



AmInvestment Bank

Company report

SUNWAY

(SWB MK EQUITY, SWAY.KL)

25 Aug 2021

Commendable 1HFY21 earnings

BUY

(Maintained)

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03-20362300

Rationale for report: Company results

Price	RM1.80
Fair Value	RM2.20
52-week High/Low	RM1.82/RM1.22

Key Changes

Fair value	↔
EPS	↔

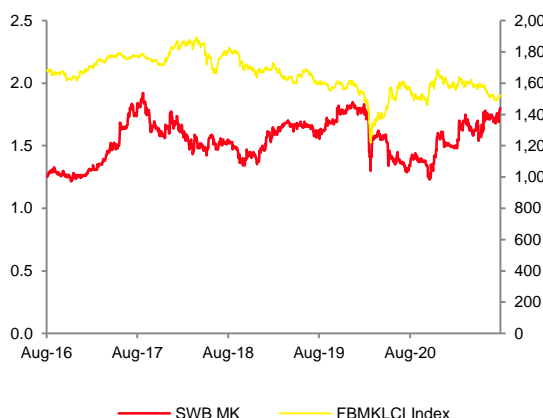
YE to Dec	FY20	FY21F	FY22F	FY23F
Revenue (RM mil)	3,833.3	5,054.2	6,676.2	7,145.3
Core net profit (RM mil)	338.4	383.9	528.9	601.3
FD Core EPS (sen)	6.9	7.8	10.7	12.2
FD Core EPS growth (%)	(51.1)	13.4	37.8	13.7
Consensus Net Profit (RM mil)	-	354.1	458.8	593.1
DPS (sen)	1.5	1.5	2.9	4.9
PE (x)	26.2	23.1	16.8	14.8
EV/EBITDA (x)	46.2	33.3	24.3	21.7
Div yield (%)	0.8	0.8	1.6	2.7
ROE (%)	4.0	4.0	5.3	5.8
Net Gearing (%)	51.2	46.9	52.4	52.9

Stock and Financial Data

Shares Outstanding (million)	4,934.7
Market Cap (RM mil)	8,882.5
Book Value (RM/share)	1.93
P/BV (x)	0.9
ROE (%)	4.0
Net Gearing (%)	51.2

Major Shareholders	SUNGEI WAY CORP SDN (21.7%) EPF (8.5%) NORGES BANK (1.4%)
Free Float	68.4
Avg Daily Value (RM mil)	6.2

Price performance	3mth	6mth	12mth
Absolute (%)	8.4	20.8	34.3
Relative (%)	11.3	24.2	39.2



Investment Highlights

- We maintain BUY on Sunway with an unchanged SOP-derived fair value of RM2.20/share which also reflects a 3% premium for our 4-star ESG rating (Exhibits 4 & 5).
- Sunway's 1HFY21 core net profit (excluding impairment and receivables write-off amounting to RM7mil) of RM136mil came in within expectations at 36% of our FY21F earnings and 38% of consensus vs. 19%–44% of 1HFY19–20 net profit. Thus, we make no changes to our forecasts. Sunway declared a first interim DPS of 1 sen, translating to a payout ratio of 36% and in line with our forecast.
- Property development revenue rose 18% YoY to RM245mil in 1HFY21, thanks to higher sales and progress billings from local projects. However, its PBT fell 33% YoY to RM44mil as a higher share of profit was recognised in 1HFY20 from the completion and handover of a local development. Cumulatively, Sunway's new sales surged 2.4x YoY to RM1.6bil (vs. RM675mil in 1HFY20), already making up 75% of its FY21F sales target of RM2.2bil.
- The strong sales were mainly boosted by projects in Singapore (61% of 1HFY21 total group sales) while the remaining came from local (38%), particularly Sunway Belfield (which contributed 54% of local sales) and China (1%). Meanwhile, the group's unbilled sales grew 13% YoY to RM3.6bil as at 30 June 2021 (Exhibit 3).
- Revenue from the property investment division fell 36% YoY to RM121mil due to the movement control orders, which led to a larger LBT of RM33mil (vs. LBT of RM4mil in 1HFY20).
- Higher progress billings from local construction projects drove up 1HFY21 construction revenue by 74% YoY to RM539mil and a pretax profit by 25% YoY RM36mil.
- For the healthcare division, strong recovery in hospital activities with higher number of admissions and outpatient treatments boosted the segment's revenue by 35% YoY to RM371mil and turned around an LBT of RM20mil in 1HFY20 to a PBT of RM42mil.
- All in, we deem the results commendable given that most of the business segments' 1HFY21 revenues have improved significantly except for property investment.
- On a QoQ comparison, all segments posted stronger 2QFY21 PBT with the exception of the construction and manufacturing divisions due to lower productivity during increased lockdown restrictions.

- We believe the long-term outlook for Sunway remains positive premised on its: (i) strong unbilled sales of RM3.6bil (6x FY21F property development revenue) and (ii) a robust outstanding order book of RM4.8bil (2.8x FY21F construction revenue); and (iii) expansion plan in its healthcare business (which could increase capacity by 82% in FY23F).

EXHIBIT 1: EARNINGS SUMMARY

YE to Dec (RM mil)	2QFY20	1QFY21	2QFY21	QoQ %	YoY %	1HFY20	1HFY21	YTD %
Revenue	556.6	1,016.7	967.9	(4.8)	73.9	1,528.1	1,984.7	29.9
Operating costs	(488.8)	(913.9)	(878.8)	(3.8)	79.8	(1,356.6)	(1,792.7)	32.1
EBITDA	67.8	102.8	89.1	(13.3)	31.4	171.5	191.9	11.9
Depreciation	(59.9)	(53.8)	(52.6)	(2.1)	(12.1)	(120.8)	(106.4)	(11.9)
Finance costs	2.8	14.5	19.9	37.4	622.8	29.2	34.4	17.6
Associate contributions	(0.6)	23.6	22.6	(4.4)	>100	38.0	46.2	21.7
Profit before tax	10.1	87.2	79.0	(9.4)	>100	117.9	166.2	40.9
Taxation	(14.7)	(16.8)	(7.9)	(53.2)	(46.4)	(32.2)	(24.7)	(23.4)
MI	(2.1)	(11.9)	(0.6)	(95.0)	(72.0)	(14.1)	(12.5)	(11.4)
PATMI	(6.7)	58.5	70.5	20.7	>100	71.6	129.0	80.2
Core PATMI	(4.3)	57.4	78.9	37.6	>100	62.1	136.3	>100
EPS (sen)	(0.1)	1.2	1.6	37.6	>100	1.3	2.8	>100
EBITDA margin (%)	12.2%	10.1%	9.2%			11.2%	9.7%	
Effective tax rate (%)	>100%	19.3%	10.0%			27.3%	14.8%	
PATMI margin (%)	-1.2%	5.7%	7.3%			4.7%	6.5%	

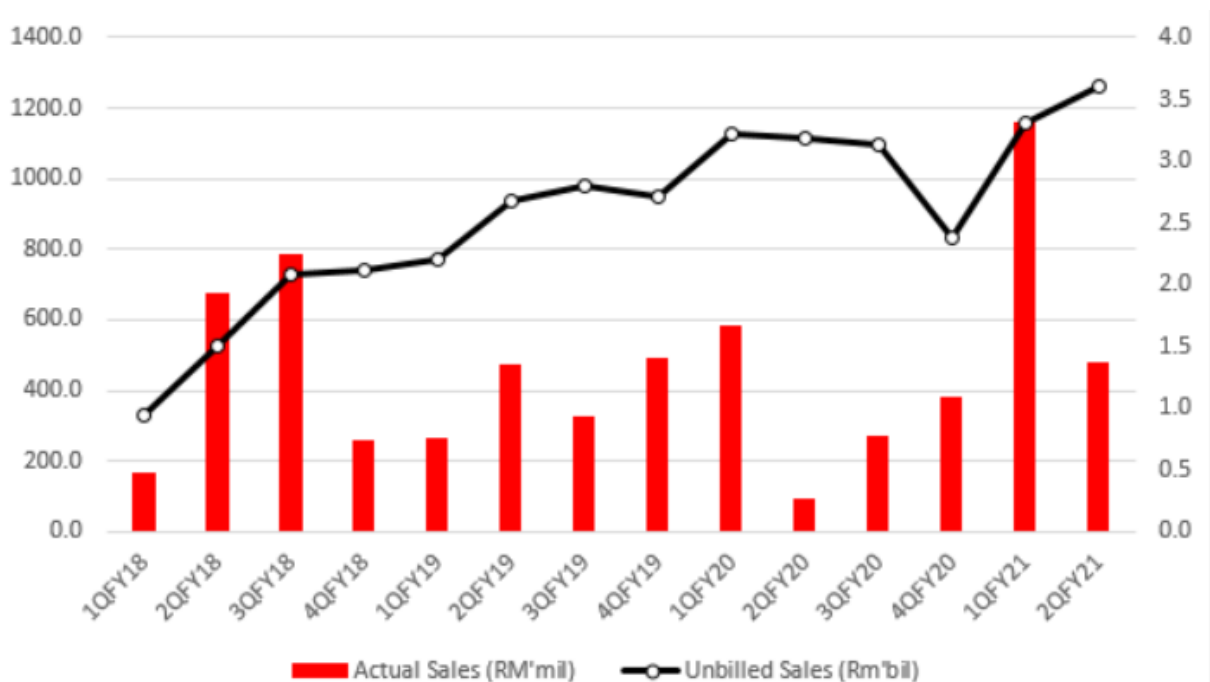
Source: Company, AmlInvestment Bank Bhd

EXHIBIT 2: SEGMENTAL BREAKDOWN

FY31 Dec (RM mil)	2QFY20	1QFY21	2QFY21	QoQ %	YoY %	1HFY20	1HFY21	YTD %
Property development	68.1	97.2	147.4	51.7	116.3	207.3	244.5	17.9
Property investment	55.5	58.7	62.3	6.2	12.3	189.8	121.0	(36.3)
Construction	92.6	321.4	218.1	(32.2)	135.6	310.6	539.4	73.7
Healthcare	125.1	170.6	200.6	17.6	60.3	274.3	371.2	35.3
Others	215.3	368.9	339.5	(8.0)	57.7	546.0	708.4	29.7
Revenue	556.6	1,016.7	967.9	(4.8)	73.9	1,528.1	1,984.7	29.9
-	-	-	-	-	-	-	-	-
Property development	25.9	20.7	22.9	10.6	(11.7)	65.0	43.6	(33.0)
Property investment	(35.8)	(16.9)	(16.0)	(5.0)	(55.2)	(3.8)	(32.9)	(>100)
Construction	6.6	27.7	8.6	(68.8)	31.5	29.1	36.3	24.6
Healthcare	(16.0)	14.0	27.5	96.5	(271.9)	(20.4)	41.5	>100
Others	29.4	41.7	36.0	(13.6)	22.5	48.0	77.7	61.9
PBT/(LBT)	10.1	87.2	79.0	(9.4)	682.2	117.9	166.2	40.9
Pretax margin (%)								
Property development	38.0	21.3	15.5			31.4	17.8	
Property investment	(64.4)	(28.7)	(25.7)			(2.0)	(27.2)	
Construction	7.1	8.6	4.0			9.4	6.7	
Healthcare	(12.8)	8.2	13.7			(7.5)	11.2	
Others	13.6	11.3	10.6			8.8	11.0	

Source: Company, AmlInvestment Bank Bhd

EXHIBIT 3: ACTUAL SALES AND UNBILLED SALES TREND



Source: AmlInvestment Bank Bhd, Company

EXHIBIT 4: SOP VALUATIONS

DEVELOPMENT PROPERTIES	Outstanding GDV (RMmil)	NPV @7% (RMmil)	Stake	Segment	Value (RMmil)	% of SOP
Selangor/KL				Property (40% discount to RNAV)	2,145.2	18.7%
Sunway Damansara	2,235.3	127.8	60.0%	Investment properties	1,583.4	13.8%
Sunway South Quay	2,486.7	274.0	100.0%	Sunway Construction (54.4% stake @ AmlInvestment Valuation)	1,188.6	10.4%
Sunway Monterez	38.0	2.5	60.0%	Sunway REIT (40.9% stake @ AmlInvestment Valuation)	2,296.1	20.0%
Sunway Semenyih	728.6	56.2	70.0%	Healthcare (84% stake @30x FY22 earnings)	3,937.4	34.3%
Sunway Cheras	16.8	1.9	100.0%	Quarry & building materials (6x FY22 earnings)	139.7	1.2%
Sunway Duta	120.0	7.3	60.0%	Trading & manufacturing (6x FY22 earnings)	184.2	1.6%
Sunway Resort City	660.1	66.7	100.0%			
Sunway Velocity	1,984.0	170.3	85.0%	Total SOP	11,474.6	
Sunway Velocity TWO	1,360.0	68.7	50.0%	Net cash/(debt) @ Company level	737.0	
Sunway Tower KL 1	240.0	24.2	100.0%	Proceeds from ICPS & conversion	977.8	
Sunway Termuning	277.0	22.4	80.0%	Proceeds from stake sale in healthcare	750.0	
Mont Putra, Rawang	156.0	15.8	100.0%	Fair value	13,939.4	
Kelana Jaya	1,450.0	146.4	100.0%			
Jalan Belfield	1,100.0	111.1	100.0%	Enlarged share base (mil shares)	6,516.6	
Lot One, Kajang	460.0	46.5	100.0%	Fair value/share (RM)	2.14	
USJ 1, Subang Jaya	1,400.0	141.4	100.0%	(+) 3% premium for 4-star ESG rating	0.06	
Subang 2	52.0	3.7	70.0%	Fair value/share (RM)+ ESG Premium	2.20	
Wangsa Maju-1	270.0	15.0	55.0%			
Dengkil (Emerald Tycoon)	796.6	80.4	100.0%			
Bukit Jalil (Sterling Paradise)	800.0	107.8	100.0%			
Wangsa Maju-2	300.0	59.3	55.0%			
Taman Mutiara, Cheras	225.0	39.2	100.0%			
Jalan Cochrane	1,150.0	126.7	100.0%			
Perak						
Sunway City Ipoh	928.4	85.4	96.0%			
Penang						
Sunway Hills	849.0	80.9	100.0%			
Sunway Wellesley, Bukit Mertajam	710.5	67.7	100.0%			
Paya Terubong	1,500.0	142.9	100.0%			
Sunway Tunas, Balik Pulau	60.0	5.7	100.0%			
Sunway Betong, Balik Pulau	110.0	10.5	100.0%			
Johor						
Bukit Lenang	698.4	36.3	80.0%			
Medini	10,616.0	413.6	60.0%			
Pendas	18,000.0	701.4	60.0%			
Singapore						
Brookvale Park	3,000.0	88.5	30.0%			
Canberra Link, Sembawang	1,500.0	51.6	35.0%			
Tampines Ave 10	2,400.0	82.6	35.0%			
China						
Tianjin Eco-City	765.3	52.5	60.0%			
India						
Sunway OPUS Grand India	702.4	33.5	50.0%			
Sunway MAK Signature Residence	181.2	10.4	60.0%			
Unbilled sales		252.0				
Subtotal		3,830.7				

Source: Company, AmlInvestment Bank Bhd

EXHIBIT 5: ESG RATING

Overall	★	★	★	★	
Eco-landscaping	★	★	★		
Progress of digitalization	★	★	★		
Employee welfare	★	★	★	★	
Corporate social responsibility	★	★	★	★	★
Strategic direction	★	★	★	★	
Gender diversity	★	★			
Earnings sustainability	★	★	★	★	
Accessibility & transparency	★	★	★		

We accord a discount/premium of -6%, -3%, 0%, +3% and +6% on fundamental fair value based on the overall ESG rating as appraised by us, from 1-star to 5-star

Source: AmlInvestment Bank Bhd

EXHIBIT 6: PB BAND CHART

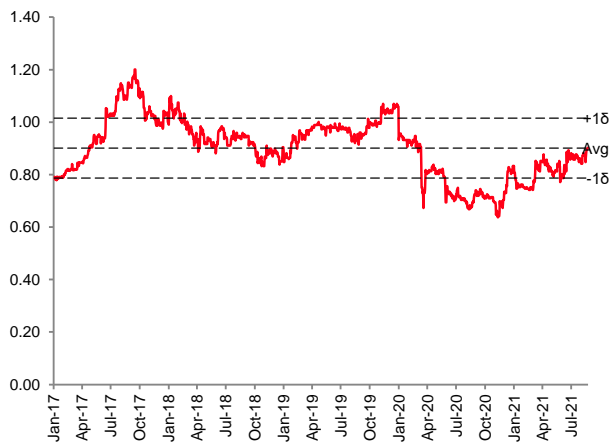


EXHIBIT 7: PE BAND CHART



EXHIBIT 8: FINANCIAL DATA

Income Statement (RMmil, YE 31 Dec)	FY19	FY20	FY21F	FY22F	FY23F
Revenue	4,780.3	3,833.3	5,054.2	6,676.2	7,145.3
EBITDA	801.1	297.9	405.9	586.4	667.5
Depreciation/Amortisation	(235.1)	(47.1)	(62.0)	(82.0)	(87.7)
Operating income (EBIT)	565.9	250.8	343.8	504.4	579.8
Other income & associates	261.2	230.0	168.3	181.5	195.9
Net interest	87.8	28.5	54.4	71.8	76.9
Exceptional items	-	-	-	-	-
Pretax profit	915.0	509.3	566.5	757.8	852.5
Taxation	(78.4)	(102.0)	(95.4)	(113.7)	(127.9)
Minorities/pref dividends	(69.3)	(47.7)	(87.2)	(115.2)	(123.3)
Net profit	767.3	359.6	383.9	528.9	601.3
Core net profit	691.5	338.4	383.9	528.9	601.3
Balance Sheet (RMmil, YE 31 Dec)	FY19	FY20	FY21F	FY22F	FY23F
Fixed assets	2,749.0	2,611.4	3,443.1	4,548.0	4,867.6
Intangible assets	331.6	350.8	350.8	350.8	350.8
Other long-term assets	9,309.3	11,086.2	11,286.2	11,286.2	11,286.2
Total non-current assets	12,390.0	14,048.3	15,080.0	16,185.0	16,504.5
Cash & equivalent	5,888.9	2,348.9	2,568.1	2,674.7	2,976.5
Stock	2,102.1	2,101.5	2,128.4	3,201.7	3,633.6
Trade debtors	1,638.4	2,440.6	1,661.7	2,194.9	3,082.5
Other current assets	1,533.8	180.1	387.2	453.9	473.2
Total current assets	11,163.1	7,071.1	6,745.5	8,525.3	10,165.8
Trade creditors	1,344.3	2,456.9	2,356.3	3,544.6	3,519.9
Short-term borrowings	8,024.9	5,132.5	5,081.2	5,369.5	5,746.7
Other current liabilities	1,509.0	239.3	(618.0)	(500.4)	485.0
Total current liabilities	10,878.2	7,828.8	6,819.5	8,413.7	9,751.6
Long-term borrowings	2,310.8	2,101.6	2,101.6	2,670.8	2,835.4
Other long-term liabilities	189.9	857.3	857.3	857.3	857.3
Total long-term liabilities	2,500.7	2,958.8	2,958.8	3,528.1	3,692.7
Shareholders' funds	8,392.9	9,534.6	9,846.1	10,230.1	10,590.1
Minority interests	1,781.4	797.2	2,201.1	2,538.4	2,636.0
BV/share (RM)	1.70	1.93	2.00	2.07	2.15
Cash Flow (RMmil, YE 31 Dec)	FY19	FY20	FY21F	FY22F	FY23F
Pretax profit	915.0	509.3	566.5	757.8	852.5
Depreciation/Amortisation	235.1	47.1	62.0	82.0	87.7
Net change in working capital	(1,220.0)	1,042.6	(683.6)	(185.7)	(302.6)
Others	995.2	(771.2)	398.3	1,442.7	465.1
Cash flow from operations	925.3	827.7	343.2	2,096.8	1,102.7
Capital expenditure	335.9	(527.2)	(831.7)	(1,105.0)	(319.5)
Net investments & sale of fixed assets	-	-	-	-	-
Others	(1,260.1)	(357.6)	(200.0)	-	-
Cash flow from investing	(924.2)	(884.8)	(1,031.7)	(1,105.0)	(319.5)
Debt raised/(repaid)	667.1	(141.2)	270.5	(751.0)	(240.0)
Equity raised/(repaid)	-	-	-	-	-
Dividends paid	(242.9)	(220.6)	(72.4)	(144.8)	(241.4)
Others	234.0	183.4	-	-	-
Cash flow from financing	658.3	(178.3)	198.1	(895.8)	(481.4)
Net cash flow	659.4	(235.4)	(490.4)	96.0	301.8
Net cash/(debt) b/f	2,507.8	3,170.6	2,952.5	2,462.1	2,558.1
Net cash/(debt) c/f	3,170.6	2,952.5	2,462.1	2,558.1	2,859.9
Key Ratios (YE 31 Dec)	FY19	FY20	FY21F	FY22F	FY23F
Revenue growth (%)	(11.6)	(19.8)	31.8	32.1	7.0
EBITDA growth (%)	8.6	(62.8)	36.3	44.5	13.8
Pretax margin (%)	19.1	13.3	11.2	11.4	11.9
Net profit margin (%)	16.1	9.4	7.6	7.9	8.4
Interest cover (x)	nm	nm	nm	nm	nm
Effective tax rate (%)	8.6	20.0	16.8	15.0	15.0
Dividend payout (%)	57.3	20.1	18.9	27.4	40.1
Debtors turnover (days)	125	232	120	120	157
Stock turnover (days)	151	200	153	146	175
Creditors turnover (days)	102	181	174	161	180

Source: Company, AmlInvestment Bank Bhd estimates

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