

Sunway Bhd

1Q Results Miss, Shoring Up Capital with ICPS

TP: RM1.67 (+10.6%)

Last Traded: RM1.51

Buy

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Review

- Sunway's IQ20 net profit of RM78.3mn came in below expectations, accounting for 11% of both ours and consensus' full-year forecasts. The variance was mainly due to more-severe-than-expected impact from the 2-week Movement Control Order (MCO) in Mar-20, resulting in: 1) lower progress of works and margin, and 2) weaker contribution from hospitality and leisure business, which were not allowed to operate during MCO.
- Amid the COVID-19 pandemic, which disrupted economic activities worldwide, Sunway's IQ20 revenue and net profit decreased 14% YoY and 43% YoY to RM971.4mn and RM78.3mn respectively. Net profit fell at faster pace largely due to weaker operating margin (-5.9%-pts YoY), and lower share of JV's profits (-30% YoY). Weaker performance was seen in most business segments except property development and quarry. Property development segment performance was boosted by higher progress billings and completion of local development projects, whereas the quarry segment performance was enhanced following the completion of the acquisition of Blacktop Industries in July 2019, which helped increase the size of its operations to a total of 8 quarries and 24 asphalt plants across 19 locations in Malaysia (from 6 quarries and 13 asphalt plants).
- QoQ, IQ20 net profit decreased 63%, largely due to lower contributions from all business segments. Specifically, property development and construction division reported weaker results attributed to lower sales and progress billing from local projects. Meanwhile, the property investment division reported weaker results attributed to: 1) seasonal factors as the leisure and hospitality business usually see earnings peak in the 4Q, and 2) impact of the 2-week MCO closure.
- Sunway's IQ20 sales more than doubled to RM581mn (+121% YoY). Singapore and China projects are the key sales contributor, which collectively accounted for 81% of IQ sales – see **Figure 1**. Unbilled sales rose to RM3.2bn (effective RM2.6bn), from RM2.7bn a quarter ago.

Impact

- Our FY20/21/22 earnings are reduced by 25%/20%/18% after factoring in the following;
 - Lower FY20/21/22 sales assumptions to RM1.2bn/RM1.4bn/RM1.7bn from RM1.6bn/RM1.7bn/RM1.9bn previously;
 - Adjust progress billings assumptions to reflect the impact of two-month MCO and one-month Conditional MCO till 9 June as well as the slow recovery for construction works post-CMCO;
 - Lower contribution from other business segments, which were also adversely impacted by the MCO;

Share Information

Bloomberg Code	SWB MK
Stock Code	5211
Listing	Main Market
Share Cap (mn)	4,901.4
Market Cap (RMmn)	7,401.1
52-wk Hi/Lo (RM)	1.87/1.25
12-mth Avg Daily Vol ('000 shrs)	3,782.1
Estimated Free Float (%)	31.8
Beta	1.0

Major Shareholders (%)

Sungei Way Corp (51.2)
EPF (8.9)
Tan Sri Dr Jeffrey Cheah (5.1)

Forecast Revision

	FY20	FY21
Forecast Revision (%)	(25.0)	(20.0)
Net profit (RMmn)	522.3	583.8
Consensus	699.3	745.1
TA's / Consensus (%)	74.7	78.4
Previous Rating	Buy (Maintained)	

Financial Indicators

	FY20	FY21
Net gearing (%)	40.3	37.7
CFPS (sen)	11.8	10.6
P/CFPS (x)	12.8	14.3
ROE (%)	6.2	6.8
ROA (%)	2.2	2.5
NTA/Share (RM)	1.7	1.7
Price/NTA (x)	0.9	0.9

Scorecard

	% of FY	
vs TA	11.2	Below
vs Consensus	11.2	Below

Share Performance (%)

Price Change	SWB	FBM KLCI
1 mth	(3.2)	5.8
3 mth	(14.7)	(2.1)
6 mth	(14.7)	(8.3)
12 mth	(7.6)	(10.1)

 (12-Mth) **Share Price** relative to the **FBMKLCI**


Source: Bloomberg

4. Revised earnings for Sunway REIT and Sunway Construction (kindly refer to respective report dated 20 May and 22 May for more information).
- We also reduce FY20-22 DPS assumptions to 8.0 to 8.5sen, from 9.5sen p.a previously.

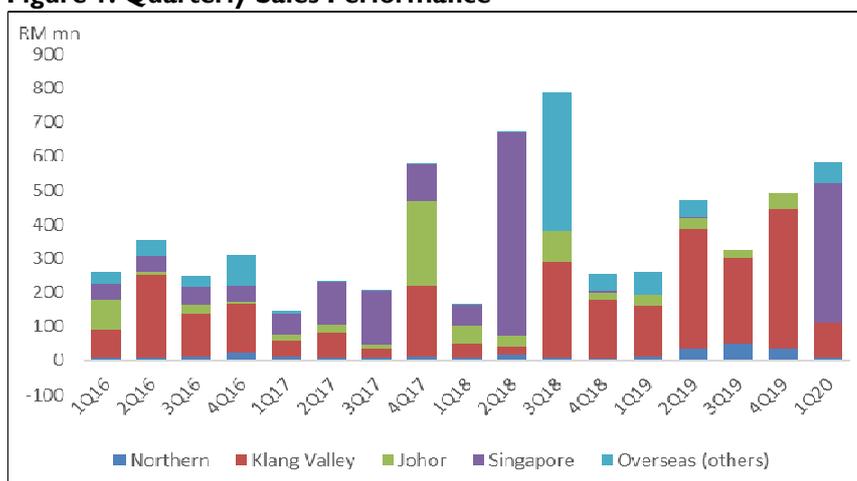
Outlook

- Sunway is targeting new sales of RM2.0bn this year, underpinned by new projects worth RM3.5bn (see **Figure 2**) and other existing projects. Sunway launched Parc Canberra Executive Condominium in Singapore in Feb. To date, it has achieved 70% take up. According to management, there is no change in the planned launches as well as the sales target at this juncture. However, a thorough review of these planned launches will be conducted post the MCO period.
- The group's unbilled sales of RM3.2bn and outstanding construction order book of RM3.9bn (external jobs only) should provide earnings visibility for the next 2-3 years.
- Separately, the group is planning to raise up to RM1.1bn from a renounceable rights issue of irredeemable convertible preference shares (ICPS). The ICPS, which has an issue price of RM1.00, will be issued to shareholders at an entitlement date to be fixed on the basis of **one ICPS** for every **five shares** held. Sunway plans to utilise the proceeds to finance the repayment of borrowings, capital expenditure to expand and develop hospitals, property development and property investment expenditure – see **Figure 3** for details.
- Upon fully ICPS conversion (maximum scenario), Sunway's number of outstanding shares will increase by 1.7bn shares while its equity attributable to shareholder will rise to RM10.2bn (from RM8.4bn). Based on our estimates, upon full conversion of ICPS, our projected FY21 EPS will be diluted by 20-30% as illustrated in **Figure 4**.
- We are positive on the proposal as this will strengthen the group's capital structure in order to finance their on-going projects and hospital expansions apart to reduce its current gearing level. We have not factored in the impact of the ICPS issuance in our earnings model pending the completion of this exercise, which is targeted in 4Q20.

Valuation

- We value Sunway at RM1.67 (previous RM1.71), pegged to 0.95x FY21 BPS. We like Sunway for its: 1) diversified and resilient earnings base (FY19 core PBT breakdown: property development: 29%, property investment: 27%, construction: 19% and others: 25%); 2) above sector average ROE of >6% vs. other big-cap peers of 4%, and 3) attractive dividend yields of c.5%. With a potential total return of 16.2%, we maintain our Buy recommendation on Sunway.

Figure 1: Quarterly Sales Performance



Source: Sunway

Figure 2: New Launches for 2020

Development	Location	Type	GDV (RM mn)	Status
Sunway Avila Retail	Wangsa Maju, KL	Retail Shops	31	
Sunway Velocity Two (Tower C)	Jalan Peel, KL	Service Apartments	300	
Sunway Belfield	Jalan Belfield, KL	Service Apartments	360	
Sunway Valley City	Shops & Offices	Paya Terubong, Penang	250	Subject to review post MCO
Sunway Maple Residence	Sunway Iskandar	Townhouses	100	
Parc Canberra, Canberra	Singapore	Executive Condominium	560	
Ki Residence, Clementi	Singapore	Private Condominium	1000	
Park Residence, Tampines	Singapore	Executive Condominium	880	Launched in Feb, 70% take up
Total			3481	

Source: Sunway

Figure 3: Utilisation of Proceeds

Details of use of proceeds	Minimum Scenario		Maximum Scenario	
	RM mn	%	RM mn	%
Repayment of borrowings	600.0	61.2	732.5	65.8
Capital expenditure to expand and develop hospitals	200.0	20.4	200	18.0
Property development and property investment expenditure	179.2	18.3	179.2	16.1
Defray estimated expenses for the Proposals	1.1	0.1	1.1	0.1
	980.3	100.0	1112.8	100.0

Source: Sunway

Figure 4: Share base effect

	Before the ICPS Issue	Minimum Scenario	Maximum Scenario
Number of shares (mn)	4,903.7	5,881.7	6,676.7
Shareholder funds (RM mn)	8,392.9	8,916.0	10,157.9
Total Equity (RM mn)	10,174.3	10,347.4	11,589.3
Borrowings - Dec 2019 (RM mn)	9,570.6	9,570.6	9,570.6
Gearing Ratio (x)	0.94	0.92	0.83
Net Gearing Ratio (x)	0.36	0.41	0.27
NA per share (RM)	1.71	1.52	1.52
FY21f EPS (sen)	12.0	9.6	8.4
Dilution		-20.3%	-30.1%

Source: Sunway, TA Research

Figure 5: 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

Source: Sunway

Earnings Summary (RM mn)

YE Dec 31 (RM'mn)	2018	2019	2020F	2021F	2022F
Revenue	5410.2	4780.4	4515.0	4727.1	5444.0
EBITDA	683.8	716.7	697.2	740.3	778.8
EBITDA margin (%)	12.6	15.0	15.4	15.7	14.3
Pretax profit	747.7	842.2	659.4	746.3	772.2
Net profit	645.5	766.6	522.3	583.8	594.3
Net profit -adj	577.7	694.6	522.3	583.8	594.3
EPS (sen)	13.1	14.6	10.7	12.0	12.2
EPS - adj (sen)	11.5	13.1	10.7	12.0	12.2
EPS Growth (Core) (%)	1.4	13.9	(18.4)	11.8	1.8
PER (x)	13.1	11.5	14.1	12.6	12.4
GDPS (sen)	7.1	9.1	8.0	8.5	8.5
Div Yield (%)	4.7	6.0	5.3	5.6	5.6
ROE (%)	7.3	8.5	6.2	6.8	6.8

IQ20 Results Analysis (RM mn)

YE 3I Dec (RM'mn)	IQ19	4Q19	IQ20	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
Others	70.5	64.5	62.4	(3.3)	(11.5)
EBIT	117.8	106.0	44.7	(57.8)	(62.0)
Gain on derivative	0.0	0.0	0.0	0.0	0.0
Finance income	78.7	104.9	83.6	(20.3)	6.2
Finance costs	(60.9)	(39.8)	(59.1)	48.7	(3.0)
Associates	30.4	54.5	30.7	(43.6)	0.8
JV	11.3	34.9	7.9	(77.3)	(29.6)
EI	0.0	(9.3)	0.0	(100.0)	0.0
PBT	177.3	260.4	107.8	(58.6)	(39.2)
Core PBT	177.3	274.9	107.8	(60.8)	(39.2)
Property Development	32.8	117.2	39.1	(66.6)	19.1
Property Investment	57.4	64.4	32.0	(50.4)	(44.3)
Construction	43.7	38.1	22.6	(40.8)	(48.3)
Trading & Manufacturing	6.6	4.5	0.5	(88.9)	(92.4)
Quarry	1.7	8.0	3.1	(61.6)	76.2
Healthcare	15.4	11.4	(4.5)	(139.1)	(128.9)
Others	19.6	31.2	15.0	(51.8)	(23.5)
Tax	(25.3)	(41.3)	(17.5)	(57.6)	(30.8)
MI	(15.5)	(18.8)	(12.0)	(36.0)	(22.7)
Net profit	136.4	200.3	78.3	(60.9)	(42.6)
Core net profit	136.4	209.6	78.3	(62.6)	(42.6)
Reported EPS (sen)	2.7	3.8	1.4	(64.4)	(50.0)
Adj EPS (sen)	2.7	4.0	1.4	(66.0)	(50.0)
DPS (sen)	0.0	4.5	0.0	(100.0)	0.0
EBIT margin (%)	10.5	7.8	4.6	(3.2)	(5.9)
PBT margin (%)	15.8	20.3	11.1	(9.2)	(4.7)
Property Development (%)	37.4	53.7	28.1	(25.6)	(9.3)
Property Investment (%)	29.2	29.2	23.8	(5.3)	(5.4)
Construction (%)	12.6	12.0	10.4	(1.6)	(2.3)
Trading & Manufacturing (%)	2.6	1.9	0.3	(1.7)	(2.4)
Quarry (%)	3.9	5.9	4.1	(1.7)	0.2
Healthcare (%)	12.2	7.0	(3.0)	(10.0)	(15.1)
Others (%)	27.8	48.3	24.1	(24.3)	(3.8)
Net margin (%)	12.1	15.5	8.1	(7.4)	(4.1)
Effective tax rate (%)	14.3	15.0	16.2	1.2	2.0

Stock Recommendation Guideline

- BUY** : Total return within the next 12 months exceeds required rate of return by 5%-point.
HOLD : Total return within the next 12 months exceeds required rate of return by between 0-5%-point.
SELL : Total return is lower than the required rate of return.
Not Rated: The company is not under coverage. The report is for information only.

Total Return is defined as expected share price appreciation plus gross dividend over the next 12 months. Gross dividend is excluded from total return if dividend discount model valuation is used to avoid double counting.

Required Rate of Return of 7% is defined as the yield for one-year Malaysian government treasury plus assumed equity risk premium.

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As of Thursday, May 28, 2020, the analyst, Thiam Chiann Wen, who prepared this report, has interest in the following securities covered in this report:
(a) nil

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