

COMPANY RESULTS

Sunway Bhd (SWB MK)

1Q20: Misses Expectation, A Tough Year, Downgrade To HOLD

Almost all of Sunway's businesses have been affected by the COVID-19 outbreak and MCO ruling. This translated to lower 1Q20 profit (qoq and yoy). 1Q20 core profit accounts for 12% of our 2020 forecast. We slash our 2020-22 earnings forecasts as we expect Sunway to face a challenging time ahead, particularly in 1H20. We expect a gradual improvement in 2H20, subject to COVID-19 developments in the country. Downgrade to HOLD with a lower target price of RM1.63. Entry price: RM1.38.

1Q20 RESULTS

Year to 31 Dec (RMm)	1Q20	4Q19	qoq % chg	yoy % chg
Revenue	971.4	1,353.2	(28.2)	(13.5)
Construction	218.0	318.0	(31.4)	(37.0)
Property Development	139.2	218.2	(36.2)	58.4
Investment Property	134.3	220.9	(39.2)	(31.7)
Pre-tax profit	107.8	260.4	(58.6)	(39.2)
- Construction	22.6	38.1	(40.8)	(43.4)
- Property Development	39.1	117.2	(66.6)	19.1
- Investment Property	32.0	89.6	(64.3)	(44.3)
Net profit	78.3	200.2	(60.9)	(42.6)
Core net profit	78.3	209.5	(62.6)	(42.6)
Margins (%)	%	%	qoq ppt chg	yoy ppt chg
Pre-tax - Construction	10.4	12.0	(1.6)	(1.2)
Pre-tax - Property Development	28.1	53.7	(25.6)	(9.3)

Source: Sunway, UOB Kay Hian

RESULTS

- Misses expectations.** Sunway reported a 1Q20 core net profit of RM78m (-63% qoq, -43% yoy) on revenue of RM1.0b (-28% qoq, -14% yoy). 1Q20 core net profit came in at 12% and 11% of our and consensus estimates. Key variances against our forecasts were: a) losses from the healthcare division due to fewer admission and outpatient treatments, b) lower progress billings for its construction arm and unbilled property sales, and c) sluggish hospitality and leisure contribution. Most of its businesses are vulnerable and have been severely affected by the COVID-19 pandemic as well as the movement control order (MCO) which begun on Mar 20 and will end on 9 Jun 20. Meanwhile, we expect 1H20 will be a challenging period until the MCO ends; we expect a gradual improvement from 3Q20 onwards (from a low base; ie 2Q20).

KEY FINANCIALS

Year to 31 Dec (RMm)	2018	2019	2020F	2021F	2022F
Net turnover	5,410	4,780	4,551	5,430	5,802
EBITDA	522	599	656	841	974
Operating profit	378	364	448	630	760
Net profit (rep./act.)	646	767	412	575	697
Net profit (adj.)	578	695	412	575	697
EPS (sen)	11.3	12.6	7.5	10.5	12.7
PE (x)	13.4	12.0	20.0	14.4	11.9
P/B (x)	0.9	0.8	0.8	0.7	0.7
EV/EBITDA (x)	23.5	20.5	18.7	14.6	12.6
Dividend yield (%)	3.1	3.7	2.2	3.1	3.8
Net margin (%)	11.9	16.0	9.0	10.6	12.0
Net debt/(cash) to equity (%)	54.4	46.6	42.6	37.5	31.7
Interest cover (x)	n.a.	n.a.	5.1	7.3	10.0
ROE (%)	7.7	8.6	4.3	5.8	6.7
Consensus net profit	-	-	699	745	797
UOBKH/Consensus (x)	-	-	0.59	0.77	0.87

Source: Sunway, Bloomberg, UOB Kay Hian

HOLD

(Downgraded)

Share Price	RM1.51
Target Price	RM1.63
Upside	+7.9%
(Previous TP)	RM2.01

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):	7,401.1
Market cap (US\$m):	1,702.2
3-mth avg daily t'over (US\$m):	1.7

Price Performance (%)

52-week high/low RM1.85/RM1.30

1mth	3mth	6mth	1yr	YTD
(2.6)	(15.6)	(15.2)	(9.2)	(16.1)

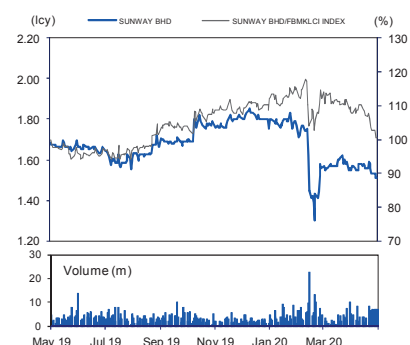
Major Shareholders

	%
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: Higher sales and project handovers.** The property division was the only division that reported earnings growth yoy. Its 1Q20 PBT rose 19% yoy to RM39m, thanks to higher property sales and project completions (Mont Residence; GDV RM250m) during the quarter. On a qoq basis, property PBT dipped by 67% due to the high base effect which was driven by development profits from the China project and higher billings of unbilled sales in 4Q19. We expect a slower 2Q20 as the company is unable to recognise substantial billings from its domestic unbilled property sales but we do expect a gradual improvement in 2H20. Meanwhile, the property handovers in Singapore and China in 2H20 will positively contribute to bottom line from 3Q20 onwards.
- Healthcare: Drop in admission and outpatient treatments.** The triple-whammy impact - namely the festive season (Chinese New Year break), COVID-19 outbreak and commencement of MCO in 1Q20 - had resulted in a sharp drop in the number of admissions and outpatient treatments. Also, Sunway Velocity Medical Centre's (SVMC) operating losses (RM12m) further negated it 1Q20 bottom line. The division reported loss before tax of RM4.5m (-139% qoq, -129% yoy). Operating margin eased 10.9ppt yoy to -0.6% in 1Q20.
- Construction.** The segment's 1Q20 core net profit declined 37% yoy on lower billings from its construction orderbook backlog and margin contraction as a result the two-week MCO impact from mid-Mar 20. Precast earnings contribution improved yoy due to higher-yielding precast products.
- Hospitality: Severely impacted by COVID-19 outbreak.** The hospitality segment saw a sharp decline in PBT to RM32m (-64% qoq, -44% yoy), dragged by the COVID-19 outbreak and the high-base effect in 4Q19 due to seasonal factors and 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: Strong sales in 1Q20.** As of Mar 20, Sunway's international property sales (ie Singapore) has boosted its 1Q20 overall property sales to RM522m (effective stake), while its unbilled sales stood at RM2.6b (effective stake). We understand the company is reviewing its 2020 sales target of RM1.4b (effective stake) due to the current situation. Recall, Sunway had set its sales target at RM1.4b (effective stake) for 2020, underpinned by new launches worth RM3.3b (effective stake) with RM1b targeted to come from Malaysia and RM2.4b from Singapore. As of 1Q20, only the Parc Canberra project (GDV; RM560m, Singapore) was launched with a good take-up rate of 70%.
- Strong diversified outstanding orderbook.** Sunway Construction's (SunCon) outstanding orderbook backlog of RM5.4b provides earnings visibility for its construction arm for the next 3-4 years. Ytd, the company secured new contracts worth RM688m from construction and precast projects. SunCon expects to secure new orders worth RM2b in 2020, mainly of internal and external construction works.
- Healthcare: A tough year.** Following the dismal healthcare performance due to the COVID-19 outbreak, we expect the division to report weak 2Q20 results, and to follow with a gradual recovery in 2H20 (should the MCO be lifted in Jun 20). 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 drop in outpatient treatments which yield higher margins. In addition, we reckon SVMC will continue to report losses in 2Q20 (qoq) but will see a gradual recovery thereafter due to the diseconomies of scale while booking lower-margin treatments. In addition, the plausible listing of its healthcare business may be postponed at this juncture due to an unfavourable valuation.

EARNINGS REVISION/RISK

- We cut our 2020-22 net profit forecasts by 37%/21%/6% to account for: a) lower contribution from its hospitality business, b) sluggish healthcare business (expected lower admission and outpatient treatments), and c) recalibration of billings for its outstanding construction orderbook and unbilled property sales. We maintain our sales assumption of RM1b for 2020.

VALUATION/RECOMMENDATION

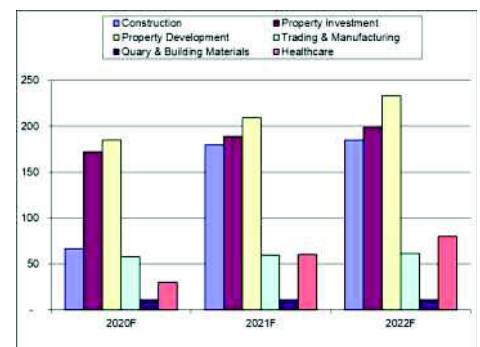
- Downgrade to HOLD with a lower target price of RM1.63** (from RM2.01) post earnings adjustments and roll forward our valuation to 2021F. Our target price is based on a 15% discount to our SOTP valuation of RM1.92/share (post dilution of warrants), and implies 22x 2020F fully-diluted PE. Our target price factors in the potential value of its healthcare division that could be worth RM1.5b based on a conservative PE of 25x and 2021F healthcare net profit of RM60m (representing RM0.31/share).

SOTP VALUATION

	(RMm)	Remarks
Property development	4,253	Property RNAV
REIT	1,963	Valuation based on TP of RM1.63, based on DDM
Construction	1,195	Valuation based on TP of RM1.70, 13x 2021F PE
Quarry & building materials	110	10x PE pegged to 2021F quarry profits
Trading	498	10x PE pegged to 2021F trading profits
Investment Properties	641	
Healthcare	1,500	Valuation based on 25x PE on 2021F profit of RM60m
Less: Holding co debt	(404.3)	
Total SOTP value (A)	9,754	
Share base (m) (B)	4,918	
Warrants proceeds (C)	908.6	Conservatively assumes conversion price at RM1.44/share (expiring in Oct 24)
Total SOTP value post warrants proceeds (A+C)	10,663	
Enlarged share base (m)	5,549	
SOTP/share (RM)	1.92	
Discount	15%	
Target price (RM)	1.63	

Source: 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	30	60	80

Source: UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (RMm)	2019	2020F	2021F	2022F
Net turnover	4,780	4,551	5,430	5,802
EBITDA	599	656	841	974
Deprec. & amort.	235	208	211	214
EBIT	364	448	630	760
Total other non-operating income	202	n.a.	n.a.	n.a.
Associate contributions	261	261	261	261
Net interest income/(expense)	88	(130)	(115)	(98)
Pre-tax profit	914	579	776	923
Tax	(78)	(98)	(132)	(157)
Minorities	(69)	(69)	(69)	(69)
Net profit	767	412	575	697
Net profit (adj.)	695	412	575	697

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	6,163	6,538	6,990
Other current assets	4,382	4,382	4,382	4,382
Total assets	23,558	23,874	24,288	24,776
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	9,789	10,134	10,552
Minority interest	631	701	770	839
Total liabilities & equity	23,558	23,874	24,288	24,776

CASH FLOW

Year to 31 Dec (RMm)	2019	2020F	2021F	2022F
Operating	925	689	855	980
Pre-tax profit	914	579	776	923
Tax	(125)	(98)	(132)	(157)
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
Investing	(924)	(250)	(250)	(250)
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
Financing	658	(165)	(230)	(279)
Dividend payments	(308)	(165)	(230)	(279)
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
Net cash inflow (outflow)	659	274	375	451
Beginning cash & cash equivalent	2,508	3,171	3,445	3,820
Changes due to forex impact	2,721	2,718	2,718	2,718
Ending cash & cash equivalent	5,889	6,163	6,538	6,990

KEY METRICS

Year to 31 Dec (%)	2019	2020F	2021F	2022F
Profitability				
EBITDA margin	12.5	14.4	15.5	16.8
Pre-tax margin	19.1	12.7	14.3	15.9
Net margin	16.0	9.0	10.6	12.0
ROA	3.4	1.7	2.4	2.8
ROE	8.6	4.3	5.8	6.7
Growth				
Turnover	(11.6)	(4.8)	19.3	6.8
EBITDA	14.8	9.5	28.2	15.8
Pre-tax profit	9.3	(36.6)	33.9	19.0
Net profit	18.8	(46.3)	39.6	21.3
Net profit (adj.)	20.2	(40.8)	39.6	21.3
EPS	12.0	(40.4)	39.0	21.1
Leverage				
Debt to total capital	50.4	49.6	48.7	47.6
Debt to equity	108.3	105.6	102.0	97.9
Net debt/(cash) to equity	46.6	42.6	37.5	31.7
Interest cover (x)	n.a.	5.1	7.3	10.0