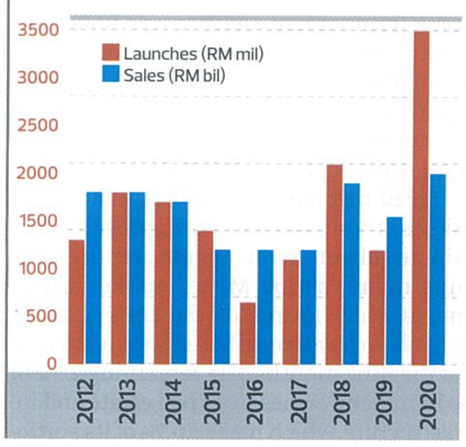
SunCon holds steady despite tough environment

Sunway's property launches and sales trend (2012 to 2020)

SUNWAY



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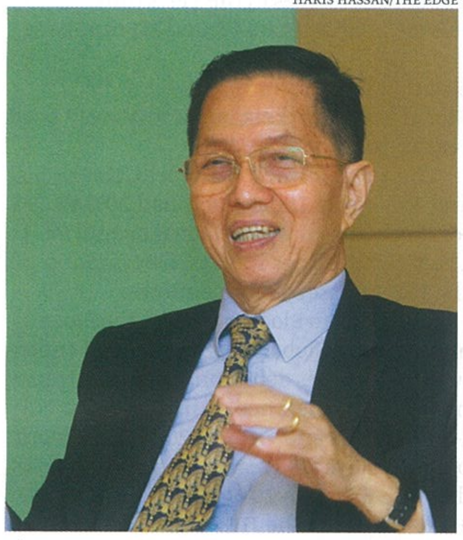

Chew: Maybe one day, we will have a higher GDV in China than in Malaysia

started the international school and we are going to start the accounting programmes there next year. Education is an economic activity, as it brings population into an area."

Sunway's educational institutions are expected to attract a student population of 1,000 to the township in Johor. In retail, the group has already built the Big Box Retail Park — a mall with 500,000 sq ft of net lettable area in Sunway Iskandar — and plans to build a medical centre as the township matures.

However, Chew admits that the development of Sunway Iskandar will take longer than its other projects. It is forecast to take 15 years to be fully developed because of the slower absorption rate of properties in the area.

Over the last eight years, Sunway's profit has more than doubled, from RM369.7 million in the financial year ended December 2011 to RM658.99 million at end-December 2018.

Can it repeat the achievement and at least double its net profit within the next eight years? E

One sector that can be said to have been impacted the most by the change in government in 2018 is construction. The fate of some mega infrastructure projects hung in the balance after the Pakatan Harapan government decided to review them.

Despite the challenging times, Sunway Construction Group Bhd (SunCon) — Sunway Bhd's 54%-owned subsidiary — continued to perform. In FY2018, its net profit grew 9% year on year to RM144.69 million and it managed to retain most of the contracts it had secured prior to GE14.

According to Sunway president Datuk Chew Chee Kin, apart from having a strong parent, SunCon's ability to maintain its profitability is due to its use of technology in its construction works.

"One of our strengths is that we have what we call a virtual design and construction modelling system. Every time we take up a job, we do computer simulation on how the work will be done. So we know how the work will go, what the problems will be and how long it will take for the job to be completed," he explains.

SunCon's services — ranging from civil infrastructure construction and foundation and geotechnical engineering to mechanical, electrical and plumbing engineering — are fully integrated. With these capabilities, the company is able to prioritise projects that are higher up the value chain, Chew points out.

"In fact, quite a number of internal jobs did not go to SunCon because though we have the capacity, there is also a limit. We don't want to do straightforward jobs. We are particularly good at jobs that are complicated, which is where the computer virtual design simulation comes in.

"So, even if it is an in-house job, if the margins are very low, we will not give it to SunCon unless it doesn't have enough jobs in hand," says Chew, adding that on average, internal jobs make up only 25% to 30% of SunCon's orders in a year.

As at Sept 30, 2019, SunCon's outstanding order book stood at RM5.6 billion, some 62% of which comprised external jobs, such as LRT3 Package GS07-08, MRT2 Package V201 and S201, Putrajaya Parcel F and the construction of Tenaga Nasional Bhd's new headquarters.

The company's outstanding tenders stand at about RM7.4 billion, an estimated 40% of which are for international projects. According to Sunway, SunCon is well positioned to support specialised projects, including in the hospital, aerospace and renewable energy sectors.

This year, SunCon is targeting to replenish its order book with RM2.25 billion worth of jobs, which is higher than the RM1.8 billion worth of jobs it secured last year. However, says Chew, SunCon does not want to strain its capacity.

"Our current capacity is for construction jobs worth RM2.5 billion a year. If we step it up to RM3 billion, for example, then we must replenish RM3 billion each year. We think that is not practical at the moment.

"We only want to do between RM2.2 billion and RM2.5 billion worth of jobs a year, sometimes less. We could step up our capacity but then we must be able to sustain it. We also don't want to accept too many orders and then don't deliver on time," he points out.

SunCon's plan for geographical diversification is focused on Southeast Asia and India, leveraging its extensive experience and the knowledge of its experienced local partners.

In Myanmar, SunCon has tied up with the construction division of Capital Diamond Star Group, one of the country's most respected and prominent conglomerates. In India, it is bidding for a few highway projects with a local partner and will capitalise on its previous experience in that market.

In Singapore, the company is building a fully automated precast plant to fulfil anticipated supply and is also exploring piling projects.

Last Thursday, SunCon closed at RM1.81, valuing the company at RM2.34 billion. Its share price has been trending downwards over the last six months after reaching a peak of RM2.20 on July 29 and 31 last year.

Hong Leong Investment Bank has ascribed a target price of RM2.30 to SunCon, putting its valuation at 20 times FY2020 forecast earnings.

SUNWAY

Construction order book for SunCon (as at Sept 30, 2019)

	CONTRACT SUM (RM MIL)	OUTSTANDING (RM MIL)
Infrastructure/piling		
LRT3: Package GS07-08	2,178	1,817
MRT2 Package V201 & S201 (Sungai Buloh – Persiaran Dagang)	1,213	205
Sentul West Station	57	57
Piling works	227	87
Building		
Putrajaya Parcel F	1,610	34
PPA1M Project Kota Bharu	582	107
Shah Alam Warehouse	70	17
TNB HQ Campus	781	739
Petronas Leadership Centre	310	307
Oxley Tower	68	68
IOI Mall MEP Works	68	68
Internal		
Sunway Medical Centre 4	512	401
Sunway Iskandar – Big Box Hotel	100	87
Sunway Serene – Serviced residences	449	281
Sunway Geo Lake	223	118
Sunway Carnival Extension	286	234
Sunway Medical Centre Seberang Jaya	180	154
Sunway Velocity TWO (Plot A Project)	352	312
Sunway Velocity 3C4	100	83
Sunway South Quay CP2	119	114
BB Solar	8	8
Singapore		
Precast plant	451	321
Total	**9,942**	**5,619**

SUNWAY

Indicative launches of Sunway's property projects in 2020

PROJECT	PRODUCT TYPE	LOCATION	GDV (RM MIL)
Sunway Avila Retail	Retail shops	Wangsa Maju, Kuala Lumpur	31
Sunway Velocity TWO (Tower C)	Serviced apartments	Jalan Peel, Kuala Lumpur	300
Sunway Belfield	Serviced apartments	Jalan Belfield, Kuala Lumpur	360
Sunway Valley City	Shops and offices	Paya Terubong, Penang	250
Sunway Maple Residence	Townhouses	Sunway City Iskandar	100
Parc Canberra, Canberra	Executive condominium	Singapore	560
Ki Residence, Clementi	Private condominium	Singapore	1,000
Park Residence, Tampines	Executive condominium	Singapore	880
Total			**3,481**

(IPO). However, Chong says to unlock the value of the healthcare business, the IPO route is not the only option.

Besides a direct spin-off through a public listing, there is also the private equity (PE) route that Sunway can look at to unlock the value of the healthcare business, he says.

"The PE space is also very dynamic, and it's flush with money. So, to be frank, every day we get inquiries from the PE guys because they clearly recognise how the Sunway Medical Group has grown, and the prominence of it has attracted a lot of attention from the industry," says Chong.

Indeed, PE firms have been active in acquiring hospitals throughout Asia. Last September, renowned PE firm TPG together with the Hong Leong Group acquired 17 Columbia Asia hospitals in Malaysia, Indonesia and Vietnam for US$1.2 billion (RM4.9 billion).

When Columbia Asia started a formal sale process early last year for its assets, it drew non-binding bids from a number of private investment funds, including KKR & Co, CVC Capital Partners and The Carlyle Group, besides the bid from TPG and Hong Leong.

Last October, KKR, together with Government of Singapore Investment Corporation (GIC), acquired a 42.5% stake in the Philippines' Metro Pacific Investments Corporation's healthcare unit for US$684.5 million.

The valuations for these deals are also on the high side. At US$1.2 billion for 1,500 beds across three countries, Columbia Asia's Southeast Asian operation that was acquired by TPG and the Hong Leong Group was valued at roughly US$800,000 per bed.

Meanwhile, KKR and GIC's bid for a stake in Metro Pacific's hospitals in the Philippines valued the venture at US$1.61 billion. Metro Pacific operates 3,200 beds across 14 hospitals in the country, valuing the deal at around US$500,000 per bed.

"I think these deals will be very good benchmarks for the valuation of Sunway's healthcare business. I think Columbia Asia was bought at 24 times Ebitda (earnings before interest, taxes, depreciation, and amortisation) while valuation on acquisition cost per bed was close to RM3 million to RM4 million," says Chong.

Using the Metro Pacific and Columbia Asia deals as the low and top benchmarks, the two Sunway medical centres currently in operation could be valued at between US$435 million and US$696 million.

Including the three hospitals that are being built in Penang, Damansara and Ipoh, Sunway's healthcare business could fetch a valuation of US$1.2 billion.

However, should Sunway's healthcare business be valued at the same level as Columbia Asia?

Sunway Medical Centre is the first Australian Council on Healthcare Standards-accredited hospital in Southeast Asia. It also has a collaboration with the University of Cambridge and Royal Papworth Hospital on clinical service, research and training.

Sunway Medical Centre also collaborates with Harvard Medical School in the Southeast Asia Healthcare Leadership (SEAL) programme for emerging healthcare leaders.

The healthcare group was a joint winner for the Asia Pacific Healthcare and Medical Tourism Awards 2019 in the medical tourism hospital of the year in Asia Pacific category, together with Thailand's Bumrungrad International Hospital.