

HLIB Research

PP 9484/12/2012 (031413)

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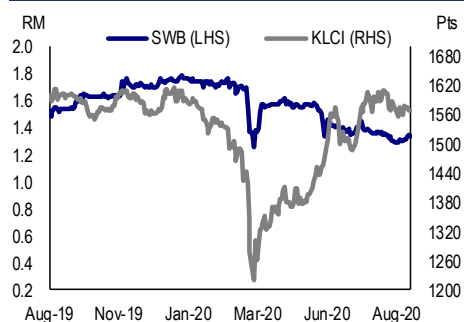
BUY (Maintain)

Target Price: RM1.95
Previously: RM1.95
Current Price: RM1.34

Capital upside	45.5%
Dividend yield	1.9%
Expected total return	47.4%

Sector coverage: Property

Company description: Sunway is a conglomerate that engages in property development, property investment, construction, leisure and hospitality, education, trading and manufacturing, building materials and healthcare.

Share price


	1M	3M	12M
Historical return (%)	1M	3M	12M
Absolute	-1.5	-12.4	-17.5
Relative	0.7	-19.1	-14.6

Stock information

Bloomberg Ticker	SWB MK
Bursa Code	5211
Issued Shares (m)	4,901
Market cap (RM m)	6,568
3-mth avg. volume ('000)	5,433
SC Shariah-compliant	Yes

Major shareholders

Sungei Way Corp Sdn Bhd	51.2%
EPF	9.7%
Active Equity Sdn Bhd	3.2%

Earnings summary

FYE (Dec)	FY19	FY20f	FY21f
PATMI – core (RM m)	639.4	391.4	639.5
EPS – core (sen)	13.1	8.0	13.1
P/E (x)	10.2	16.7	10.2

Sunway

Profitable quarter with strong 2HFY20 ahead

Sunway reported 1HFY20 core PATMI of RM76.4m (-69.4% YoY). Effective sales stood at RM586m (76% of revised target). Note that Sunway has revised its effective sales and launch targets to RM770m and RM2.1bn respectively. Effective unbilled sales stood at RM2.5bn (4.6x cover ratio). On the healthcare segment, SMC's latest utilisation now hovers close to 65% from its low of <20% previously. 2HFY20 will be supported by the handover of overseas projects of RM160m to the bottom-line. We increase our FY20/21/22 forecasts conservatively by +1.2%/+1.1%/+0.4% and maintain BUY with an unchanged TP of RM1.95 based on a 10% holding discount.

Slightly above. Sunway reported 2QFY20 core PATMI of RM7.4m (-89.3% QoQ, -93.4% YoY) bringing 1HFY20 core PATMI to RM76.4m (-69.4% YoY) which forms 19.7% and 17.3% of our and consensus full year forecasts, respectively. Despite only forming 19.7% of our estimates, we deem the results slightly above expectations as 2QFY20 had better-than-expected contributions from the Property Development segment while 2HFY20 will be supported by the handover of overseas projects of RM160m to the bottom-line. 1HFY20 core PATMI was derived after excluding -RM26.5m in EIs (-RM16.5m revaluation loss and -RM10m of impairments).

Dividends. None declared (2QFY19: 4.57 sen per share, inclusive of treasury share).

QoQ/YoY. Core PATMI fell -89.3%/-93.4% to RM7.4m from lesser revenue sources due to MCO coupled with unavoidable operating costs. Nonetheless, most of the segments remained profitable with the exception of Property Investment, Quarry and Healthcare (largely stemming from SMCV).

YTD. Core PATMI dropped -69.4% to RM76.4 on the back its operations impacted by MCO coupled with lower contributions from its associates.

Property development. New effective sales of RM64m was achieved in 2QFY20, bringing 1HFY20 to RM586m (76% of revised target). Note that Sunway has revised its effective sales and launch targets to RM770m (from RM1.4bn) and RM2.1bn (from RM3.3bn) respectively as seen in Figure#3. Effective unbilled sales stood at RM2.5bn, representing a strong cover ratio of 4.6x on FY19's property revenue.

Construction. SunCon reported 1HFY20 core earnings of RM4.6m (-74% QoQ, -86% YoY) while current orderbook stands at RM6.3bn which implies a healthy cover of 3.6x on FY19 construction revenue.

Healthcare. The overall performance was impacted by the Covid-19 fear as number of admissions and outpatient treatments dropped with elective surgeries being postponed. The segment reported a net loss of -RM16m (1HFY20 net loss -RM20.4m) as it was further impacted by SMCV registering an operating loss of -RM9.5m (1HFY20: -RM21.5m). On a brighter note, SMC's latest utilisation now hovers close to 65% from its low of <20% previously.

Outlook. We expect a strong earnings recovery in 2HFY20 as it will be underpinned by the block recognition of property projects delivered in Singapore (RM120m) and Tianjin, China (RM40m) in 4QFY20. This is further supported by the normalisation of construction activities by SunCon, Leisure & Hospitality division (theme park operating from July onwards), retail malls and Healthcare division. Separately, the group will hold the EGM on the approval of ICPS on 2 Sept. The offering of ICPS is attractive given the dividend yield of 5.25% based on primary shares.

The hidden gem. Sunway's hidden gem lies in the healthcare sector with its concerted efforts to build new hospitals and expanding the established Sunway Medical. We gather that the group will likely invite strategic shareholders to expedite the development of the Healthcare division prior to a potential separate listing in later years.

Forecast. We increase our FY20/21/22 forecasts conservatively by +1.2%/+1.1%/+0.4% as we impute better contributions from the Property Development segment, given the resumption of construction works, pending further clarity on the magnitude of its recovery.

Maintain BUY but with an unchanged **TP** of **RM1.95** based on a 10% holding discount to SOP-derived value of RM2.17. Sunway remains our top pick in the property sector given its well-integrated property and construction developments. The value of the healthcare business (with new hospitals and the SMC expansion coming on stream over the next three years) has yet to be appreciated as it is embedded within the parent-co. This, coupled with the resilient earnings from matured investment properties alongside its growing building materials business and quarry operations, justifies for the re-rating of the stock.

Financial Forecast

All items in (RM m) unless otherwise stated

Balance Sheet

FYE Dec	FY18	FY19	FY20f	FY21f	FY22f
Cash	2,609.6	2,261.5	3,212.3	3,224.0	3,738.3
Placement in funds	2,526.5	3,627.4	3,627.4	3,627.4	3,627.4
Receivables	1,514.5	1,638.4	1,234.3	1,986.6	2,013.5
Inventories	849.2	748.5	1,028.6	1,655.5	1,677.9
Others	14,280.6	15,277.3	14,829.2	15,282.2	15,541.5
Assets	21,780.3	23,553.1	23,931.7	25,775.6	26,598.6
Payables	1,336.2	1,344.3	1,234.3	1,986.6	2,013.5
Debt	8,872.3	9,567.5	10,067.5	10,567.5	11,067.5
Others	2,587.8	2,467.1	2,467.1	2,467.1	2,467.1
Liabilities	12,796.4	13,378.9	13,768.9	15,021.2	15,548.1
Shareholder's equity	7,964.9	8,392.9	8,342.2	8,859.8	9,084.1
Minority interest	619.1	631.4	670.6	744.6	816.4
Perpetual bond	400.0	1,150.0	1,150.0	1,150.0	1,150.0
Equity	8,984.0	10,174.3	10,162.8	10,754.5	11,050.5

Cash Flow Statement

FYE Dec	FY18	FY19	FY20f	FY21f	FY22f
Profit before taxation	836.9	915.0	525.6	907.8	948.8
D&A	222.9	233.6	265.5	268.6	271.3
Working capital	(229.3)	(261.2)	(313.2)	(281.5)	(277.5)
Taxation	(276.1)	(321.3)	(299.1)	(376.5)	(391.0)
Others	401.4	261.7	1,259.4	(326.8)	480.7
CFO	955.8	827.8	1,438.2	191.6	1,032.3
Capex	(420.2)	(297.1)	(300.0)	(300.0)	(300.0)
Others	(993.2)	(1,636.2)	-	-	-
CFI	(1,413.4)	(1,933.3)	(300.0)	(300.0)	(300.0)
Changes in debt	1,070.6	596.6	500.0	500.0	500.0
Shares issued	397.1	750.0	-	-	-
Dividends	(382.3)	(305.9)	(442.0)	(121.8)	(447.6)
Others	(339.8)	(374.2)	(245.4)	(257.9)	(270.4)
CFF	745.7	666.4	(187.5)	120.2	(218.1)
Net cash flow	288.1	(439.1)	950.7	11.8	514.2
Forex	(17.1)	(2.9)	-	-	-
Others	101.7	195.7	195.7	195.7	195.7
Beginning cash	2,236.9	2,507.9	2,065.8	3,016.5	3,028.3
Ending cash	2,609.6	2,261.5	3,212.3	3,224.0	3,738.3

Income statement

FYE Dec	FY18	FY19	FY20f	FY21f	FY22f
Revenue	5410.2	4780.3	3754.4	6042.5	6124.5
Operating cost	(4592.3)	(3980.5)	(3330.2)	(5266.1)	(5302.4)
EBITDA	817.9	799.8	424.2	776.3	822.1
D&A	(223.2)	(233.8)	(265.5)	(268.6)	(271.3)
Net Interest	12.9	87.8	53.7	118.6	120.5
JV & Associates	229.3	261.2	313.2	281.5	277.5
Pretax profit	836.9	915.0	525.6	907.8	948.8
Taxation	(121.4)	(78.4)	(51.0)	(150.3)	(161.1)
Minority Interest	(69.9)	(69.3)	(39.2)	(74.0)	(71.8)
Holders of Perpetual	0.0	(54.5)	(44.0)	(44.0)	(44.0)
PATAMI	645.6	712.8	391.4	639.5	671.9
Exceptionals	89.0	73.4	0.0	0.0	0.0
Core Earning	556.6	639.4	391.4	639.5	671.9
Basic shares (m)	4873.7	4873.7	4873.7	4873.7	4873.7
Consensus core PATMI			441.3	611.7	676.9
HLIB/ Consensus			89%	105%	99%

Valuation ratios

FYE Dec	FY18	FY19	FY20f	FY21f	FY22f
Net DPS (sen)	7.1	9.1	2.5	9.2	9.6
Yield (%)	5.3	6.8	1.9	6.9	7.2
Core EPS (sen)	11.4	13.1	8.0	13.1	13.8
P/E (x)	11.7	10.2	16.7	10.2	9.7
Market capitalization (m)	6530.8	6530.8	6530.8	6530.8	6530.8
Net cash (m)	(3736.3)	(3678.6)	(3227.8)	(3716.1)	(3701.8)
Net gearing (%)	0.42	0.36	0.32	0.35	0.33
BV / share	1.8	2.1	2.1	2.2	2.3
P/BV (x)	0.7	0.6	0.6	0.6	0.6
ROA (%)	2.6	2.7	1.6	2.5	2.5
ROE (%)	6.2	6.3	3.9	5.9	6.1
Enterprise value	10267.1	10209.4	9758.7	10246.9	10232.6
EV/ EBITDA (x)	12.6	12.8	23.0	13.2	12.4

Margin ratios

FYE Dec	FY18	FY19	FY20f	FY21f	FY22f
EBITDA Margin	15.1	16.7	11.3	12.8	13.4
PBT Margin	15.5	19.1	14.0	15.0	15.5
PATMI	10.3	13.4	10.4	10.6	11.0

Figure #1 Quarterly results comparison

FYE Dec (RM m)	2Q19	1Q20	2Q20	QoQ	YoY	6M19	6M20	YoY
Revenue	1,077.2	971.4	556.6	-42.7%	-48.3%	2,200.8	1,528.1	-30.6%
Property Development	113.6	139.2	68.1	-51.0%	-40.0%	201.4	207.3	2.9%
Property Investment	176.1	134.3	55.5	-58.7%	-68.5%	372.8	189.8	-49.1%
Construction	293.5	218.0	92.6	-57.5%	-68.5%	639.6	310.6	-51.4%
Trading/Manufacturing	230.0	194.2	141.1	-27.3%	-38.6%	481.4	335.3	-30.3%
Quarry	52.6	74.1	31.9	-57.0%	-39.4%	96.8	106.0	9.5%
Healthcare	140.8	149.2	125.1	-16.1%	-11.1%	267.6	274.3	2.5%
Investment Holdings	(0.8)	1.7	0.7	-56.8%	N.M.	-	2.5	#DIV/0!
Others	71.4	60.7	41.5	-31.5%	-41.8%	141.1	102.2	-27.6%
EBIT	167.3	44.7	6.0	-86.6%	-96.4%	285.0	50.7	-82.2%
Property Development	21.6	26.1	13.7	-47.3%	-36.5%	40.5	39.8	-1.8%
Property Investment	67.1	29.7	(10.0)	N.M.	N.M.	119.9	19.7	-83.6%
Construction	41.5	19.8	4.1	-79.2%	-90.1%	81.5	23.9	-70.7%
Trading/Manufacturing	8.5	2.1	7.8	264.5%	-8.4%	17.3	9.9	-42.7%
Quarry	1.2	2.3	(3.1)	N.M.	N.M.	2.3	(0.7)	N.M.
Healthcare	17.6	(0.9)	(12.1)	1239.5%	N.M.	30.7	(13.1)	N.M.
Investment Holdings	3.5	(34.6)	2.8	-108.1%	-19.1%	(18.0)	(31.8)	76.5%
Others	6.2	0.2	2.7	1041.3%	-56.0%	10.8	3.0	-72.5%
Net Interest	3.8	24.5	4.8	-80.6%	24.4%	21.6	29.2	35.2%
Share of Associates/JCE	82.1	38.6	(0.6)	N.M.	N.M.	123.9	38.0	-69.3%
PBT	253.2	107.8	10.1	-90.6%	-96.0%	430.5	117.9	-72.6%
PAT	262.6	90.3	(4.6)	N.M.	N.M.	414.6	85.7	-79.3%
MI	(16.2)	(12.0)	(2.1)	-82.3%	-86.9%	(31.7)	(14.1)	-55.4%
Holders of Perpetual Sukuk	(16.2)	(11.9)	(9.9)	-16.9%	-39.1%	(21.5)	(21.8)	N.M.
PATAMI	230.3	66.4	(16.6)	N.M.	N.M.	361.4	49.8	-86.2%
EI	(111.5)	2.6	23.9	N.M.	N.M.	(111.5)	26.5	N.M.
Core Earnings	111.9	69.0	7.4	-89.3%	-93.4%	249.9	76.4	N.M.
EBIT margin	15.5%	4.6%	1.1%	-3.5%	-14.5%	13.0%	3.3%	-9.6%
PBT margin	23.5%	11.1%	1.8%	-9.3%	-21.7%	19.6%	7.7%	-11.8%
PAT margin	10.4%	7.1%	1.3%	-5.8%	-9.1%	11.4%	5.0%	-6.4%
Sunway, HLIB								

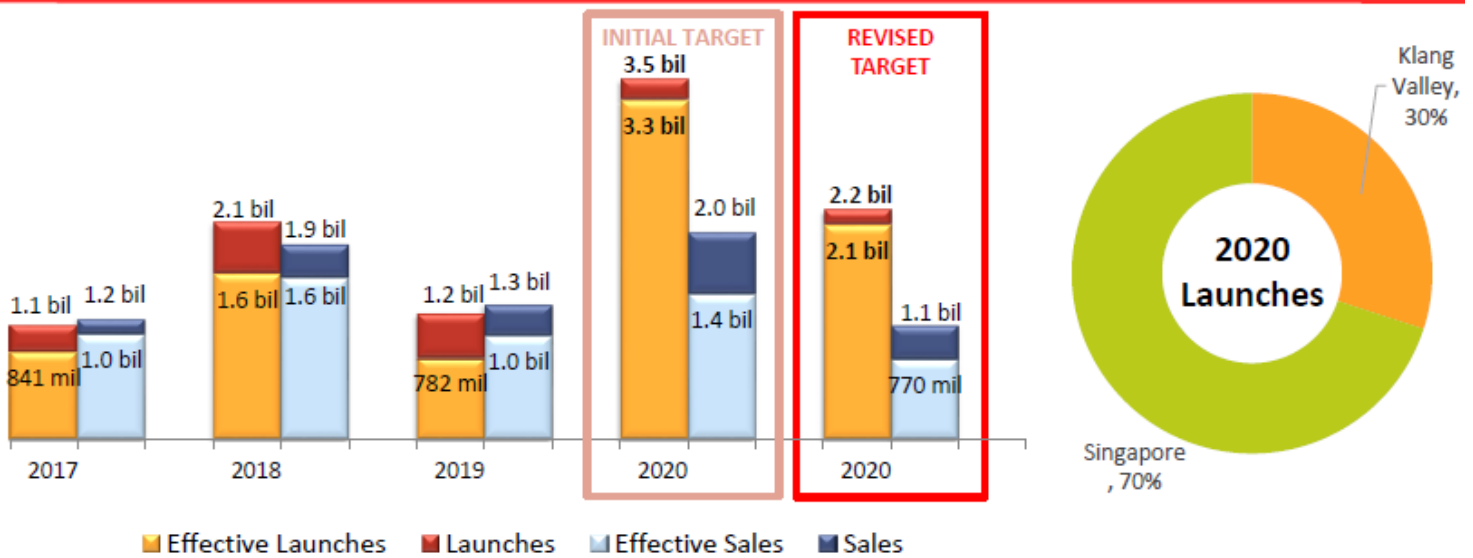
Figure #2 SOP table

Division	Stake	Value (RM m)	RM/share	Methodology
Construction (SunCon)	54.56%	1,459	0.30	Based on TP of RM 2.10
Sunway REIT	40.88%	2,095	0.43	Based on TP of RM 1.74
Property Development & Investment	100%	4,543	0.93	Discounted RNAV
Healthcare	100%	1,734	0.36	25X forward P/E
Trading/Manufacturing	100%	253	0.05	10X trailing P/E
Quarry	100%	151	0.03	10X trailing P/E
		10,235	2.10	
Holding Company Net Debt		328	0.07	
		10,563	2.17	
10% Holding Company Discount		(1,056)	(0.22)	
Equity Value (RM)		9,507	1.95	

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Figure #3 Revised targets

Revised Launch and Sales Target for 2020

SUNWAY


2020 Launches – RM2.2 billion

Project	Product Type	Location	Launch Date	GDV (RM'mil)
Sunway Velocity Two (Tower C)	Service Apartments	Jalan Peel, KL	October 2020	300
Sunway Belfield	Service Apartments	Jalan Belfield, KL	October 2020	360
Parc Canberra, Canberra	Executive Condominium	Singapore	February 2020	560
Ki Residence, Clementi	Private Condominium	Singapore	November 2020	1,000
Total				2,220

Company

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Stock rating guide

BUY	Expected absolute return of +10% or more over the next 12 months.
HOLD	Expected absolute return of -10% to +10% over the next 12 months.
SELL	Expected absolute return of -10% or less over the next 12 months.
UNDER REVIEW	Rating on the stock is temporarily under review which may or may not result in a change from the previous rating.
NOT RATED	Stock is not or no longer within regular coverage.

Sector rating guide

OVERWEIGHT	Sector expected to outperform the market over the next 12 months.
NEUTRAL	Sector expected to perform in-line with the market over the next 12 months.
UNDERWEIGHT	Sector expected to underperform the market over the next 12 months.

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