

26 November 2021

Property | Real Estate

Sunway (SWB MK)

Buy (Maintained)

Property Sales Remained Strong In Singapore; Keep BUY

Target Price (Return):	MYR2.06 (22.6%)
Price (Market Cap):	MYR1.68 (USD1,942m)
ESG score:	3.40 (out of 4)
Avg Daily Turnover (MYR/USD)	2.29m/0.55m

- Maintain BUY, with a new TP of MYR2.06 from MYR2.00, 23% upside and c.1% yield.** Sunway's 3Q21 results were largely in line with expectations. Management raised its sales target for the second time this year to MYR2.8bn, given the encouraging take-up in projects in Singapore and 9M sales of MYR2.17bn. We expect earnings to pick up more materially in 4Q21 given the gradual re-opening of the economy, which should have more positive impact on its property development, construction, and healthcare segments.

- 3Q21 results.** The improvement in sequential revenue was largely driven by the property development, due to the resumption of construction activities and handover of a residential block at Sunway South Quay. Meanwhile, earnings for the property investment, trading & manufacturing, and quarry remained weak, due to the impact of lockdown and slow subsequent recovery. The healthcare segment saw slightly better earnings QoQ, as operating loss at Sunway Medical Centre Velocity has narrowed to MYR0.6m from MYR4.3m in the previous quarter.

- Strong property sales momentum continued.** New property sales achieved MYR530m vs MYR480m in 2Q21, bringing 9M total to MYR2.17bn. Projects in Singapore contributed close to MYR1.4bn. Both Parc Central Tampines and Ki Residences in Singapore are already 98% and 78% sold (vs 85% and 58% in the previous quarter). Locally, the take-up rate (plus booking) for Sunway Belfield has reached 93% for Tower A (from 87%) and 87% for Tower B (from 65%), contributing MYR394m in sales.

- Upped sales target again.** Given the strong sales momentum, management revised up its sales target once more to MYR2.8bn (from MYR2.2bn). In the pipeline, Sunway plans to roll out Velocity TWO Tower D (GDV: MYR390m) and Sunway Gardens Phase 3A (GDV: MYR230) in Tianjin China. Meanwhile, Sunway D'Hills in Kota Damansara and Sunway ARTESSA in Wangsa Maju have their preview in November.

- Forecast.** We make no changes to our FY21-23 earnings forecasts. The impact of Cukai Makmur on Sunway's FY22 earnings is expected to be minimal (or no impact). Unbilled sales increased to MYR3.83bn from MYR3.6bn as at 2Q21, while its outstanding construction orderbook remained stable at MYR4.7bn (from MYR4.8bn as at 2Q21).

- ESG.** Based on our in-house proprietary methodology, we derived an ESG score of 3.40 for Sunway. As we incorporate the 8% ESG premium, as well as the incremental value from Sunway's latest land acquisition in Tanjong Katong Singapore, our SOP-based TP is raised to MYR2.06.

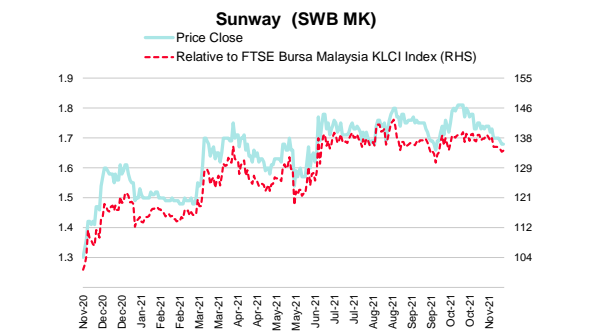
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	4.3	(6.7)	(5.1)	1.2	29.2
Relative	11.0	(2.3)	(1.8)	5.0	34.2
52-wk Price low/high (MYR)	1.33 – 1.81				



Source: Bloomberg

Forecasts and Valuation	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
Total turnover (MYRm)	4,780	3,833	4,119	3,811	4,438
Recurring net profit (MYRm)	693	461	320	374	470
Recurring net profit growth (%)	17.2	(33.4)	(30.7)	17.1	25.5
Recurring EPS (MYR)	0.14	0.09	0.06	0.07	0.09
DPS (MYR)	0.10	0.01	0.02	0.02	0.03
Recurring P/E (x)	11.93	18.75	27.31	23.57	18.97
P/B (x)	0.98	0.91	0.89	0.88	0.86
Dividend Yield (%)	6.0	0.7	0.9	1.2	1.5
Return on average equity (%)	9.1	4.0	3.3	3.8	4.6
Net debt to equity (%)	36.2	50.7	54.4	53.7	52.0

Source: Company data, RHB

Overall ESG Score: 3.40 (out of 4)

E: EXCELLENT

Sunway City is a Green Building Index (GBI) certified township. The company managed to avoid 40,131 tonnes of CO2e from 2015-2019, and 1% of its electricity is from renewable sources (in 2019). Its main townships also have more than 40% open space, with greenscapes and bluescapes.

S: EXCELLENT

Sunway has made donations to aid the underserved communities in the B40 group, people with disabilities, youth, women, children and senior citizens. The Good Run in Oct 2019 managed to raise MYR275k to support medical treatment costs for cancer patients of the B40 group.

G: EXCELLENT

56% of board members are independent. Sunway has an in-house investor relations team that is easily accessible, and holds investor meetings, embodying good transparency and disclosure practices.

Financial Exhibits

Asia	Financial summary (MYR)	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
Malaysia	Recurring EPS	0.14	0.09	0.06	0.07	0.09
Property	EPS	0.16	0.07	0.06	0.07	0.09
Sunway	DPS	0.10	0.01	0.02	0.02	0.03
SWB MK	BVPS	1.71	1.85	1.88	1.91	1.96
Buy	Return on average equity (%)	9.1	4.0	3.3	3.8	4.6
	Return on average assets (%)	3.4	1.6	1.5	1.7	2.1
Valuation basis						
45% discount to property RNAV, 15x P/E for trading/building material division, 18.5x EV/EBITDA for healthcare division, and 10% holding co discount	Valuation metrics	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
	Recurring P/E (x)	11.93	18.75	27.31	23.57	18.97
	P/B (x)	1.0	0.9	0.9	0.9	0.9
	Dividend Yield (%)	6.0	0.7	0.9	1.2	1.5
	EV/EBITDA (x)	15.94	49.28	51.84	47.94	35.91
Key drivers						
New property sales, disposal of investment properties	Income statement (MYRm)	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
	Total turnover	4,780	3,833	4,119	3,811	4,438
	Gross profit	1,318	804	796	752	908
	EBITDA	789	298	296	325	438
	Depreciation and amortisation	(224)	(47)	(108)	(116)	(120)
	Operating profit	565	251	188	209	318
	Net interest	88	28	5	(15)	(32)
	Pre-tax profit	914	509	450	520	652
	Taxation	(78)	(102)	(90)	(104)	(130)
	Reported net profit	767	360	320	374	470
	Recurring net profit	693	461	320	374	470
	Cash flow (MYRm)	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
	Change in working capital	(153)	(514)	(3)	209	(309)
	Cash flow from operations	916	(18)	481	688	241
	Capex	(2,205)	0	(743)	(600)	(85)
	Cash flow from investing activities	(2,659)	(529)	(637)	(437)	129
	Dividends paid	(494)	(60)	(78)	(105)	(133)
	Cash flow from financing activities	(563)	(1,380)	(175)	(201)	(228)
	Cash at beginning of period	5,134	5,889	2,269	1,871	1,877
	Net change in cash	(2,306)	(1,926)	(332)	50	143
	Ending balance cash	2,829	3,963	1,937	1,921	2,020
	Balance sheet (MYRm)	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
	Total cash and equivalents	5,889	2,269	1,871	1,877	1,885
	Tangible fixed assets	12,878	13,632	14,267	14,751	14,717
	Intangible assets	331	351	351	351	351
	Total other assets	77	65	246	379	500
	Total assets	23,558	21,119	21,622	21,690	22,334
	Short-term debt	7,417	5,132	5,132	5,132	5,132
	Total long-term debt	2,154	2,374	2,512	2,616	2,631
	Total liabilities	13,384	10,788	11,008	10,765	11,019
	Shareholders' equity	8,392	9,535	9,776	10,046	10,383
	Minority interests	631	797	838	879	931
	Total equity	10,174	10,332	10,614	10,925	11,314
	Total liabilities & equity	23,558	21,119	21,622	21,690	22,334
	Key metrics	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
	Revenue growth (%)	(11.6)	(19.8)	7.5	(7.5)	16.5
	Recurring net profit growth (%)	17.2	(33.4)	(30.7)	17.1	25.5
	Recurrent EPS growth (%)	16.0	(36.4)	(31.4)	15.9	24.2
	Gross margin (%)	27.6	21.0	19.3	19.7	20.5
	Recurring net profit margin (%)	14.5	12.0	7.8	9.8	10.6
	Dividend payout ratio (%)	64.4	16.7	24.4	28.1	28.2

Source: Company data, RHB

Results At a Glance

Figure 1: Quarterly results

FYE Dec (MYR mil)	3Q20	2Q21	3Q21	QoQ (%)	YoY (%)	9M20	9M21	YoY (%)	Comments
Turnover	1,027.2	967.9	1,065.0	10.0	3.7	2,555.3	3,049.7	19.3	
Prop dev	103.4	147.4	197.1	33.7	90.5	310.8	441.6	42.1	The higher revenue was due to the resumption of construction activities as well as the handover of a residential block at Sunway South Quay during the quarter.
Prop invt	98.1	62.3	58.0	(7.0)	(40.9)	287.9	179.0	(37.8)	The weaker revenue was due to the lower contribution from the theme park segment as a result of the extended movement controls imposed, and hence the temporary closure.
Construction	255.0	218.1	192.7	(11.6)	(24.5)	565.6	732.1	29.4	The QoQ drop was due to lower progress billings from local projects.
Trading & Manufacturing	231.0	198.9	186.4	(6.3)	(19.3)	566.3	609.9	7.7	
Quarry	105.6	70.5	84.3	19.7	(20.1)	211.6	232.0	9.6	
Healthcare	168.0	200.6	208.1	3.7	23.9	442.3	579.3	31.0	The higher revenue was mainly driven by higher admissions at Sunway Medical Centre Velocity.
Investment holdings	0.8	1.2	8.6	n.m.	n.m.	3.3	10.9	229.2	
Others	65.3	69.0	129.9	88.3	98.9	167.5	264.9	58.1	
EBIT	135.1	36.5	83.3	128.4	(38.3)	185.8	168.9	(9.1)	
EBIT Margin (%)	13.2%	3.8%	7.8%			7.3%	5.5%		
Prop dev	2.7	15.6	43.0	176.0	1494.4	42.5	71.7	68.6	
Prop invt	56.7	(9.3)	(14.0)	50.8	(124.7)	76.4	(37.6)	(149.2)	
Construction	33.9	5.7	16.1	182.8	(52.5)	57.8	48.1	(16.8)	The higher earnings were due to improved margin from a local rail infrastructure project.
Trading & Manufacturing	8.8	10.8	6.9	(36.0)	(21.4)	18.7	30.6	63.6	
Quarry	6.1	(0.1)	2.6	(2531.8)	(57.4)	5.4	5.1	(5.6)	
Healthcare	19.5	30.0	31.8	6.1	62.8	6.5	78.9	1116.9	
Investment holdings	1.8	(19.4)	(13.2)	n.m.	(832.1)	(30.0)	(46.3)	54.1	
Others	5.7	3.3	10.1	207.4	78.6	8.7	18.5	113.5	
Exceptional items	0.0	0.0	0.0	n.m.	n.m.	16.5	0.0	(100.0)	
Finance cost	5.8	(25.7)	9.8	(138.1)	67.7	35.1	(1.4)	(104.1)	
Asso & JV	30.4	22.6	20.7	(8.3)	(31.8)	68.4	67.0	(2.1)	
Other Income	0.0	0.0	0.0	n.m.	n.m.	0.0	0.0	0.0	
Pretax profit	171.3	79.0	113.8	44.1	(33.6)	289.3	280.0	(3.2)	
PBT margin (%)	16.7%	8.2%	10.7%			11.3%	9.2%		
Tax	(25.0)	(7.9)	(18.7)	137.5	(25.3)	(57.2)	(43.4)	(24.2)	
Tax (%)	14.6%	10.0%	16.4%			19.8%	15.5%		
PAT	146.3	71.1	95.2	33.8	(35.0)	232.0	236.6	2.0	
MI	(13.5)	(0.6)	(14.1)	2266.7	4.2	(27.6)	(26.6)	(3.8)	
Net profit	132.8	70.5	81.1	15.0	(38.9)	204.4	210.1	2.8	
Core net profit	132.8	70.5	81.1	15.0	(38.9)	220.9	210.1	(4.9)	Within expectations.
Net margin (%)	12.9	7.3	7.6						
EPS (sen)	2.5	1.2	1.4			3.5	3.5		
NTA (RM)	1.71	1.64	1.65			1.71	1.71		
DPS (sen)	0.0	1.0	0.0			0.0	0.0		
EBIT margin:									
Prop dev	2.6%	10.6%	21.8%			13.7%	13.7%		
Prop invt	57.8%	-14.9%	-24.2%			26.5%	26.5%		
Construction	13.3%	2.6%	8.3%			10.2%	10.2%		
Trading & Manufacturing	3.8%	5.4%	3.7%			3.3%	3.3%		
Quarry	5.8%	-0.2%	3.1%			2.5%	2.5%		
Healthcare	11.6%	14.9%	15.3%			1.5%	1.5%		
Investment holdings	n.m.	n.m.	n.m.			n.m.	n.m.		
Others	8.7%	4.8%	7.8%			5.2%	5.2%		

Source: Company data, RHB

Figure 2: RNAV estimate

Developments	Remaining		Effective stake	NPV @ 9%	
	Landbank (acre)	GDV (MYR m)			
Selangor/KL					
Sunway Damansara	21.70	2,235.30	60%	224.6	
Sunway South Quay	29.90	2,486.70	100%	347.0	
Sunway Monterez	4.40	38.00	60%	3.0	
Sunway Semenyih	526.10	728.59	70%	58.1	
Sunway Cheras	2.90	16.82	100%	1.7	
Sunway Duta	3.16	120.00	60%	7.3	
Sunway Resort City	7.7	660	100%	104.8	
Sunway Velocity	2.20	1,983.98	85%	205.1	
Sunway Velocity 2	5.50	1,360.00	50%	47.4	
New land in Cochrane	6.59	1,150.00	100%	108.6	
Sunway Tower KL 1	1.90	240.00	100%	21.5	
Sunway Termuning	28.90	277.00	80%	16.5	
Sg Long	28.90	277.00	80%	21.3	
Mont Putra, Rawang	163.00	156.00	100%	13.9	
Kelana Jaya	14.00	1,450.00	100%	113.6	
Subang industrial	4.20	52.00	70%	3.8	
Sunway Belfield	4.53	1,100.00	100%	86.2	
Sunway Kajang	5.28	460.00	60%	24.8	
USJ 1	14.80	1,400.00	100%	110.5	
Sunway Avila	2.30	270.00	55%	14.6	
Sunway ARTESSA, Wangsa Maju	3.69	300.00	55%	12.9	
Sunway Damansara Hill, Kota Damansara	9.46	544.00	60%	35.9	
Cheras land	3.34	225.00	100%	19.2	
Mutiara Bukit Jalil	11.80	800.00	100%	60.1	
Dengkil (Emerald Tycoon)	74.50	796.60	100%	45.3	
Perak					
Sunway City Ipoh	336.4	928.40	96%	121.9	
Penang					
Sunway Hills	80.70	849.00	100%	73.6	
Sunway Wellesley, Bukit Mertajam	51.47	710.47	100%	73.4	
Paya Terubong	24.90	1,500.00	100%	143.0	
Sunway Tunas, Balik Pulau	9.00	60.00	100%	6.3	
Sunway Betong, Balik Pulau	19.87	110.00	100%	11.5	
S'pore					
Anchorvale Lane, Sengkang (Rivercove EC)	5.19	1,560.00	30%	43.1	
Ki Residences (Clementi)	8.56	3,410.00	30%	103.5	
Canberra Link, Sembawang	4.46	1,643.00	35%	58.2	
Parc Central, Tampines EC	6.16	2,650.50	35%	81.0	
Flynn Park Pasir Panjang	4.79	2,300.00	30%	69.8	
Tanjong Katong	6.00	6,000.00	30%	104.0	
Johor					
Bukit Lenang	64.79	698.40	80%	53.2	
Medini	632.80	10,616.00	60%	511.0	
Pendas	1,079.07	18,000.00	60%	643.8	
China					
Tianjin Phase 3	6.85	780.00	60%	37.9	
India					
Sunway OPUS Grand India	23.80	702.36	50%	23.1	
Sunway MAK Signature Residence (JV with M.A.K Builders)	14.00	181.22	60%	7.5	
TOTAL	3,470.24	77,422.22		3,873.40	
Investment properties					
	Est. market value	Book value	Equity	Net surplus	
	(MYR m)	(MYR m)	interest	(MYR m)	
Monash University Campus	302.8	302.8	100%	0	
Monash U Residence	239.0	239.0	100%	0	
Sunway Geo Tower	168.0	111.0	100%	57.0	
Sunway Hotel Georgetown	60.0	37.6	100%	22.4	
Sunway Hotel Phnom Penh	19.0	19.0	53%	0	
Sunway Hotel Hanoi	5.0	5.0	100%	0	
Sunway Giza	50.0	50.0	60%	0	
Sunway Velocity Mall	1,805.0	805.0	59%	590.0	
Sunway Citrine Hub	42.0	42.0	60%	0.0	
Sunway Geo Avenue	94.0	94.0	100%	0.0	
Subtotal				4,542.80	
Shareholders' equity (ex cons. & healthcare)				9,812.40	
Total				14,355.19	
Discount to Property RNAV				45%	
Discounted Property RNAV				7,895.36	
Other divisions					
	Market value	Book value	Est. FY22 earnings	PE target	Equity value surplus
	(MYR m)	(MYR m)	(MYR m)	(x)	(MYR m)
40.9% Sunway REIT	2,017.1	1,479.0			538.07
54.4% Sunway Construction	1,273.1	844.1			429.07
Others			60	15	900.00
			Est. FY22 EBITDA	EV/EBITDA (x)	Equity value
84% Sunway Healthcare			182.9	18.5	2,841.60
Total					12,604.10
ESOS proceeds					151.21
Warrants conversion @ MYR1.56					1,044.44
Total RNAV					13,799.76
Holding company discount					10%
Discounted RNAV					12,419.78
Share base (mil) incl. warrants & ICPS					6,525.86
Intrinsic value					1.90
ESG premium					8%
TP (MYR)					2.06

Source: RHB

Recommendation Chart

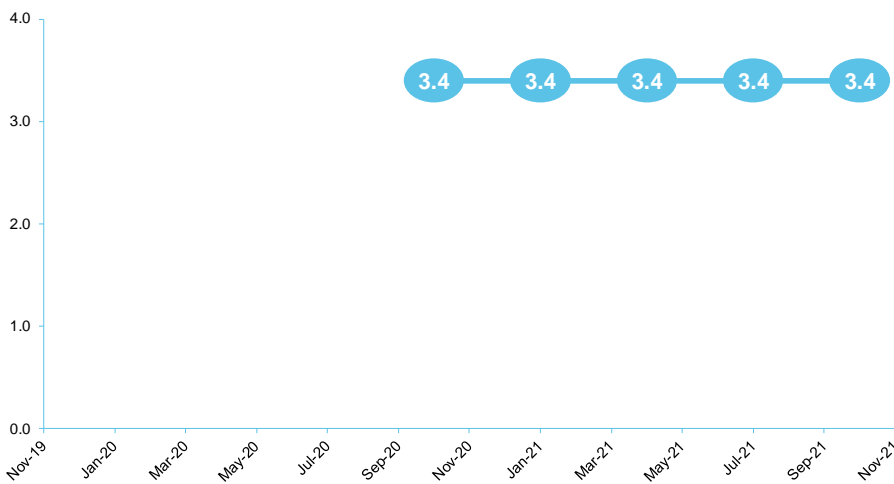


Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2021-08-25	Buy	2.00	1.77
2021-07-13	Buy	2.02	1.71
2021-06-24	Buy	2.09	1.73
2021-05-26	Buy	1.92	1.66
2021-04-19	Buy	1.95	1.64
2021-04-01	Buy	1.94	1.69
2021-03-16	Buy	1.88	1.64
2020-03-23	Buy	1.86	1.41
2019-11-22	Buy	2.00	1.78
2019-09-27	Buy	1.95	1.66
2019-08-28	Buy	1.85	1.59
2019-07-02	Buy	1.86	1.65
2019-06-04	Buy	1.85	1.66

Source: RHB, Bloomberg

ESG Rating History



Source: RHB

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Trading Buy:	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
Neutral:	Share price may fall within the range of +/- 10% over the next 12 months
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