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MARC assigns A plus rating to Sunsuria's RM500m Sukuk

CORPORATE NEWS

Wednesday, 07 Oct 2020

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The rating agency said Sunsuria's profitability is mainly derived from its Sunsuria City development, which was launched in 2015 and still has an estimated gross development value (GDV) of about RM6.3bil. It is earmarked to be completed by end-2032.

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KUALA LUMPUR: Malaysian Rating Corporation Bhd (MARC) has assigned a preliminary rating of A+IS to Sunsuria Bhd 's proposed RM500mil Sukuk Wakalah programme. The rating outlook is stable.

In a statement issued on Wednesday, it said the assigned rating was based on Sunsuria's moderate business and financial risk, underpinned by low leverage and a healthy liquidity position.

"The rating is constrained by the impact from challenging market conditions on domestic property demand which will likely be worsened by the current economic conditions.

"The stable outlook assumes that Sunsuria will maintain its balanced approach to property development and manage its financial profile within expectations, in particular its debt metrics with a projected leverage of below 0.5 times post initial issuance, " it said.

Sunsuria is a mid-size property developer and its main development is the 375-acre Sunsuria City township in Salak Tinggi, Selangor.

MARC said Sunsuria remains focused on property development projects within the Klang Valley over the near term.

The rating agency said Sunsuria's profitability is mainly derived from its Sunsuria City development, which was launched in 2015 and still has an estimated gross development value (GDV) of about RM6.3bil. It is earmarked to be completed by end-2032.

Developed with Xiamen University Malaysia as the centrepiece of the township with good connectivity provided by the Express Rail Link and surrounding highways, Sunsuria City's phases have generally received above average response; however, it recorded low take-up rates for recent launches, including for units in the Monet Garden development which is targeted at foreigners, following a change in regulations on foreign property ownership.

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Its Forum II development in Setia Alam, Selangor, comprising high-rise residential and commercial development, also recorded slower take-up rate save for its small office-home office (SoHo) units, reflecting the prevailing weak property market sentiment.

MARC views that the subdued response would lead to an inventory build-up within the next one to three years upon completion of the group's ongoing developments, which would weigh on its working capital.

As at end-June 2020, its inventory level stood at a low RM32.2mil. Due to its strong property margins, owing to low property development costs, the group has the wherewithal to reduce its selling prices to support sales, which would help prevent a substantial inventory build-up.

As at end-June 2020, the group has a gross development value (GDV) of RM1.9bil for ongoing developments, 46% of which is within Sunsuria City.

Over the near term, new developments in Bangsar (high-rise residential units) and Lorong Tuanku Abdul Rahman (wholesale and retail units), in which Sunsuria will acquire a 51% effective equity interest in each, will be its main focus.

Their matured locations and proximity to the city centre will mitigate market risks. The proposed acquisitions totalling about RM100mil will be funded by part proceeds from the initial issuance under the proposed sukuk programme.

MARC also pointed out Sunsuria's operating profit margin for the past five years remained healthy at an average of about 34%, attributable to its ability to manage developments internally, including construction works and material procurement.

Operating profit before interest and tax (OPBIT) interest coverage has remained strong at 5.0 times.

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"Going forward, the group's operating profit is expected to be supported by unbilled sales of RM462mil as at end-June 2020 (9MFY2020). Group borrowings stood at a low RM255.2mil, providing gross debt-to-equity ratio of 0.25 times.

Its cash flow from operations, which stood at RM114.5mil as at end-June 2020, could moderate over the medium term on the back of staggered project launches and a lower average take-up rate. Its healthy cash balance of RM254.9mil, coupled with unutilised credit facilities of RM131.7mil would support its construction requirement needs over the next 12 months.

TAGS / KEYWORDS:

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