26 November 2021

Out think. Out perform.

AFFIN HWANG INVESTMENT BANK

Results Note

RM1.68 @ 25 November 2021

"9M21 results were within expectations"

Share price performance

	1M	3M	12M
Absolute (%)	-6.7	-5.1	29.2
Rel KLCI (%)	-2.3	-1.8	36.0

	BUY	HOLD	SELL
Consensus	8	4	-

Stock Data

Sector	Property
Issued shares (m)	4,889.1
Mkt cap (RMm)/(US$m)	8213.6/1943.1
Avg daily vol - 6mth (m)	2.5
52-wk range (RM)	1.3-1.82
Est free float	25.7%
Stock Beta	0.73
Net cash/(debt) (RMm)	(5,532.00)
ROE (2021E)	2.9%
Derivatives	Yes
Shariah Compliant	Yes
FTSE4Good Constituent	Yes
FBM EMAS (Top 200)	Top 25%
ESG Rank	
ESG Risk Rating	13.6 (-6.5 yoy)

Key Shareholders

Sungei Way Corp	56.9%
EPF	8.4%
Active Equity	3.2%
AIA	2.8%

Source: Bloomberg, Affin Hwang, ESG Risk Rating Powered by Sustainalytics, Bursa Malaysia

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Sunway (SWB MK)

BUY (maintain)
Up/Downside: +36.9%

Price Target: RM2.30
Previous Target (Rating): RM2.30 (BUY)

Sustained recovery

- **Sunway's core earnings saw a strong rebound, up 74% yoy to RM224m in 9M21, mainly driven by higher earnings for its property development, trading/manufacturing and healthcare segments**
- **The results were within market and our expectations. Core earnings saw sustained recovery, up 18% qoq and 24% yoy to RM90.6m in 3Q21**
- **We continue to like Sunway as a proxy for an economic recovery in 2022. We reiterate our BUY call with a higher 12-month target price (TP) of RM2.30, based on 20% discount to RNAV**

Results within expectations

Core net profit of RM224m (+74% yoy) comprises 74-77% of market consensus full-year forecast and our previous estimate of RM292-302m. Revenue grew 19% yoy to RM3.05bn in 9M21, driven by higher revenue for most segments except property investment division (-38% yoy). The full lockdown adversely impacted its leisure and hospitality businesses. PBT increased 13% yoy to RM280m in 9M21, driven by the higher revenue and lower interest expense.

Recovery in property development earnings

The star performers were its property development, trading and manufacturing, health care businesses in 9M21. Strong property development (+27% yoy) and trading (+114% yoy) earnings growth was mainly driven by higher revenue and PBT margins. The healthcare segment saw a strong turnaround to a PBT of RM71m in 9M21 compared to a RM5m loss in 9M20 on the back of a higher number of hospital admissions and outpatient treatments. However, the property investment segment incurred a pre-tax loss of RM45m in 9M21 compared to RM52m in 9M20 due to the pandemic lockdowns adversely impacting its hospitality and leisure businesses and the absence of one-off gain from the re-measurement of leases in 9M20.

Strong property sales

Sunway achieved high property sales of RM2.17bn (effectively sales of RM2.08bn) in 9M21 and is likely to meet its revised target sales of RM2.8bn (effectively target sales of RM2.2bn) in 2021. About 64% of sales were from its Singapore projects. High unbilled sales of RM3.83bn (effective unbilled sales of RM3.38bn) and construction order book of RM4.7bn will support earnings in 2021-23E. We trim FY21-23E core EPS by 1-2% to reflect weaker property investment performance.

Remains a top sector BUY

We like Sunway for an economic recovery play and unlocking value in its healthcare business via the proposed disposal of a 16% stake to GIC for RM750m. Sunway remains a top sector BUY with 12-month TP of RM2.30, based on 20% discount to RNAV. Key downside risk is a slow recovery in its hospitality business.

Earnings & Valuation Summary

FYE 31 Dec	2019	2020	2021E	2022E	2023E
Revenue (RMm)	4,780.4	3,833.3	4,220.5	4,510.2	4,808.9
EBITDA (RMm)	776.1	500.7	539.9	678.9	783.6
Pretax profit (RMm)	865.3	509.3	411.3	614.0	724.3
Net profit (RMm)	709.2	359.6	290.4	440.0	519.4
EPS (sen)	14.5	7.2	5.9	9.0	10.6
PER (x)	11.6	23.2	28.3	18.7	15.8
Core net profit (RMm)	636.4	402.1	295.3	440.0	519.4
Core EPS (sen)	13.1	8.1	6.0	9.0	10.6
Core EPS growth (%)	10.6	(37.9)	(25.4)	49.0	18.1
Core PER (x)	12.9	20.7	27.8	18.7	15.8
Net DPS (sen)	9.1	1.5	4.5	5.0	5.5
Dividend Yield (%)	5.4	0.9	2.7	3.0	3.3
EV/EBITDA	18.0	27.2	25.2	20.5	18.0
Chg in EPS (%)			(2.3)	(0.8)	(0.5)
Affin/Consensus (x)			1.0	0.9	0.9

Source: Company, Affin Hwang estimates

Fig 1: Results comparison

FYE 31 Dec (RMm)	3Q20	2Q21	3Q21	QoQ % chg	YoY % chg	9M20	9M21	YoY % chg	Comment
Revenue	**1,027**	**968**	**1,065**	***10***	***4***	**2,555**	**3,050**	***19***	Higher revenue for all divisions except property investment division. Its leisure & hospitality businesses were affected by the pandemic lockdowns.
Op costs	(878)	(873)	(918)	*5*	*5*	(2,195)	(2,706)	*23*	
EBITDA	**150**	**95**	**147**	***55***	***(1)***	**360**	**344**	***(4)***	`
EBITDA margin (%)	*14.6*	*9.8*	*13.8*	*4.0ppt*	*(0.7ppt)*	*14.1*	*11.3*	*(2.8ppt)*	
Depn and amort	(56)	(53)	(55)	*4*	*NA*	(177)	(161)	*(9)*	
EBIT	**94**	**43**	**93**	***118***	***(1)***	**184**	**183**	***(0)***	
EBIT margin (%)	*9.1*	*4.4*	*8.7*	*4.3ppt*	*(0.4ppt)*	*7.2*	*6.0*	*(1.2ppt)*	
Interest income	34	46	44	*(4)*	*28*	118	128	*8*	
Interest expense	(42)	(26)	(34)	*32*	*(20)*	(148)	(84)	*(43)*	
Associates	28	23	21	*(8)*	*(27)*	66	67	*1*	Maintained Singapore and China property development earnings.
Forex gain (losses)	2	1	2	*156*	*19*	0	5	*7,900*	
Exceptional items	41	(7)	(12)	*69*	*(129)*	29	(19)	*(166)*	
Pretax profit	**156**	**79**	**114**	***44***	***(27)***	**249**	**280**	***12***	PBT growth driven by higher property development, trading/manufacturing and healthcare earnings.
Tax	(25)	(8)	(19)	*138*	*(26)*	(57)	(43)	*(24)*	
Tax rate (%)	*19.6*	*14.0*	*20.1*	*6.1ppt*	*0.5ppt*	*31.3*	*20.4*	*(11.0ppt)*	
Minority interests	(15)	(1)	(14)	*2,267*	*(8)*	(34)	(27)	*(21)*	
Net profit	**116**	**71**	**81**	***15***	***(30)***	**158**	**210**	***33***	Within expectations.
EPS (sen)	2.5	1.2	1.4	*15*	*(45)*	3	4	*11*	
Core net profit	**73**	**77**	**91**	***18***	***24***	**129**	**224**	***74***	Within expectations. Exclude exceptional items.

Source: Affin Hwang, Company

Fig 2: Segmental revenue breakdown

FYE 31 Dec (RMm)	3Q20	2Q21	3Q21	QoQ % chg	YoY % chg	9M20	9M21	YoY % chg
Ppty dev	103.4	147.4	197.1	*33.7*	*90.5*	310.8	441.6	*42.1*
Ppty inv	98.1	62.3	58.0	*(7.0)*	*(40.9)*	287.9	179.0	*(37.8)*
Construction	255.0	218.1	192.7	*(11.6)*	*(24.5)*	565.6	732.1	*29.4*
Trading	231.0	198.9	186.4	*(6.3)*	*(19.3)*	566.3	609.9	*7.7*
Quarry	105.6	70.5	84.3	*19.7*	*(20.1)*	211.6	232.0	*9.6*
Other	234.1	270.8	346.5	*28.0*	*48.0*	613.1	855.1	*39.5*
Total	**1,027.2**	**967.9**	**1,065.0**	***10.0***	***3.7***	**2,555.3**	**3,049.7**	***19.3***

Source: Affin Hwang, Company

Fig 3: Segmental PBT breakdown

FYE 31 Dec (RMm)	3Q20	2Q21	3Q21	QoQ % chg	YoY % chg	9M20	9M21	YoY % chg
Ppty dev	16.9	22.9	44.6	*95.2*	*164.6*	69.7	88.2	*26.5*
Ppty inv	60.5	(16.0)	(12.3)	*(23.3)*	*(120.3)*	51.9	(45.2)	*NA*
Construction	37.0	8.6	21.4	*147.5*	*(42.3)*	66.1	57.7	*(12.8)*
Trading	7.2	10.0	6.7	*(33.1)*	*(7.2)*	13.5	28.8	*114.4*
Quarry	7.7	(0.5)	2.5	*NA*	*(67.8)*	9.2	5.0	*(45.7)*
Other	27.1	54.1	51.0	*(5.7)*	*88.4*	38.6	145.5	*277.4*
Total	**156.3**	**79.0**	**113.8**	***44.1***	***(27.2)***	**248.9**	**280.0**	***12.5***

Source: Affin Hwang, Company

Fig 4: Segmental PBT margin

FYE 31 Dec (RMm)	3Q20	2Q21	3Q21	QoQ ppt	YoY ppt	9M20	9M21	YoY ppt
Ppty dev	16.3	15.5	22.6	*NA*	*6.3*	22.4	20.0	*(2.5)*
Ppty inv	61.7	NA	NA	*NA*	*NA*	18.0	(25.2)	*(43.3)*
Construction	14.5	4.0	11.1	*7.1*	*(3.4)*	11.7	7.9	*(3.8)*
Trading	3.1	5.0	3.6	*(1.4)*	*0.5*	2.4	4.7	*2.4*
Quarry	7.3	(0.8)	2.9	*3.7*	*(4.4)*	4.3	2.1	*(2.2)*
Other	11.6	20.0	14.7	*(5.3)*	*3.2*	6.3	17.0	*10.7*
Total	**15.2**	**8.2**	**10.7**	***2.5***	***(4.5)***	**9.7**	**9.2**	***(0.6)***

Source: Affin Hwang, Company

Fig 5: RNAV and target price

RNAV by business segments	PER (X)	New RNAV (RMm)
Property development		2,551
Property development JV		3,106
Property investment		4,605
Construction	16	1,533
Building materials	14	700
Quarry	14	420
Healthcare	94	4,688
Total		**17,602**
Co. net cash/(debt)		115.5
RNAV		**17,718**
Number of shares		4,889
RNAV/share (RM)		**3.62**
Fully-diluted no. of shares		6,536
Fully-diluted RNAV/share (RM)		**2.87**
Target price @ 20% discount to RNAV (RM)		**2.30**

Source: Affin Hwang estimates

Important Disclosures and Disclaimer

Equity Rating Structure and Definitions

BUY	Total return is expected to exceed +10% over a 12-month period
HOLD	Total return is expected to be between -5% and +10% over a 12-month period
SELL	Total return is expected to be below -5% over a 12-month period
NOT RATED	Affin Hwang Investment Bank Berhad does not provide research coverage or rating for this company. Report is intended as information only and not as a recommendation

The total expected return is defined as the percentage upside/downside to our target price plus the net dividend yield over the next 12 months.

OVERWEIGHT	Industry, as defined by the analyst's coverage universe, is expected to outperform the KLCI benchmark over the next 12 months
NEUTRAL	Industry, as defined by the analyst's coverage universe, is expected to perform inline with the KLCI benchmark over the next 12 months
UNDERWEIGHT	Industry, as defined by the analyst's coverage universe is expected to under-perform the KLCI benchmark over the next 12 months

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