

**HLIB Research**

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**BUY** (Maintain)

**Target Price:** **RM1.95**
**Previously:** **RM1.95**
**Current Price:** **RM1.40**

Capital upside	39.3%
Dividend yield	1.8%
Expected total return	41.1%

**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	5.3	-4.1	-13.3
Relative	9.8	-2.2	-8.5

**Stock information**

Bloomberg Ticker	SWB MK
Bursa Code	5211
Issued Shares (m)	4,901
Market cap (RM m)	6,862
3-mth avg. volume ('000)	4,582
SC Shariah-compliant	Yes

**Major shareholders**

Sungei Way Corp Sdn Bhd	51.2%
EPF	9.7%
Active Equity Sdn Bhd	3.2%

**Earnings summary**

FYE (Dec)	FY19	FY20f	FY21f
PATMI – core (RM m)	391.4	639.5	671.9
EPS – core (sen)	8.0	13.1	13.8
P/E (x)	17.4	10.7	10.2

# Sunway

## Potential unlocking of the healthcare unit

Bloomberg news reported that Sunway is looking to divest a stake of 20%-25% in its healthcare unit that could fetch at least USD250m. We are positive on the news as it will give benchmark valuation to its healthcare unit. Based on this news, the healthcare unit is implied to be valued at RM5.2bn. By imputing RM5.2bn for the healthcare segment into our SOP, our TP would amount to RM2.59. The RM5.2bn would also imply a forward PE of c.75x in comparison to IHH's c.61x. We note that this implied premium has likely taken into account the upcoming income streams from the expansions over the next 3-4 years. We maintain our forecast and **BUY** rating with an unchanged TP of RM1.95 based on a 10% holding discount to a SOP-derived value of RM2.17.

**NEWSBREAK**

Bloomberg news reported that Sunway Bhd is looking to divest a stake of 20%-25% in its healthcare unit that could fetch at least USD250m. The proceeds will be used for hospital expansion and the non-binding bids are expected to close as soon as next month. Nonetheless, the article mentions that deliberations are still ongoing and the process may not necessarily lead to a deal.

**HLIB's VIEW**

**Positive on the news.** We are positive on the news as it will give a benchmark valuation to its healthcare division as we believe the market has yet to fully appreciate the value of this unit. Furthermore, this figure implies a much higher valuation for the segment vis-à-vis the one imputed in our SOP. We gather that these strategic shareholders will be one that can help to enhance its healthcare operation, aside from assisting on funding. As the article mentioned that the process may not necessarily lead to a deal, we believe Sunway management has to be comfortable with the bidders in creating value and not just based solely on bid valuation.

**Pro forma implications.** Based on a 20% stake for USD250m with an exchange rate of RM4.17 per USD, the healthcare unit is implied to be valued at RM5.2bn. By imputing RM5.2bn for the healthcare segment into our SOP (10% holding discount), our TP would amount to RM2.59 as shown in Figure#2. The RM5.2bn would also imply a forward PE of c.75x in comparison to IHH's c.61x. We note that this implied premium has likely taken into account the upcoming income streams from the expansions over the next 3-4 years. To recap, Sunway is targeting to have c.2k beds by 2024 (from 741 as of FY19).

**Forecast.** Unchanged.

Maintain **BUY** with an unchanged **TP** of **RM1.95** based on a 10% holding discount to SOP-derived value of RM2.17. Sunway remains our top pick in the property sector given its well-integrated property and construction developments. The value of the healthcare business (with new hospitals and the SMC expansion coming on stream over the next three years) has yet to be appreciated as it is embedded within the parent-co. This, coupled with the resilient earnings from matured investment properties alongside its growing building materials business and quarry operations, justifies for the re-rating of the stock.

## 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	3,212.3	3,224.0	3,738.3
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	1,234.3	1,986.6	2,013.5
Inventories	849.2	748.5	1,028.6	1,655.5	1,677.9
Others	14,280.6	15,277.3	14,829.2	15,282.2	15,541.5
<b>Assets</b>	<b>21,780.3</b>	<b>23,553.1</b>	<b>23,931.7</b>	<b>25,775.6</b>	<b>26,598.6</b>
Payables	1,336.2	1,344.3	1,234.3	1,986.6	2,013.5
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
<b>Liabilities</b>	<b>12,796.4</b>	<b>13,378.9</b>	<b>13,768.9</b>	<b>15,021.2</b>	<b>15,548.1</b>
Shareholder's equity	7,964.9	8,392.9	8,342.2	8,859.8	9,084.1
Minority interest	619.1	631.4	670.6	744.6	816.4
Perpetual bond	400.0	1,150.0	1,150.0	1,150.0	1,150.0
<b>Equity</b>	<b>8,984.0</b>	<b>10,174.3</b>	<b>10,162.8</b>	<b>10,754.5</b>	<b>11,050.5</b>

### Cash Flow Statement

FYE Dec	FY18	FY19	FY20f	FY21f	FY22f
Profit before taxation	836.9	915.0	525.6	907.8	948.8
D&A	222.9	233.6	265.5	268.6	271.3
Working capital	(229.3)	(261.2)	(313.2)	(281.5)	(277.5)
Taxation	(276.1)	(321.3)	(299.1)	(376.5)	(391.0)
Others	401.4	261.7	1,259.4	(326.8)	480.7
<b>CFO</b>	<b>955.8</b>	<b>827.8</b>	<b>1,438.2</b>	<b>191.6</b>	<b>1,032.3</b>
Capex	(420.2)	(297.1)	(300.0)	(300.0)	(300.0)
Others	(993.2)	(1,636.2)	-	-	-
<b>CFI</b>	<b>(1,413.4)</b>	<b>(1,933.3)</b>	<b>(300.0)</b>	<b>(300.0)</b>	<b>(300.0)</b>
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)	(121.8)	(447.6)
Others	(339.8)	(374.2)	(245.4)	(257.9)	(270.4)
<b>CFF</b>	<b>745.7</b>	<b>666.4</b>	<b>(187.5)</b>	<b>120.2</b>	<b>(218.1)</b>
<b>Net cash flow</b>	<b>288.1</b>	<b>(439.1)</b>	<b>950.7</b>	<b>11.8</b>	<b>514.2</b>
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	3,016.5	3,028.3
Ending cash	2,609.6	2,261.5	3,212.3	3,224.0	3,738.3

### Income statement

FYE Dec	FY18	FY19	FY20f	FY21f	FY22f
<b>Revenue</b>	<b>5410.2</b>	<b>4780.3</b>	<b>3754.4</b>	<b>6042.5</b>	<b>6124.5</b>
Operating cost	(4592.3)	(3980.5)	(3330.2)	(5266.1)	(5302.4)
<b>EBITDA</b>	<b>817.9</b>	<b>799.8</b>	<b>424.2</b>	<b>776.3</b>	<b>822.1</b>
D&A	(223.2)	(233.8)	(265.5)	(268.6)	(271.3)
Net Interest	12.9	87.8	53.7	118.6	120.5
JV & Associates	229.3	261.2	313.2	281.5	277.5
<b>Pretax profit</b>	<b>836.9</b>	<b>915.0</b>	<b>525.6</b>	<b>907.8</b>	<b>948.8</b>
Taxation	(121.4)	(78.4)	(51.0)	(150.3)	(161.1)
Minority Interest	(69.9)	(69.3)	(39.2)	(74.0)	(71.8)
Holders of Perpetual	0.0	(54.5)	(44.0)	(44.0)	(44.0)
PATAMI	645.6	712.8	391.4	639.5	671.9
Exceptionals	89.0	73.4	0.0	0.0	0.0
<b>Core Earning</b>	<b>556.6</b>	<b>639.4</b>	<b>391.4</b>	<b>639.5</b>	<b>671.9</b>
Basic shares (m)	4873.7	4873.7	4873.7	4873.7	4873.7
Consensus core PATMI			441.3	611.7	676.9
HLIB/ Consensus			89%	105%	99%

### Valuation ratios

FYE Dec	FY18	FY19	FY20f	FY21f	FY22f
Net DPS (sen)	7.1	9.1	2.5	9.2	9.6
Yield (%)	5.1	6.5	1.8	6.6	6.9
Core EPS (sen)	11.4	13.1	8.0	13.1	13.8
P/E (x)	12.3	10.7	17.4	10.7	10.2
Market capitalization (m)	6823.2	6823.2	6823.2	6823.2	6823.2
Net cash (m)	(3736.3)	(3678.6)	(3227.8)	(3716.1)	(3701.8)
Net gearing (%)	0.42	0.36	0.32	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	0.6	0.6
ROA (%)	2.6	2.7	1.6	2.5	2.5
ROE (%)	6.2	6.3	3.9	5.9	6.1
Enterprise value	10559.5	10501.8	10051.1	10539.3	10525.1
EV/ EBITDA (x)	12.9	13.1	23.7	13.6	12.8

### Margin ratios

FYE Dec	FY18	FY19	FY20f	FY21f	FY22f
EBITDA Margin	15.1	16.7	11.3	12.8	13.4
PBT Margin	15.5	19.1	14.0	15.0	15.5
PATMI	10.3	13.4	10.4	10.6	11.0

**Figure #1**      **SOP table**

Division	Stake	Value (RM m)	RM/share	Methodology
Construction (SunCon)	54.56%	1,459	0.30	Based on TP of RM 2.07
Sunway REIT	40.88%	2,095	0.43	Based on TP of RM 1.74
Property Development & Investment	100%	4,543	0.93	Discounted RNAV
Healthcare	100%	1,734	0.36	25X forward P/E
Trading/Manufacturing	100%	253	0.05	10X trailing P/E
Quarry	100%	151	0.03	10X trailing P/E
		10,235	2.10	
Holding Company Net Debt		328	0.07	
		10,563	2.17	
10% Holding Company Discount		-1,056	(0.22)	
<b>Equity Value (RM)</b>		<b>9,507</b>	<b>1.95</b>	

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**Figure #2**      **Pro forma SOP using implied healthcare valuation of RM5.2bn**

Division	Stake	Value (RM m)	RM/share	Methodology
Construction (SunCon)	54.56%	1,459	0.30	Based on TP of RM 2.07
Sunway REIT	40.88%	2,095	0.43	Based on TP of RM 1.74
Property Development & Investment	100%	4,543	0.93	Discounted RNAV
Healthcare	100%	5,212	1.07	Implied valuation
Trading/Manufacturing	100%	253	0.05	10X trailing P/E
Quarry	100%	151	0.03	10X trailing P/E
		13,714	2.81	
Holding Company Net Debt		328	0.07	
		14,041	2.88	
10% Holding Company Discount		-1,404	(0.29)	
<b>Equity Value (RM)</b>		<b>12,637</b>	<b>2.59</b>	

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<b>BUY</b>	Expected absolute return of +10% or more over the next 12 months.
<b>HOLD</b>	Expected absolute return of -10% to +10% over the next 12 months.
<b>SELL</b>	Expected absolute return of -10% or less over the next 12 months.
<b>UNDER REVIEW</b>	Rating on the stock is temporarily under review which may or may not result in a change from the previous rating.
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<b>OVERWEIGHT</b>	Sector expected to outperform the market over the next 12 months.
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