HLIB Research
PP 9484/12/2012 (031413)

Sunway

Nazira Abdullah
NurulNazira@hlib.hongleong.com.my
(603) 2083 1717

BUY (Maintain)

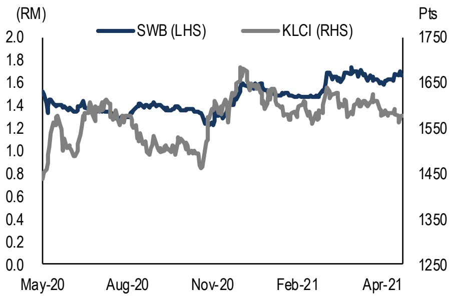
Target Price:	**RM1.90**
Previously:	**RM1.95**
Current Price:	**RM1.66**

Capital upside	14.5%
Dividend yield	3.2%
Expected total return	17.7%

Sector coverage: Property

Company description: Sunway is a conglomerate that engages in property development, property investment, construction, leisure and hospitality, education, trading and manufacturing, building materials and healthcare.

Share price



Historical return (%)	1M	3M	12M
Absolute	0.6	10.7	8.5
Relative	3.5	10.7	-1.2

Stock information

Bloomberg Ticker	SWB MK
Bursa Code	5211
Issued Shares (m)	4,889
Market cap (RM m)	8,116
3-mth avg. volume ('000)	2,752
SC Shariah-compliant	Yes
F4GBM Index member	Yes
ESG rating	★★★

Major shareholders

Sungei Way Corp Sdn Bhd	51.4%
EPF	9.2%

Earnings summary

FYE (Dec)	FY20	FY21f	FY22f
PATMI – core (RM m)	385.6	470.8	515.9
EPS – core (sen)	7.9	9.7	10.6
P/E (x)	21.0	17.2	15.7

Nudged down by property investment

Sunway reported 1QFY21 core PATMI of RM57.2m (-74.6% QoQ, -12.0%YoY) which was below our and consensus expectation largely due to lower contribution from hospitality and leisure businesses as well as lower progressive billing. New sales of RM1.16bn was achieved in 1QFY21 representing 72.5% of Sunway's FY21 sales target of RM1.6bn. Despite the earnings miss during the quarter, we expect it to pick up momentum strongly in 2H, albeit at slower pace than initially thought (given the unavoidable onslaught of MCO3.0). We cut earnings by 26% in FY21-22 to account for slower progressive billing as well as slower recovery in the group's property investment segment. We maintain our BUY call with a lower TP of RM1.90 (from RM1.95) based on a 10% holding discount to a SOP-derived value of RM2.11.

Below expectations. Sunway reported 1QFY21 core PATMI of RM57.2m (-74.6% QoQ, -12.0%YoY). The results were below expectation accounting 9% of our and 11% of consensus full year forecasts. The deviation was largely due to lower contribution from hospitality and leisure businesses under the property investment segment as well as lower progressive billing recognition under property development segment. No dividend was declared.

QoQ. Core PATMI declined by 74.6% due to lower revenue by 20.4% owing to lower contributions from most business segments except property investment. Overall, revenue was lower due to lower progressive billings for property development and construction segment. Healthcare revenue was also lower due to the impact of MCO2.0 which hit Sunway Medical Centre (SMC).

YoY. Core PATMI decreased by 12% despite registering higher in revenue by 4.7% on the back of poorer results from the property investment segment from MCO2.0 (SPLY had only 2 weeks impact) as well as the disposal of "The Pinnacle Sunway".

Property development. New sales of RM1.16bn was achieved in 1QFY21 representing 72.5% of Sunway's FY21 sales target of RM1.6bn. Unbilled sales rose to RM3.3bn as at 1Q21 from RM2.4bn in 4Q20 from the launches of the Group's Singapore property development projects, Parc Central Residence, which can only be recognised upon completion. Hence, we are expecting better contribution from this project moving forward.

Property investment. We anticipate the segment to remain challenging in near term due to spike in cases that prompt a more stringent movement.

Construction. Current orderbook stands at RM5bn which implies a healthy cover of 3.2x on FY20 construction revenue. 1Q21 saw RM462m order book replenishment where it mostly came from the Sunway Medical Centre Damansara and precast projects. Furthermore, the division is benefitted from the group's wide expansion in healthcare with several hospitals buildings.

Healthcare. Overall performance in 1Q21 vs SPLY saw improvements due to higher number of admissions and outpatient treatments after the MCO2.0 was lifted in early March. The performance of Sunway Medical Centre Velocity continued to improve in the current quarter, registering a lower operating loss of -RM4.2m compared to SPLY.

Forecast. We cut our earnings forecast by 26% in FY21-22 to account for slower progressive billing as well as slower recovery in the group's property investment.

We maintain our **BUY** call with a lower **TP** of **RM1.90 (from RM1.95)** based on a 10% holding discount to a SOP-derived value of RM2.11. Despite the earnings shortfall this quarter, we expect the group to pick up momentum strongly in 2H albeit at slower pace than initially thought. Sunway remains our top pick given its well-integrated property, construction and building material operations. Its fast expanding healthcare business has yet to be appreciated as it is embedded within the parent-co. Hence, the impending divestment to a strategic shareholder could reveal the underlying value of the healthcare business. This, coupled with the resilient earnings from matured investment properties alongside its growing building materials business and quarry operations, justifies for the re-rating of the stock.

Figure #1 Financial forecast summary

FYE Dec (RM m)	FY18	FY19	FY20	FY21f	FY22f
Revenue	5,410.2	4,780.3	3,833.3	4,413.0	4,901.5
EBIT	594.7	566.0	250.8	307.6	387.7
PBT	836.9	915.0	509.3	691.6	756.1
PAT	645.6	712.8	407.3	470.8	515.9
PAT – Core	556.6	639.4	385.6	470.8	515.9
PAT – Consensus Core				527.6	607.0
HLIB/ Consensus (%) – Core PAT				89%	85%
Core EPS (sen)	11.4	13.1	7.9	9.7	10.6
P/E (x)	14.5	12.7	21.0	17.2	15.7
EV/EBITDA (x)	14.5	14.7	28.2	19.9	17.5
DPS (sen)	7.1	9.1	1.5	5.3	5.8
Yield (%)	4.3	5.5	0.9	3.2	3.5
Shareholder's equity	7,964.9	8,392.9	9534.6	8,656.9	8,913.9
BVPS (RM/share)	1.8	2.1	2.0	2.2	2.2
P/B (x)	0.9	0.8	0.9	0.8	0.7
ROE (%)	6.2	6.3	3.7	4.5	4.7
Net Gearing (%)	0.42	0.36	0.51	0.32	0.32

HLIB Research

Figure #2 Quarterly results comparison

FYE Dec (RM m)	1Q20	4Q20	1Q21	QoQ	YoY
Revenue	971.4	1,278.0	1,016.7	-20.4%	4.7%
Property Development	139.2	184.3	97.2	-47.3%	-30.2%
Property Investment	134.3	46.1	58.7	27.4%	-56.3%
Construction	218.0	424.6	321.4	-24.3%	47.4%
Trading/Manufacturing	194.2	245.8	224.5	-8.7%	15.6%
Quarry	74.1	109.8	77.2	-29.6%	4.2%
Healthcare	149.2	178.0	170.6	-4.1%	14.4%
Investment Holdings	1.7	1.4	1.1	-20.5%	-36.9%
Others	60.7	88.1	66.0	-25.0%	8.9%
EBIT	67.5	65.0	49.1	-24.5%	-27.4%
Property Development	26.1	42.2	13.1	-68.9%	-49.7%
Property Investment	29.7	-48.9	-14.3	-70.8%	-148.1%
Construction	19.8	36.1	26.3	-27.3%	32.8%
Trading/Manufacturing	2.1	12.4	13.0	4.7%	505.7%
Quarry	2.3	5.3	2.6	-51.6%	10.9%
Healthcare	-0.9	25.2	17.1	-32.0%	-1987.3%
Investment Holdings	-34.6	-21.2	-13.8	-35.3%	-60.3%
Others	0.2	14.0	5.0	-63.8%	2002.5%
Net Interest	-11.6	25.2	14.5	-42.5%	-224.4%
Share of Associates/JCE	37.6	161.6	23.6	-85.4%	-37.1%
PBT	93.5	251.8	87.2	-65.4%	-6.7%
Property Development	39.1	207.0	20.7	-90.0%	-47.1%
Property Investment	32.0	-90.0	-16.9	-81.3%	-152.7%
Construction	22.6	39.0	27.7	-28.9%	22.6%
Trading/Manufacturing	0.5	10.8	12.2	12.9%	2346.2%
Quarry	3.1	5.3	3.1	-42.0%	-0.5%
Healthcare	-4.5	22.3	14.0	-37.4%	-414.1%
Investment Holdings	14.0	13.2	21.8	65.0%	55.7%
Others	1.0	12.4	4.6	-63.1%	349.7%
PAT	75.8	207.0	70.4	-66.0%	-7.2%
MI	-13.4	-20.1	-11.9	-40.6%	-11.2%
PATAMI	62.4	186.9	58.5	-68.7%	-6.3%
EI	2.6	38.4	-1.2	-103.2%	-147.3%
Core Earnings	**65.0**	**225.4**	**57.2**	**-74.6%**	**-12.0%**
EBIT margin	6.95%	5.09%	4.82%	-0.26%	-2.13%
PBT margin	9.62%	19.70%	8.57%	-11.13%	-1.05%
PAT margin	6.69%	17.63%	5.63%	-12.01%	-1.06%

HLIB Research

Figure #3 SOP table

Division	Stake	Value (RM m)	RM/share	Methodology
Construction (SunCon)	54.56%	1,322	0.27	Based on TP of RM 2.07
Sunway REIT	40.88%	1,932	0.40	Based on TP of RM 1.74
Property Development & Investment	100%	4,895	1.00	Discounted RNAV
Healthcare	100%	1,539	0.32	25X forward P/E
Trading/Manufacturing	100%	187	0.04	10X trailing P/E
Quarry	100%	97	0.02	10X trailing P/E
		9,972	2.05	
Holding Company Net Debt		328	0.07	
		10,300	2.11	
10% Holding Company Discount		-1,030	(0.21)	
Equity Value (RM)		9,270	**1.90**	

HLIB Research

Disclaimer

The information contained in this report is based on data obtained from sources believed to be reliable. However, the data and/or sources have not been independently verified and as such, no representation, express or implied, are made as to the accuracy, adequacy, completeness or reliability of the info or opinions in the report.

Accordingly, neither Hong Leong Investment Bank Berhad nor any of its related companies and associates nor person connected to it accept any liability whatsoever for any direct, indirect or consequential losses (including loss of profits) or damages that may arise from the use or reliance on the info or opinions in this publication.

Any information, opinions or recommendations contained herein are subject to change at any time without prior notice. Hong Leong Investment Bank Berhad has no obligation to update its opinion or the information in this report.

Investors are advised to make their own independent evaluation of the info contained in this report and seek independent financial, legal or other advice regarding the appropriateness of investing in any securities or the investment strategies discussed or recommended in this report. Nothing in this report constitutes investment, legal, accounting or tax advice or a representation that any investment or strategy is suitable or appropriate to your individual circumstances or otherwise represents a personal recommendation to you.

Under no circumstances should this report be considered as an offer to sell or a solicitation of any offer to buy any securities referred to herein.

Hong Leong Investment Bank Berhad and its related companies, their associates, directors, connected parties and/or employees may, from time to time, own, have positions or be materially interested in any securities mentioned herein or any securities related thereto, and may further act as market maker or have assumed underwriting commitment or deal with such securities and provide advisory, investment or other services for or do business with any companies or entities mentioned in this report. In reviewing the report, investors should be aware that any or all of the foregoing among other things, may give rise to real or potential conflict of interests.

This report may provide the addresses of, or contain hyperlinks to websites. Hong Leong Investment Bank Berhad takes no responsibility for the content contained therein. Such addresses or hyperlinks (including addresses or hyperlinks to Hong Leong Investment Bank Berhad own website material) are provided solely for your convenience. The information and the content of the linked site do not in any way form part of this report. Accessing such website or following such link through the report or Hong Leong Investment Bank Berhad website shall be at your own risk.

1. As of 26 May 2021, Hong Leong Investment Bank Berhad has proprietary interest in the following securities covered in this report:
(a) -.

2. As of 26 May 2021, the analyst(s) whose name(s) appears on the front page, who prepared this report, has interest in the following securities covered in this report:
(a) -.

Published & printed by:
Hong Leong Investment Bank Berhad (10209-W)
Level 28, Menara Hong Leong,
No. 6, Jalan Damanlela,
Bukit Damansara,
50490 Kuala Lumpur
Tel: (603) 2083 1800
Fax: (603) 2083 1766

Stock rating guide

BUY	Expected absolute return of +10% or more over the next 12 months.
HOLD	Expected absolute return of -10% to +10% over the next 12 months.
SELL	Expected absolute return of -10% or less over the next 12 months.
UNDER REVIEW	Rating on the stock is temporarily under review which may or may not result in a change from the previous rating.
NOT RATED	Stock is not or no longer within regular coverage.

Sector rating guide

OVERWEIGHT	Sector expected to outperform the market over the next 12 months.
NEUTRAL	Sector expected to perform in-line with the market over the next 12 months.
UNDERWEIGHT	Sector expected to underperform the market over the next 12 months.

The stock rating guide as stipulated above serves as a guiding principle to stock ratings. However, apart from the abovementioned quantitative definitions, other qualitative measures and situational aspects will also be considered when arriving at the final stock rating. Stock rating may also be affected by the market capitalisation of the individual stock under review.