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SunCon on firm footing

CONSTRUCTION

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HLIB keeps 'buy' call on SunCon, raises target price to RM1.77

PETALING JAYA: As the Covid-19-induced disruptions across the economy normalise, Sunway Construction Group Bhd (SunCon) is expected to see stronger earnings in the quarters ahead.

The positive momentum for the construction group is expected to be further supported by the acceleration of its projects in India, said Hong Leong Investment Bank Research (HLIB Research).

It said SunCon could see a continuation of earnings boost in the fourth quarter ended Dec 31, 2021 from conservatively recognised projects that have reached advanced phases (similar to the third quarter of 2021).

"Despite pandemic-enforced restrictions affecting sector productivity levels in general, management indicates that productivity levels have normalised close to pre-pandemic era after two years of 'learning to live with Covid'," HLIB Research said in a report following a meeting with SunCon's management.

"We are comforted by this but at the same time remaining cautious due to the slow fresh foreign labour intake and potential for case resurgence over the course of this year," it added.

HLIB Research noted that SunCon's projects were spared from the poor weather and floods that struck in the fourth quarter of 2021.

For instance, the progress of the Light Rail Transit 3 package in Klang was not affected as the structure intensive phase had passed.

The research firm maintained its "buy" call on SunCon, with an unchanged target price of RM1.77, pegged at 15 times the estimated earnings for 2022.

SunCon's shares rose three sen to close at RM1.48 last Friday.

"The group is well positioned to partake in pump-priming initiatives should it happen.

"Its healthy balance sheet with net cash position of 30 sen per share (including financial investments), existing presence in India and strong support from parent company Sunway Bhd should provide job flow clarity," it said.

According to HLIB Research, SunCon's billings from its two hybrid-annuity-model (HAM) projects worth RM823mil in India should accelerate this year, based on indications that execution rate has ramped up four-fold last month from December last year.

Completion rates for both projects are targeted to be 50% by year-end, it noted.

"India is undertaking an infrastructure drive featuring vast road and rail network expansion, which bodes well for SunCon in the long term.

"The group is looking to participate in HAM road projects should there be no domestic private finance initiative (PFI) opportunities this year," the research unit said.

HLIB Research said it was not perturbed by SunCon's participation in balance sheet intensive projects due to the jobs likely being financed through 60%-owned joint-venture SunCon-RNS Infrastructure Ltd; having mitigated outlay and implied better deployment of capital (estimated idle cash including investments of RM615mil).

It said the previous guided earnings margin in India was more than 10%, versus 5% to 8% in the domestic market.

SunCon maintained its usual replenishment guidance of RM2bil for this year, with breakdown equally split between internal, infrastructure, overseas and piling divisions, HLIB Research said.

"A majority of its internal target is the gradual rollout of Sunway Ipoh City project while parent company's sustained launch targets for 2022 could also aid in achieving its replenishment targets," it said, adding that there was upside risk to the guidance due to spillover from 2021's miss of around RM500mil.

The guidance also does not include potential domestic PFI projects such as the Mass Rapid Transit 3 (MRT3).

"To this end, SunCon intends to participate as either a contractor with deferred payment option and/or collaboratively with parent company should MRT3 employs property development components in its financing structure.

"The latter option might be less strenuous on SunCon as it could capitalise on parent's financial strength. Accordingly, contract opportunities could include internal contracts in addition to civil work opportunities from the railway line," it added.

SunCon's net profit for the nine months ended Sept 30, 2021 rose 12% to RM47.86mil from RM42.59mil in the previous corresponding period, mainly due to an improvement in the group's precast segment.

Revenue for the nine-month period increased to RM1.10bil from RM925.42mil a year earlier.

HLIB Research said SunCon's 49%-owned integrated construction and prefabrication hub's precast plant in Singapore would be operational by the second half of this year, representing an effective 29% increase to the existing capacity.