



AmInvestment Bank

## Company report

# SUNWAY

(SWB MK EQUITY, SWAY.KL)

28 May 2020

1QFY20 earnings hit by Covid-19 but outlook still positive

## BUY

(Maintained)

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03-2036 2025

Rationale for report: Company results/update

Price RM1.51  
Fair Value RM1.78  
52-week High/Low RM1.87/RM1.25

## Key Changes

Fair value ⬇  
EPS ⬇

YE to Dec	FY19	FY20F	FY21F	FY21F
Revenue (RM mil)	4,780.3	4,734.7	5,562.1	5,744.4
Core net profit (RM mil)	691.5	501.4	633.6	674.4
FD Core EPS (sen)	14.1	10.2	12.9	13.8
FD Core EPS growth (%)	26.2	(27.5)	26.4	6.4
Consensus Net Profit (RM mil)	-	699.3	745.1	796.9
DPS (sen)	7.4	5.1	6.4	6.8
PE (x)	10.7	14.8	11.7	11.0
EV/EBITDA (x)	14.8	17.5	13.6	13.4
Div yield (%)	4.9	3.4	4.2	4.5
ROE (%)	8.5	5.9	7.1	7.3
Net Gearing (%)	53.0%	49.1%	45.0%	45.2%

## Stock and Financial Data

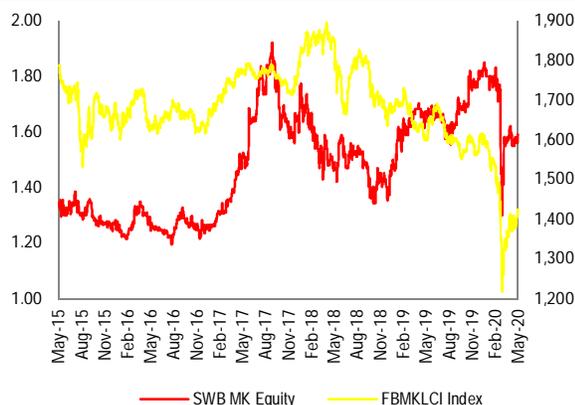
Shares Outstanding (million) 4,901.38  
Market Cap (RM mil) 7,499.1  
Book Value (RM/share) 1.9  
P/BV (x) 0.8  
ROE (%) 8.51  
Net Gearing (%) 43.9%

Major Shareholders Sungei Way Corp SB 51.2%  
EPF 8.9%  
Active Equity SB 3.2%

Free Float 36.7%  
Avg Daily Value (RM mil) 6.69

## Price performance

	3mth	6mth	12mth
Absolute (%)	(9.6)	(8.0)	(0.4)
Relative (%)	(2.6)	(5.3)	7.1



## Investment Highlights

- We maintain our BUY call on Sunway Bhd (Sunway) with a lower FV of RM1.78 per share from RM1.81 based on SOP valuations (Exhibit 3). We cut our FY20 and FY21 net profit forecasts by 18.6% and 3.1% respectively to reflect the impact of the movement order control (MCO) and the Covid-19 pandemic, and the timing of recognition and lower construction earnings. We make no changes to our FY22 net profit forecast.
- Sunway reported 1QFY20 revenue and net earnings of RM971.4mil (-13.5% YoY) and RM78.3mil (-42.6% YoY) respectively. After the distribution to holders of perpetual sukuk (RM11.9mil), core PATMI of RM66.4mil (-51.3%) came in below our and market expectations at 11% and 9% of ours and consensus full-year estimates. The lower earnings were mainly due to: (i) the MCO and Covid-19 pandemic which caused disruption in the overall business; and (ii) the adoption of MFRS 15 which resulted in lower recognition of its property development projects in China and Singapore.
- The property development division posted 1QFY20 revenue and PBT of RM139.2mil (+58.4% YoY) and RM39.1mil (+19.1%) respectively. The stronger PBT was mainly due to higher profit recognition and progress billings from local development projects. Sunway reported stronger new sales of RM581mil (+120% YoY) while unbilled sales of RM3.2bil (YoY: RM2.2bil; QoQ: RM2.7bil) will provide good earnings visibility in the short to mid-term.
- The property investment segment registered 1QFY20 revenue of RM134.3mil (-31.7% YoY) and PBT of RM32.0mil (-44.3% YoY). The lower revenue was attributed to a weaker contribution from rental income as a result of the Covid-19 pandemic and the impact of the MCO.
- The healthcare segment chalked up 1QFY20 revenue of RM149.2mil (+17.7% YoY) and loss before tax of RM4.5mil (-128.9% YoY). The segment's loss was mainly due to a sharp drop in the number of admissions and outpatient treatments at Sunway Medical Centre as a result of the MCO.
- The construction segment's 1QFY20 revenue and PBT came in at RM218.0mil (-37.0% YoY) and RM22.6mil (-43.4% YoY) respectively. The weaker performance was mainly due to lower recognition amid the subdued local and overseas market conditions and lower operating margins. YTD, Sunway Construction has secured new jobs worth RM0.7bil while its outstanding construction order book stands at RM5.4bil.

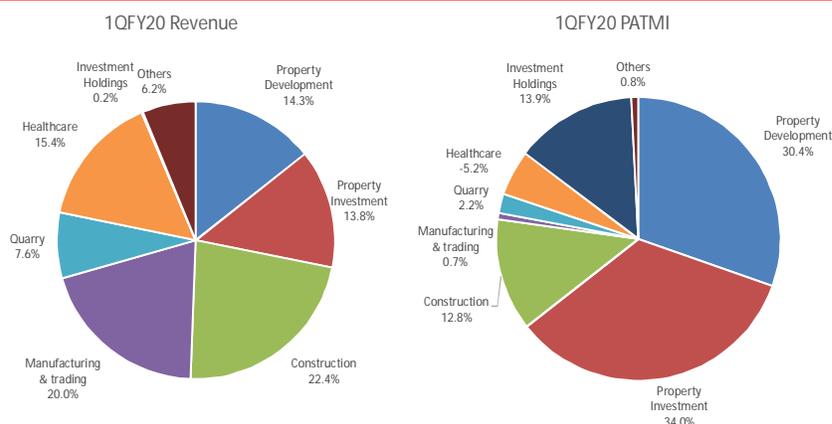
- Sunway has proposed a renounceable rights issue of up to 1.1bil of new irredeemable convertible preference shares (ICPS) on the basis of 1 ICPS per 5 existing shares @ RM1.00 per ICPS. The tenure is 5 years at a dividend rate of 5.25% per annum, payable semi-annually. 50% of the outstanding ICPS shall be converted into new shares on the market day immediately preceding the 4th anniversary of the issue date of the ICPS at the conversion price of RM1.00 per share. The remaining balance of the ICPS shall be converted into new shares on the maturity date at a similar conversion price. The proposals are expected to be completed in 4QFY20.
- To recap, we have cut our FY20–FY21 net profit forecasts by 15% and 13% respectively in our previous sector reports dated 19 March and 9 April 2020 to reflect the impact of the MCO and its spillover effects to the economy and the company's business. We further reduce our FY20 and FY21 net profit forecasts by 18.6% and 3.1% respectively following our downgrade in Sunway Construction and the adoption of MFRS 15 to reflect the timing of recognition.
- While we do not see any impact of the ICPS on our FV due to the higher cost of the ICPS plus the conversion price as compared to the current share price, we reduce our FV to RM1.78 per share from RM1.81 per share as a result of our FY20–FY21 earnings revision. Despite the temporary setbacks, we believe the outlook for Sunway remains positive premised on: (i) its improving unbilled sales of RM3.2bil; (ii) stable income contribution from property investment; (iii) a robust outstanding order book of RM5.4bil; and (iv) strong growth potential in healthcare business. Maintain BUY.

## EXHIBIT 1: EARNINGS SUMMARY

YE to Dec (RM mil)	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	QoQ %	YoY %	1QFY19	1QFY20	YTD %
Revenue	1,123.6	1,077.2	1,226.5	1,353.0	971.4	-28.2%	-13.5%	1,123.6	971.4	-13.5%
Operating costs	(950.2)	(848.8)	(995.0)	(1,185.2)	(928.7)	-21.6%	-2.3%	(950.2)	(928.7)	-2.3%
<b>EBITDA</b>	<b>173.4</b>	<b>228.4</b>	<b>231.5</b>	<b>167.8</b>	<b>42.7</b>	<b>-74.5%</b>	<b>-75.4%</b>	<b>173.4</b>	<b>42.7</b>	<b>-75.4%</b>
Depreciation	(55.6)	(61.1)	(57.3)	(61.1)	0.0	-100.0%	-100.0%	(55.6)	0.0	-100.0%
Finance costs	17.8	3.8	1.1	65.1	26.5	-59.4%	48.8%	17.8	26.5	48.8%
Associate contributions	41.7	82.1	48.1	89.3	38.6	-56.7%	-7.4%	41.7	38.6	-7.4%
Profit before tax	177.3	253.2	223.3	261.2	107.8	-58.7%	-39.2%	177.3	107.8	-39.2%
Taxation	(25.3)	9.4	(21.1)	(41.5)	(17.5)	-57.7%	-30.8%	(25.3)	(17.5)	-30.8%
MI	(15.5)	(16.2)	(18.8)	(18.8)	(12.0)	-36.0%	-22.7%	(15.5)	(12.0)	-22.7%
PATMI	136.4	246.5	183.4	200.9	78.3	-61.0%	-42.6%	136.4	78.3	-42.6%
<b>Core PATMI</b>	<b>136.4</b>	<b>165.2</b>	<b>136.7</b>	<b>253.1</b>	<b>66.4</b>	<b>-73.8%</b>	<b>-51.3%</b>	<b>136.4</b>	<b>66.4</b>	<b>-51.3%</b>
EPS (sen)	2.8	3.4	2.8	5.2	1.4	-73.8%	-51.3%	2.8	1.4	-51.3%
EBITDA margin (%)	15.4%	21.2%	18.9%	12.4%	4.4%			15.4%	4.4%	
Effective tax rate (%)	14.3%	-3.7%	9.4%	15.9%	16.2%			14.3%	16.2%	
PATMI margin (%)	12.1%	22.9%	15.0%	14.9%	8.1%			12.1%	8.1%	

Source: Company

## EXHIBIT 2: SEGMENTAL BREAKDOWN



Source: AmInvestment Bank Bhd/ Company

## EXHIBIT 3: SOP VALUATIONS

DEVELOPMENT PROPERTIES	Outstanding GDV (RMmil)	NPV @9% (RMmil)	Stake	Segment	Value (RMmil)	% of SOP
<b>Selangor/KL</b>				Property (50% discount to RNAV)	1,989.5	20.8%
Sunway Damansara	2,235.3	139.6	60.0%	Investment properties	2,320.5	24.3%
Sunway South Quay	2,486.7	319.1	100.0%	Sunway Construction (54.4% stake @ AmlInvestment Valuation)	829.9	8.7%
Sunway Monterez	38.0	2.9	60.0%	Sunway REIT (40.9% stake @ AmlInvestment Valuation)	2,191.2	22.9%
Sunway Semenyih	728.6	65.4	70.0%	Healthcare (30x FY20 earnings)	1,778.8	18.6%
Sunway Cheras	16.8	2.2	100.0%	Quarry & building materials (7x FY20 earnings)	146.2	1.5%
Sunway Duta	120.0	8.1	60.0%	Trading & manufacturing (7x FY20 earnings)	295.6	3.1%
Sunway Resort City	660.1	74.6	100.0%			
Sunway Velocity	1,984.0	190.6	85.0%	Total SOP	9,551.7	
Sunway Velocity TWO	1,360.0	76.8	50.0%	Net cash/(debt) @ Company level	287.0	
Sunway Tower KL 1	240.0	27.1	100.0%	<b>Fair value</b>	<b>9,838.7</b>	
Sunway Termuning	277.0	25.0	80.0%			
Mont Putra, Rawang	156.0	17.6	100.0%	Enlarged share base (mil shares)	5,538.8	
Kelana Jaya	1,450.0	163.9	100.0%	<b>Fair value per share</b>	<b>1.78</b>	
Jalan Belfield	1,100.0	124.3	100.0%			
Lot One, Kajang	460.0	52.0	100.0%			
USJ 1, Subang Jaya	1,400.0	158.2	100.0%			
Subang 2	52.0	4.1	70.0%			
Wangsa Maju-1	270.0	16.8	55.0%			
Dengkil (Emerald Tycoon)	796.6	90.0	100.0%			
Bukit Jalil (Sterling Paradise)	800.0	138.8	100.0%			
Wangsa Maju-2	300.0	27.7	55.0%			
<b>Perak</b>						
Sunway City Ipoh	928.4	98.2	96.0%			
<b>Penang</b>						
Sunway Hills	849.0	88.4	100.0%			
Sunway Wellesley, Bukit Mertajam	710.5	73.9	100.0%			
Paya Terubong	1,500.0	156.1	100.0%			
Sunway Tunas, Balik Pulau	60.0	6.2	100.0%			
Sunway Belong, Balik Pulau	110.0	11.4	100.0%			
<b>Johor</b>						
Bukit Lenang	698.4	38.1	80.0%			
Medini	10,616.0	434.7	60.0%			
Pendas	18,000.0	737.1	60.0%			
<b>Singapore</b>						
Brookvale Park	3,000.0	97.2	30.0%			
Canberra Link, Sembawang	1,500.0	56.7	35.0%			
Tampines Ave 10	2,400.0	90.8	35.0%			
<b>China</b>						
Tianjin Eco-City	765.3	65.2	60.0%			
<b>India</b>						
Sunway OPUS Grand India	702.4	36.5	50.0%			
Sunway MAK Signature Residence	181.2	11.3	60.0%			
Unbilled sales		252.0				
<b>Subtotal</b>		<b>3,979.0</b>				

Source: AmlInvestment Bank Bhd

## EXHIBIT 4: FINANCIAL DATA

Income Statement (RMmil, YE 31 Dec)	FY18	FY19	FY20F	FY21F	FY22F
Revenue	5,410.2	4,780.3	4,734.7	5,562.1	5,744.4
EBITDA	737.9	801.1	668.8	848.3	873.1
Depreciation/Amortisation	(143.2)	(235.1)	(232.9)	(273.6)	(282.5)
Operating income (EBIT)	594.7	565.9	435.9	574.8	590.6
Other income & associates	229.3	261.2	259.3	269.2	281.0
Net interest	12.8	87.8	87.0	102.2	105.5
Exceptional items	97.6	75.8	66.0	66.0	66.0
<b>Pretax profit</b>	<b>836.8</b>	<b>915.0</b>	<b>782.2</b>	<b>946.1</b>	<b>977.1</b>
Taxation	(121.4)	(78.4)	(130.6)	(159.3)	(146.6)
Minority interests	(69.9)	(69.3)	(84.2)	(87.2)	(90.1)
<b>Net profit</b>	<b>645.5</b>	<b>767.3</b>	<b>567.4</b>	<b>699.6</b>	<b>740.4</b>
Core net profit	547.9	691.5	501.4	633.6	674.4
<b>Balance Sheet (RMmil, YE 31 Dec)</b>	<b>FY18</b>	<b>FY19</b>	<b>FY20F</b>	<b>FY21F</b>	<b>FY22F</b>
PPE	2,627.7	2,749.0	2,722.8	3,198.7	3,303.5
Intangible assets	331.6	331.6	331.6	331.6	331.6
Other long-term assets	9,071.5	9,163.2	9,363.2	9,563.2	9,563.2
<b>Total non-current assets</b>	<b>12,030.8</b>	<b>12,243.8</b>	<b>12,417.6</b>	<b>13,093.5</b>	<b>13,198.3</b>
Cash & equivalent	5,136.0	5,888.9	5,978.9	6,083.1	6,193.0
Inventories	1,857.9	2,102.1	1,834.8	2,111.3	2,186.4
Trade receivables	1,514.5	1,638.4	1,556.6	1,828.6	1,888.6
Other current assets	1,152.2	1,533.8	1,728.3	1,762.3	1,769.8
<b>Total current assets</b>	<b>9,660.7</b>	<b>11,163.1</b>	<b>11,098.6</b>	<b>11,785.3</b>	<b>12,037.8</b>
Trade payables	1,336.2	1,344.3	1,221.8	1,405.9	1,455.9
Short-term borrowings	6,337.1	8,024.9	7,948.3	7,868.8	8,126.7
Other current liabilities	1,501.5	1,509.0	1,506.9	2,269.7	1,837.2
<b>Total current liabilities</b>	<b>9,174.8</b>	<b>10,878.2</b>	<b>10,677.0</b>	<b>11,544.4</b>	<b>11,419.8</b>
Long-term borrowings	3,345.6	2,310.8	2,310.8	2,310.8	2,361.3
Other long-term liabilities	275.9	189.9	189.9	189.9	189.9
<b>Total long-term liabilities</b>	<b>3,621.6</b>	<b>2,500.7</b>	<b>2,500.7</b>	<b>2,500.7</b>	<b>2,551.2</b>
<b>Shareholders' funds</b>	<b>7,964.9</b>	<b>8,392.9</b>	<b>8,709.3</b>	<b>9,095.1</b>	<b>9,502.5</b>
Minority interests	1,019.1	1,781.4	1,775.4	1,884.7	1,908.7
BV/share (RM)	1.62	1.71	1.78	1.85	1.94
<b>Cash Flow (RMmil, YE 31 Dec)</b>	<b>FY18</b>	<b>FY19</b>	<b>FY20F</b>	<b>FY21F</b>	<b>FY22F</b>
Pretax profit	836.8	915.0	782.2	946.1	977.1
Depreciation/Amortisation	143.2	235.1	232.9	273.6	282.5
Net change in working capital	(189.9)	(1,220.0)	(136.6)	180.7	(377.2)
Others	136.2	995.2	(1,373.3)	(424.3)	(70.1)
<b>Cash flow from operations</b>	<b>926.3</b>	<b>925.3</b>	<b>(494.8)</b>	<b>976.2</b>	<b>812.3</b>
Capital expenditure	(464.1)	335.9	26.2	(475.9)	(104.8)
Net investments & sale of fixed assets	0.0	0.0	0.0	0.0	0.0
Others	(470.6)	(1,260.1)	(200.0)	(200.0)	0.0
<b>Cash flow from investing</b>	<b>(934.7)</b>	<b>(924.2)</b>	<b>(173.8)</b>	<b>(675.9)</b>	<b>(104.8)</b>
Debt raised/(repaid)	1,130.6	667.1	166.6	183.7	(198.4)
Equity raised/(repaid)	6.9	0.0	0.0	0.0	0.0
Dividends paid	(316.5)	(242.9)	(251.0)	(313.8)	(333.1)
Others	(524.7)	234.0	(66.0)	(66.0)	(66.0)
<b>Cash flow from financing</b>	<b>296.4</b>	<b>658.3</b>	<b>(150.5)</b>	<b>(196.1)</b>	<b>(597.5)</b>
<b>Net cash flow</b>	<b>288.0</b>	<b>659.4</b>	<b>(819.1)</b>	<b>104.2</b>	<b>110.0</b>
<b>Adjustments</b>	<b>(17.1)</b>	<b>3.4</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>Net cash/(debt) b/f</b>	<b>2,236.9</b>	<b>2,507.8</b>	<b>3,170.6</b>	<b>2,351.5</b>	<b>2,455.7</b>
<b>Net cash/(debt) c/f</b>	<b>2,507.8</b>	<b>3,170.6</b>	<b>2,351.5</b>	<b>2,455.7</b>	<b>2,565.7</b>
<b>Key Ratios (YE 31 Dec)</b>	<b>FY18</b>	<b>FY19</b>	<b>FY20F</b>	<b>FY21F</b>	<b>FY22F</b>
Revenue growth (%)	3.3	(11.6)	(1.0)	17.5	3.3
EBITDA growth (%)	(7.5)	8.6	(16.5)	26.8	2.9
Pretax margin (%)	15.5	19.1	16.5	17.0	17.0
Net profit margin (%)	11.9	16.1	12.0	12.6	12.9
Interest cover (x)	nm	nm	nm	nm	nm
Effective tax rate (%)	14.5	8.6	16.7	16.8	15.0
Dividend payout (%)	41.1	47.2	44.2	44.8	45.0
Receivable turnover (days)	102.2	125.1	120.0	120.0	120.0
Inventory turnover (days)	123.0	151.2	151.7	129.5	136.5
Payable turnover (days)	96.4	102.3	98.9	86.2	90.9

Source: AmlInvestment Bank Bhd estimates

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