

The transformation continues at Sunway, more than eight years after mega merger

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Sunway Bhd has grown by leaps and bounds since it was established, the result of a merger between Sunway City Bhd and Sunway Holdings Bhd more than eight years ago.

Not only has its net profit more than doubled over the eight-year period to Dec 31, 2018, but Sunway today has also become a more diversified conglomerate.

The group's businesses in Malaysia continue to do well and are expected to grow further, but it has also set its sights on China, where it seeks future expansion, especially in the property development business.

Group president Datuk Chew Chee Kin says the group has set a target for China's turnover to match Malaysia's within the next five to six years. "Maybe one day, we will have a higher gross development value (GDV) in China than in Malaysia. The market is so big, it is an ocean. So, if we give it more attention, it will grow," he says in an exclusive interview with *The Edge*.

In the nine-month period ended Sept 30, 2019, Sunway's businesses in China contributed a mere 3.2% to its revenue of RM3.43 billion. Its Malaysian businesses contributed almost 90%.

However, as China's property developers are some of the world's largest, can Sunway steal a slice of the pie? Or will it be a sliver, given Sunway's property sales of around RM1 billion annually against those of the Chinese behemoths, which probably achieve 10 times more?

Chew indicates that a lot will boil down to market knowledge and being location-focused, particularly in second-tier Chinese cities, rather than the first tier.

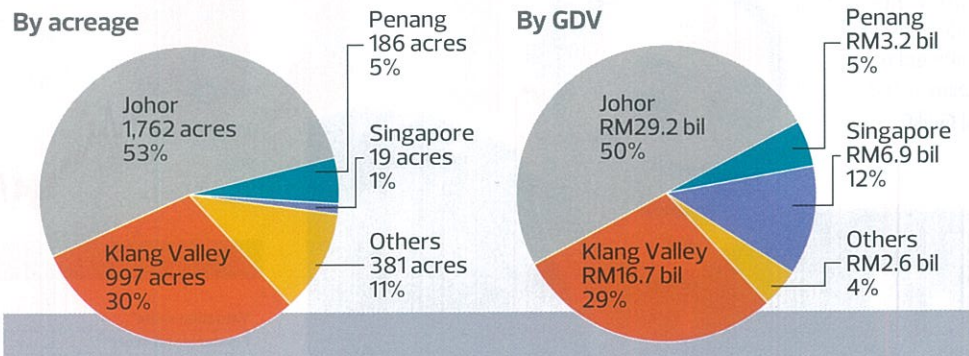
"We will have to know the market and the demand. So, we will probably focus on a few places like Tianjin and Zhuhai — those places that we know quite well.

"We will go into other towns and cities if we find good opportunities, but these are the places that we know. We know the market, the price, the costs... So, it is very predictable."

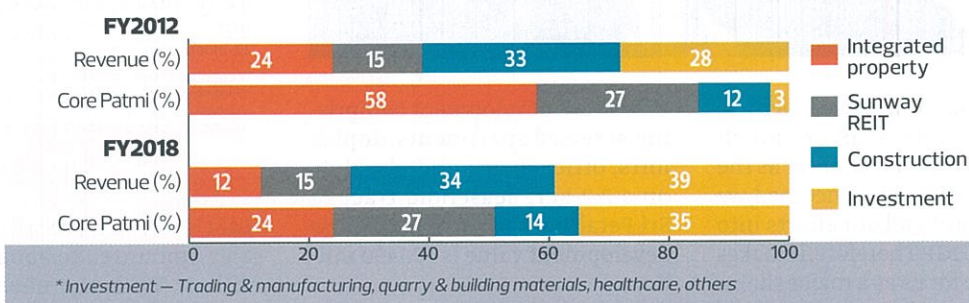
Land prices in first-tier cities such as Shanghai and Shenzhen are too prohibitive for a company of Sunway's size, he says. In any event, China's property giants have a strong foothold in these cities.

At last Thursday's closing price of RM1.80, Sunway was valued at RM8.88 billion. Together with the combined market value of Sunway Construction Group Bhd and Sunway Real Estate Investment Trust, the Sunway Group's market capitalisation

Sunway's remaining land bank



Diversification of Sunway's businesses (FY2012 to FY2018)



is about twice as much at RM16.5 billion.

In Tianjin, both phases of condominium development Sunway Gardens, with a GDV of RM990 million, are sold out. On Sept 12 last year, the group acquired a 6.85-acre leasehold parcel in the city for RM438 million and is proposing to develop seven blocks of condominiums with a GDV of about RM1.3 billion.

Property development aside, Sunway also has manufacturing businesses in China and currently manufactures undercarriages for heavy machinery such as bulldozers and excavators as well as hydraulic fittings.

Dancing in time to the music

Success over the past eight years has not come easy, given the myriad challenges, not least of which are the slowing property market and heightened competition in construction.

But the group knows that if it does not prepare itself now, the future will be even more daunting.

With e-commerce strongly on the ascent, and millennials more inclined to rent than buy property, what can Sunway do to prepare itself for the future?

"We are watching very carefully these disruptions. But, you see, even if you are a

good dancer, it is not good if you dance too fast or too slow. You have to dance according to the music," says Chew.

He adds that while Sunway is prepared to digitalise its malls to take advantage of the e-commerce revolution, the pace of digitalisation has to be in line with the readiness of the domestic market.

For Chew, the Malaysian market is not yet ready for a totally digitalised mall experience such as in China as, even though the adoption of e-commerce and digital payments has been encouraging, the pace cannot match China's.

Nevertheless, Sunway is seizing opportunities in the digital economy space. The group has applied for a digital banking licence and it is also exploring opportunities with Tencent Holdings to create a super app.

In retail digitalisation, Sunway supports e-commerce through PopBox, an automated parcel locker that allows users to send, receive and return a parcel conveniently.

It has also set up a remittance business called Sunway Money, a completely online licensed remittance service that provides seamless cross-border money transfer at low processing fees.

To encourage customers to shop at its malls, Sunway Pals — a loyalty-based digital reward system that gives its users points and other special privileges on their spending at Sunway's merchant businesses — was established.

The group is also involved in the development of start-up ecosystems through iLabs, a programme that connects digital and technological innovators and entrepreneurs with investors and other supporting agents.

According to Sunway chief financial officer Chong Chang Choong, the disruptive trend could provide opportunities for the group to win market share or take advantage of the situation, so long as it can navigate the trend better than others.

"Just like the property market slowdown over the last few years, the group was fortunate that it was quite disciplined in land acquisitions a few years ago. We basically did very thorough analysis to see whether some of the land put up for sale would actually give attractive returns.

"Although some [land parcels] really clearly do not have a good case, the next thing we know, our peers have bought them up even at higher prices. So, of course, when the property market downturn sets in, these people would have cash flow problems," he observes.

This presents an opportunity for Sunway, as there will be less competition when potential land bank comes on the market in the future, placing the group in a much stronger position to capture a bigger slice of the market.

"That is why over the last couple of years, we have kept busy building up our strategic land bank in the Klang Valley, rather than launching," says Chong. In 2019, Sunway acquired 37.92 acres in the Klang Valley with a total potential GDV of RM1.64 billion.

Less affected by oversupply of properties

At present, Sunway has more than 3,300 acres of land bank, with an estimated GDV of RM58.6 billion. These parcels will be developed over a period of 15 years.

Almost half of the land bank, in GDV terms, is located in Johor — the state hardest hit by the property glut.

Nevertheless, Chew is confident of Sunway's strategy in Johor, which is to develop economic activities through retail, educational and medical facilities in Sunway Iskandar — its township development that straddles Medini and Pendas in Iskandar Malaysia.

He points to the success of Sunway City in Petaling Jaya, which has more than 35,000 students, to underline his point. "We have

Unlocking the value of the healthcare business

Sunway Bhd knew early on that to build a vibrant township, it needed to create economic activities. One such activity that it has managed to grow over the years is the healthcare business.

Although the healthcare business was not the main thrust of Sunway's businesses for most of its over four decades of history — the company is more known for property development and construction — that will soon change with the development of a few Sunway medical centres.

At the moment, Sunway operates two hospitals — the Sunway Medical Centre in Sunway City and Sunway Medical Centre Velocity in Cheras. Combined, these two hospitals have over 870 beds and offer specialised treatments in the area of cancer and radiosurgery, nuclear medicine

and digestive health, among others.

The group is currently developing three hospitals, which will add another 630 beds to its capacity. These are the Sunway Medical Centre Seberang Jaya in Penang, Sunway Medical Centre Damansara and Sunway Medical Centre Ipoh.

The importance of its healthcare business is more apparent from the contribution of the business to Sunway's overall profitability throughout the years.

In FY2012, contribution from its investment segment, which housed the healthcare business, to the group's profit after tax and minority interest (Patmi) was only 3%. In FY2018, this had grown to 35%, out of a Patmi of RM658.99 million.

Asked whether Sunway will continue to

expand its healthcare business, group president Datuk Chew Chee Kin says definitely.

"We started with one hospital, tried to do it with just one, just kept on improving until we had more or less perfected the model before we grew out. It is just like building a prototype; you need to perfect it and then you build a second and third before you mass produce.

"So right now, we think that we have perfected the healthcare business model at Sunway Medical Centre in Sunway City, and we are starting out at our second hospital in Velocity in Cheras. We are doing more hospitals," says Chew during an exclusive interview with *The Edge* last month.

Of course, a top-notch hospital does not come

cheap. As a general rule of thumb, a hospital's capital expenditure is RM1.3 million to RM1.4 million per bed, says Sunway chief financial officer Chong Chang Choong.

"Let's say you want to build another 1,000 beds, then it will cost you between RM1.3 billion and RM1.4 billion. If you want to build 2,000 beds, you double the same number. But of course this will be spread over a five-year period.

"So let's say even if it is RM2 billion capex, over five years, it is RM400 million per year. I think this is a very comfortable capex plan for the group," says Chong during the interview.

The expansion of Sunway's healthcare business has fuelled talks of the group spinning off the business through an initial public offering