

SunCon should be able to compete under open bidding system

Sunway Construction Group Bhd
(Nov 14, RM1.53)

Maintain underweight with a lower fair value of RM1.27:

We maintain our forecasts but reduce our fair value by 17% to RM1.27 from RM1.53 based on 10 times Sunway Construction Group Bhd's (SunCon) 2019 financial year earnings per share from 12 times previously, which is still in line with our benchmark forward price-earnings (P/E) of 10 times to 12 times for mid-cap construction stocks. The downgrade in P/E multiple is to reflect the continuing sector de-rating.

SunCon has secured a RM352.1 million contract from sister company Sunway Velocity Two Sdn Bhd for the construction of an office tower and two apartment blocks in Sunway Velocity Two development in Jalan Peel, Kuala Lumpur, with a construction period of 37 months beginning November 2018.

The latest job has boosted its year-to-date construction job wins excluding precast orders to RM1.2 billion and its outstanding construction order book to RM5.95 billion based on our estimates. We are keeping our forecasts that assume construction job wins of RM1.5 billion annually in FY18 to FY20.

We remain cautious on the outlook for the local construc-

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tion sector. As the government scales back on public projects, local contractors will be competing for a shrinking pool of new jobs in the market. Severe undercutting among the players will result in razor-thin margins for the successful bidders. On the other hand, the introduction of a more transparent public procurement system under the new administration should weed out rent-seekers, paving the way for healthier competition within the local construction sector.

We believe SunCon is mitigated by its substantial order backlog that should keep it busy over the next one to two years, coupled with its proven ability to compete under an open bidding system. However, valuations are unattractive at 11 times to 14 times forward earnings on muted sector prospects. — *AmInvestment Bank, Nov 14*