

SunCon's FY21 earnings to be hit by Covid-19 measures

by SHAHEERA AZNAM SHAH

SUNWAY Construction Group Bhd's (SunCon) earnings for its financial year 2021 (FY21) is expected to be impacted by the movement restrictions.

AmInvestment Bank Bhd (AmBank Research) cut its net profit forecast for FY21F by 21% to reflect the builder's productivity loss due to pandemic restrictions up to mid-July.

"We cut our net profit forecast, but keep our FY22-23F numbers relatively unchanged, and fair value of RML69 based on 14 times FY22F earnings per share plus a 3% premium to reflect our 4-star environmental, social and governance rating.

"The 14 times multiple is in line with our benchmark forward price-to-earnings (P/E) for large-cap construction stocks," AmBank Research analyst Joshua Ng wrote in a report last Friday.

The investment bank has maintained 'Hold' for SunCon.

Ng said SunCon's productivity could have improved from mid-July as more workers can return to the construction site after receiving vaccination under CIVac, (Construction Industry Vaccination Programme) and Pिकास (Covid-19 Industry Immunisation Programme).

At present, he noted that the percentages of SunCon's workers with one and two vaccine doses administered stand at about 88% and 55% respectively.

"During our recent engagement with the company, SunCon reiterated its guidance for RM2 billion overall job wins, including the supply of precast products, in FY21F.

"Thus far, in FY21F, it has secured new jobs worth a total of RM620 million, comprising RM435 million construction jobs and RM185 million precast product supply contracts in Singapore," he added.

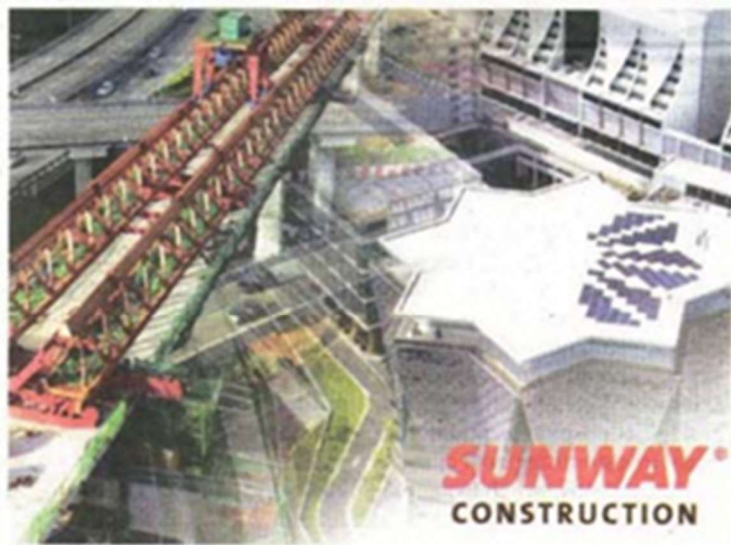
To date, SunCon's outstanding construction and precast product order backlogs stood at RM4.4 billion and RM401 million respectively.

AmBank Research remains cautious on the local construction sector outlook as it is still uncertain if the incoming government will keep to its predecessor's plan to kick start the Mass Rapid Transit Line 3 project in the second half of this year.

As it is, the macro and operational challenges remain aplenty in the sector.

These include high national debt weighing on the government's ability to roll out public projects, coupled with the 12th Malaysia Plan that has yet to be revealed.

"In addition, the mega projects



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have lost their shine, less impactful as they are not fast-tracked and implementation models that gravitate towards a public-private partnership.

"The intensifying competition is also playing a role as both public and private projects dry up amid the growing presence of foreign contractors, especially large state-owned Chinese contractors while the higher operating cost and risk, as well as lower efficiency and supply-chain disruptions, worsened by the pandemic," Ng said.

He opined that SunCon could

weather the sectorial downturn given its ability to compete under open bidding, coupled with the availability of building jobs from its parent and sister companies through Sunway Group.

Hong Leong Investment Bank Bhd (HLIB Research) cuts SunCon's FY21 earnings expectation by 24.9% after recalibrating for margin assumptions.

"SunCon's latest outstanding orderbook stands at RM4.8 billion, translating into a healthy 3.1 times cover. Replenishment has been challenging thus far, securing

RM620 million of its RM2 billion target (31%).

"Management remains steadfast in achieving its targets this year. While lumpy awards may still materialise, we reckon this could take place late into the year leading to slower works ramp up," HLIB Research analyst Edwin Woo wrote in a report last Friday.

Woo noted that SunCon's tender book remains sizeable at RM8.3 billion, including 32% overseas in Singapore, the Philippines and India.

Other local outstanding tenders are Sunway Valley City, Giza Medical Centre, Large-Scale Solar 4 engineering, procurement, construction and commissioning.

HLIB Research has maintained 'Buy', with an unchanged target price (TP) at RM1.87.

The TP is derived by pegging FY22 earnings per share to 15 times excluding cash P/E.

"We believe given its impressive execution track record, SunCon is well positioned to partake in pump priming initiatives.

"Its healthy balance sheet with net cash position (21 sen/share) and strong support from parent-company Sunway Bhd should provide job flow clarity during these uncertain times," Ng wrote.

SunCon shares closed 1.9% higher to RML61 last Friday, valuing the company RM2.08 billion.