

28 February 2022

Sunway Berhad

FY21 Above Expectations

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FY21 CNP of RM328m surpassed expectation due to stronger-than-expected performance from its property and construction arm. Consequently, YTD dividend of 2.5 sen also came above. FY21A sales of RM2.6b came above management's guidance but is within our RM2.7b target (which we revised up twice during the year). Targeting lower RM1.6b sales this year as headwinds arise. However, we anticipate FY22E earnings to grow 29% YoY with the turnaround of its leisure and hospitality arm, in line with the easing Covid restrictions. Maintain OP on an unchanged SoP-TP of RM2.05.

Surpassed expectations. 4QFY21 CNP of RM125m (refer overleaf for CNP reconciliation) led FY21 CNP to RM328m – above our/consensus estimates at 115%/112% respectively. The outperformance stemmed mainly from the stronger-than-expected contributions from its property development and construction division (through its 54%-owned SUNCON). Both segments exhibited stronger-than-anticipated revenue and margins amidst the absence of lockdowns during the quarter. Note, due to Sunway's prudent margin recognition over the past two years, margins were recalibrated higher this quarter for projects nearing completion as profit visibility increased. Dividend of 1.5 sen declared brought total YTD dividends to 2.5 sen – also above our 2.0 sen estimate.

Sales excelled. 4QFY21 sales of RM440m led FY21 sales to RM2.61b (backed by RM3.2b launches) – above management's RM2.2b target but within our RM2.7b target which we revised up twice during the year. The strong sales were mostly attributed to Singapore which contributed c.63% or RM1.65b of sales. Note, Sunway had c.RM2.0b worth of Singapore launches to be sold in 2021 from Parc Central (RM940m GDV; currently 98% sold) and Ki Residence (RM1b GDV; currently 78% sold).

For FY22, Sunway is targeting RM2.2b of sales from RM2.3b launches (comprising 61% in Malaysia, 29% in Singapore, 12% in China). **We are more conservative vs. management** and target RM1.6b sales in FY22 due to: (i) lower sales available in Singapore on lower launch quantum of RM676m (vs RM2.0b), (ii) fresh cooling measures* in Singapore imposed in Dec 2021, (iii) absence of HOC incentives in Malaysia, (iv) anticipated hike in interest rates, and (v) tougher sales climate in China due to the recent debt crisis in which Sunway has RM276m planned launches in Tianjin this year. Current unbilled sales of RM3.96b (effective RM3.4b) provide c.4x revenue cover.

Highlights. Despite incurring an ICPS dividend payment of RM25.7m for 4QFY21, CNP of RM125m improved 36% **QoQ**, mainly due to improved PBT contributions from all segments amidst the absence of lockdowns (vs 1.5-month lockdown in 3QFY21). **YoY**, FY21 CNP came off 9% to RM328m mainly because of its weaker JV contributions (-88%) as FY20 recognised a lumpy net profit of RM182.5m from the completion of Singapore and China projects (Sunway Gardens Tianjin and River Cove, respectively) which only recognise profits upon completion.

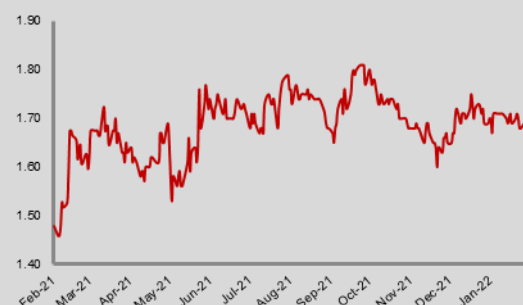
Despite the outperformance this quarter, we keep FY22E earnings unchanged as this quarter's strong margins were due to upward recalibration which would subsequently normalise. The YoY growth in FY22E earnings will mainly come from the turnaround from its leisure and hospitality arm (parked under property investment segment) from its low base in FY21A which was affected by the multiple lockdowns. We introduce FY23E earnings of RM710m (+68% YoY). The stark leap in FY23E earnings would come from the completion of 2 out of 3 of their ongoing Singapore developments (namely Parc Central and Parc Canberra with combined GDV of RM1.5b) which would only recognise profits upon completion (at JV level).

Maintain OP with an unchanged SoP-TP of RM2.05. With its leisure and hospitality segment badly affected during this pandemic, we believe Sunway would be a good proxy for a recovery this year inline with the easing Covid restrictions and our nations high vaccination status. Another positive catalyst in the immediate term is if the Sunway consortium wins the Digital Banking license to be announced by BNM next month.

OUTPERFORM ↔

Price : RM1.68
Target Price : RM2.05 ↔

Share Price Performance



KLCI	1,591.72
YTD KLCI chg	1.5%
YTD stock price chg	-2.3%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	SWB MK Equity
Market Cap (RM m)	8,213.6
Shares Outstanding	4,889.1
52-week range (H)	1.82
52-week range (L)	1.47
3-mth avg daily vol:	988,160
Free Float	25%
Beta	0.7

Major Shareholders

Sunway Holdings Sdn	56.9%
Sungei Way Corp Sdn	8.6%
Employees Provident	3.2%

Summary Earnings Table

FYE Dec (RM m)	2021A	2022E	2023E
Turnover	4529	4653	5369
EBIT	439	445	559
PBT	568	632	958
Net Profit	328	424	710
Core PATAMI	328	424	710
Consensus (NP)	292	471	472
Earnings Revision	n.a.	0%	NEW
Core EPS (sen)	6.19	8.01	13.41
Core EPS growth (%)	-9	29	68
*NDPS (sen)	2.5	3.0	5.0
NTA per Share (RM)	1.77	1.82	1.90
Price to NTA (x)	1.0	0.9	0.9
PER (x)	27.1	21.0	12.5
Net Gearing ratio (x)	0.7	0.6	0.6
Return on Asset (%)	1.5	1.9	3.0
Return on Equity (%)	3.4	4.2	6.8
Net Div. Yield (%)	1.5	1.8	3.0

*Only cash dividend is reflected.

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To derive our core, we strip of the disposal and revaluation gains from its healthcare division amounting to RM2.286b, reverse out FV gains on revaluation of investment property worth RM41.3m and FV loss of RM23.1m from (associate) Sunreit's revaluation of properties. Lastly, we also deduct out bi-annual ICPS payment of RM25.7m in the quarter which reflects the true earnings distributable to ordinary shareholders. Sunway treats such ICPS payments as normal dividends and hence makes no deduction to its bottom-line in their earnings announcement.

Reconciliation: RM2455.374m (Headline profits) – RM2286.116m – RM41.3m + RM23.1m – RM25.7m = RM125.4m (CNP)

Result Highlight								
FYE Dec (RM m)	4Q21	3Q21	QoQ	4Q20	YoY	FY21	FY20	YoY
Revenue	1,479.6	1,065.0	39%	1,278.0	16%	4,529.3	3,833.3	18%
Operating Expenses	-1,135.0	-1,007.4	13%	-1,354.3	-16%	-4,086.8	-3,850.8	6%
Other Operating Income	128.2	25.7	398%	122.3	5%	199.3	274.9	-28%
Operating Profit	270.1	83.3	224%	46.0	487%	439.0	257.4	71%
Finance Income	42.0	43.7	-4%	51.3	-18%	170.2	169.7	0%
Finance costs	-40.9	-34.0	20%	-7.2	471%	-124.8	-151.4	-18%
Associates	8.6	21.8	-61%	12.0	-29%	62.7	59.8	5%
JV	8.1	-1.0	n.a.	149.6	-95%	21.0	170.0	-88%
PBT	288.0	113.8	153%	251.7	14%	568.0	505.4	12%
Tax	-70.8	-18.7	279%	-44.7	58%	-114.1	-102.0	12%
PAT	217.3	95.2	128%	207.0	5%	453.9	403.5	13%
MI	48.0	14.1	242%	13.9	246%	74.6	45.7	63%
ICPS/Perpetual Sukuk distribution	-25.7	0.0	n.a.	0.0	n.a.	-51.3	-19.9	159%
PATAMI	143.6	81.1	77%	193.1	-26%	328.0	337.9	-3%
Exceptionals	-18.2	11.2	-263%	50.6	-136%	-0.3	21.0	-101%
CNP	125.4	92.3	36%	243.7	-49%	327.7	358.8	-9%
DPS	1.5	0.0	n.a.	1.5	0%	2.5	1.5	67%
EBIT margin	18%	8%		4%		10%	7%	
Pretax margin	19%	11%		20%		13%	13%	
NP margin	15%	9%		16%		10%	11%	
CNP margin	8%	9%		19%		7%	9%	
Net gearing (x)	0.57	0.78		0.73		0.57	0.73	
Effective tax	25%	16%		18%		20%	20%	

Source: Company, Kenanga Research

Segmental Breakdown								
External Revenue	4Q21	3Q21	QoQ	4Q20	YoY	FY21	FY20	YoY
Property Development	182.6	197.1	-7%	184.3	-1%	624.2	495.0	26%
Property Investment	133.4	58.0	130%	46.1	190%	312.3	334.0	-6%
Construction	379.6	192.7	97%	424.6	-11%	1,111.7	990.2	12%
Trading and Manufacturing	229.9	186.4	23%	245.8	-6%	839.8	812.1	3%
Quarry	105.7	84.3	25%	109.8	-4%	337.8	321.4	5%
Healthcare	235.8	208.1	13%	178.0	32%	815.1	620.3	31%
Investment Holdings	31.8	8.6	271%	1.4	2225%	42.7	4.7	814%
Others	180.8	129.9	39%	90.1	101%	445.6	255.6	74%
Total Revenue	1,479.6	1,065.0	39%	1,280.0	16%	4,529.3	3,833.3	18%
PBT Segmentation								
Property Development	64.4	44.6	44%	207.0	-69%	152.6	297.0	-49%
Property Investment	36.8	-12.3	n.a.	-90.0	n.a.	-8.3	-30.8	-73%
Construction	91.1	21.4	327%	39.0	134%	148.8	105.1	42%
Trading and Manufacturing	9.0	6.7	36%	10.8	-17%	37.9	24.9	52%
Quarry	4.4	2.5	77%	5.3	-17%	9.4	14.8	-37%
Healthcare	31.4	29.5	7%	22.3	41%	102.3	17.4	488%
Investment Holdings	35.1	10.6	232%	13.2	166%	90.6	56.8	60%
Others	15.8	11.0	44%	12.4	27%	34.9	24.2	44%
Total PBT	288.0	113.8	153%	220.0	31%	568.1	509.3	12%
PBT margins								
Property Development	35%	23%		112%		24%	60%	
Property Investment	28%	-21%		-195%		-3%	-9%	
Construction	24%	11%		9%		13%	11%	
Trading and Manufacturing	4%	4%		4%		5%	3%	
Quarry	4%	3%		5%		3%	5%	
Healthcare	13%	14%		13%		13%	3%	
Investment Holdings	110%	123%		966%		212%	1216%	
Others	9%	8%		14%		8%	9%	
Total	19%	11%		17%		13%	13%	

Source: Company, Kenanga Research

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Sum of Parts		
Segment	Value (RM m)	Valuation basis
Property Development	2,012.4	P/BV of 0.77x (-1.5 SD below mean)
Property Investment (backed by 40.9%-owned Sunway REIT)	2,526.4	Kenanga's TP of RM1.45 for SREIT + NBV of investment prop ex-SREIT
Construction (via 54.4%-owned Sunway Construction)	1,066.2	Kenanga's TP of RM1.52 for SunCon
Trading & Manufacturing	338.4	P/E of 10x on FY22 earnings
Quarry	265.4	P/E of 12x on FY22 earnings
Healthcare	5,187.1	30x on FY22 EV/EBITDA
Investment Holdings & Others	467.0	P/E of 10x on FY22 earnings
Net cash / (debt) at holding company level	(870.9)	As at 31 Dec 2020
Aggregate Valuation	10,992.0	
No of shares (m)	5,292.2	Account for partial dilution of ICPS
RNAV per share (RM)	2.05	

Source: Company, Kenanga Research

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Peer Comparison

Name	Last Price (RM)	Market Cap (RM'm)	Shariah Compliant	Current FYE	PER (x) - Core Earnings			PBV (x)		ROE (%)		Net Div Yld (%)	Target Price	Rating
					Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.			
<u>STOCKS UNDER COVERAGE</u>														
ECO WORLD DEVELOPMENT GROUP	1.06	3,121.0	Y	10/2022	13.3	13.3	11.8	0.7	0.7	4.9%	3.8%	0.850	MP	
IOI PROPERTIES GROUP BHD	1.06	5,836.5	Y	06/2022	9.3	9.1	8.2	0.3	0.3	3.4%	2.6%	1.32	OP	
MAH SING GROUP BHD	0.680	1,650.8	Y	12/2021	48.6	17.9	15.1	0.5	0.5	3.1%	4.4%	0.750	MP	
MALAYSIAN RESOURCES CORP BHD	0.350	1,563.6	Y	12/2021	N.A.	N.A.	58.3	0.3	0.3	-1.6%	2.9%	0.345	MP	
SIME DARBY PROPERTY BHD	0.640	4,352.5	Y	12/2022	31.1	18.4	17.4	0.5	0.5	2.5%	2.0%	0.725	OP	
SP SETIA BHD	1.31	5,329.1	Y	12/2021	145.6	42.3	10.5	0.4	0.4	0.9%	2.9%	1.19	UP	
SUNWAY BHD	1.68	8,213.6	Y	12/2022	27.1	21.0	12.5	0.9	0.8	4.4%	1.8%	2.05	OP	
UEM SUNRISE BHD	0.330	1,669.3	Y	12/2022	N.A.	N.A.	N.A.	0.2	0.2	-0.6%	0.0%	0.400	OP	
UOA DEVELOPMENT BHD	1.77	4,117.8	Y	12/2022	11.8	12.6	11.8	0.7	0.7	3.9%	7.3%	1.76	MP	
Simple Average					41.0	19.2	18.2	0.5	0.5	2.3%	3.1%			

Source: Bloomberg, Kenanga Research

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Stock Ratings are defined as follows:**Stock Recommendations**

OUTPERFORM	: A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM	: A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM	: A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT	: A particular sector's Expected Total Return is MORE than 10%
NEUTRAL	: A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT	: A particular sector's Expected Total Return is LESS than -5%

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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