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New contract wins poised to steer SunCon

Higher progress billings to drive earnings growth

CONSTRUCTION

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>
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PETALING JAYA: Higher progress billings and new contract wins are expected to drive Sunway Construction Group Bhd's (SunCon) earnings growth in the upcoming quarters, say analysts.

Kenanga Research said while the construction services provider's revenue and core net profit for the first quarter of the financial year 2023 (1Q23) have eased by double digits, the results met expectations.

The research house noted SunCon's 1Q23 core net profit of RM26mil accounted for 16% and 18% of its full-year forecast and full-year consensus estimate respectively.

"We are not perturbed as its key jobs were still at the initial construction stages. Year-to-date it has secured RM1.3bil worth of new jobs – in-line to meet our full-year assumption of RM2.2bil.

"We deem the 1Q23 results within expectations as we expect progress billings and hence earnings to pick up for the rest of the year," Kenanga Research said in a report yesterday.

This is on the back of a sizeable outstanding order book of RM12bil (of which RM6bil is from a contract agreement for the Song Hau 2 Vietnamese coal-fired power plant, pending financial close before works can proceed), the research outfit added.

"FY22 revenue declined 16% year-on-year as major jobs won recently such as the RM1.7bil data centre and RM600mil rapid transit system were still at the initial stages of construction.

"Core net profit declined 26% for the same reason," said Kenanga Research.

SunCon has secured RM1.3bil of new jobs year-to-date, which the research house deemed to be on track to meet its FY23 replenishment assumption of RM2.2bil.

SunCon has a more conservative target of RM2bil.

"Its job replenishment prospects are bright, underpinned by a strong tender book of RM22.7bil comprising data centre building, semiconductor factories, Mass Rapid Transit 3 (MRT3) and related-party contracts," Kenanga Research said.

The research house maintained an "outperform" call for SunCon with a target price of RM2.13 based on a price-to-earnings multiple of 16 times.

"We like SunCon for the group's strong replenishment pipeline from its parent Sunway, its dominant position in the local construction space and strong balance sheet," said the research house.

RHB Research projected SunCon to see a five-year earnings compounded annual growth rate of 15%, underpinned by the data centre job in Johor and steady job awards from its parent company.

The group's construction order book stands at RM6bil at the end of 1Q23, compared with RM5.3bil in 4Q22.

"We expect higher progress billings in the remaining quarters, underpinned by the group's steady labour supply (600 to 700 workers).

"SunCon has RM22.7bil worth of active tenders including two bids (CMC301 and CMC302 work packages) under the MRT 3 project and some data centre jobs in the Klang Valley.

"All in, we think the group's foray into the data centre space will buffer downside risks from public infrastructure jobs," RHB Research said in a report yesterday.

RHB Research maintained a "buy" call for SunCon with a target price of RM2.05.

Meanwhile, UOB Kay Hian (UOBKH) Research said SunCon's margins in 1Q23 remain flattish, pressured by ongoing inflationary pressures.

Moreover, the research house also noted that seasonality played a role as 1Q is generally the weakest quarter.

"Steel prices remained elevated at around RM3,000 per tonne in 1Q23 (up 12% quarter-on-quarter (q-o-q), down 5% y-o-y) but the y-o-y decline could help to partially offset the higher cement prices of RM390 per tonne (which increased 16% q-o-q, up 37% y-o-y).

"SunCon is also expecting gradual improvement in the labour shortage issue, which will help to increase its progress," UOBKH Research said. UOBKH Research maintained a "hold" call on SunCon with a target price of RM1,57.