

Slow LRT3 progress to drag on Sunway Construction earnings, says AmlInvestment

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KUALA LUMPUR: AmlInvestment Bank research expects Sunway Construction Bhd's 9MFY19 results to fall short of market estimates due to the slow progress in the Light Rail Transit 3 (LRT3) project.

"We expect Sunway Construction's 9MFY19 results, due to be announced on 19 Nov 2019, to come at RM90-95mil at the net level (an earnings decline of 12-17% YoY).

"This will be broadly in line with our expectations at 69-73% of our full-year forecast, but fall short of market expectations at only 63-67% of full-year consensus estimates," it said in a note.

Sunway Construction has guided for work on the LRT3 to only pick up from the final quarter of this year as contract renegotiations and design changes were pending.

About a third of Sunway Construction's outstanding order book comes from Packages GS07 and GS08 of the LRT3 project.

Meanwhile, AmlInvestment also expects weak profits from the construction player's precast concrete products in the first nine months of 2019 due to unfavourable contract prices entered into amid stiff competition.

The research house maintained its underweight call and fair value of RM1.20 on the stock based on 10x FY20 EPS.

"We maintain our view that valuations of construction stocks, Sunway Construction included, have run ahead of their fundamentals in the heat of the euphoria sparked by the recent revival of the East Coast Rail Link (ECRL) and Bandar Malaysia projects," it added.

AmlInvestment expects Sunway Construction to weather the sector downturn better given its ability to compete under an open bidding system, coupled with the availability of building jobs from its parent and sister companies under the Sunway Group.

"However, valuations are unattractive at 16-20x forward earnings on muted sector prospects," it said.