# SunCon has stepped up its hunt for jobs outside Malaysia

**Sunway Construction Group Bhd (Nov 7, RM1.96)**

**Maintain underweight with an unchanged fair value (FV) of RM1.20:** Our FV is based on 10 times financial year 2020 (FY20) earnings per share, in line with our benchmark forward price-earnings ratio of 10 times for large and mid-capitalisation construction stocks.

We expect Sunway Construction Group Bhd's (SunCon) nine months of financial year 2019 (9MFY19) results, due to be announced on Nov 19, to come in at RM90 million-RM95 million at the net level (an earnings decline of 12-17% year-on-year). This will be broadly in line with our expectations at 69-73% of our full-year forecast, but fall short of market expectations at only 63-67% of full-year consensus estimates.

We believe the key earnings drag will come from the slow progress in the light rail transit Line 3 (LRT3) project. At present, about a third of SunCon's outstanding order book comes from packages GS07 and GS08 of the LRT3. During a recent analyst briefing conducted by George Kent (Malaysia) Bhd — one of the two LRT3 joint turnkey contractors — the company guided that work would only pick up from the fourth quarter of 2019 as "contract renegotiations and design changes are still pending". It also means insignificant construction activities on the job in July to September 2019.

We also expect weak profitability from SunCon's precast concrete products in 9MFY19 due to unfavourable contract prices entered into previously amid stiff competition.

During a recent meeting, SunCon told us that given the slowdown in the local construction sector, it has stepped up its hunt for jobs outside Malaysia.

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In India, it has reopened an office staffed with full-time engineers relocated from Malaysia. The team is working on tenders for three toll road projects worth about RM1 billion each in India. In Myanmar, SunCon, via a joint venture with local conglomerate Capital Diamond Star Group Ltd, stands a good chance of winning a building job worth RM200 million to RM300 million for the maiden phase of a mixed project in Mandalay jointly developed by the latter and a Singaporean real estate group. SunCon has also mobilised three boring rigs to Singapore — we believe they would otherwise be underutilised in Malaysia — to better position itself in the piling sector in the city state.

So far in FY19 forecast (FY19F), SunCon has secured new construction jobs worth RM1.5 billion and new precast product orders worth RM60 million. Its outstanding construction and precast product order books stand at RM5.5 billion and RM294 million respectively.

We make no changes to our assumptions about construction job wins of RM1.8 billion in FY19F and RM1.5 billion annually in FY20-21F, and precast product order replenishment of RM200 million annually in FY19-21F.

We maintain our view that valuations of construction stocks, including SunCon, have run ahead of their fundamentals in the heat of the euphoria sparked by the recent revival of the East Coast Rail Link (ECRL) and Bandar Malaysia projects — more so, SunCon may not even be participating in the ECRL project as the high-value portions of the Chinese-controlled turnkey construction job are unlikely to be made available to local players.

We believe that given the still-elevated national debt, the government has no choice but to remain steadfastly committed to fiscal prudence, which means the revival of the ECRL project could be a "zero-sum game" as it impedes the government's ability to implement other public infrastructure projects.

We believe SunCon can weather the construction sector downturn better given its proven ability to compete under an open bidding system, coupled with the availability of building jobs from its parent and sister companies under the Sunway Group. However, valuations are unattractive at 16-20 times forward earnings on muted sector prospects. — *AmInvestment Bank, Nov 7*