

24 June 2021

Sunway Berhad

Healthcare Anchoring Valuations

By Lum Joe Shen | lumjs@kenanga.com.my

Sunway has brought in GIC Private Limited (GIC) as a strategic investor for their healthcare business in order to expedite the construction of their upcoming hospitals while maintaining a healthy gearing. We are positive as the EV valuations fetched by this deal is 22% higher than what we had ascribed – a strong testament for Sunway Healthcare’s deep value. Furthermore, the deal also provides investors a clear monetisation timeline via a targeted IPO. Consequently, we upgrade TP to RM1.95 and maintain MP.

GIC is injecting RM750m for 16% stake in Sunway Healthcare. Sunway announced that GIC (sovereign wealth fund of Singapore) will be injecting RM750m into Sunway Healthcare in exchange for a 16% equity stake. This equity injection will be done in 5 tranches in a span of 3.5 years (42 months) where the last tranche in expected to be injected by 4Q 2024. In this deal, GIC essentially values Sunway Healthcare at an EV (Enterprise Value) of RM4.073b implying a trailing 12-month EV/EBITDA of 31.3x.

Post deal, Sunway Healthcare will no longer be a subsidiary of Sunway but instead a Joint Controlled Entity (JCE) alongside GIC. This deal will also net Sunway an effective gain of RM2.3b (which we consider non-core) as they revalue their Healthcare portfolio.

Caveat. For their RM750m injection, GIC will require 12.5% IRR per annum. In order to achieve this, Sunway Healthcare needs to go for an IPO listing by the 8th year upon the first set of conditions precedents being met to provide GIC the option to cash out their investment. (*refer overleaf for further details*)

Overall, we are positive for three key reasons. Firstly, the EV valuations fetched in this deal is 22% higher than our ascribed EV of RM3.3b based on 25x FY22E projections. Secondly, the cash injection will help Sunway Healthcare expedite growth of its upcoming hospitals while maintaining a healthy net gearing of <0.5x. In the next 6 - 8 years prior to IPO, Sunway Healthcare is anticipated to incur a capex of c.RM2.5b to increase its existing bed count from 740 to c.3,000. Last but not least, the deal will also provide the investment fraternity a clear timeline for an eventual IPO to monetise the assets.

What kind of valuations can we expect upon IPO? Based on GIC’s required IRR of 12.5% upon IPO listing on the 31st Jan 2028 (or up to 30th Jun 2029 being the latest), we work out that the minimum market cap required for Sunway Healthcare to achieve is between RM7.3b to RM8.6b. Basically, the longer it takes for Sunway Healthcare to be listed, the higher market cap is required by GIC to meet their 12.5% IRR return requirement. In the event GIC fails to get such valuations out from the IPO listing, Sunway will have to reimburse the shortfall.

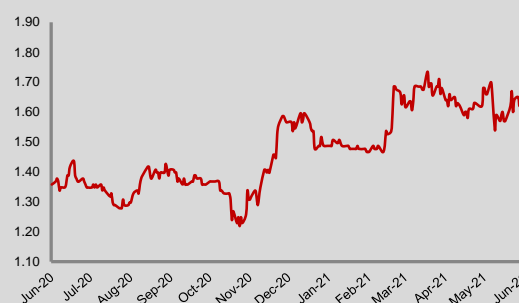
We think RM7.3b market cap is achievable. Assuming Sunway Healthcare fetches an EBITDA multiple of 18x upon listing (straddling between IHH’s 19x and KPJ’s 13x), it will require an EBITDA of c.RM450m/annum to hit the RM7.3b market cap target (or EV of RM8.0b as we assumed net debt of RM0.7b). With their current bed count of 740 already raking c.RM130m EBITDA/annum, we think the targeted EBITDA is achievable as extrapolating to 3,000 beds will provide an EBITDA of RM530m/annum.

Post deal, keep FY21/22E earnings unchanged as income dilution from the stake sale is marginal. Maintain MP with higher SoP-derived TP of RM1.95 (from RM1.77) after re-evaluating their healthcare business to 30x EV/EBITDA (from 25x). MP call maintained as we feel that current share price have largely priced in the positives.

MARKET PERFORM ↔

Price : **RM1.78**
Target Price : **RM1.95** ↑

Share Price Performance



KLCI	1,564.76
YTD KLCI chg	-3.8%
YTD stock price chg	10.6%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	SWB MK EQUITY
Market Cap (RM m)	8,702.3
Shares Outstanding	4,888.9
52-week range (H)	1.79
52-week range (L)	1.22
3-mth avg daily vol:	3,520,505
Free Float	32%
Beta	0.8

Major Shareholders

Sunway Holdings Sdn	51.4%
Sungei Way Corp Sdn	9.0%
Employees Provident	3.2%

Summary Earnings Table

FYE Dec (RM m)	2020A	2021E	2022E
Turnover	3833	4695	5470
EBIT	274	113	298
PBT	515	367	606
Net Profit	350	200	396
Core PATAMI	371	200	396
Consensus (NP)	n.a.	379	506
Earnings Revision	n.a.	0%	0%
Core EPS (sen)	6.4	3.45	6.81
Core EPS growth (%)	-41	-46	97
*NDPS (sen)	3.0	1.4	2.7
NTA per Share (RM)	1.61	1.64	1.68
Price to NTA (x)	1.1	1.1	1.1
PER (x)	27.9	51.6	26.1
Net Gearing ratio (x)	0.5	0.4	0.4
Return on Asset (%)	1.6	0.8	1.6
Return on Equity (%)	3.6	2.0	3.9
Net Div. Yield (%)	1.7	0.8	1.5

*Only cash dividend is reflected.

24 June 2021

Key transaction Terms

Key transaction terms	<p>> GIC to receive preferred dividend yield of 3%/annum based on invested amount</p> <p>> As GIC is investing based on Sunway Healthcare's strategic expansion plan , Sunway has agreed to give GIC the right to receive additional shares and a cash top up in order to meet a minimum IRR of 12.5%</p> <ul style="list-style-type: none"> - Share and cash top up is capped at 4.5% (of enlarged share capital) and USD10m respectively if IPO is completed by 31 Jan 2028 - 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 <p>> If Sunway Healthcare / Sunway Bhd default on their obligations as stipulated in the shareholders agreement, 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 IRR of 18.5%</p>
------------------------------	--

Source: Company, Kenanga Research

The 5 tranches of payments by GIC

GIC's 5 tranches of payment	Value	Payment Schedule
1st payment	RM33.88 (not million)	Upon first set of conditions
2nd payment	RM200m	later of 6 months after first set of conditions or signing
3rd payment	RM100m	18 months from signing
4th payment	RM168m	36 months from signing
5th payment	RM282m	42 months from signing
Total	RM750m	

Source: Company, Kenanga Research

Sunway's Existing Healthcare assets and upcoming ones

Status	Hospital	Number of beds
Existing	Sunway Medical Tower A,B,C	616
Existing	Sunway Medical Centre Velocity (ph1)	118 (can go up to 240)
1Q22 (Under construction)	Sunway Medical Tower D,E,F	400
2022 (Under construction)	Sunway Med Seberang Jaya	333
2023 (Under construction)	Sunway Med Kota Damansara	336
3Q23	Sunway Medical Centre Velocity (ph2)	250
Planned for 1H24	Sunway Med Ipoh	260
Planned for 2025	Kota Bharu Kelantan	200
Have not finalised timeline	Payu Terubong	120
Have not finalised timeline	Sunway City Iskandar	300
	TOTAL	3055

Source: Company, Kenanga Research

GIC's cash flow requirements in order to achieve 12.5% IRR**If Sunway Healthcare lists on 31st Jan 2028:**

	Year 0-1	Year 1-2	Year 2-3	Year 3-4	Year 4-5	Year 5-6	Year 6-7
RM m	-200	-94*	+9*	-441*	+22.5*	+22.5*	+1192.5*

> GIC needs RM1170m from IPO proceeds for their 16% - implying total market cap of RM7.3b for Sunway Healthcare

If Sunway Healthcare lists on 30th Jun 2029:

	Year 0-1	Year 1-2	Year 2-3	Year 3-4	Year 4-5	Year 5-6	Year 6-7	Year 7-8
RM m	-200	-94*	+9*	-441*	+22.5*	+22.5*	+22.5*	+1397.5*

> GIC needs RM1370m from IPO proceeds for their 16% - implying total market cap of RM8.6b for Sunway Healthcare

***Note that we have imputed in 3% dividend payments required by GIC in the cash flows**

Source: Company, Kenanga Research

24 June 2021

Sum of Parts (New)		
Segment	Value (RM m)	Valuation basis
Property Development	2,012.4	P/BV of 0.77x (-1.5 SD below mean)
Property Investment (backed by 40.9%-owned Sunway REIT)	2,526.4	Kenanga's TP of RM1.45 for SREIT + NBV of investment prop ex-SREIT
Construction (via 54.4%-owned Sunway Construction)	1,297.7	Kenanga's TP of RM1.85 for SunCon
Trading & Manufacturing	338.4	P/E of 10x on FY22 earnings
Quarry	265.4	P/E of 12x on FY22 earnings
Healthcare	4,257.0	30x on FY22 EV/EBITDA
Investment Holdings & Others	467.1	P/E of 10x on FY22 earnings
Net cash / (debt) at holding company level	(862.3)	As at 31 Dec 2019
Aggregate Valuation	10,302.0	
No of shares (m)	5,292.2	Account for partial dilution of ICPS
RNAV per share (RM)	1.95	

Source: Company, Kenanga Research

Sum of Parts (Old)		
Segment	Value (RM m)	Valuation basis
Property Development	2,012.4	P/BV of 0.77x (-1.5 SD below mean)
Property Investment (backed by 40.9%-owned Sunway REIT)	2,526.4	Kenanga's TP of RM1.45 for SREIT + NBV of investment prop ex-SREIT
Construction (via 54.4%-owned Sunway Construction)	1,297.7	Kenanga's TP of RM1.85 for SunCon
Trading & Manufacturing	338.4	P/E of 10x on FY22 earnings
Quarry	265.4	P/E of 12x on FY22 earnings
Healthcare	3,335.9	25x on FY22 EV/EBITDA
Investment Holdings & Others	467.1	P/E of 10x on FY22 earnings
Net cash / (debt) at holding company level	(862.3)	As at 31 Dec 2019
Aggregate Valuation	9,380.9	
No of shares (m)	5,292.2	Account for partial dilution of ICPS
RNAV per share (RM)	1.77	

Source: Company, Kenanga Research

24 June 2021

Income Statement						Financial Data & Ratios					
FY Dec (RM m)	2018A	2019A	2020A	2021E	2022E	FY Dec	2018A	2019A	2020A	2021E	2022E
Revenue	5410	4780	3833	4695	5470	Growth					
EBITDA	596	715	497	233	414	Revenue	3%	-12%	-20%	22%	17%
Depreciation	-125	-234	-224	-120	-116	EBITDA	-17%	20%	-30%	-53%	78%
EBIT	471	482	274	113	298	EBIT	-19%	2%	-43%	-59%	163%
Interest Expense	62	88	13	32	37	Pre-tax Income	-2%	7%	-44%	-29%	65%
Associates/JV	229	261	229	222	271	Net Income	6%	8%	-51%	-43%	97%
Exceptional Items	89	84	-21	0	0	Core Net Income	4%	10%	-41%	-46%	97%
PBT	851	914	515	367	606	Profitability					
Taxation	-122	-78	-102	-55	-91	EBITDA Margin	11%	15%	13%	5%	8%
MI/Perps	-70	-69	-43	-60	-68	EBIT Margin	9%	10%	7%	2%	5%
Net Profit	659	712	350	200	396	PBT Margin	16%	19%	13%	8%	11%
Core Net Profit	570	629	371	200	396	Net Margin	12%	15%	9%	4%	7%
						Core Net Margin	11%	13%	10%	4%	7%
						Effective Tax Rate	-14%	-9%	-20%	-15%	-15%
						ROE	8%	7%	4%	2%	4%
						ROA	3%	3%	2%	1%	2%
						DuPont Analysis					
						Net margin (%)	12%	15%	9%	4%	7%
						Assets Turnover (x)	0.3	0.2	0.2	0.2	0.2
						Leverage Factor (x)	2.5	2.5	2.4	2.4	2.4
						ROE (%)	8%	7%	4%	2%	4%
						Leverage					
						Debt/Asset (x)	0.4	0.4	0.4	0.4	0.4
						Debt/Equity (x)	1.0	1.0	1.0	0.9	0.9
						Net Debt/(Cash)	3764	3679	3614	3313	3002
						Net Debt/Equity (x)	0.5	0.4	0.5	0.4	0.4
						Valuations					
						Core EPS (sen)	9.8	10.8	6.4	3.4	6.8
						FD Core EPS (sen)	10.3	11.3	6.7	3.6	7.1
						NDPS (sen)	4.6	7.7	3.0	1.4	2.7
						BV/share (RM)	1.46	1.64	1.67	1.69	1.73
						Core PER (x)	18.2	16.5	27.9	51.6	26.1
						FD Core PER (x)	17.3	15.7	26.6	49.2	24.9
						Net Div. Yield (%)	3%	4%	2%	1%	2%
						PBV (x)	1.22	1.08	1.06	1.05	1.03
						EV/EBITDA (x)	23.5	19.6	28.2	60.2	33.9
Balance Sheet											
FY Dec (RM'm)	2018A	2019A	2020A	2021E	2022E						
Fixed Assets	10921	10160	10310	10460	9741						
Intangibles	332	332	332	332	332						
Other FA	599	1898	2255	2644	3068						
Inventories	1858	2102	1793	2074	2327						
Receivables	1946	1987	1671	1959	2218						
Other CA	297	1185	1185	1185	1185						
Cash	5134	5889	5753	5354	5741						
Total Assets	21086	23553	23299	24007	24611						
Payables	2423	2632	2360	2608	2830						
ST Borrowings	6057	8025	7775	7000	7000						
Other ST Liabilities	239	221	221	221	221						
LT Borrowings	2841	1543	1593	1668	1743						
Other LT Liabilities	421	958	958	1938	1938						
MI/Perps	620	631	674	735	802						
Net Assets	8485	9543	9718	9838	10076						
Share Capital	5379	5394	5394	5394	5394						
Reserves	3105	4149	4324	4445	4682						
Shareh. Equity	8485	9543	9718	9838	10076						
Cashflow Statement											
FY Dec (RM'm)	2018A	2019A	2020A	2021E	2022E						
Operating CF	1191	828	957	27	475						
Investing CF	-1145	-1933	-730	-659	-116						
Financing CF	1232	666	-362	232	-121						
Change in Cash	1278	-439	-135	-399	238						
Free Cash Flow	2322	544	686	-187	449						

Source: Kenanga Research

24 June 2021

Peer Comparison

Name	Last Price (RM)	Market Cap (RM'm)	Shariah Compliant	Current FYE	PER (x) - Core Earnings			PBV (x)		ROE (%)		Net Div Yld (%)	Target Price	Rating
					Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.			
<u>STOCKS UNDER COVERAGE</u>														
ECO WORLD DEVELOPMENT GROUP	0.675	1,987.4	Y	10/2021	8.4	8.4	7.5	0.4	0.4	5.1%	3.1%	0.660	MP	
IOI PROPERTIES GROUP BHD	1.26	6,937.7	Y	06/2021	11.3	10.2	10.0	0.4	0.4	3.7%	2.4%	1.32	MP	
MAH SING GROUP BHD	0.865	2,100.0	Y	12/2021	61.8	13.1	9.8	0.6	0.6	5.3%	3.5%	1.05	OP	
MALAYSIAN RESOURCES CORP BHD	0.440	1,965.7	Y	12/2021	N.A.	33.8	29.3	0.4	0.4	0.2%	2.3%	0.650	OP	
SIME DARBY PROPERTY BHD	0.620	4,216.5	Y	12/2021	N.A.	14.8	10.7	0.5	0.4	3.0%	2.1%	0.610	MP	
SP SETIA BHD	1.08	4,381.3	Y	12/2021	88.5	17.8	8.6	0.4	0.4	1.8%	3.5%	1.19	OP	
SUNWAY BHD	1.78	8,702.3	Y	12/2021	29.2	51.6	26.1	0.9	0.9	2.1%	0.8%	1.95	MP	
UEM SUNRISE BHD	0.415	2,099.3	Y	12/2021	N.A.	55.3	34.7	0.3	0.3	0.5%	0.0%	0.400	UP	
UOA DEVELOPMENT BHD	1.71	3,631.6	Y	12/2021	11.4	12.2	11.4	0.7	0.7	3.2%	7.6%	1.76	MP	
Simple Average					35.1	24.1	16.5	0.5	0.5	2.8%	2.8%			

Source: Bloomberg, Kenanga Research

24 June 2021

Stock Ratings are defined as follows:**Stock Recommendations**

OUTPERFORM	: A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM	: A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM	: A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT	: A particular sector's Expected Total Return is MORE than 10%
NEUTRAL	: A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT	: A particular sector's Expected Total Return is LESS than -5%

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

This document has been prepared for general circulation based on information obtained from sources believed to be reliable but we do not make any representations as to its accuracy or completeness. Any recommendation contained in this document does not have regard to the specific investment objectives, financial situation and the particular needs of any specific person who may read this document. This document is for the information of addressees only and is not to be taken in substitution for the exercise of judgement by addressees. Kenanga Investment Bank Berhad accepts no liability whatsoever for any direct or consequential loss arising from any use of this document or any solicitations of an offer to buy or sell any securities. Kenanga Investment Bank Berhad and its associates, their directors, and/or employees may have positions in, and may effect transactions in securities mentioned herein from time to time in the open market or otherwise, and may receive brokerage fees or act as principal or agent in dealings with respect to these companies.

Published and printed by:

KENANGA INVESTMENT BANK BERHAD (15678-H)

Level 17, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia
Telephone: (603) 2172 0880 Website: www.kenanga.com.my E-mail: research@kenanga.com.my

