

Sunway Construction Group Berhad - Setting a Strong Foundation

Author: sectoranalyst | Publish date: Thu, 21 Mar 2019, 10:23 AM

INVESTMENT HIGHLIGHTS

- Two new piling jobs secured
- Contract from LRT3 worth RM47.6m
- The new orderbook has filled up about 58% of the replenishment assumption
- Maintain **NEUTRAL** with an unchanged TP of **RM1.81**

Both subsidiaries of SunCon namely Sunway Geotechnics ("SunGeo") and Sunway Construction ("SCSB"), has accepted letters of award for contracts involving piling works.

Contract from LRT3 worth RM47.6m. The first letter was issued by S. N. Akmida Holdings to SunGeo for the bored pile works for viaduct and station for Light Rail Line 3 (LRT3), where the track extends to Johan Setia from Bandar Utama. The contract sums of RM47.6m, commencing in March 2019 for completion in March 2020.

Contract for piling jobs in Putrajaya. The second letter was issued by Putrajaya Development to SCSB for the proposed construction and completion of earthwork, piling and associated works for the proposed Transit Oriented Development in Putrajaya. The contract carries approximately RM38.8m in value, commencing in March 2019 to run until July 2020.

The total new project awarded this year including the two projects above amounted to RM867.7 million out of SunCon's target of RM1.5 billion. Thus far, the new orderbook has filled up about 58% of our replenishment assumption.

Positive impact, within our range of assumptions. The new jobs awarded fell within our job replenishment target. Hence we make no change to our estimates. As of writing, we estimate its total unbilled job stood at RM5.6bn, which equates to an admirable 2.4x cover to FY18 revenue, and will likely sustain earnings until FY21.

New orderbook expected. SunCon's replenishment progress has been a positive trend as we had expected. This was based on its track record as well as the internal support gained from the ParentCo. Positively, we note that the latest new orderbook was largely made up of external project namely TNB's Campus worth RM781mm. Hence, we do not rule out the possibility of potential new jobs coming from the ParentCo during the year.

Recommendation. SunCon's job replenishment capability is well supported by its parent company (Sunway Berhad). Having a net cash position is evidently positive, providing support to clinch and operate new projects. Moreover, the group's healthy financial position and large order backlog should bode well to its future value accretion. On that note, we think that SunCon's prospect is positive. However, our call remains NEUTRAL with unchanged TP of RM1.81 as the value of new jobs awarded are still within our estimations. The share price has rallied by +30.8% since the beginning of this year. We believe this is reflective of the group's strong fundamentals. However, judging by the recent share price performance, we believe that this have been priced in by investors.

Source: MIDF Research - 21 Mar 2019