Sunway Berhad

(5211 | SWB MK) Industrial Products & Services| Diversified Industrials

Maintain NEUTRAL

Earnings recovery driven by healthcare division

Revised **Target Price: RM1.71**
Previously RM1.72

KEY INVESTMENT HIGHLIGHTS

- **1HFY21 earnings below expectations**
- **Earnings recovery driven by healthcare division**
- **New property sales of RM1.64b in 1HFY21**
- **Earnings forecast revised downwards**
- **Maintain NEUTRAL a revised TP of RM1.71**

1HFY21 earnings below expectations. Sunway Berhad (SUNWAY) 1HFY21 core net income of RM133.8m came in slightly below expectations, making up 38% of our and consensus full year estimates. The negative deviation could be attributed to the weaker than expected earnings from property development and property investment divisions. Meanwhile, SUNWAY announced first interim dividend of 1sen per share.

Earnings recovery driven by healthcare division. Sequentially, 2QFY21 core net income was higher at RM76.6m (+33.9%qoq) mainly due to higher contribution from healthcare division. On yearly basis, 2QFY21 core net income recovered to RM76.6m from low base of RM6.4m in 1QFY21 as earnings in 1QFY21 were impact by MCO1.0. That brought cumulative core net income in 1HFY21 to RM133.8m (85.1%yoy). The earnings recovery was mainly driven by higher contribution from healthcare division which cushioned weaker contribution from property development and property investment divisions. Healthcare division recorded profit before tax (PBT) of RM41.5m in 1HFY21 against pre-tax loss of RM20.5m in 1HFY20 due to higher admission and outpatient treatments at Sunway Medical Centre. Meanwhile, PBT of property development division was lower in 1HFY21 as earnings in 1HFY20 were boosted by completion of a local project. Similarly, property investment division recorded pre-tax loss of RM32.9m in 1HFY21 as leisure and hospitality business were impacted by Covid-19 pandemic.

New property sales of RM1.64b in 1HFY21. SUNWAY recorded new property sales of RM480m in 2QFY21, lower than new sales of RM1.16b in 1QFY21. That brought total new sales to RM1.64b in 1HFY21 which makes up 75% of management new sales target of RM2.2b in FY21. Note that management revised its new sales target to RM2.2b from RM1.6b recently as Singapore project recorded >RM1b of new sales as of 1HFY21. On the other hand, unbilled sales increased to RM3.6b in 2QFY21 from RM3.3b in 1QFY21.

RETURN STATISTICS	
Price @ 24 Aug 2021 (RM)	1.80
Expected share price return (%)	-5.0
Expected dividend yield (%)	2.3
Expected total return (%)	**2.7**

SHARE PRICE CHART

Share price performance (%)	Absolute	Relative
1 month	4.7	3.3
3 months	3.4	7.8
12 months	33.3	35.5

KEY STATISTICS	
FBM KLCI	1,553.37
Syariah compliant	Yes
F4BGM Index	Yes
ESG Grading Band (Star rating)	☆☆☆
Issue shares (m)	4,888.93
Estimated free float (%)	67.15
Market Capitalisation (RM'm)	8,881
52-wk price range (RM)	RM1.22 - RM1.82
Beta vs FBM KLCI (x)	0.77
Monthly velocity (%)	1.98
Monthly volatility (%)	5.86
3-mth average daily volume (m)	3.66
3-mth average daily value (RM'm)	6.15
Top Shareholders (%)	
Sungei Way Corp Sdn Bhd	21.71
Employees Provident Fund Board	8.53

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Maintain Neutral with a revised TP of RM1.71. We revise our FY21/22F earnings forecast by -3.9%/-1.5% to factor in the lower contribution from property development and property investment divisions. Our TP is revised to RM1.71 from RM1.72, based on sum-of- parts valuation. We maintain our Neutral call on SUNWAY as we expect the positive outlook for its healthcare division to be offset by tepid outlook for property development and property investment divisions.

INVESTMENT STATISTICS

FYE Dec	FY18A	FY19A	FY20A	FY21F	FY22F
Revenue	5410.3	4780.4	3829.1	4325.0	5100.5
Core EBIT	559.9	565.2	250.8	300.9	482.1
Core PBT	782.8	801.2	487.8	492.0	676.6
Net Income	659.0	709.2	359.6	339.0	454.3
Core Net Income	591.2	597.6	338.1	339.0	454.3
EPS (sen)	13.4	14.5	7.4	7.0	9.4
Core EPS (sen)	12.0	12.3	7.0	7.0	9.4
Net DPS (sen)	7.12	9.10	1.50	4.19	5.62
Net Dvd Yield	4.0%	5.1%	0.8%	2.3%	3.1%
Core PER	14.99	14.68	25.83	25.77	19.23
NTA/share (RM)	1.66	1.66	1.86	1.79	1.82
P/NTA	1.09	1.09	0.97	1.01	0.99
Core ROE	7.0%	7.1%	4.0%	3.9%	5.1%
Core ROA	2.8%	2.8%	1.6%	1.5%	1.9%

Source: MIDF Research

SUNWAY BERHAD: 2QFY21 RESULTS SUMMARY

FYE Dec (RM'm, unless otherwise stated)	Quarterly Results			Cumulative	
	2QFY21	%YoY	%QoQ	FY21	%YoY
Revenue	967.9	73.9%	-4.8%	1,984.7	29.9%
EBIT	36.5	509.1%	-25.6%	85.5	68.7%
Core PBT	85.1	130.9%	-1.0%	171.0	15.4%
Net Income	70.5	NA	20.7%	129.0	206.9%
Core Net Income	76.6	1101.6%	33.9%	133.8	85.1%
EPS (sen)	1.20	NA	0.5%	2.4	64.2%
Core EPS (sen)	1.31	903.9%	11.6%	2.5	67.9%
Net DPS (sen)	1.00	NA	NA	1.0	NA
NTA/share (RM)	1.58	-2%	-17%	1.6	-1.9%
Net Gearing (x)	0.61	NA	NA	0.61	NA
EBIT Margin	3.8%	NA	NA	4.3%	NA
Core PBT Margin	8.8%	NA	NA	8.6%	NA

Source: Company, MIDF Research

Sum-of-Parts

Division	Methodology	PER (x)	Stake	Discount	Value (RM m)
Property Development	NPV of profits	n/a	100%	18%	2719.5
Property Investment	Net Book Value	n/a	100%	n/a	1490.0
Construction	18x FY22E PER	18	54%	n/a	1068.6
Sunway REIT	Target Price of RM1.45	n/a	35%	n/a	1473.3
Healthcare	23x FY22 PER	23	84%	n/a	965.9
Trading and manufacturing	12x FY22E PER	12	100%	n/a	134.9
Quarry	12x FY22E PER	12	100%	n/a	548.0
Total SOP					**8400.1**
Number of shares					4918.0
Target Price (RM)					**1.71**

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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS	
STOCK RECOMMENDATIONS	
BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to *rise* by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <-10% over the next 12 months.
TRADING SELL	Stock price is expected to *fall* by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.
SECTOR RECOMMENDATIONS	
POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.
ESG RECOMMENDATIONS* - source Bursa Malaysia and FTSE Russell	
☆☆☆☆	Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆☆	Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆	Top 51%- 75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆	Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell

* ESG Ratings of PLCs in FBM EMAS that have been assessed by FTSE Russell in accordance with FTSE Russell ESG Ratings Methodology