

# Sunway (SWB MK)

## Mixed performance

# HOLD

Share Price MYR 1.66  
 12m Price Target MYR 1.69 (+2%)  
 Previous Price Target MYR 1.70

### Profit fell short but sales above expectations

Sunway's 1Q21 net profit of MYR58.5m (-6% YoY, -74% QoQ) was below expectations. However, its 3M21 property sales of MYR1.2b were above expectations. Management maintains its MYR1.6b sales target for 2021 (+23% YoY). We lower our FY21-23 net profit forecasts by -8% to -16%. Our TP is largely intact at MYR1.69 (-1sen; on an unchanged 0.8x PBV). We maintain HOLD on Sunway. Our preferred picks for the property sector are SPSB and ECWI.

### Profit below expectations

Sunway reported 1Q21 net profit of MYR58.5m (-6.3% YoY, -74% QoQ), accounting for 11%/12% of our and consensus full-year estimates. The earnings gap could be due to the weaker-than-expected performance from its property investment and leisure divisions on the imposition of MCO2.0. Elsewhere, the 74% QoQ decline in 1Q21 earnings was mainly due to the recognition of two overseas projects namely Rivercove Residences in Singapore and Sunway Gardens in Tianjin in 4Q20.

### Decent sales in 1Q21

Sales wise, Sunway has locked-in MYR1.2b in property sales in 3M21, which accounted for 73% of its FY21 sales target mainly driven by its Belfield and Singapore projects. Effective unbilled sales were MYR2.8b as at end-Mar 2021 (3.8x FY21F property revenue). Elsewhere, 55%-owned Sunway Construction Group (SCGB MK; HOLD; MYR1.72 TP) has secured MYR462m worth of jobs in 1Q21, increasing its outstanding orderbook to MYR5b as at end-Mar 2021.

### Earnings adjustments

We lower our FY21/22/23 net profit forecasts for Sunway by -15.7%/-11.3%/-7.8% to factor in lower contributions from its investment properties and leisure division. Our RNAV/sh is lowered to MYR2.43 (-3sen) after taking into account the changes in TPs for SunREIT (-15 sen) and SCG (-12sen).

### Company Description

Sunway Bhd is involved in property development, investment properties and construction businesses

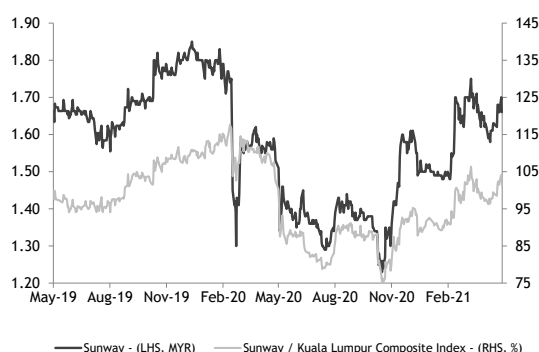
### Statistics

52w high/low (MYR)	1.75/1.23
3m avg turnover (USDm)	1.1
Free float (%)	26.1
Issued shares (m)	4,934
Market capitalisation	MYR8.2B
	USD2.0B

### Major shareholders:

Active Equity Sdn. Bhd.	60.1%
Employees Provident Fund	9.1%
CHEAH FOOK LING	2.3%

### Price Performance



	-1M	-3M	-12M
Absolute (%)	1	11	8
Relative to index (%)	4	11	(1)

Source: FactSet

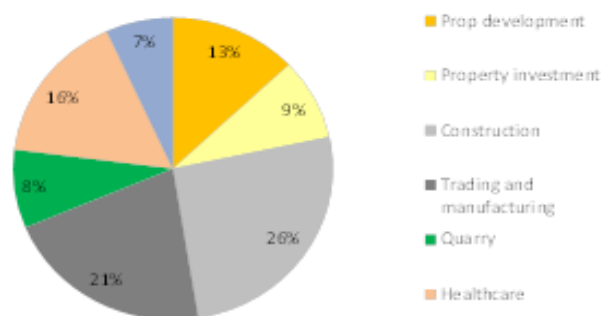
FYE Dec (MYR m)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue	4,780	3,833	5,575	7,015	6,882
EBITDA	570	251	649	811	918
Core net profit	635	395	460	562	643
Core EPS (sen)	13.0	8.0	9.3	11.3	12.9
Core EPS growth (%)	13.9	(38.9)	16.3	22.1	14.4
Net DPS (sen)	9.1	1.5	2.8	3.4	3.9
Core P/E (x)	13.8	20.2	17.9	14.7	12.8
P/BV (x)	1.0	0.8	0.8	0.8	0.8
Net dividend yield (%)	5.1	0.9	1.7	2.0	2.3
ROAE (%)	8.7	4.0	4.8	5.6	6.2
ROAA (%)	2.9	1.9	2.1	2.4	2.7
EV/EBITDA (x)	27.3	56.0	20.2	16.5	15.5
Net gearing (%) (incl perps)	60.9	51.0	38.4	39.5	46.1
Consensus net profit	-	-	497	612	686
MKE vs. Consensus (%)	-	-	(7.5)	(8.2)	(6.3)

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## Value Proposition

- A conglomerate with core business in property development and businesses in other sectors comprising property investment, construction, building materials, leisure and healthcare.
- Property development landbank is located throughout Malaysia. Sunway also has property projects in Singapore (in partnership with Hoi Hup), India and China.
- Sunway also owns a 41% stake in SunREIT (SREIT MK, SELL, TP: MYR1.30) and 55% in SCG (SCGB MK, HOLD, TP: MYR1.72)

### PBT (FY20) breakdown by businesses

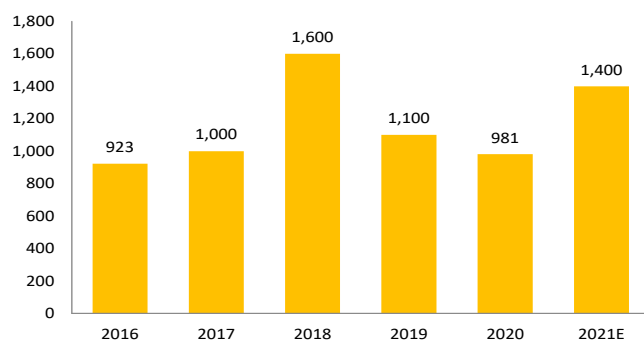


Source: Company

## Financial Metrics

- Effective unbilled sales (property) stood at MYR2.8b (or 3.8x our FY21F property revenue) as at end-Mar 21.
- Sunway targets to achieve MYR1.6b in property sales in 2021 (effective sales: MYR1.4b).

### Sunway's effective sales trend (actual and target) (MYRm)



Source: Company

## Price Drivers

### Historical share price trend



Source: Company, Maybank Kim Eng

1. June 2017: Proposed bonus issue of new shares and free warrants. Also announced plans to list healthcare business by 2022.
2. 1H18: Weak sentiment on property stocks pre-GE14.
3. 2H18: Weak sentiment on property stocks pre Budget 2019.
4. 2019: Better sentiment on construction stocks (including SCG) after the revival of the ECRL project.
5. 2020: Proposed fund raising via the issuance of ICPS.

## Swing Factors

### Upside

- Potential stake sale in of healthcare unit (*source: thesundaily.my*).
- RNAV-accretive land acquisitions.
- Higher-than-expected job wins at its construction business under SCG.

### Downside

- Slow-than-expected property sales and longer-than-expected downturn in the property sector.
- Country/currency risks as Sunway has property projects in Singapore and China.

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Fig. 1: Results summary table - Sunway

FY Dec					
(MYRm)	1Q21	1Q20	%YoY	4Q20	%QoQ
<b>Revenue</b>	<b>1,016.7</b>	<b>971.4</b>	<b>4.7</b>	<b>1,278.0</b>	<b>-20.4</b>
- Property dev	97.2	139.2	-30.2	184.3	-47.3
- Property inv	58.7	134.3	-56.3	46.1	27.4
- Construction	321.4	218.0	47.4	424.6	-24.3
- Trading	224.5	194.2	15.6	245.8	-8.7
- Quarry	77.2	74.1	4.2	109.8	-29.6
- Healthcare	170.6	149.2	14.4	178.0	-4.1
- Others	67.1	62.4	7.6	89.5	-25.0
<b>PBIT</b>	<b>49.1</b>	<b>67.5</b>	<b>-27.4</b>	<b>50.2</b>	<b>-2.3</b>
Finance costs	14.5	-11.6	>+100	43.8	-66.9
Other income	23.6	37.6	-37.1	165.2	-85.7
<b>Pretax profit</b>	<b>87.2</b>	<b>93.5</b>	<b>-6.7</b>	<b>259.1</b>	<b>-66.4</b>
- Property dev	20.7	32.8	-37.0	218.6	-90.5
- Property inv	-16.9	29.2	>-100	-82.6	79.6
- Construction	27.7	22.6	22.6	39.0	-28.9
- Trading	12.2	0.2	>+100	11.4	7.3
- Quarry	3.1	3.0	3.5	5.6	-45.3
- Healthcare	14.0	-4.5	>+100	22.5	-37.7
- Others	26.4	10.2	>+100	37.4	-29.4
Taxation	-16.8	-17.6	-4.8	-45.4	63.0
Minority interest	-11.9	-13.4	-11.2	-14.0	14.7
<b>Net profit</b>	<b>58.5</b>	<b>62.4</b>	<b>-6.3</b>	<b>199.8</b>	<b>-70.7</b>
<b>Core net profit</b>	<b>58.5</b>	<b>62.4</b>	<b>-6.3</b>	<b>228.2</b>	<b>-74.4</b>
			<b>+/- ppt</b>		<b>+/- ppt</b>
Pretax margin (%)	8.6	9.6	-1.0	20.3	-11.7
- Property dev	21.3	23.6	-2.3	118.6	-97.3
- Property inv	-28.7	21.7	-50.5	-179.5	150.7
- Construction	8.6	10.4	-1.7	9.2	-0.6
- Trading	5.4	0.1	5.3	4.6	0.8
- Quarry	4.0	4.0	0.0	5.1	-1.1
- Healthcare	8.2	-3.0	11.2	12.6	-4.4
- Others	39.3	16.3	23.0	41.8	-2.4
Tax rate (%)	-19.3	-18.9	-0.4	-15.3	-3.9

Source: Maybank KE

## Our RNAV estimate

	Stake	Acres	MV (MYR m)	BV (MYR m)	Surplus (MYR m)
<b>1. Landbank - MARKET VALUE</b>					
Sunway Semenyih	70%	526.1	572.9	128.0	311.5
Suncity Ipoh	96%	336.4	58.6	58.7	(0.1)
Sunway Integrated Resort	100%	7.7	4.8	8.3	(3.5)
Sunway Tower KL 1	100%	1.9	122.8	28.3	94.5
Sunway JB, Bukit Lenang	80%	49.9	54.3	134.5	(64.1)
Sg Long Balakong	80%	111	140.2	21.8	94.8
Mont Putra Rawang	100%	163	49.7	35.1	14.6
Sunway Iskandar - Pendas, freehold	60%	1079	1175.1	596.6	347.1
<b>Sub-total (1)</b>					<b>794.8</b>
<b>2. Active developments - WACC (10.5-13.1%)</b>					
	<b>Stake</b>				<b>(MYR m)</b>
South Quay	100%				301.2
Sunway Cheras	100%				1.5
Sunway Damansara	60%				2.1
Bangi	100%				2.8
Casa Kiara III	80%				15.3
Sunway Velocity	85%				112.4
Penang projects	100%				22.8
Wonderland Business Park, Australia	31%				1.4
Singapore Sembawang	100%				2.3
Mount Sophia	30%				7.7
Sunway Iskandar -leasehold (Medini)	51%				273.5
Kelana Jaya	100%				81.1
Industrial projects at Kelana Jaya and Subang	100%				12.1
Sunway Velocity extension	50%				80.4
Belfield	100%				95.8
Kajang	100%				36.6
Subang	100%				62.2
Wangsamaju	55%				24.4
PKNS Kota Damansara	60%				29.4
<b>Sub-total (2):</b>					<b>1,165.1</b>
<b>3. Investment properties - MARKET VALUE</b>					
	<b>Stake</b>		<b>MV</b>	<b>BV</b>	<b>Surplus</b>
			<b>(MYR m)</b>	<b>(MYR m)</b>	<b>(MYR m)</b>
Sunway Velocity Mall	59%		1,600	1,172	252.3
<b>Sub-total (3)</b>					<b>252.3</b>

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	<b>Surplus (MYR m)</b>
<b>4. Other businesses or assets</b>	
Valuation for SunREIT on Maybank IB's MYR1.30 TP	(33.0)
Valuation for SCG based on Maybank IB's MYR1.72 TP	1,059.8
Healthcare (30x 2021 PER)	1,822.2
Building material (10x 2021 PER)	140.7
Trading (10x 2021 PER)	190.1
<b>Sub-total (4)</b>	<b>3,429.1</b>
<b>Grand total = (1) + (2) + (3) + (4)</b>	<b>5,392.1</b>
Shareholders' funds (MYR m) - Dec 2020	9,534.6
Proceeds from warrants (MYR1.56 exercise price; expiring in Oct 2024)	1,044.4
<b>RNAV (MYR m)</b>	<b>15,971.1</b>
Number of shares (m)	4,934.0
Number of warrants (m)	669.5
ICPS	977.8
<b>FD RNAV/share (MYR)</b>	<b>2.43</b>

Source: Maybank KE

FYE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Key Metrics</b>					
P/E (reported) (x)	11.4	20.7	17.9	14.7	12.8
Core P/E (x)	13.8	20.2	17.9	14.7	12.8
P/BV (x)	1.0	0.8	0.8	0.8	0.8
P/NTA (x)	1.0	0.8	0.8	0.8	0.7
Net dividend yield (%)	5.1	0.9	1.7	2.0	2.3
FCF yield (%)	nm	0.7	15.8	nm	nm
EV/EBITDA (x)	27.3	56.0	20.2	16.5	15.5
EV/EBIT (x)	27.3	56.0	23.4	18.6	17.4
<b>INCOME STATEMENT (MYR m)</b>					
Revenue	4,780.3	3,833.3	5,575.0	7,014.6	6,882.1
EBITDA	570.1	250.8	648.9	811.1	918.4
Depreciation	0.0	0.0	(87.9)	(93.6)	(99.4)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	570.1	250.8	561.0	717.5	819.0
Net interest income / (exp)	34.0	28.5	(118.9)	(123.9)	(142.1)
Associates & JV	261.2	230.0	172.2	140.4	150.3
Exceptionals	(79.1)	47.9	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	865.3	509.3	614.3	734.0	827.2
Income tax	(78.4)	(102.0)	(86.0)	(102.8)	(115.8)
Minorities	(77.7)	(47.7)	(68.4)	(69.7)	(68.8)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	709.2	359.6	459.9	561.6	642.6
Core net profit	635.3	395.4	459.9	561.6	642.6
<b>BALANCE SHEET (MYR m)</b>					
Cash & Short Term Investments	2,554.7	2,237.3	3,438.8	3,186.1	2,279.9
Accounts receivable	3,014.9	2,440.6	3,549.5	4,466.0	4,381.6
Inventory	2,102.1	2,101.5	3,056.3	3,845.5	3,772.8
Reinsurance assets	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	2,749.0	2,611.4	3,119.5	3,313.0	3,512.4
Intangible assets	331.6	350.8	350.8	350.8	350.8
Investment in Associates & JVs	4,085.1	4,346.2	3,961.8	3,579.7	4,757.0
Other assets	6,657.1	7,031.7	4,955.1	4,955.1	4,955.1
<b>Total assets</b>	<b>21,494.6</b>	<b>21,119.4</b>	<b>22,431.7</b>	<b>23,696.1</b>	<b>24,009.6</b>
ST interest bearing debt	7,024.8	5,132.5	5,132.5	5,132.5	5,132.5
Accounts payable	2,670.9	2,456.9	3,573.3	4,495.9	4,411.0
Insurance contract liabilities	0.0	0.0	0.0	0.0	0.0
LT interest bearing debt	1,273.7	2,373.7	2,373.7	2,373.7	2,373.7
Other liabilities	1,092.0	824.0	750.0	750.0	750.0
<b>Total Liabilities</b>	<b>12,061.0</b>	<b>10,787.6</b>	<b>11,829.3</b>	<b>12,752.0</b>	<b>12,667.0</b>
Shareholders Equity	8,389.3	9,534.6	9,805.2	10,146.9	10,545.4
Minority Interest	1,044.3	797.2	797.2	797.2	797.2
<b>Total shareholder equity</b>	<b>9,433.6</b>	<b>10,331.8</b>	<b>10,602.4</b>	<b>10,944.1</b>	<b>11,342.6</b>
<b>Total liabilities and equity</b>	<b>21,494.6</b>	<b>21,119.4</b>	<b>22,431.7</b>	<b>23,696.1</b>	<b>24,009.6</b>
<b>CASH FLOW (MYR m)</b>					
Pretax profit	865.3	509.3	614.3	734.0	827.2
Depreciation & amortisation	0.0	0.0	87.9	93.6	99.4
Adj net interest (income)/exp	167.4	141.2	(118.9)	(123.9)	(142.1)
Change in working capital	(354.2)	66.8	1,308.3	(164.3)	(855.1)
Cash taxes paid	(94.0)	(60.0)	(86.0)	(102.8)	(115.8)
Other operating cash flow	100.0	170.5	0.0	0.0	0.0
Cash flow from operations	684.6	827.7	1,805.7	436.5	(186.4)
Capex	(1,337.6)	(768.0)	(500.0)	(500.0)	(500.0)
Free cash flow	(653.0)	59.7	1,305.7	(63.5)	(686.4)
Dividends paid	(305.9)	(253.6)	(104.2)	(189.3)	(219.8)
Equity raised / (purchased)	(86.2)	(21.0)	0.0	0.0	0.0
Change in Debt	(974.7)	(792.3)	0.0	0.0	0.0
Other invest/financing cash flow	(292.0)	(321.4)	0.0	0.0	0.0
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
<b>Net cash flow</b>	<b>(2,311.9)</b>	<b>(1,328.7)</b>	<b>1,201.5</b>	<b>(252.8)</b>	<b>(906.2)</b>

FYE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Key Ratios</b>					
<b>Growth ratios (%)</b>					
Revenue growth	(11.6)	(19.8)	45.4	25.8	(1.9)
EBITDA growth	(4.1)	(56.0)	158.7	25.0	13.2
EBIT growth	(4.1)	(56.0)	123.7	27.9	14.1
Pretax growth	3.4	(41.1)	20.6	19.5	12.7
Reported net profit growth	9.9	(49.3)	27.9	22.1	14.4
Core net profit growth	13.9	(37.8)	16.3	22.1	14.4
<b>Profitability ratios (%)</b>					
EBITDA margin	11.9	6.5	11.6	11.6	13.3
EBIT margin	11.9	6.5	10.1	10.2	11.9
Pretax profit margin	18.1	13.3	11.0	10.5	12.0
Payout ratio	62.5	20.7	30.0	30.0	30.0
<b>DuPont analysis</b>					
Net profit margin (%)	14.8	9.4	8.2	8.0	9.3
Revenue/Assets (x)	0.2	0.2	0.2	0.3	0.3
Assets/Equity (x)	2.6	2.2	2.3	2.3	2.3
ROAE (%)	8.7	4.0	4.8	5.6	6.2
ROAA (%)	2.9	1.9	2.1	2.4	2.7
<b>Leverage &amp; Expense Analysis</b>					
Asset/Liability (x)	1.8	2.0	1.9	1.9	1.9
Net gearing (%) (incl perps)	60.9	51.0	38.4	39.5	46.1
Net gearing (%) (excl. perps)	60.9	51.0	38.4	39.5	46.1
Net interest cover (x)	na	na	4.7	5.8	5.8
Debt/EBITDA (x)	14.6	nm	11.6	9.3	8.2
Capex/revenue (%)	28.0	20.0	9.0	7.1	7.3
Net debt/ (net cash)	5,743.8	5,268.9	4,067.4	4,320.2	5,226.4

Source: Company; Maybank

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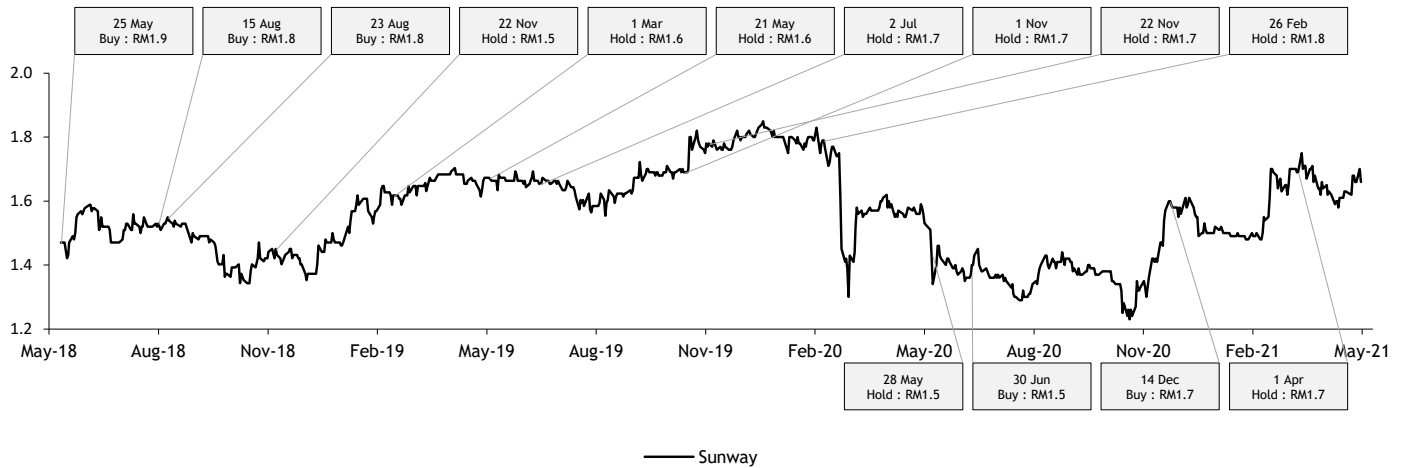
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