

HLIB Research

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BUY (Maintain)

Target Price: RM2.58

Previously: RM2.11

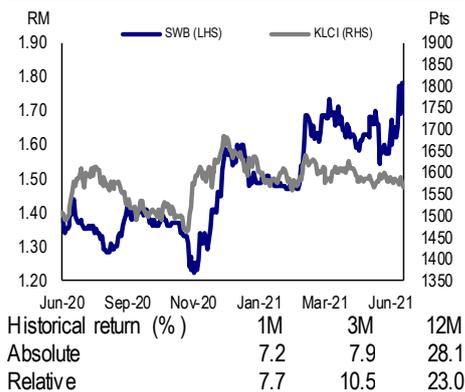
Current Price: RM1.78

Capital upside	44.9%
Dividend yield	2.4%
Expected total return	47.3%

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



Stock information

Bloomberg Ticker	SWB MK
Bursa Code	5211
Issued Shares (m)	4,889
Market cap (RM m)	8,702
3-mth avg. volume ('000)	3,570
SC Shariah-compliant	Yes
F4GBM Index member	Yes
ESG rating	★★★

Major shareholders

Sungei Way Corp Sdn Bhd	51.4%
EPF	9.0%

Earnings summary

FYE (Dec)	FY20	FY21f	FY22f
PATMI – core (RM m)	331.9	380.2	501.9
EPS – core (sen)	6.8	7.8	10.3
P/E (x)	26.1	22.8	17.3

Sunway

Divesting 16% stake in healthcare unit to GIC

GIC will invest RM750m in Sunway Healthcare for a 16% stake. Based on a 16% stake for RM750m, the implied value of healthcare unit is estimated at RM4.7bn. This implies an EV/EBITDA of 31.3x, higher than 19.1x of IHH and KPJ's 13.9x. We reckon premium for Sunway Healthcare could take into account the upcoming income streams from the expansions of a pipeline of hospitals over the next few years. We maintain our forecast and reiterate our BUY call with a higher TP of RM2.58 (from RM2.11) based on SOP-derived valuation after imputing the new healthcare valuation.

Partnership with GIC. GIC Private Limited (GIC), via Greenwood Capital Pte Ltd (Greenwood) will invest RM750m in Sunway Healthcare for a 16% stake via share subscription agreement. The investment entails subscription by GIC of 8.24% ordinary shares in Sunway Healthcare, ICPS convertible to 7.76% equity interest and DCPS convertible into 1 Sunway Healthcare share, which will collectively give GIC a 16.0% equity interest in Sunway Healthcare on a fully converted basis. The price tag of RM750m implies an equity value of RM4.7bn for Sunway Healthcare.

Payment through tranches. Payment by GIC will be in 5 different tranches over c.4 years upon completion of the issuance and subscription of the share to optimise capital management to ensure efficiency in their cash flow.

Figure #1 Subscription Consideration

Tranche	Timeline	Amount
1 st	On completion of initial closing conditions (Initial Closing)	RM33.88
2 nd	Later of 6 months from signing or Initial Closing	RM199,999,994.32
3 rd	18 months from signing (Second Closing)	RM100,000,000.00
4 th	18 months from Second Closing (Third Closing)	RM168,000,000.00
5 th	6 months from Third Closing (Fourth Closing)	RM281,999,971.80
Total		RM750,000,000.00

Sunway

Key transaction terms. GIC is to receive a preferred dividend yield of 3% p.a. based on the invested amount. As GIC is investing based on Sunway Healthcare's strategic expansion plan, the company has agreed to give GIC the right to receive additional shares and a cash top up in order to meet a minimum ringgit-IRR of 12.5%. The share and cash top up is capped at 4.5% (of enlarged share capital) and USD10m respectively if the IPO is completed by 31 Jan 2028. However, if the IPO is delayed, the share and cash top up will progressively increase on a monthly basis until a ceiling of 11.5% (of enlarged share capital) and USD50m respectively is reached on 30 June 2029 and will remain at this level till the IPO is completed. If Sunway doesn't meet their obligations (i.e. Sunway does not complete the proposed IPO by 30 June 2029), GIC will be entitled to an exit through exercise of a put option or a joint sale of the business to enable GIC to achieve a minimum USD IRR of 18.5%.

Gaining visibility on underlying value of healthcare. The investment by GIC validates the compelling value of Sunway's healthcare business. Based on a 16% stake for RM750m, the implied value of healthcare unit is estimated at RM4.7bn vs our current valuation of RM1.7bn. The RM4.7bn would also imply an EV/EBITDA of 31.33x, higher than 19.1x of IHH and KPJ's 13.9x. We reckon premium for Sunway Healthcare could take into account the upcoming income streams from the expansions of a pipeline of hospitals over the next few years. Effectively, the premium accounts for the future growth generated by Sunway's healthcare unit. To recap, Sunway is targeting to have c.2k beds by 2024 (from current capacity of 856 beds).

Investment proceeds will be used to partly fund Sunway Healthcare's expansion plans, mainly for the building of 6 more hospitals, bringing the total to 8 hospitals with 3k beds altogether. The group will be spending about RM2bn in capex over the next 4-5 years, with the investment from GIC to cover about 40% of the amount. Currently, Sunway Healthcare has 856 beds (616 beds under Sunway Medical Centre (SMC) and Sunway Medical Centre Velocity (SMVC) has 240 beds capacity). SMC will potentially has a capacity of c.1,081 beds upon completion of expansion in 2Q22, thus consolidating its current position as the largest private medical centre in Malaysia (the highest number of beds under 1 hospital).

Accretive on net asset per share. Management shared that there will be a gain from the dilution of equity interest and re-measurement of the remaining equity interest arising from the deal amounting c.RM2.7bn. Taking into account contingent obligation of c.RM300m should Sunway Healthcare not go the listing path, net asset per share will be raised by 47 sen per share to RM2.42 (RM1.95 previously). Meanwhile for net gearing, our pro forma calculation implies net gearing will decrease to 0.36x from 0.51x (as of FY20) from the higher new equity base and the proceeds from divestment.

Forecast. Unchanged

We maintain our **BUY** call with a higher **TP of RM2.58** (from RM2.11) based on SOP-derived valuation after imputing the new implied healthcare valuation. Sunway remains our top pick given its well-integrated property, construction and building material operations. With its wide ranging business exposure, the group is a good proxy to the eventual economic recovery.

Financial Forecast

All items in (RM m) unless otherwise stated

Balance Sheet

FYE Dec	FY19	FY20	FY21f	FY22f	FY23f
Cash	2,554.7	2,238.4	2,754.7	3,516.7	4,440.1
Placement in funds	376.4	100.3	100.3	100.3	100.3
Receivables	1,638.4	1,451.9	1,362.5	1,540.9	1,561.3
Inventories	748.5	607.4	624.5	706.2	715.6
Others	16,176.5	16,723.0	16,852.3	16,868.0	16,801.7
Assets	21,494.6	21,121.1	21,694.2	22,732.1	23,619.0
Payables	1,344.3	1,467.5	1,362.5	1,540.9	1,561.3
Debt	8,295.5	7,510.6	8,010.6	8,510.6	9,010.6
Others	2,421.3	1,804.5	1,804.5	1,804.5	1,804.5
Liabilities	12,061.0	10,782.6	11,177.5	11,855.9	12,376.3
Shareholder's equity	8,389.3	9,540.7	9,656.7	9,949.5	10,241.0
Minority interest	1,044.3	797.8	860.0	926.7	1,001.7
Perpetual bond	-	-	-	-	-
Equity	9,433.6	10,338.5	10,516.7	10,876.2	11,242.6

Cash Flow Statement

FYE Dec	FY19	FY20	FY21f	FY22f	FY23f
Profit before taxation	865.3	512.5	534.6	703.7	780.3
D&A	233.6	236.5	242.7	247.5	251.8
Working capital	(310.5)	270.7	1.2	35.8	246.8
Taxation	(94.0)	(61.3)	(92.2)	(135.1)	(137.8)
JV and Associates	(113.3)	(41.8)	(105.8)	(80.7)	(141.7)
Perpetual bond	-	-	-	-	-
Others	(5.5)	(139.4)	-	-	-
CFO	689.0	777.2	580.5	771.1	999.4
Capex	(1,292.7)	(984.9)	(300.0)	(300.0)	(300.0)
Others	(67.2)	158.5	-	-	-
CFI	(1,359.9)	(826.4)	(300.0)	(300.0)	(300.0)
Changes in debt	1,059.6	(897.1)	500.0	500.0	500.0
Shares issued	-	977.8	-	-	-
Dividends	(305.9)	(253.6)	(73.1)	(209.1)	(276.1)
Others	(254.7)	38.6	(191.0)	-	-
CFF	499.0	(134.3)	235.8	290.9	223.9
Net cash flow	(172.0)	(183.5)	516.3	762.0	923.3
Forex	(2.9)	7.3	-	-	-
Others	195.7	(140.2)	(140.2)	(140.2)	(140.2)
Beginning cash	2,533.9	2,554.7	2,378.6	2,894.9	3,656.9
Ending cash	2,554.7	2,238.4	2,754.7	3,516.7	4,440.1

Income statement

FYE Dec	FY19	FY20	FY21f	FY22f	FY23f
Revenue	4780.3	3829.1	4144.1	4686.8	4749.0
Operating cost	(3978.5)	(3344.5)	(3535.2)	(3885.1)	(3915.9)
EBITDA	801.8	484.5	609.0	801.7	833.1
D&A	(233.8)	(236.8)	(242.7)	(247.5)	(251.8)
Net Interest	36.2	31.4	17.9	8.8	(6.9)
JV & Associates	261.2	233.4	150.4	140.7	206.0
Pretax profit	865.3	512.5	534.6	703.7	780.3
Taxation	(78.4)	(102.0)	(92.2)	(135.1)	(137.8)
Minority Interest	(77.7)	(47.7)	(62.1)	(66.7)	(75.0)
Holders of Perpetual	0.0	0.0	0.0	0.0	0.0
PATAMI	709.2	362.8	380.2	501.9	567.5
Exceptionals	24.4	30.9	0.0	0.0	0.0
Core Earning	684.8	331.9	380.2	501.9	567.5
Basic shares (m)	4875.0	4875.0	4875.0	4875.0	4875.0
Consensus core PATMI			387.1	507.0	610.0
HLIB/ Consensus			98%	99%	93%

Valuation ratios

FYE Dec	FY19	FY20	FY21f	FY22f	FY23f
Net DPS (sen)	9.1	1.5	4.3	5.7	6.4
Yield (%)	5.1	0.8	2.4	3.2	3.6
Core EPS (sen)	14.0	6.8	7.8	10.3	11.6
P/E (x)	12.7	26.1	22.8	17.3	15.3
Market capitalization (m)	8677.5	8677.5	8677.5	8677.5	8677.5
Net cash (m)	(5364.4)	(5171.9)	(5155.6)	(4893.6)	(4470.2)
Net gearing (%)	0.57	0.50	0.49	0.45	0.40
BV / share	1.9	2.1	2.2	2.2	2.3
P/BV (x)	0.9	0.8	0.8	0.8	0.8
ROA (%)	3.2	1.6	1.8	2.2	2.4
ROE (%)	7.3	3.2	3.6	4.6	5.0
Enterprise value	14041.9	13849.4	13833.1	13571.1	13147.7
EV/ EBITDA (x)	17.5	28.6	22.7	16.9	15.8

Margin ratios

FYE Dec	FY19	FY20	FY21f	FY22f	FY23f
EBITDA Margin	16.8	12.7	14.7	17.1	17.5
PBT Margin	18.1	13.4	12.9	15.0	16.4
PATMI	14.3	8.7	9.2	10.7	11.9

Figure #2 SOP table

Division	Stake	Value (RM m)	RM/share	Methodology
Construction (SunCon)	54.56%	1,322	0.27	Based on TP of RM 1.88
Sunway REIT	40.88%	1,932	0.40	Based on TP of RM 1.38
Property Development & Investment	100%	4,893	1.00	Discounted RNAV
Healthcare	84%	3,948	0.81	31x EV/EBITDA
Trading/Manufacturing	100%	295	0.06	10X trailing P/E
Quarry	100%	167	0.03	10X trailing P/E
Equity Value (RM)		12,558	2.58	

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BUY	Expected absolute return of +10% or more over the next 12 months.
HOLD	Expected absolute return of -10% to +10% over the next 12 months.
SELL	Expected absolute return of -10% or less over the next 12 months.
UNDER REVIEW	Rating on the stock is temporarily under review which may or may not result in a change from the previous rating.
NOT RATED	Stock is not or no longer within regular coverage.

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