

Sunway (SWB MK)

Sets lower sales target

Dragged by MCO

Sunway's 2Q20 core net loss of MYR0.1m (from MYR187m profit in 2Q19) and 6M20 effective property sales of MYR586b were below expectations. Management lowers its effective sales target for 2020 to MYR770m (-45%). We lower Sunway's core net profit forecasts by -2% to -15% to factor in the change in Sunway Construction Group (SCG MK; TP MYR1.93; BUY)'s earnings forecasts and lower sales assumption as well as slower progress billings. Our TP is unchanged at MYR1.55 on an unchanged 0.8x PBV. Reiterate BUY.

Results below expectations

Excluding the MYR22m distribution to perpetual sukuk holders and MYR16.5m fair value loss, Sunway's 2Q20 core net loss was MYR0.1m, lifting 6M20 core net earnings to MYR66m (-79% YoY), at 15% of our/consensus full-year estimates. The lower-than-expected earnings performance was due to the disruptions arise from the various phases of MCO between 1 April and 30 June. Consequently, all of its business segments were hit badly especially the hospitality and leisure businesses.

Cuts FY20 sales target by 45%

Sales wise, Sunway has locked-in MYR586m in property sales in 6M20, accounted for just 41% of its MYR1.4b FY20 sales target - below expectation. Given the challenging property market outlook, Sunway has postponed the launches of some new projects and lowered its sales target by 45% to MYR770m. Effective unbilled sales were MYR2.5b as at end-June 2020 (2.7x FY21F property revenue). Elsewhere, 54.4%-owned SCG has secured MYR725m worth of jobs in 6M20 (YTD: MYR1.5b), increasing its outstanding orderbook to MYR5.4b as at end-June 2020.

Earnings adjustments

We adjust our FY20/21/22 core net profit forecasts for Sunway by -15%/-4.3%/-2.1% after factoring in: 1) slower progress billings, 2) lower earnings contributions from SCG and 3) lower sales assumption of MYR776m (-32%). Consequently, our new RNAV/sh is MYR2.88 (-4sen). Sunway has recently released the circular for its proposed ICPS. The proposed fund raising exercise is expected to be completed by mid Oct 2020 (see [our report](#)).

FYE Dec (MYR m)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue	5,410	4,780	5,293	6,764	6,620
EBITDA	595	565	718	1,014	1,055
Core net profit	558	638	377	617	657
Core FDEPS (sen)	11.4	13.1	7.7	12.7	13.5
Core FDEPS growth(%)	0.9	14.4	(40.9)	63.4	6.6
Net DPS (sen)	7.1	9.1	3.5	5.7	6.1
Core FD P/E (x)	12.6	13.7	17.3	10.6	9.9
P/BV (x)	0.9	1.0	0.8	0.7	0.7
Net dividend yield (%)	4.9	5.1	2.6	4.3	4.5
ROAE (%)	8.1	8.7	4.4	7.0	7.2
ROAA (%)	2.7	2.8	1.6	2.4	2.5
EV/EBITDA (x)	19.1	23.1	16.9	12.1	12.7
Net gearing (%) (incl perp)	41.6	36.2	47.6	47.4	55.7
Consensus net profit	-	-	442	599	670
MKE vs. Consensus (%)	-	-	(14.6)	3.0	(1.9)

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BUY

Share Price	MYR 1.34
12m Price Target	MYR 1.55 (+16%)
Previous Price Target	MYR 1.55

Company Description

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

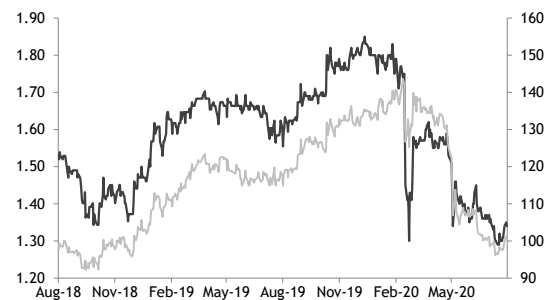
Statistics

52w high/low (MYR)	1.85/1.29
3m avg turnover (USDm)	1.8
Free float (%)	26.0
Issued shares (m)	4,934
Market capitalisation	MYR6.6B
	USD1.6B

Major shareholders:

Active Equity Sdn. Bhd.	60.1%
Employees Provident Fund	9.6%
AIA Bhd.	2.3%

Price Performance



— Sunway - (LHS, MYR) — Sunway / Kuala Lumpur Composite Index - (RHS, %)

	-1M	-3M	-12M
Absolute (%)	(1)	(12)	(17)
Relative to index (%)	(0)	(20)	(15)

Source: FactSet

Fig. 1: Results summary table - Sunway

FY Dec (MYRm)	Quarterly					Cumulative		
	2Q20	2Q19	%YoY	1Q20	%QoQ	6M20	6M19	%YoY
Revenue	556.6	1,077.2	-48.3	971.4	-42.7	1,528.1	2,200.8	-30.6
- Property dev	68.1	113.6	-40.0	139.2	-51.0	207.3	201.4	2.9
- Property inv	55.5	176.1	-68.5	134.3	-58.7	189.8	372.8	-49.1
- Construction	92.6	293.5	-68.5	218.0	-57.5	310.6	639.6	-51.4
- Trading	141.1	230.0	-38.6	194.2	-27.3	335.3	481.4	-30.3
- Quarry	31.9	52.6	-39.4	74.1	-57.0	106.0	96.8	9.5
- Healthcare	125.1	140.8	-11.1	149.2	-16.1	274.3	267.6	2.5
- Others	42.3	70.6	-40.1	62.4	-32.2	104.7	70.5	48.4
PBIT	6.0	167.3	-96.4	44.7	-86.6	50.7	285.0	-82.2
Finance costs	4.8	3.8	24.4	24.5	-80.6	29.2	21.6	35.2
Other income	-0.6	82.1	>-100	38.6	>-100	38.0	123.9	-69.3
Pretax profit	10.1	253.2	-96.0	107.8	-90.6	117.9	430.5	-72.6
- Property dev	25.9	37.3	-30.5	39.1	-33.8	65.0	70.1	-7.3
- Property inv	-35.8	122.3	>-100	32.0	>-100	-3.8	179.7	>-100
- Construction	6.6	43.2	-84.8	22.6	-71.0	29.1	83.1	-64.9
- Trading	6.2	6.6	-6.3	0.5	>+100	6.7	13.1	-49.3
- Quarry	-1.4	2.1	>-100	3.1	>-100	1.6	3.9	-57.3
- Healthcare	-16.0	19.3	>-100	-4.5	>-100	-20.4	34.7	>-100
- Others	24.7	22.5	9.5	15.0	64.1	39.7	45.9	-13.6
Pretax profit ex-EI	26.6	209.6	-87.3	107.8	-75.3	134.4	386.9	-65.3
Taxation	-14.7	9.4	>-100	-17.5	16.1	-32.2	-15.9	>-100
Minority interest*	-12.0	-32.4	62.9	-23.9	49.8	-35.9	-53.2	-32.5
Net profit	-16.6	230.3	>-100	66.4	>-100	49.8	361.4	-86.2
Net profit ex-EI	-0.1	186.7	>-100	66.4	>-100	66.3	317.8	-79.1
Exceptional item (pretax)	16.5	-43.6	>+100	0.0	NA	16.5	-43.6	>-100
	2Q20	2Q19	+/- ppt	1Q20	+/- ppt	6M20	6M19	+/- ppt
Pretax margin (%)	1.8	23.5	-21.7	11.1	-9.3	8.8	17.6	-8.8
- Property dev	38.0	32.8	5.2	28.1	9.9	31.4	34.8	-3.5
- Property inv	-64.4	69.5	-133.9	23.8	-88.2	-2.0	48.2	-50.2
- Construction	7.1	14.7	-7.6	10.4	-3.3	9.4	13.0	-3.6
- Trading	4.4	2.9	1.5	0.3	4.1	2.0	2.7	-0.7
- Quarry	-4.5	4.0	-8.5	4.1	-8.6	1.6	4.0	-2.4
- Healthcare	-12.8	13.7	-26.5	-3.0	-9.8	-7.5	13.0	-20.4
- Others	58.3	31.9	26.4	24.1	34.2	37.9	65.1	-27.2
Tax rate (%)	-55.2	4.5	-59.7	-16.2	-39.0	-24.0	-4.1	-19.8

*Including distribution to perpetual sukuk holders of MYR9.9m in 2Q20; YTD: MYR21.8m

Source: Company

Our RNAV estimate

	Stake	Acres	MV (MYR m)	BV (MYR m)	Surplus (MYR m)
1. Landbank - MARKET VALUE					
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
Sub-total (1)					794.8
2. Active developments - WACC (10.5-13.1%)					
	Stake				(MYR m)
South Quay	100%				293.2
Sunway Cheras	100%				1.6
Sunway Damansara	60%				5.4
Bangi	100%				3.3
Sunway Melawati	100%				2.1
Casa Kiara III	80%				14.2
Sunway Velocity	85%				103.9
Penang projects	100%				26.1
Wonderland Business Park, Australia	31%				2.2
Singapore Sembawang	100%				2.8
Mount Sophia	30%				7.8
Sunway Iskandar -leasehold (Medini)	51%				268.9
Kelana Jaya	100%				101.8
Industrial projects at Kelana Jaya and Subang	100%				18.2
Sunway Velocity extension	50%				78.1
Belfield	100%				91.4
Kajang	100%				33.1
Subang	100%				57.8
Wangsamaju	55%				25.9
PKNS Kota Damansara	60%				26.6
Sub-total (2):					1,164.4
3. Investment properties - MARKET VALUE					
	Stake		MV	BV	Surplus
			(MYR m)	(MYR m)	(MYR m)
Sunway Velocity Mall	59%		1,600	1,172	252.3
Sub-total (3)					252.3

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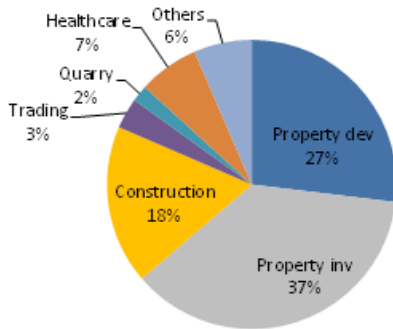
	Surplus (MYR m)
4. Other businesses or assets	
37.3% stake in SunREIT on Maybank IB's MYR1.65 TP	351.5
54.4% stake in SCG based on Maybank IB's MYR1.93 TP	1,207.5
Healthcare (35x 2020 PER)	1,703.8
Building material (10x 2020 PER)	474.8
Trading (10x 2020 PER)	240.4
Sub-total (4)	3,978.1
Grand total = (1) + (2) + (3) + (4)	6,402.7
Disposal gain	40.0
Shareholders' funds (MYR m) - Dec 2019	8,392.2
Proceeds from warrants (MYR1.86 exercise price; expiring in Oct 2024)	1,171.7
RNAV (MYR m)	15,793.5
Number of shares (m)	4,849.0
Number of warrants (m)	630.0
FD RNAV/share (MYR)	2.88

Source: Maybank KE

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 37% stake in SunREIT (SREIT MK, BUY, TP: MYR1.65) and 54% in SCG (SCGB MK, BUY, TP: MYR1.93).

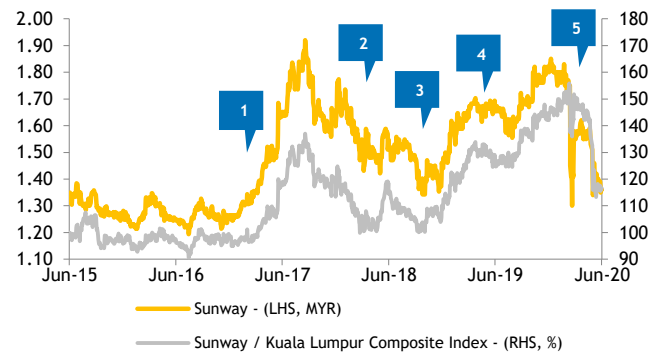
PBT (FY19) breakdown by businesses



Source: Company

Price Drivers

Historical share price trend



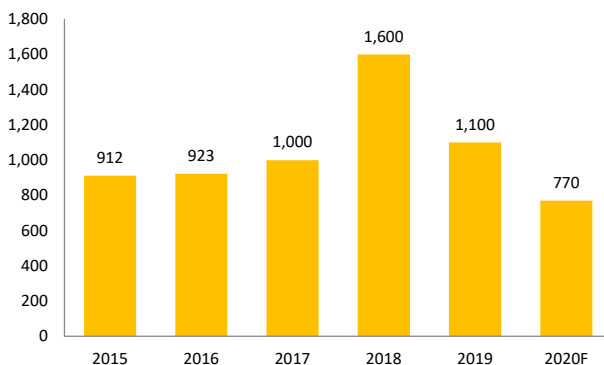
Source: Company, Maybank Kim Eng

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.

Financial Metrics

- Effective unbilled sales (property) stood at MYR2.5b (or 2.7x our FY21F property revenue) as at end-June 2020.
- Sunway targets to achieve MYR1.4b in effective property sales in 2020 (+27% YoY).

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



Source: Company

Swing Factors

Upside

- Earlier-than-expected listing of its healthcare business.
- 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.
- Earnings risks at its construction business on cost-down of the KVLRT 3 project.
- Country/currency risks as Sunway has property projects in Singapore and China

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FYE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
Key Metrics					
P/E (reported) (x)	11.4	11.3	17.3	10.6	9.9
Core P/E (x)	12.6	13.7	17.3	10.6	9.9
Core FD P/E (x)	12.6	13.7	17.3	10.6	9.9
P/BV (x)	0.9	1.0	0.8	0.7	0.7
P/NTA (x)	0.8	0.9	0.6	0.6	0.6
Net dividend yield (%)	4.9	5.1	2.6	4.3	4.5
FCF yield (%)	nm	nm	nm	0.4	nm
EV/EBITDA (x)	19.1	23.1	16.9	12.1	12.7
EV/EBIT (x)	19.1	23.1	19.1	13.3	13.9

INCOME STATEMENT (MYR m)

Revenue	5,410.2	4,780.4	5,293.3	6,763.9	6,620.2
Gross profit	378.5	363.5	718.3	1,013.6	1,055.4
EBITDA	594.7	565.2	718.3	1,013.6	1,055.4
Depreciation	0.0	0.0	(82.6)	(88.1)	(93.7)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	594.7	565.2	635.7	925.6	961.7
Net interest income / (exp)	12.8	87.8	(206.4)	(213.1)	(238.7)
Associates & JV	229.3	261.2	130.8	173.0	186.8
Exceptionals	89.1	79.1	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	836.8	914.2	560.1	885.5	909.8
Income tax	(121.4)	(78.3)	(78.4)	(124.0)	(127.4)
Minorities	(69.9)	(69.3)	(49.2)	(89.7)	(70.1)
Perpetual securities	0.0	(54.5)	(55.0)	(55.0)	(55.0)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	645.5	712.1	377.5	616.8	657.3
Core net profit	557.7	638.2	377.5	616.8	657.3

BALANCE SHEET (MYR m)

Cash & Short Term Investments	5,136.0	5,888.8	5,106.7	5,462.3	4,866.5
Accounts receivable	1,946.5	2,122.0	2,349.7	3,002.5	2,938.7
Inventory	1,857.9	2,100.9	2,326.4	2,972.6	2,909.5
Reinsurance assets	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	2,627.7	2,753.4	2,936.0	3,124.1	3,317.8
Intangible assets	313.9	311.7	311.7	311.7	311.7
Investment in Associates & JVs	3,390.7	3,751.8	3,751.8	3,751.8	3,751.8
Other assets	6,507.7	6,629.3	7,821.3	7,634.0	8,944.8
Total assets	21,780.3	23,558.0	24,603.5	26,258.9	27,040.7
ST interest bearing debt	6,337.5	7,416.8	7,916.8	8,416.8	8,916.8
Accounts payable	2,786.6	2,765.5	3,050.2	3,866.3	3,786.6
Insurance contract liabilities	0.0	0.0	0.0	0.0	0.0
LT interest bearing debt	2,535.8	2,153.7	2,153.7	2,153.7	2,153.7
Other liabilities	1,137.0	1,048.0	1,048.0	1,048.0	1,048.0
Total Liabilities	12,796.4	13,384.4	14,169.1	15,485.2	15,905.5
Shareholders Equity	7,964.8	8,392.2	8,653.1	8,992.4	9,353.9
Minority Interest	619.1	631.3	631.3	631.3	631.3
Total shareholder equity	8,583.9	9,023.5	9,284.5	9,623.7	9,985.3
Perpetual securities	400.0	1,150.0	1,150.0	1,150.0	1,150.0
Total liabilities and equity	21,780.3	23,558.0	24,603.5	26,258.9	27,040.7

CASH FLOW (MYR m)

Pretax profit	836.8	914.2	560.1	885.5	909.8
Depreciation & amortisation	0.0	0.0	82.6	88.1	93.7
Adj net interest (income)/exp	442.5	380.6	(206.4)	(213.1)	(238.7)
Change in working capital	(181.6)	(176.8)	(271.3)	314.5	(530.1)
Cash taxes paid	(109.2)	(90.7)	(78.4)	(124.0)	(127.4)
Other operating cash flow	(62.0)	(102.0)	0.0	0.0	0.0
Cash flow from operations	926.4	925.3	86.6	951.0	107.3
Capex	(953.3)	(925.5)	(925.5)	(925.5)	(925.5)
Free cash flow	(26.9)	(0.3)	(838.9)	25.4	(818.2)
Dividends paid	(382.3)	(307.9)	(443.2)	(169.9)	(277.6)
Equity raised / (purchased)	330.5	663.8	0.0	0.0	0.0
Change in Debt	651.9	1,447.3	500.0	500.0	500.0
Other invest/financing cash flow	(285.1)	(363.3)	0.0	0.0	0.0
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	288.1	1,439.6	(782.1)	355.6	(595.8)

FYE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
Key Ratios					
Growth ratios (%)					
Revenue growth	3.3	(11.6)	10.7	27.8	(2.1)
EBITDA growth	(8.9)	(5.0)	27.1	41.1	4.1
EBIT growth	(8.9)	(5.0)	12.5	45.6	3.9
Pretax growth	(4.1)	9.3	(38.7)	58.1	2.7
Reported net profit growth	4.0	10.3	(47.0)	63.4	6.6
Core net profit growth	1.9	14.4	(40.9)	63.4	6.6
Profitability ratios (%)					
EBITDA margin	11.0	11.8	13.6	15.0	15.9
EBIT margin	11.0	11.8	12.0	13.7	14.5
Pretax profit margin	15.5	19.1	10.6	13.1	13.7
Payout ratio	53.7	62.2	45.0	45.0	45.0
DuPont analysis					
Net profit margin (%)	11.9	14.9	7.1	9.1	9.9
Revenue/Assets (x)	0.2	0.2	0.2	0.3	0.2
Assets/Equity (x)	2.7	2.8	2.8	2.9	2.9
ROAE (%)	8.1	8.7	4.4	7.0	7.2
ROAA (%)	2.7	2.8	1.6	2.4	2.5
Leverage & Expense Analysis					
Asset/Liability (x)	1.7	1.8	1.7	1.7	1.7
Net gearing (%) (incl perps)	41.6	36.2	47.6	47.4	55.7
Net gearing (%) (excl. perps)	43.5	40.8	53.5	53.1	62.1
Net interest cover (x)	na	na	3.1	4.3	4.0
Debt/EBITDA (x)	14.9	16.9	14.0	10.4	10.5
Capex/revenue (%)	17.6	19.4	17.5	13.7	14.0
Net debt/ (net cash)	3,737.2	3,681.8	4,963.9	5,108.3	6,204.1

Source: Company; Maybank

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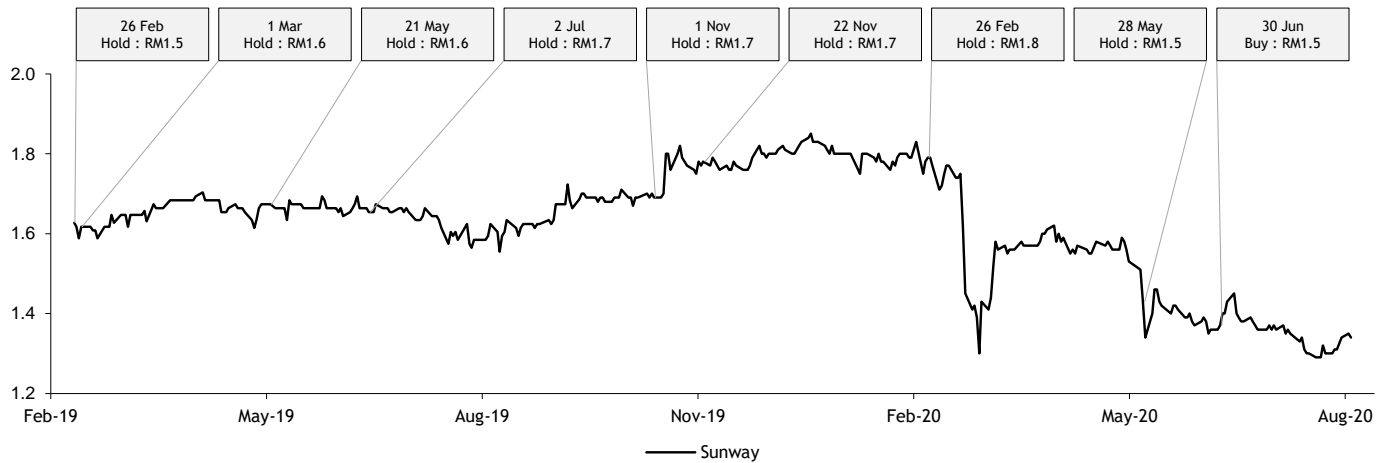
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