the next three years.

"We are optimistic the group's orderbook, which currently stands at RM4.8 billion, the bulk of which are from internal projects (51%), coupled with the management's target to secure RM2 billion of new orderbook in financial year 2022 (FY22), provides a strong earnings visibility until FY24," MIDF Research added.

It noted the group is also making strong inroads in the renewable energy space after being awarded two 50-megawatt fourth cycle large scale solar programme on Dec 27, where it is tasked to undertake the engineering, procurement, construction and commissioning works, with a total value of RM386 million.

This marks SunCon's maiden large-scale solar project since its entry into space two years ago.

MIDF Research views this positively as it serves to enhance the group's expertise in this growing space, which is one of the main pillars of the Malaysia Renewable Energy Roadmap to achieve 40% renewable energy capacity by 2035.

SunCon commenced work on the 37km Thorapalli Agraharam-Jittandahalli Highway on Dec 7, one of its two hybrid annuity model projects in India.

As such, MIDF Research maintained a 'Buy' recommendation on the group with an unchanged target price of RM1.80, derived by attaching a price-earnings ratio (PER) of 18 times to the group's FY22 earnings per share of 10 sen.

The target PER is +1.5 standard deviation premium above the group's two-year historical average.

"We opine the premium is justified given the group's solid orderbook replenishment rate, sound balance sheet and continued job flows from its parent company," the bank said.

MIDF Research has also maintained SunCon's FY22 estimates of RM2.11 billion in revenue and a bottom line of RM128.4 million.

SunCon's construction revenue fell in the fourth quarter ended Dec 31, 2021, by -0.9% year-on-year (YoY) to RM579.9 million while its profit before tax margin came in at 15.3%, as compared to 6.4% in the corresponding quarter in 2020.

This reflects some upside for projects nearing completion, which includes four mechanical, electrical and plumbing services, all scheduled for completion in the first quarter of calendar year 2022 (1QCY22).

The company also has eight in-house projects and the LRT3 Package GS07 and 08, all scheduled for completion in 2QCY22, carrying an outstanding orderbook of RM886 million.

MIDF Research opined that SunCon's construction division will continue to record stellar earnings in FY22, premised on possible acceleration of progress billings as construction activities resume to near optimal capacity.

It added the group's FY21 normalised earnings increased by +84.5% YoY to RM128.4 million, which surpassed its expectations and the consensus by 100% and 59.2% respectively, as operations began returning to normalcy as compared to calendar year 2020 on the back of Malaysia's rapid inoculation exercise, driving the resumption of economic activities.

SunCon's core earnings came in at RM81.6 million, the highest it has ever recorded since it went public in 2015.

The management attributed this to the recalibration of better margins for some projects that are at advanced stages of completion.

Source: sunway.com.my

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