


## RHB upgrades SunCon to 'buy'

### ANALYST REPORTS

Friday, 14 Aug 2020

8:52 AM MYT



KUALA LUMPUR: Despite expectations that Sunway Construction Group Bhd  will face weaker earnings for 2Q20, the construction group could be an early beneficiary of a turnaround in the sector.

"We remain optimistic on its earnings recovery, supported by strength in work execution, aggressive tendering, and a steady flow of jobs from its parent company," said RHB Research in a note.

The research firm, which upgraded the counter to a "buy" call, has turned more optimistic over future upsides for the stock especially given the recent share price retracement ahead of the group's earnings announcement.

RHB has a target price of RM2.14 on the stock, which represents an 18% upside to the last traded price of RM1.81 on Thursday.

Sunway Construction is scheduled to release its 2Q20 results on Aug 18, where earnings are expected to dip to its lowest since its listing due. There was a halt in activities in March during the movement control period before a partial reopening in May.

"We believe Sunway Construction will likely report a small net profit of MYR2-6m for 2Q20, implying a decline of 82% YoY or 65% QoQ," said RHB.

The research firm cut its FY20 forecast net profit by 14% to reflect a lower average net margin assumption, but kept its FY21-22 estimates unchanged as it expects earnings to normalise by then.

"In Malaysia, construction activities have resumed to a pace that mirrors the pre-MCO period. However, progress is still rather slow in Singapore, although this is anticipated to improve by year-end," said RHB.

The group's outstanding orderbook is estimated at RM5.46bil, post deductions for work recognition in 2Q20.

Meanwhile, RHB also expects capex to jump in FY21 from a low base in FY20, that is likely to be less than RM1mil.

"Also, Sunway Construction is building a precast plant in Singapore, which is on track for completion by FY21.

"On these circumstances, we believe capex may surge next year, as the company will need to fund this maiden operation in FY22," it said.

The group has not imputed any earnings expectations from this plant into its forecasts.