

### COMPANY RESULTS

#### Sunway (SWB MK)

1H20: Slightly Missed Expectations; To Bounce Back In 2H20

As most of Sunway's businesses are vulnerable and have been severely affected by the COVID-19 pandemic and the MCO, its core earnings dropped by 71%. Meanwhile, its core 1H20 core PBT are broadly in line at 24% of our forecasts. We are anticipating gradual recovery from 3Q20 onwards, driven by improvement in some of its businesses such as property, construction and healthcare. Maintain BUY with a lower target price of RM1.57, post earnings adjustments.

#### 2Q20 RESULTS

Year to 31 Dec (RMm)	2Q20	1Q20	qoq % chg	yoy % chg	1H20	yoy % chg
<b>Revenue</b>	<b>556.6</b>	<b>971.4</b>	<b>(42.7)</b>	<b>(50.5)</b>	<b>1,528.1</b>	<b>(30.6)</b>
Construction	310.6	218.0	(57.5)	(10.3)	528.6	(51.4)
Property Development	207.3	139.2	(51.0)	136.0	346.5	2.9
Investment Property	189.8	134.3	(58.7)	(3.5)	324.1	(49.1)
<b>Pre-tax profit</b>	<b>10.1</b>	<b>107.8</b>	<b>(90.6)</b>	<b>(94.3)</b>	<b>117.9</b>	<b>(72.6)</b>
- Construction	6.6	22.6	(71.0)	(83.6)	29.1	(66.6)
- Property Development	25.9	39.1	(33.8)	(21.1)	65.0	(7.3)
- Investment Property	(35.8)	32.0	(211.8)	(162.3)	(3.8)	(102.1)
Net profit	(6.7)	78.3	(108.6)	(104.9)	71.6	(81.3)
Core net profit	9.8	78.3	(87.5)	(92.8)	88.1	(70.8)
<b>Margins (%)</b>	<b>%</b>	<b>%</b>	<b>qoq ppt chg</b>	<b>yoy ppt chg</b>		<b>yoy ppt chg</b>
Pre-tax - Construction	2.1	10.4	(8.2)	(14.0)	5.5	(8.1)
Pre-tax - Property Development	12.5	28.1	(15.6)	(20.3)	18.8	(16.0)

Source: Sunway, UOB Kay Hian

#### RESULTS

• **Slightly missed.** Sunway Bhd (Sunway) reported 2Q20 core net profit of RM10m (-88% qoq, -93% yoy) on revenue of RM557m (-43% qoq, -51% yoy). The quantum of the fall in net profit (qoq, yoy) is much higher than PBT due to the one-off higher tax expense recognised during 2Q20. Meanwhile, for core PBT (excluding associates fair value losses of RM16.5m), results slightly missed at 24% of our full-year PBT forecast. We expect a gradual improvement from 3Q20 onwards, driven by selected activities namely: a) accelerated billings of property unbilled sales and construction orderbook backlog, b) lumpy earnings from property delivery in China with unbilled sales of RM198m, c) improvement in its healthcare business from higher inpatient and elective surgeries (as the number of new COVID-19 cases have eased in the recent month), and d) gradual improvement in its property investments (ie retail malls).

#### KEY FINANCIALS

Year to 31 Dec (RMm)	2018	2019	2020F	2021F	2022F
Net turnover	5,410	4,780	4,123	4,920	5,565
EBITDA	522	599	616	812	950
Operating profit	378	364	408	601	737
Net profit (rep./act.)	646	767	364	551	678
Net profit (adj.)	578	695	364	551	678
EPS (sen)	11.3	12.6	6.7	10.1	12.3
PE (x)	11.9	10.6	20.1	13.3	10.9
P/B (x)	0.8	0.7	0.7	0.7	0.6
EV/EBITDA (x)	21.9	19.1	18.5	14.1	12.0
Dividend yield (%)	3.5	4.2	1.7	3.3	4.1
Net margin (%)	11.9	16.0	8.8	11.2	12.2
Net debt/(cash) to equity (%)	54.4	46.6	42.5	37.6	31.9
Interest cover (x)	n.a.	n.a.	4.8	7.0	9.7
ROE (%)	7.7	8.6	3.8	5.5	6.6
Consensus net profit	-	-	441	612	677
UOBKH/Consensus (x)	-	-	0.82	0.90	1.00

Source: Sunway, Bloomberg, UOB Kay Hian

### BUY

(Maintained)

Share Price	RM1.34
Target Price	RM1.57
Upside	+17.3%
(Previous TP)	RM1.63

#### COMPANY DESCRIPTION

A leading construction company and property developer in Malaysia

#### STOCK DATA

GICS sector	Real Estate
Bloomberg ticker:	SWB MK
Shares issued (m):	4,901.4
Market cap (RMm):	6,567.9
Market cap (US\$m):	1,575.5
3-mth avg daily t'over (US\$m):	1.8

#### Price Performance (%)

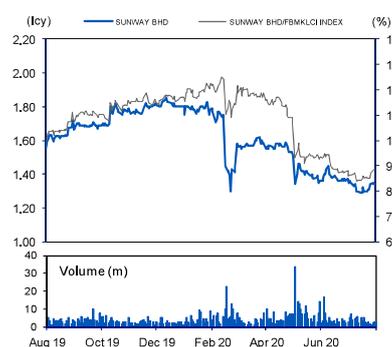
52-week high/low RM1.85/RM1.29

1mth	3mth	6mth	1yr	YTD
(1.5)	(12.4)	(24.7)	(17.5)	(25.6)

#### Major Shareholders

	%
Sungei Way Corp Sdn Bhd	51.6
Skim Amanah Saham Bumiputera	5.7
Sharp Ventures Sdn Bhd	4.0
FY20 NAV/Share (RM)	1.99
FY20 Net Debt/Share (RM)	0.85

#### PRICE CHART



Source: Bloomberg

#### ANALYST(S)

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- Property development: Lumpy earnings in 2H20.** Despite the MCO ruling, the property arm is one of the least affected divisions. Its 1H20 PBT eased by 7% to RM65m, as it was cushioned by property sales of unsold units in overseas, coupled with cost rationalisation. Meanwhile, billings recognition of its domestic unbilled sales was affected by the MCO ruling. However, property handovers in Singapore and China in 2H20, coupled with accelerated billings of its unbilled sales of RM2.5b will positively contribute to bottom-line from 3Q20 onwards.
- Healthcare: Drop in admission and outpatient treatments.** The triple-whammy impact - namely the festive season, COVID-19 outbreak and implementation of MCO from Mar to May 20 - had resulted in a sharp drop in the number of admissions and outpatient treatments particularly for Sunway Medical Centre. Also, Sunway Velocity Medical Centre's (SVMC) loss before tax (2Q20: RM9.5m and 1H20: RM21.5m) further negated its 1H20 bottom-line. The division reported loss before tax of RM13m in 1H20 (vs profit of RM31m in 1H19). 1H20 operating margin eased by 16.3ppt yoy to -4.8%.
- Construction.** The segment's 1H20 core net profit declined 63% yoy on lower billings from its construction orderbook backlog and margin contraction as a result of the MCO impact from mid-Mar 20. Positively, SunCon has secured new contracts worth RM1.5b, boosting its outstanding orderbook to RM5.4b.
- Hospitality: Severely impacted by COVID-19 outbreak.** The hospitality segment saw a sharp decline in 1H20 LBT of RM4m (-102% yoy), dragged by: a) the COVID-19 outbreak, b) share of fair value losses of RM16.5m, and c) the high-base effect in 1H19 arising revaluation gains from investment properties. The MCO ruling to close down non-essential businesses such as leisure and hospitality - had resulted in loss of revenue for the division.

### STOCK IMPACT

- Property development: Singapore sales well received.** As of end-Jun 20, Sunway's international property sales (ie Singapore) has boosted its 1H20 overall property sales to RM586m (effective stake), while its unbilled sales stood at RM2.5b (effective stake). Amid the challenging period ahead, the company has revised down its sales target to RM1.1b (effective stake) for 2020, underpinned by new launches worth RM2.1b (effective stake) with RM600m targeted to come from Malaysia and RM1.6b from Singapore.
- 2020 to be a challenging year for healthcare.** Following the dismal healthcare performance due to the COVID-19 outbreak, we expect to see a gradual recovery in 2H20. Also, for 2020, the healthcare division is expected to perform weaker on a yoy basis as the division's revenue is expected to fall as a result of lower admissions and a drop in outpatient treatments which yield higher margins. In addition, we reckon SVMC will continue to report losses in 3Q20 (qoq) but will see a gradual recovery thereafter due to the diseconomies of scale while booking lower margin treatments.
- Fund raising plans.** Sunway has proposed a renounceable rights issue of up to 1.1b new irredeemable convertible preference shares (ICPS) at an issue price of RM1.00 per ICPS based on one ICPS for every five existing Sunway shares held. The shareholders of these ICPS are entitled to dividend of 5.25% pa (subject to company's discretion) based on RM1.00 issue price. Positively, there will be no dilution on Sunway's EPS in the short term as the proposed ICPS would only to be converted from year 4 onwards (subject to mandatory conversion of at least 50% on 4<sup>th</sup> year) and the remaining in year 5. The expected proceeds of at least RM980m (max RM1.1b) will be channelled to paring down its debts (between RM600m-730m) and for capex for healthcare (RM200m), property development and investment expenditure (RM179m). Sunway expects the fund raising to be completed in 4Q20. This proactive move to raise funds via ICPS is deemed prudent as it would further solidify its balance sheet and strengthen the company's capital based upon conversion of the ICPS. The issue price and conversion price of RM1.00 represent a discount of 35.9% (to a 5-day VWAP of RM1.56).

### EARNINGS REVISION/RISK

- We cut 2020 net profit forecast by 6% to factor in lower property sales of RM1b (from RM1.2b) with slower billings recognition and tweak our healthcare profits in 2020-21 to RM15m and RM50m respectively. Accordingly, we trim 2021-22 net profit forecasts by 1-2%.

### VALUATION/RECOMMENDATION

- Maintain BUY with a lower target price of RM1.57** (from RM1.63), post earnings adjustment. Our target price is based on a 15% discount to our SOTP valuation of RM1.86/share (post dilution of warrants) and implies 14x 2021F PE (+0.8SD to 3-year average PE of 13x). Our target price factors in the potential value of its healthcare division that could be worth RM1.3b based on a conservative PE of 25x and 2021F healthcare net profit of RM50m (representing RM0.25/share).

### SOTP VALUATION

	(RMm)	Remarks
Property development	4,253	Property RNAV
REIT	1,807	Valuation based on TP of RM1.50, based on DDM
Construction	1,195	Valuation based on TP of RM1.70, 13x 2021F PE
Quarry & building materials	93	10x PE pegged to 2021F quarry profits
Trading	439	10x PE pegged to 2021F trading profits
Investment Properties	641	
Healthcare	1,250	Valuation based on 25x PE on 2021F profit of RM50m
Less: Holding co debt	(404.3)	
<b>Total SOTP value (A)</b>	<b>9,273</b>	
Share base (m) (B)	4,918	
Warrants proceeds (C)	908.6	Conservatively assumes conversion price at RM1.44/share (expiring in Oct 24)
<b>Total SOTP value post warrants proceeds (A+C)</b>	<b>10,181</b>	
Enlarged share base (m)	5,549	
SOTP/share (RM)	1.83	
Discount	15%	
<b>Target price (RM)</b>	<b>1.57</b>	

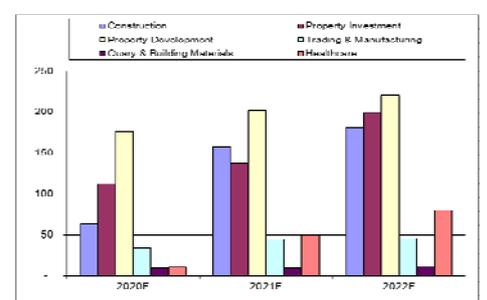
Source: UOB Kay Hian

### SUNWAY ICPS SNAPSHOT

	Descriptions
Tenure	5 years
Dividend rate	5.25%
Allotment	One ICPS for every 5 existing ordinary shares
Conversion of ICPS	Mandatory - At least 50% of outstanding ICPS to be converted on year 4. The balance in year 5
Proceeds	RM980m (min) to RM1.1b (max)
Utilization	Repay borrowings (RM600-732m) Capex for hospital (RM200m) Property development & Investment (RM179m)

Source: Sunway, UOB Kay Hian

### SUNWAY EBIT FORECASTS



Source: Sunway, UOB Kay Hian

### KEY ASSUMPTIONS

(RMm)	2020	2021	2022
Property sales target	1,000	1,000	1,000
Construction orderbook replenishment	1,700	1,700	1,700
Healthcare profits	15	50	80

Source: Sunway, UOB Kay Hian

### PROFIT & LOSS

Year to 31 Dec (RMm)	2019	2020F	2021F	2022F
<b>Net turnover</b>	<b>4,780</b>	<b>4,123</b>	<b>4,920</b>	<b>5,565</b>
EBITDA	599	616	812	950
Deprec. & amort.	235	208	211	214
EBIT	364	408	601	737
Total other non-operating income	202	n.a.	n.a.	n.a.
Associate contributions	261	243	262	262
Net interest income/(expense)	88	(129)	(115)	(98)
<b>Pre-tax profit</b>	<b>914</b>	<b>522</b>	<b>748</b>	<b>901</b>
Tax	(78)	(89)	(127)	(153)
Minorities	(69)	(69)	(69)	(69)
<b>Net profit</b>	<b>767</b>	<b>364</b>	<b>551</b>	<b>678</b>
Net profit (adj.)	695	364	551	678

### BALANCE SHEET

Year to 31 Dec (RMm)	2019	2020F	2021F	2022F
Fixed assets	2,753	2,795	2,834	2,870
Other LT assets	10,534	10,534	10,534	10,534
Cash/ST investment	5,889	6,171	6,532	6,972
Other current assets	4,382	4,382	4,382	4,382
<b>Total assets</b>	<b>23,558</b>	<b>23,882</b>	<b>24,282</b>	<b>24,758</b>
ST debt	7,417	7,417	7,417	7,417
Other current liabilities	2,791	2,791	2,791	2,791
LT debt	2,919	2,919	2,919	2,919
Other LT liabilities	259	259	259	259
Shareholders' equity	9,542	9,797	10,128	10,535
Minority interest	631	701	770	839
<b>Total liabilities &amp; equity</b>	<b>23,558</b>	<b>23,882</b>	<b>24,282</b>	<b>24,758</b>

### CASH FLOW

Year to 31 Dec (RMm)	2019	2020F	2021F	2022F
<b>Operating</b>	<b>925</b>	<b>641</b>	<b>832</b>	<b>962</b>
Pre-tax profit	914	522	748	901
Tax	(125)	(89)	(127)	(153)
Deprec. & amort.	235	208	211	214
Associates	(4)	0	0	0
Working capital changes	(177)	0	0	0
Other operating cashflows	82	0	0	0
<b>Investing</b>	<b>(924)</b>	<b>(250)</b>	<b>(250)</b>	<b>(250)</b>
Capex (growth)	(336)	(250)	(250)	(250)
Investments	(4)	0	0	0
Proceeds from sale of assets	0	0	0	0
Others	(584)	0	0	0
<b>Financing</b>	<b>658</b>	<b>(109)</b>	<b>(221)</b>	<b>(271)</b>
Dividend payments	(308)	(109)	(221)	(271)
Issue of shares	0	0	0	0
Proceeds from borrowings	667	0	0	0
Loan repayment	0	0	0	0
Others/interest paid	299	0	0	0
<b>Net cash inflow (outflow)</b>	<b>659</b>	<b>282</b>	<b>361</b>	<b>440</b>
<b>Beginning cash &amp; cash equivalent</b>	<b>5,136</b>	<b>5,889</b>	<b>6,171</b>	<b>6,532</b>
Changes due to forex impact	753	0	0	0
<b>Ending cash &amp; cash equivalent</b>	<b>5,889</b>	<b>6,171</b>	<b>6,532</b>	<b>6,972</b>

### KEY METRICS

Year to 31 Dec (%)	2019	2020F	2021F	2022F
<b>Profitability</b>				
EBITDA margin	12.5	14.9	16.5	17.1
Pre-tax margin	19.1	12.7	15.2	16.2
Net margin	16.0	8.8	11.2	12.2
ROA	3.4	1.5	2.3	2.8
ROE	8.6	3.8	5.5	6.6
<b>Growth</b>				
Turnover	(11.6)	(13.7)	19.3	13.1
EBITDA	14.8	3.0	31.7	17.1
Pre-tax profit	9.3	(42.9)	43.3	20.5
Net profit	18.8	(52.5)	51.5	23.0
Net profit (adj.)	20.2	(47.6)	51.5	23.0
EPS	12.0	(47.2)	50.6	22.8
<b>Leverage</b>				
Debt to total capital	50.4	49.6	48.7	47.6
Debt to equity	108.3	105.5	102.0	98.1
Net debt/(cash) to equity	46.6	42.5	37.6	31.9
Interest cover (x)	n.a.	4.8	7.0	9.7