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- **SunCon** banks on overseas projects to bulk up
- **Its** precast segment to overcome profit fall with a RM50 mil investment

SunCon sees little impact from mega projects review

by **Ho Chung Teng**

With the newly-elected government reviewing some of the mega infrastructure works, such as the Mass Rapid Transit 3 (MRT3), Light Rail Transit (LRT), East Coast Rail Line (ECRL) and High Speed Rail (HSR), the future earnings of infrastructure-based companies, such as Sunway Construction Group Bhd (SunCon), are expected to be lower.

However, SunCon's managing director Chung Soo Kiong is of the view that such changes in government policies are not expected to have any immediate impact.

"Sunway Construction, across the years, (has) built various proficiencies across a full range of five core services (civil and infrastructure services being one of them)," he tells ***FocusM***.

SunCon's other capabilities include building construction services; foundation and geotechnical engineering services; mechanical, electrical and plumbing services; as well as the manufacture and sale of precast concrete products.

As a result, even in the event that the mega projects mentioned above are cancelled, it is not expected to have a major impact on the company.

Nevertheless, Chung is confident that the government will continue to spend on infrastructure projects in the upcoming Budget 2019, albeit more prudently, especially taking into consideration the rapid urbanisation. This will also help create a competitive and a sustainable economy.

"Infrastructure spending growth has a direct positive correlation with gross domestic product (GDP) growth. While there may be a short-term impact due to the reviews, we are optimistic about the opportunities the Budget 2019 in November will bring," Chung elaborates.

Fund managers concerned

Despite the optimism expressed by SunCon, fund managers and analysts ***FocusM*** spoke to are concerned over SunCon's future earnings, given that three of its largest projects – LRT3 (RM2.18 bil), MRT2 (RM1.18 bil) and Parcel F in Putrajaya (RM1.6 bil) – represent a substantial contribution to SunCon's future earnings.

As of December 2017, SunCon has an orderbook of RM6.135 bil. Its earnings could contribute significantly to its parent company Sunway Group.

Sunway Holdings Sdn Bhd is the largest shareholder of SunCon with 54.42% interest, while Sungei Way Corporation Sdn Bhd is the second largest with 10.06% interest. Sunway group is controlled by Tan Sri Jeffrey Cheah.

When asked if there will be a paradigm shift to take up more in-house projects, Chung says Sunway Group will continue to power the collective growth of its diversified business interests with its sustainable "Build-Own-Operate" business model, which encompasses capabilities across a full real estate value chain to realise value for the company's stakeholder universe.

"While the in-house projects contribute to diversifying our revenue streams as well as to our short-term resilience, we also look forward to calculated geographical diversification in the interest of sustaining our growth in the mid and long terms," Chung adds.

At least one research head is positive on the outlook for SunCon, as he is positive with the growth catalyst in Penang. He is expecting the property sector on the Penang mainland to flourish in the near to mid term given the implementation of Penang's transport master plan.

SunCon's Chung affirms that the company intends to continue participating and investing in Penang's sustainable development.

"Sunway has been a part of Penang's growth for 26 years ... More recently we invested in establishing an office there to embark on the expansion plans for Sunway Carnival Mall and also the Sunway Medical Centre Seberang Jaya.

"Given our track record in delivering infrastructure projects, we are definitely keen to participate in Penang's transport master plan," Chung adds.

Missed expectation

For Q1FY18 ended March 31, SunCon's net profit increased to RM35.85 mil from RM33.79 mil in the corresponding period, backed by higher revenue of RM529.23 mil against RM419.53 mil.

The company attributes the improved net profits to the higher revenue recorded by its construction segment, increasing 40.3% to RM492.1 mil from RM350.7 mil due to better progress in the work at Parcel F, Putrajaya, and the International School of Kuala Lumpur.

However, it was offset by a fall in pre-tax profit of its precast segment to RM3.6 mil from RM15.8 mil in the corresponding period.

"The lower revenue (precast segment) in the current quarter by 46.1% was due to a longer delivery period on its existing outstanding order book. Precast's profit margin for the current quarter was impacted due to higher steel bar prices compared to the tender price – as steel content contributes to about 30% of total cost – as well as the stiff competition on pricing," said SunCon in its latest quarterly report.

Hong Leong Investment Bank Bhd in a recent research report commented that SunCon's Q1FY18 earnings were slightly below the research house and consensus expectations.

Despite the weaker earnings from the precast segment, SunCon is looking to further mechanise its precast operations (with an investment of RM50 mil) and to increase efficiency.

Chung justifies the investments in the Southeast Asian context, where countries are making serious efforts to improve construction efficiency.

"The precast segment's performance in the past quarter (Q1FY18) was due to the fluctuation in steel bar prices. These prices are currently stabilising, and we are expecting margins for the precast division to normalise in 2019," he adds.

Chung says the RM50 mil investment in the precast segment is also to aligned with SunCon's vision to be a leading regional player, and one of its key drivers is to enhance competitiveness for sustainable growth in the region.

"The mechanised precast plant is also part of our strategy for developing mass manufacturing capabilities while reducing reliance on foreign construction labour," he explains. SunCon's precast segment has been in operation in Singapore for more than 20 years, and been acknowledged as one of the top three players in the segment.

Expansion overseas

Over the next two to three years, Chung says, SunCon's earnings growth catalyst will be backed by its current outstanding order book, new orders from Sunway Bhd (transit-oriented developers and expansion in healthcare division), as well as capitalising on opportunities in the region's fast-expanding construction market.

"We also have extensive experience in undertaking projects overseas. Given our experience in the local as well as international fronts, we are well equipped to enter the construction markets in the Asean region (in places with the highest urbanisation rates such as Myanmar)," he adds.

According to Chung, its plans to expand into other Asean countries is inevitable.

This is mainly due to the growth potential in construction spending driven by population change as well as geopolitical and environmental factors, which could deliver quick wins for SunCon.

"We are in a good position to capture these opportunities – the "trillion-dollar opportunity" – in Southeast Asia," he adds.

"We are re-entering India where there are plans to expand India's railways, and we are in a good position to bid for the projects there given our rail experience in Malaysia, as well as our familiarity with the Indian market," Chung says.

Despite this, the investor community is concerned, given SunCon's track record in overseas deals. The company's financials had been negatively impacted previously by the tax recovery issues in India and impairment from its Abu Dhabi project.

To allay concerns, Chung says one of the important things SunCon learnt from the previous experiences is to enter the market with a reliable local partner, which the company now plans to undertake in its upcoming forays.

"Our international deals have delivered positive financial impact for us despite both these circumstances (above)," he contends.

"In summary, from our successful participation in construction projects across six countries, we believe that we have cultivated the necessary experience, and by harnessing local knowledge we will be able to reasonably mitigate the risks.

"Our existing strong balance sheet is more than adequate to support our geographical expansion plans." FocusM

SunCon, undertaking an MRT package, remains confident of securing more projects locally and abroad

Sunway Construction Group Bhd

CONSTRUCTION

KEY BOARD MEMBERS AND MANAGEMENT
Datuk Goh Chye Koon (chairman)
Chung Soo Kiong (managing director)

MAJOR SHAREHOLDERS
Tan Sri Jeffrey Cheah
64.5%
Employees Provident Fund Board
7.2%

MARKET CAP (July 25)
RM2.56b
Share price (July 25)
RM1.98
52-week high (Jan 9)
RM2.64
52-week low (May 31)
RM1.72

FINANCIAL RESULTS
(Q1 ended March 31)
Revenue
RM529.23m
Net profit
RM35.85m

One-year price chart

Source: Bloomberg