

Outthink. Outperform.

1Q19: Below expectations

Most of Sunway's operations were disrupted by the Covid-19 pandemic and government's Movement Control Order (MCO). Net profit fell 43% yoy to RM78m in 1Q20 due to weaker construction, property investment and trading earnings. The higher-than-expected contraction in earnings led us to cut our forecasts by 14-36% in 2020-22E. We believe Sunway's long-term prospects are good. But the proposed RM1.1bn issuance of preference shares will potentially lead to a share overhang. We reiterate our HOLD call with a higher target price (TP) of RM1.61.

Below expectations

Net profit of RM78m (-43% yoy) in 1Q20 comprises 11-12% of consensus and our previous full-year forecasts of RM663-699m. The reported revenue and profit margin came in below our expectation. The disruptions caused by the pandemic and the MCO led to slower progress billings for its construction (led to cut in SunCon earnings earlier), lower property investment, leisure and hospitality earnings.

Robust property sales

Revenue fell 14% yoy to RM971m in 1Q20 due to lower revenue for its property investment (-32% yoy), construction (-37% yoy) and trading (-23% yoy) divisions. The property development (+58% yoy), quarry (+68% yoy) and healthcare (+18% yoy) segments fared better in generating revenue. Sunway achieved effective property sales of RM522m in 1Q20, more than two-fold increase from RM172m in 1Q19. Effective unbilled sales remains high at RM2.6bn, while its construction order book is also high at RM5.4bn.

Earnings cut

PBT fell 39% yoy to RM108m in 1Q20, mainly due to lower construction (-48% yoy), property investment (-44% yoy) and trading (-92% yoy) earnings, while its healthcare division incurred a loss of RM4.5m. As a result, core net profit plunged 40% yoy to RM82m in 1Q20. Earnings outlook remains challenging in 2Q20 due to the extension of MCO to 9 June but business activities have gradually resumed. We cut our core EPS forecasts by 14-36% in 2020-22E to reflect lower earnings for all its divisions due to the impact of the pandemic.

Reiterating HOLD call with higher TP of RM1.61

We raise our fully-diluted RNAV/share to RM2.31 from RM2.25 to reflect our higher TP for SunCon and rolling forward the DCF valuation base year to 2021E for our property division. Using the same 30% RNAV discount, we lift our 12-month TP to RM1.61 from RM1.54 previously. Maintain HOLD. Upside/Downside risks: Fast recovery/prolonged weak property market.

Earnings & Valuation Summary

FYE 31 Dec	2018	2019	2020E	2021E	2022E
Revenue (RMm)	5,410.2	4,780.4	4,146.7	5,108.0	5,958.8
EBITDA (RMm)	706.7	771.2	517.9	680.8	942.8
Pretax profit (RMm)	836.8	914.2	600.7	795.5	1,042.9
Net profit (RMm)	645.5	766.6	424.8	579.2	788.9
EPS (sen)	13.2	15.7	8.7	11.9	16.2
PER (x)	11.6	9.8	17.7	13.0	9.5
Core net profit (RMm)	575.0	693.9	424.8	579.2	788.9
Core EPS (sen)	11.8	14.2	8.7	11.9	16.2
Core EPS growth (%)	15.9	20.6	(38.8)	36.3	36.2
Core PER (x)	13.1	10.8	17.7	13.0	9.5
Net DPS (sen)	7.1	9.1	9.0	9.9	10.9
Dividend Yield (%)	4.6	5.9	5.9	6.5	7.1
EV/EBITDA (x)	15.9	14.5	21.6	17.4	13.2
Chg in EPS (%)			(35.9)	(23.6)	(13.8)
Affin/Consensus (x)			0.6	0.8	1.0

Source: Company, Bloomberg, Affin Hwang forecasts

Affin Hwang Investment Bank Bhd (14389-U)

Results Note

Sunway Berhad

SWB MK
Sector: Property

RM1.54 @ 27 May 2020

HOLD (maintain)

Upside: 5%

Price Target: RM1.61

Previous Target: RM1.54



Price Performance

	1M	3M	12M
Absolute	-2.6%	-15.6%	-9.2%
Rel to KLCI	-8.1%	-12.8%	-0.1%

Stock Data

Issued shares (m)	4,901
Mkt cap (RMm)/(US\$m)	7,401/1,702
Avg daily vol - 6mth (m)	3.8
52-wk range (RM)	1.25-1.87
Est free float	31.8%
BV per share (RM)	1.73
P/BV (x)	0.9
Net cash/ (debt) (RMm) (1Q20)	(4,307)
ROE (2020E)	4.2%
Derivatives	Yes
(Warr 17/24, WP RM0.27, EP RM1.79)	
Shariah Compliant	Yes

Key Shareholders

Sungei Way Corp Sdn Bhd	51.2%
EPF	9.0%
Active Equity Sdn Bhd	3.2%
AIA	2.3%

Source: Affin Hwang, Bloomberg

Loong Chee Wei CFA
(603) 2146 7548
cheewei.loong@affinhwang.com

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Potential share overhang of proposed new preference shares issuance

Sunway has proposed the issuance of RM1.1bn 5-year Irredeemable Convertible Preference Shares (ICPS) on a 1-for-5 basis with a preferential dividend rate of 5.25% p.a. The proceeds from the ICPS issuance will be mostly to repay loans, finance its hospital expansion plans and working capital for its property development and investment activities. 50% of the ICPS will be mandatorily converted in the 4th year from issuance date at RM1.00 conversion price and the balance will be converted at maturity in the 5th year. There will be an earnings dilution impact from the conversion of the ICPS in the long term. We have not factored the impact of the ICPS issuance into our RNAV and EPS estimates as the proposal is still subject to approval by the authorities and shareholders.

Fig 1: Results comparison

FYE 31 Dec (RMm)	1Q19	4Q19	1Q20	QoQ % chg	YoY % chg	Comment
Revenue	1,123.6	1,353.2	971.4	(28.2)	(13.5)	Lower revenue for property development (-12% yoy), property investment (-1% yoy), construction (-31% yoy) and trading (-13% yoy). But higher quarry (+56% yoy) and healthcare (+27% yoy) revenue.
Op costs	(950.4)	(1,172.2)	(862.3)	(26.4)	(9.3)	
EBITDA	173.2	181.0	109.2	(39.7)	(37.0)	
<i>EBITDA margin (%)</i>	<i>15.4</i>	<i>13.4</i>	<i>11.2</i>	<i>(2.1ppt)</i>	<i>(4.2ppt)</i>	
Depn and amort	(55.6)	(61.1)	(60.9)	(0.2)	9.5	
EBIT	117.5	119.9	48.3	(59.8)	(58.9)	
<i>EBIT margin (%)</i>	<i>10.5</i>	<i>8.9</i>	<i>5.0</i>	<i>(3.9ppt)</i>	<i>(5.5ppt)</i>	
Interest income	78.7	104.9	83.6	(20.3)	6.2	
Interest expense	(60.9)	(39.8)	(59.1)	48.7	(3.0)	
Associates	41.7	89.3	38.6	(56.7)	(7.4)	Weaker Sunway REIT earnings.
Forex gain (losses)	(1.3)	16.2	(0.4)	NA	(67.9)	
Exceptional items	1.6	(30.2)	(3.1)	(89.7)	NA	Provision for impairment and write off for receivables, inventories, advances to joint venture, property plant and equipment.
Pretax profit	177.3	260.4	107.8	(58.6)	(39.2)	Lower PBT for property investment (-32% yoy), construction (-37% yoy) and trading (-92% yoy) segments, and RM4.5m loss for healthcare segment. Partly offset by higher PBT for property development (+58% yoy), and quarry (+68% yoy) segments.
Core pretax	177.0	274.4	111.4	(59.4)	(37.1)	
Tax	(25.3)	(41.3)	(17.5)	(57.6)	(30.8)	
<i>Tax rate (%)</i>	<i>18.7</i>	<i>24.1</i>	<i>25.3</i>	<i>1.2ppt</i>	<i>6.6ppt</i>	
Minority interests	(15.5)	(18.8)	(12.0)	(36.0)	(22.7)	
Net profit	136.4	200.3	78.3	(60.9)	(42.6)	Below expectations.
EPS (sen)	2.7	3.8	1.4	(64.4)	(50.0)	
Core net profit	136.2	214.3	81.8	(61.8)	(39.9)	Exclude exceptional items. Below expectations.

Source: Affin Hwang, Company

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Fig 2: Segmental revenue

FYE 31 Dec (RMm)	1Q19	4Q19	1Q20	QoQ % chg	YoY % chg
Ppty dev	87.9	218.2	139.2	(36.2)	58.4
Ppty inv	196.7	220.9	134.3	(39.2)	(31.7)
Construction	346.2	318.0	218.0	(31.4)	(37.0)
Trading	251.3	232.2	194.2	(16.4)	(22.7)
Quarry	44.2	136.4	74.1	(45.6)	67.8
Other	197.3	227.4	211.6	(7.0)	7.2
Total	1,123.6	1,353.2	971.4	(28.2)	(13.5)

Source: Affin Hwang, Company

Fig 3: Segmental PBT

FYE 31 Dec (RMm)	1Q19	4Q19	1Q20	QoQ % chg	YoY % chg
Ppty dev	32.8	117.2	39.1	(66.6)	19.1
Ppty inv	57.4	89.6	32.0	(64.3)	(44.3)
Construction	43.7	38.1	22.6	(40.8)	(48.3)
Trading	6.6	4.5	0.5	(88.9)	(92.4)
Quarry	1.7	8.0	3.1	(61.6)	76.2
Other	35.0	2.9	10.6	265.4	(69.8)
Total	177.3	260.4	107.8	(58.6)	(39.2)

Source: Affin Hwang, Company

Fig 4: Segmental PBT margin

FYE 31 Dec (%)	1Q19	4Q19	1Q20	QoQ ppt	YoY ppt
Ppty dev	37.4	53.7	28.1	(25.6)	(9.3)
Ppty inv	29.2	40.6	23.8	(16.8)	(5.4)
Construction	12.6	12.0	10.4	(1.6)	(2.3)
Trading	2.6	1.9	0.3	(1.7)	(2.4)
Quarry	3.9	5.9	4.1	(1.7)	0.2
Others	17.8	1.3	5.0	3.7	(12.8)
Total	(58.7)	19.2	11.1	(8.1)	69.8

Source: Affin Hwang, Company

Fig 4: RNAV and target price

RNAV by business segments	PER	New RNAV (RMm)	Old RNAV (RMm)	Change
	(X)			(%)
Property development		5,155	5,047	2
Property development JV		1,628	1,628	0
Property investment		4,198	4,110	2
Construction	16	1,690	1,296	30
Building materials	14	700	700	0
Quarry	14	210	210	0
Healthcare	30	1,800	1,800	0
Total		15,380	14,791	4
Net cash/(debt)		(3,682)	(3,682)	0
RNAV		11,698	11,109	5
Number of shares		4,934	4,934	0
RNAV/share (RM)		2.37	2.25	5
Fully-diluted no. of shares		5,564	5,564	0
Fully-diluted RNAV/share (RM)		2.31	2.20	5
Target price @ 30% discount to RNAV (RM)		1.61	1.54	5

Source: Affin Hwang estimates, Company

Important Disclosures and Disclaimer

Equity Rating Structure and Definitions

BUY	Total return is expected to exceed +10% over a 12-month period
HOLD	Total return is expected to be between -5% and +10% over a 12-month period
SELL	Total return is expected to be below -5% over a 12-month period
NOT RATED	Affin Hwang Investment Bank Berhad does not provide research coverage or rating for this company. Report is intended as information only and not as a recommendation

The total expected return is defined as the percentage upside/downside to our target price plus the net dividend yield over the next 12 months.

OVERWEIGHT	Industry, as defined by the analyst's coverage universe, is expected to outperform the KLCI benchmark over the next 12 months
NEUTRAL	Industry, as defined by the analyst's coverage universe, is expected to perform inline with the KLCI benchmark over the next 12 months
UNDERWEIGHT	Industry, as defined by the analyst's coverage universe is expected to under-perform the KLCI benchmark over the next 12 months

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 Affin Hwang Investment Bank Berhad (14389-U)
 A Participating Organisation of Bursa Malaysia Securities Berhad

22nd Floor, Menara Boustead,
 69, Jalan Raja Chulan,
 50200 Kuala Lumpur, Malaysia.

T : + 603 2142 3700
 F : + 603 2146 7630
 research@affinhwang.com

www.affinhwang.com