

# Sunway Berhad

(5211 | SWB MK) Industrial Products & Services | Diversified Industrials

## Earnings dragged by MCO

### KEY INVESTMENT HIGHLIGHTS

- **1QFY20 earnings below expectations**
- **Earnings impacted by MCO**
- **1QFY20 new sales at RM581m**
- **Proposed rights issue**
- **Earnings estimates revised downwards**
- **Maintain NEUTRAL with a lower TP of RM1.59**

**1QFY20 earnings below expectations.** Sunway Berhad (SUNWAY) 1QFY20 core net income of RM78.3m came in below our and consensus expectations, making up 11% and 12% of our and consensus full year estimates respectively. The negative deviation could be attributed to the weaker than expected earnings from healthcare and property investment divisions as a result of commencement of Movement Control Order (MCO) since 18<sup>th</sup> March 2020.

**Earnings impacted by MCO.** SUNWAY recorded lower core net income of RM78.3m (-42.6%yoy), mainly due to lower earnings from healthcare and property investment segments. Healthcare division slipped into the red in 1QFY20 after recording operating loss of RM0.9m against operating profit of RM13.1m in 1QFY19 as Covid-19 pandemic and MCO has led to sharp drop in the number of admissions and outpatient treatments at Sunway Medical Centre. Similarly, property investment recorded -43.8%yoy decline in operating profit due to closure of its hospitality and leisure businesses during MCO. Nevertheless, property development division recorded higher operating profit of RM26.1m (+38.1%yoy) due to higher progress billings from local development projects and completion and handover of a local development project.

**1QFY20 new sales at RM581m.** SUNWAY recorded new property sales of RM581m in 1QFY20, higher than new sales of RM450m in 4QFY19. New sales were mainly contributed by project in Singapore (71%), followed by local projects (19%) and China (10%). New sales in 1QFY20 was in line with management new sales target, making up 29% of management new sales target of RM2b. Meanwhile, unbilled sales increased to RM3.2b in 1QFY20 from RM2.7b in 4QFY19, providing close to 6 years earnings visibility to the property development division.

## Maintain NEUTRAL

**Revised Target Price: RM1.59**  
(Previously RM1.72)

### RETURN STATISTICS

Price @ 27 May 2020 (RM)	1.51
Expected share price return (%)	5.2
Expected dividend yield (%)	4.6
<b>Expected total return (%)</b>	<b>9.8</b>

### SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	-3.2	-8.5
3 months	-2.6	-12.9
12 months	-7.6	2.8

### KEY STATISTICS

FBM KLCI	1,451.73
Syariah compliant	Yes
Issue shares (m)	4902.68
Estimated free float (%)	31.72
Market Capitalisation (RM'm)	7401.09
52-wk price range (RM)	RM1.25 - RM1.87
Beta vs FBM KLCI (x)	0.97
Monthly velocity (%)	0.00
Monthly volatility (%)	12.15
3-mth average daily volume (m)	4.69
3-mth average daily value (RM'm)	7.31
Top Shareholders (%)	
Sungei Way Corp Sdn Bhd	51.23
Employees Provident Fund Board	9.07
ACTIVE EQUITY SDN BHD	3.19

### Analyst(s)

Jessica Low Jze Tieng  
Jessica.low @midf.com.my  
03-21738391

**Proposed rights issue.** SUNWAY proposed renounceable rights issue of up to 1,112.8m new Irredeemable Convertible Preference Shares (ICPS) at an issue price of RM1.00 per ICPS on the basis of one ICPS for every five existing ordinary shares in Sunway. We are neutral on the proposed rights issue as there is no immediate dilution effect and earnings impact from the rights issue. Note that 50% of the outstanding ICPS shall be mandatorily converted into new SUNWAY shares at year 4 anniversary while the remaining balance of the ICPS shall be mandatorily converted into new SUNWAY shares on the maturity date at year 5 anniversary. SUNWAY shall pay cumulative preferential dividend at the rate of 5.25% per annum based on issue price of ICPS of RM1.00. Meanwhile, the ICPS will reduce gearing level of SUNWAY as ~60% of funds raised from ICPS is earmarked for repayment of borrowings.

**Maintain NEUTRAL with a revised TP of RM1.59.** We revise our FY20/21F earnings forecast by -17%/-7.4% as we factor in the weaker earnings from healthcare and property investment divisions. Moreover, our TP for SUNWAY is revised to RM1.59 from RM1.72 as we roll over our valuation to FY21. Our TP of RM1.59 is based on sum-of-parts valuation. Earnings outlook for SUNWAY is expected to be muted as earnings from healthcare and property investment division are expected to be weighed by MCO. Hence, we maintain our Neutral call on SUNWAY. 

## INVESTMENT STATISTICS

FYE Dec	FY17A	FY18A	FY19A	FY20F	FY21F
Revenue	5239.3	5410.3	4780.4	4357.6	5482.9
Core EBIT	653.0	559.9	565.2	597.4	756.8
Core PBT	799.0	782.8	802.6	811.6	982.1
Net Income	620.6	659.0	766.6	560.7	664.5
Core Net Income	563.8	591.2	655.0	560.7	664.5
EPS (sen)	12.6	13.4	15.7	11.6	13.7
Core EPS (sen)	11.5	12.0	13.4	11.6	13.7
Net DPS (sen)	6.00	7.12	9.10	6.93	8.22
Net Dvd Yield	4.0%	4.7%	6.0%	4.6%	5.4%
Core PER	13.17	12.58	11.24	13.07	11.03
NTA/share (RM)	1.54	1.66	1.66	1.78	1.83
P/NTA	0.98	0.91	0.91	0.85	0.83
Core ROE	7.1%	7.0%	7.8%	6.5%	7.5%
Core ROA	2.9%	2.8%	3.1%	2.6%	2.9%

Source: MIDF Research

## SUNWAY BERHAD: 1QFY20 RESULTS SUMMARY

FYE Dec (RM'm, unless otherwise stated)	Quarterly Results			Cumulative	
	1QFY20	%YoY	%QoQ	FY20	%YoY
Revenue	971.4	-13.5%	-28.2%	971.4	-13.5%
EBIT	44.7	-62.0%	-57.8%	44.7	-62.0%
Core PBT	107.8	-39.2%	-53.1%	107.8	-39.2%
Net Income	78.3	-42.6%	-60.9%	78.3	-42.6%
Core Net Income	78.3	-42.6%	-53.9%	78.3	-42.6%
EPS (sen)	1.60	-42.3%	-61.1%	1.6	-42.3%
Core EPS (sen)	1.60	-42.3%	-54.2%	1.6	-42.3%
Net DPS (sen)	0.00	NA	NA	0.0	NA
NTA/share (RM)	1.66	4%	0%	1.7	4.4%
Net Gearing (x)	0.51	NA	NA	0.5	NA
EBIT Margin	4.6%	NA	NA	0.0	NA
Core PBT Margin	11.1%	NA	NA	0.1	NA

Source: Company, MIDF Research

## Sum-of-Parts

Division	Methodology	PER (x)	Stake	Discount	Value (RM m)
Property Development	NPV of profits	n/a	100%	20%	2653.1
Property Investment	Net Book Value	n/a	100%	n/a	1490.0
Construction	18x FY21E PER - KL Construction Index PER	18	54%	n/a	1233.9
Sunway REIT	Target Price of RM2.02	n/a	35%	n/a	1910.2
Trading and manufacturing	10x FY21E PER - In line with small cap PER of 10x	10	100%	n/a	120.6
Quarry	10x FY21E PER - In line with small cap PER of 10x	10	100%	n/a	434.9
<b>Total SOP</b>					<b>7842.7</b>
Number of shares					4918.0
<b>Target Price (RM)</b>					<b>1.59</b>

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### MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

#### STOCK RECOMMENDATIONS

<b>BUY</b>	Total return is expected to be >10% over the next 12 months.
<b>TRADING BUY</b>	Stock price is expected to <i>rise</i> by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
<b>NEUTRAL</b>	Total return is expected to be between -10% and +10% over the next 12 months.
<b>SELL</b>	Total return is expected to be <10% over the next 12 months.
<b>TRADING SELL</b>	Stock price is expected to <i>fall</i> by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

#### SECTOR RECOMMENDATIONS

<b>POSITIVE</b>	The sector is expected to outperform the overall market over the next 12 months.
<b>NEUTRAL</b>	The sector is to perform in line with the overall market over the next 12 months.
<b>NEGATIVE</b>	The sector is expected to underperform the overall market over the next 12 months.