

Edge Weekly

Brokers Digest: Local Equities - Sunway Construction Group Bhd, Kimlun Corp Bhd, CTOS Digital Bhd, Muhibbah Engineering (M) Bhd, Focus Point Holdings Bhd

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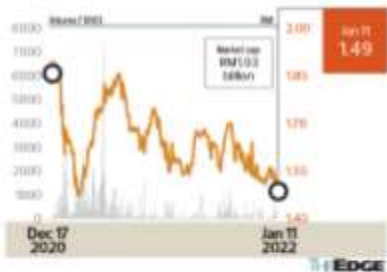


Construction

NEUTRAL

Sunway Construction Group Bhd

Target price: **RM1.77 BUY**



HONG LEONG INVESTMENT BANK RESEARCH (JAN 10): Domestic contract awards in 4Q21 totalled RM6.3 billion, up 54% quarter on quarter and 169% year on year. Last year saw stronger contributions from water, affordable housing, solar and road projects, while private jobs remained flattish.

Moving ahead, we cautiously expect to see gradually improving contract flows as Malaysia progressively enters the endemic stage. Our expectations are for a recovery in private sector opportunities and the ongoing rollout of existing projects like the East Coast Rail Link, Pan Borneo Highway Sabah and Sarawak, and Johor-Singapore Rapid Transit System to support job flows in 2022. We also look forward to the rollout of Sarawak

Metro, which costs RM6 billion.

With the Home Ownership Campaign (HOC) and low interest rates having lifted property sales in 2021, we could see a ramp up in private sector contract awards, considering the repeated award delays in 2021. The downside to this though is the dampening of sentiment from: (i) HOC expiry, (ii) interest rate hikes and (iii) rollout delays due to high price of materials.

On the public sector side, higher development expenditure does bode well for the general tender environment even with new big-ticket projects missing. Implementation of existing mega projects should also continue to selectively present opportunities for contractors, but we do note that most packages under existing projects have been tendered out, thus there is limited impact on sector earnings prospects.

We retain our sector "neutral" weight as the fluidity of looming elections could weigh on sector sentiment with investors adopting a wait-and-see approach. Recent news flow on critical projects like the Mass Rapid Transit 3 (MRT3) has been encouraging but we remain cautious on timeline and overall sector earnings execution amid ongoing virus spread.

Within the mid-cap space, we prefer Sunway Construction Group Bhd due to its (i) strong balance sheet, (ii) extensive track record of infrastructure projects and (iii) strong support from its parent company. For the small-cap space, we like Kimlun Corp Bhd for its solid order book, decent job visibility and niche exposure to MRT3, alongside an attractive six times PER and 0.35 times P/B.

