

HLIB Research

PP 9484/12/2012 (031413)

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BUY (Maintain)

Target Price: RM2.00

Previously: RM2.07

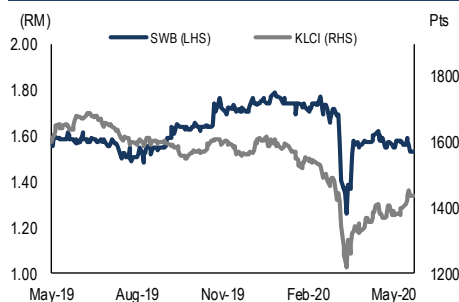
Current Price: RM1.51

Capital upside	32.5%
Dividend yield	4.8%
Expected total return	37.3%

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



Historical return (%)	1M	3M	12M
Absolute	-2.6	-15.6	-9.2
Relative	-8.0	-12.7	0.1

Stock information

Bloomberg Ticker	SWB MK
Bursa Code	5211
Issued Shares (m)	4,901
Market cap (RM m)	7,401
3-mth avg. volume ('000)	4,692
SC Shariah-compliant	Yes

Major shareholders

Sungei Way Corp Sdn Bhd	51.2%
EPF	9.0%

Earnings summary

FYE (Dec)	FY19	FY20f	FY21f
PATMI – core (RM m)	639.4	500.9	647.7
EPS – core (sen)	13.1	10.3	13.3
P/E (x)	11.5	14.7	11.4

Sunway

FY20 earnings to be impacted by Covid-19

Sunway's 1QFY20 core PATMI of RM66.4m (-70.1% QoQ, -51.9% YoY) was below expectations largely due to lower than expected contributions from the Construction, Property Investment and Healthcare segments. New effective sales of RM522m was achieved (37% of full year target) while effective unbilled sales stood at RM2.6bn (4.8x cover). Sunway is also expected to recognise c.RM160m of profit from the handover of its projects in Singapore and China. We expect FY20 to be a challenging year with the Hospitality and Leisure operations to be likely hit the hardest. We decrease our FY20/21/22 earnings forecasts by -20.5%/-9.4%/-5.9%. Maintain BUY with a lower TP of RM2.00. Separately, Sunway proposed the rights issue of up to 1.1m new ICPS at an issue price of RM1.00 per ICPS (1:5). Assuming maximum subscription, our TERP amounts to RM1.82.

Below expectations. Sunway's 1QFY20 core PATMI of RM66.4m (-70.1% QoQ, -51.9% YoY) forms 10.5% and 9.5% of our and consensus full year forecasts, respectively. The results shortfall was due to lower than expected contributions from the Construction, Property Investment and Healthcare segments. No dividends were declared.

QoQ/YoY. 1QFY20 core PATMI decreased -70.1%/-51.9% to RM66.4m largely due to lower contributions from the Construction and Property Investment segments amidst the MCO restrictions. Note that QoQ recorded a larger fall as 4QFY19 saw the partial recognition of the Tianjin project and improved treasury operations contribution.

Property development. New effective sales of RM522m was achieved in 1QFY20, representing 37% of its full year target. Effective unbilled sales stood at RM2.6bn, representing a strong cover ratio of 4.8x on FY19's property revenue. Sunway will only be relooking into any potential revision in effective sales (RM1.4bn) and launch targets (RM3.3bn) once the CMCO ends. Note that bulk of the sales achieved came from its recent Parc Canberra (Singapore) launch.

Construction. SunCon reported 1QFY20 core earnings of RM17.6m (-52% QoQ, -40% YoY) while current orderbook stands at RM5.4bn which implies a healthy cover of 3.1x on FY19 construction revenue.

Healthcare. The segment reported a loss of -RM4.5m PAT as it was impacted by SMCV registering an operating loss of -RM12m. The overall performance was also impacted by the Covid-19 fear as number of admissions and outpatient treatments have dropped with elective surgeries being postponed.

Outlook. We expect FY20 to be a challenging year with the Hospitality and Leisure operations to be likely hit the hardest. Nonetheless, Sunway has activated its BCP which incorporated its digital platform to facilitate the operational disruptions of the MCO while several cost saving measures have been carried out including recruitment freezes. On the property front, the recent digital campaign which was rolled out towards end-April recorded RM200m in bookings within a month. Furthermore, we gather that several local projects which have gotten the necessary approvals have resumed construction works. Sunway is also expected to recognise c.RM160m of profit from the handover of its projects in Singapore and China.

Forecast. We decrease our FY20/21/22 earnings forecasts by -20.5%/-9.4%/-5.9% to reflect lower contributions from the Construction, Property Investment, Healthcare and slightly delayed property launches.

Maintain BUY but with a lower **TP** of **RM2.00** (from RM2.07) based on a 10% holding discount to SOP-derived value of RM2.22 as we impute our forecast changes and roll over our valuation post-bookkeeping adjustments. Sunway remains our top pick given its well-integrated property and construction segments. Its hidden gem, the healthcare business (with 4 new hospitals coming on stream over the next three years) has yet to be appreciated as it is embedded within the parent-co. These coupled with the resilient earnings from mature investment properties alongside its growing building materials business and quarry operations justifies for the re-rating of the stock.

Proposed corporate exercise:

Rights issue. Sunway has proposed the rights issue of up to 1.1m new Irredeemable Convertible Preference Shares (ICPS) at an issue price of RM1.00 per ICPS to all its shareholders on the basis of 1:5 existing ordinary shares held by the entitled shareholders on the entitlement date to be determined and announced later by the Board. We gather that the issue date will likely take place towards end-2020.

Details. Sunway shall at the discretion of the Board pay cumulative preferential dividend at the rate of 5.25% per annum calculated based on the issue price of ICPS of RM1.00 (payable semi-annually in arrears). 50% of outstanding ICPS are to be mandatorily converted immediately preceding the 4th anniversary of the issue date while the remaining balance will be mandatorily converted on the maturity date (i.e. 5th anniversary of issue date) at RM1.00 per Sunway Share.

Proceeds. For illustrative purposes only, the number of ICPS to be issued under the Minimum Scenario is 980m ICPS and under the Maximum Scenario is 1.1bn (assumptions provided in Figure #4). The utilisation of proceeds will be largely allocated to the repayment of borrowings (60%+) while the remaining will be used for hospital expansions (c.20%) and working capital for the Property Development and Investment segments (c.20%). Sunway also intends to procure written unconditional and irrevocable undertakings from its major shareholders to apply and subscribe in full for their respective entitlements which will amount over RM600m/RM700m under both scenarios, respectively.

Proforma implications. Our proforma calculation implies net gearing would improve to 0.33x/0.32x from 0.43x (as of 1QFY20) under both scenario assumptions, respectively. The improved capital structure essentially provides greater flexibility to obtain further financing facilities when needed. There will be no immediate dilution effect towards EPS until the mandatory conversion of the 4th and 5th year. Assuming the Maximum Scenario holds, our TP of RM2.00 would result in a TERP of RM1.82. The issue price and conversion price of RM1.00 both represent a discount of 35.9% (to the 5-day VWAP of RM1.56) and 45% (to our TERP of RM1.82). As such, we believe shareholders should subscribe to this exercise as it provides a decent yield in the near-term while providing for deep value equity participation in the future.

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	3,058.0	3,234.1	3,829.7
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	1,407.0	2,014.5	2,038.7
Inventories	849.2	748.5	1,172.5	1,678.8	1,698.9
Others	14,280.6	15,277.3	14,953.6	15,144.0	15,348.6
Assets	21,780.3	23,553.1	24,218.4	25,698.8	26,543.3
Payables	1,336.2	1,344.3	1,407.0	2,014.5	2,038.7
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	13,941.6	15,049.1	15,573.3
Shareholder's equity	7,964.9	8,392.9	8,451.7	8,748.8	8,997.2
Minority interest	619.1	631.4	675.1	750.8	822.8
Perpetual bond	400.0	1,150.0	1,150.0	1,150.0	1,150.0
Equity	8,984.0	10,174.3	10,276.8	10,649.6	10,970.0

Cash Flow Statement

FYE Dec	FY18	FY19	FY20f	FY21f	FY22f
Profit before taxation	836.9	915.0	698.1	943.4	1,010.4
D&A	129.9	222.9	233.6	320.4	318.3
Working capital	(14.3)	(131.0)	(310.5)	353.7	(572.9)
Taxation	(175.0)	(109.2)	(94.0)	(90.3)	(156.7)
Others	178.2	(69.9)	756.7	(942.6)	520.4
CFO	955.8	827.8	1,283.9	584.6	1,119.5
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)	(350.6)	(453.4)
Others	(339.8)	(374.2)	(245.4)	(257.9)	(270.4)
CFF	745.7	666.4	(187.5)	(108.6)	(223.8)
Net cash flow	288.1	(439.1)	796.5	176.1	595.6
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	2,862.3	3,038.3
Ending cash	2,609.6	2,261.5	3,058.0	3,234.1	3,829.7

Income statement

FYE Dec	FY18	FY19	FY20f	FY21f	FY22f
Revenue	5410.2	4780.3	4279.6	6127.6	6201.1
Operating cost	(4592.3)	(3980.5)	(3601.6)	(5218.7)	(5230.2)
EBITDA	817.9	799.8	678.0	908.9	970.9
D&A	(223.2)	(233.8)	(320.4)	(318.3)	(316.4)
Net Interest	12.9	87.8	18.6	62.4	68.2
JV & Associates	229.3	261.2	321.9	290.4	287.7
Pretax profit	836.9	915.0	698.1	943.4	1010.4
Taxation	(121.4)	(78.4)	(90.3)	(156.7)	(173.5)
Minority Interest	(69.9)	(69.3)	(43.7)	(75.7)	(72.0)
Holders of Perpetual	0.0	(54.5)	(63.3)	(63.3)	(63.3)
PATAMI	645.6	712.8	500.9	647.7	701.8
Exceptionals	89.0	73.4	0.0	0.0	0.0
Core Earning	556.6	639.4	500.9	647.7	701.8
Basic shares (m)	4873.7	4873.7	4873.7	4873.7	4873.7
Consensus core PATMI			699.3	745.1	796.9
HLIB/ Consensus			72%	87%	88%

Valuation ratios

FYE Dec	FY18	FY19	FY20f	FY21f	FY22f
Net DPS (sen)	7.1	9.1	7.2	9.3	10.1
Yield (%)	4.7	6.0	4.8	6.2	6.7
Core EPS (sen)	11.4	13.1	10.3	13.3	14.4
P/E (x)	13.2	11.5	14.7	11.4	10.5
Market capitalization (m)	7359.4	7359.4	7359.4	7359.4	7359.4
Net cash (m)	(3736.3)	(3678.6)	(3382.1)	(3706.0)	(3610.4)
Net gearing (%)	0.42	0.36	0.33	0.35	0.33
BV / share	1.8	2.1	2.1	2.2	2.3
P/BV (x)	0.8	0.7	0.7	0.7	0.7
ROA (%)	2.6	2.7	2.1	2.5	2.6
ROE (%)	6.2	6.3	4.9	6.1	6.4
Enterprise value	11095.7	11037.9	10741.5	11065.4	10969.8
EV/ EBITDA (x)	13.6	13.8	15.8	12.2	11.3

Margin ratios

FYE Dec	FY18	FY19	FY20f	FY21f	FY22f
EBITDA Margin	15.1	16.7	15.8	14.8	15.7
PBT Margin	15.5	19.1	16.3	15.4	16.3
PATMI	10.3	13.4	11.7	10.6	11.3

Figure #1 Quarterly results comparison

FYE Dec (RM m)	1Q19	4Q19	1Q20	QoQ	YoY
Revenue	1,123.6	1,353.2	971.4	-28.2%	-13.5%
Property Development	87.9	218.2	139.2	-36.2%	58.4%
Property Investment	196.7	220.9	134.3	-39.2%	-31.7%
Construction	346.2	318.0	218.0	-31.4%	-37.0%
Trading/Manufacturing	251.3	232.2	194.2	-16.4%	-22.7%
Quarry	44.2	136.4	74.1	-45.6%	67.8%
Healthcare	126.8	162.9	149.2	-8.4%	17.7%
Investment Holdings	0.8	2.6	1.7	-34.9%	105.6%
Others	69.7	61.9	60.7	-2.0%	-13.0%
EBIT	117.8	106.0	44.7	-57.8%	-62.0%
Property Development	18.9	77.7	26.1	-66.5%	38.1%
Property Investment	52.8	67.2	29.7	-55.8%	-43.8%
Construction	40.0	28.1	19.8	-29.5%	-50.5%
Trading/Manufacturing	8.8	7.0	2.1	-69.6%	-75.7%
Quarry	1.1	6.4	2.3	-63.9%	117.4%
Healthcare	13.1	13.8	(0.9)	-106.6%	-106.9%
Investment Holdings	(21.5)	(55.8)	(34.6)	-38.0%	61.2%
Others	4.6	(38.5)	0.2	-100.6%	-94.8%
Net Interest	17.8	65.1	24.5	-62.4%	37.5%
Share of Associates/JCE	41.7	89.3	38.6	-56.7%	-7.4%
PBT	177.3	260.4	107.8	-58.6%	-39.2%
PAT	151.9	219.1	90.3	-58.8%	-40.6%
MI	(15.5)	(18.8)	(12.0)	-36.0%	-22.7%
Holder of Perpetual Sukuk	(5.3)	(16.5)	(11.9)	-28.0%	N.M.
PATAMI	131.2	183.8	66.4	-63.9%	-49.4%
EI	-	38.1	-	N.M.	N.M.
Core Earnings	138.1	221.9	66.4	-70.1%	-51.9%
EBIT margin	10.5%	7.8%	4.6%	-3.2%	-5.9%
PBT margin	15.8%	19.2%	11.1%	-8.1%	-4.7%
PAT margin	12.3%	16.4%	6.8%	-9.6%	-5.4%
Sunway, HLIB					

Figure #2 SOP table

Division	Stake	Value (RM m)	RM/share	Methodology
Construction (SunCon)	54.56%	1,480	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%	5,005	1.03	Discounted RNAV
Healthcare	100%	1,545	0.32	25X forward P/E
Trading/Manufacturing	100%	253	0.05	10X trailing P/E
Quarry	100%	151	0.03	10X trailing P/E
		10,528	2.16	
Holding Company Net Debt		288	0.06	
		10,816	2.22	
10% Holding Company Discount		(1,082)	(0.22)	
Equity Value (RM)		9,735	2.00	

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Figure #3 Salient Terms of the ICPS

Salient Terms	Description
Issue Size	up to 1,112,777,962 ICPS
Issue Price	RM1.00 per ICPS
Form and denomination	The ICPS will be issued in registered form and in denomination or multiple of RM1.00 each
Tenure	5 years commencing from and inclusive of the issue date of the ICPS
Maturity Date	The market day immediately preceding the 5 th anniversary from the issue date of the ICPS
Dividend Rate	<ul style="list-style-type: none"> ▪ Sunway shall at the discretion of the Board of Directors of Sunway ("Board") pay cumulative preferential dividend at the rate of 5.25% per annum calculated based on the issue price of ICPS of RM1.00 ▪ The dividend, if declared by the Board, shall be payable semi-annually in arrears
Conversion of ICPS	<ul style="list-style-type: none"> ▪ 50% of the outstanding ICPS shall be mandatorily converted into new Sunway Shares on the market day immediately preceding the 4th anniversary of the issue date of the ICPS ("Year 4 Anniversary") at the Conversion Price ▪ The remaining balance of the ICPS shall be mandatorily converted into new Sunway Shares on the Maturity Date at the Conversion Price.
Conversion Price	The Conversion Price on both the Year 4 Anniversary and the Maturity Date shall be RM1.00 per Sunway Share ⁽ⁱ⁾
Ranking	The ICPS are unsecured and shall upon allotment and issue, rank equally amongst themselves and shall rank in priority to any other class of ordinary shares in the capital of the Company but shall rank behind all secured and unsecured obligations of the Company
Listing and Transferability	<ul style="list-style-type: none"> ▪ The ICPS and conversion shares to be issued will be listed and quoted on the Main Market of Bursa Securities ▪ The ICPS shall be transferable in the manner provided under the Securities Industry (Central Depositories) Act, 1991 and the Rules of Bursa Malaysia Depository Sdn Bhd

Company; HLIB Research

Figure #4 Scenarios for illustrative purposes

Minimum Scenario	: (i)	Assuming all the existing 32,550,065 treasury shares are retained in the Company on the Entitlement Date; and
	(ii)	Assuming all the outstanding 629,958,045 Warrants are not exercised into new Sunway Shares before the Entitlement Date.
Maximum Scenario	: (i)	Assuming all the existing 32,550,065 treasury shares are resold in the open market at their respective acquisition prices before the Entitlement Date; and
	(ii)	Assuming all the outstanding 629,958,045 Warrants are exercised into new Sunway Shares at the exercise price of RM1.72 per Sunway Share before the Entitlement Date

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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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