

COMPANY RESULTS

Sunway (SWB MK)

2Q21: Below Expectations; Looking Beyond The Lockdown

Sunway's 2Q21 core net profit grew 21% qoq to RM70.5m vs a core net loss of RM3.8m in 2Q20, driven by: a) higher sales and improved progress billings pre-lockdown; b) strong healthcare performance; and c) higher associates' profit. 1H21 earnings accounted for 33% of our full-year estimates due to lower-than-expected margin amid the lockdown. Slash 2021F earnings by 21%. Earnings are on the mend beyond the lockdown with strong property take-up and resilient healthcare. Maintain BUY. Target price: RM2.25.

2Q21 RESULTS

Year to 31 Dec (RMm)	2Q21	qoq % chg	yoy % chg	1H21	yoy % chg
Revenue	967.9	(4.8)	73.9	1,984.7	29.9
Property Development	147.4	51.7	116.3	244.5	17.9
Construction	218.1	(32.2)	135.6	539.4	73.7
Healthcare	200.6	17.6	60.3	371.2	35.3
Pre-tax profit	79.0	(9.4)	n.m.	166.1	79.4
- Property Development	22.9	10.6	14.2	43.6	(17.6)
- Construction	8.6	(68.8)	31.5	36.3	24.6
- Healthcare	27.5	96.5	n.m.	41.5	n.m.
Core net profit	70.5	20.7	n.m.	129.0	120.3
Pre-tax Margins (%)		+ppt	+ppt	%	+ppt
- Property Development	15.5	(5.8)	(13.9)	17.8	(7.7)
- Construction	4.0	(4.7)	(3.1)	6.7	(2.7)
- Healthcare	13.7	5.5	26.5	11.2	18.6

Source: Sunway, UOB Kay Hian

RESULTS

- Below expectations, looking beyond the lockdown...** Sunway Berhad (Sunway) delivered a 2Q21 core net profit of RM70.5m from a core net loss of RM3.8m a year ago, which represents a 21% qoq improvement. The decent set of results was driven by: a) higher sales and improved progress in the property division pre-lockdown; b) defensive performance in healthcare with PBT growing to RM27.5m (2Q20: -RM16m, 1Q21: RM14m); c) higher share of associates' profit of RM22.6m (2Q20: -RM0.6m, 1Q21: RM23.6m); and d) lower effective tax rate due to timing difference in provision of deferred tax. 1H21 earnings of RM129m (+120% yoy) made up 34% and 36% of our and the street's full-year forecasts respectively, below expectations. The discrepancy on our end stemmed from lower-than-expected EBIT margin and lower associate's contribution due to the impact of the lockdown.
- ...as property sales hit 114% of full-year target.** Sunway achieved RM1.56b effective property sales in 1H21. This represents 114% of its full-year target of RM1.4b, mainly contributed by the strong sales from local and Singapore projects. The group has revised up its 2021 sales target to RM1.9b (effective stake), which is expected to drive future earnings.

KEY FINANCIALS

Year to 31 Dec (RMm)	2019	2020	2021F	2022F	2023F
Net turnover	4,780	3,833	4,052	5,505	6,568
EBITDA	800	475	491	817	1,007
Operating profit	566	251	293	607	780
Net profit (rep./act.)	705	360	311	573	689
Net profit (adj.)	633	416	311	573	689
EPS (sen)	12.9	8.4	5.4	9.9	11.8
PE (x)	14.0	21.5	33.6	18.3	15.2
P/B (x)	1.1	0.9	1.1	1.0	1.0
EV/EBITDA (x)	18.9	31.8	30.8	18.5	15.0
Dividend yield (%)	5.0	0.8	1.2	2.2	2.6
Net margin (%)	14.8	9.4	7.7	10.4	10.5
Net debt/(cash) to equity (%)	68.5	55.3	56.1	63.7	66.9
Interest cover (x)	16.7	8.8	77.9	(19.3)	(9.8)
ROE (%)	8.4	4.0	3.2	5.8	6.7
Consensus net profit	-	-	354	459	593
UOBKH/Consensus (x)	-	-	0.88	1.25	1.16

Source: Sunway Berhad, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	RM1.80
Target Price	RM2.25
Upside	+25.0%

COMPANY DESCRIPTION

A leading construction company and property developer in Malaysia

STOCK DATA

GICS sector	Industrials
Bloomberg ticker:	SWB MK
Shares issued (m):	4,888.9
Market cap (RMm):	8,800.1
Market cap (US\$m):	2,086.6
3-mth avg daily t'over (US\$m):	1.5

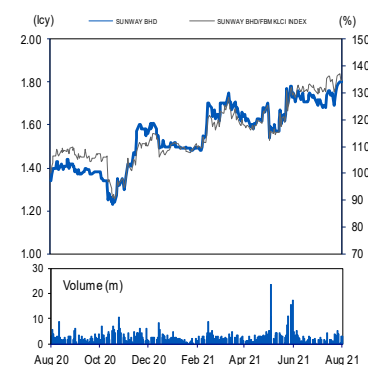
Price Performance (%)

52-week high/low	RM1.80/RM1.23			
1mth	3mth	6mth	1yr	YTD
4.7	5.9	20.8	33.3	11.8

Major Shareholders

Sungei Way Corp Sdn Bhd	51.6
Skim Amanah Saham Bumiputera	5.7
Sharp Ventures Sdn Bhd	4.0
FY21 NAV/Share (RM)	1.67
FY21 Net Debt/Share (RM)	0.94

PRICE CHART



Source: Bloomberg

ANALYST(S)

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STOCK IMPACT

- Property development: Resilient sales momentum; lumpy earnings from 2022 onwards.** Its property development arm reported 2Q21 PBT of RM22.9m (+14% yoy, +11% qoq), which was mainly driven by an improvement in progress billings in April and May. However, management noted that the construction activities for residential properties were mostly halted in June and July due to the nationwide lockdown, but these have gradually resumed in August. Note that overseas projects such as Parc Central Tampines in Singapore (launched in Jan 21) has achieved 80% take-up rate, while local project Sunway Belfield has also received strong interest with an average take-up rate of over 75% for Phases 1 and 2. However, earnings from the Singapore projects (Parc Canberra and Parc Central Tampines) will be recognised in 2022 upon project completion amid the adoption of MFRS15.
- Healthcare: Strong recovery; key earnings driver for the group.** Despite the nationwide lockdown, the healthcare arm reported 2Q21 PBT of RM26.6m (+1% qoq) from LBT of RM16b in 2Q20. Revenue was 60% yoy and 18% qoq higher due to the higher number of admissions and outpatient treatments, and lower operating losses from Sunway Velocity Medical Centre of RM4.3m (2Q20: -RM9.5m). The healthcare segment's PBT accounts for 35% of the group's total PBT, a significant improvement from <10% pre-COVID-19. We believe its aggressive expansion plan to grow its bed capacity to 3,000 beds in the medium term from 740 currently could see 5-year (2022-27F) earnings CAGR of 20-25%, assuming an average 25% EBITDA margin. This is expected to contribute about 22% of Sunway's 2023 earnings vs 3% in 2020.
- Construction: Productivity level impacted by lockdown.** Construction PBT was 32% yoy higher and 69% qoq lower. Earnings weakened qoq as productivity level dropped to around 30% in 2Q21. This came as only 40% of its local projects could proceed during the lockdown that started on 1 June, with a 60% workforce restriction implemented at the early stage of the lockdown. The thinner margin was also attributed to the competitive construction landscape. The group has secured RM620m worth of new contracts ytd (31% of its 2021 replenishment target) with an outstanding orderbook of RM4.8b.
- Investment property: Looking forward to herd immunity.** 2Q21's LBT of RM16m (1Q21 LBT: RM 17m, 2Q20 PBT: RM38m) was mainly impacted by the continuous weak performance in the leisure and hospitality industry, offset by a higher rental income in Sunway REITs from the retail segment in April and May. However, The nationwide lockdown implemented in June adversely affected tenant sales and footfall in the retail segment. We believe this segment could recover in 4Q21 once the country attains herd immunity and the economy reopens.
- A net one-off gain of RM2.3b for Sunway in 2021.** Sunway is expected to record a one-off gain of RM2.3b in 2021 arising from the dilution of the equity stake, assuming the 16% stake sale to GIC at RM750m is successful. Due to accounting reclassification, Sunway Healthcare Group (SHG) is reclassified from a wholly-owned subsidiary to being jointly controlled as GIC will participate in the decision-making process. The RM2.3b was derived from the pre-money valuation of RM4.0b that subtracted SHG's net tangible assets of RM1.4b and a derivative liability of RM0.3b.

EARNINGS REVISION/RISK

- Cut 2021 earnings by 21% to account for the prolonged nationwide lockdown that would slow down progress billing, construction activities and the reopening of retail malls.

VALUATION/RECOMMENDATION

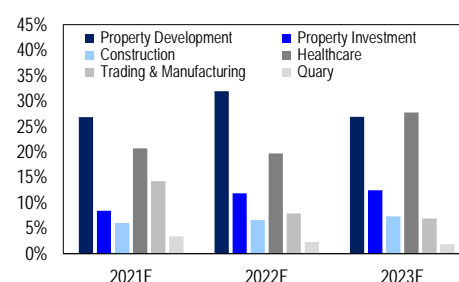
- Maintain BUY with an unchanged target price of RM2.25**, based on a 10% discount to our SOTP-based valuation of RM2.50/share (post dilution of warrants) where we peg valuation to normalised earnings in 2022. Our target price implied a 2022F PE of 22x and 2022F P/B of 1.3x, above its five-year mean valuation of 13x PE and 0.9x P/B. Earnings is expected to recovery strongly in 2022 given a strong unbilled sale of RM3.1b and resilient performance from its healthcare division. We also believe the strong growth trajectory of SHG could help Sunway to build a formidable growth engine and increase its valuation over time.

SOTP-BASED VALUATION

	(RMm)	Remarks
Property development	3,923	20% discount to property RNAV
REIT (40.9% stake)	2,171	Valuation based on target price of RM1.55, based on DDM
Construction (54.4% stake)	1,052	Valuation based on target price of RM1.50, 16.2x 2022F PE
Quarry & building materials	289	8x PE 2022F quarry profits
Trading	383	8x PE 2022F trading profits
Investment Properties	1,521	
Healthcare	3,930	84% stake of RM4.67b
Less: Holding co (debt)/ cash	-121	Based on hold.co 2020's net debt plus RM0.75b cash
Total SOTP value (A)	13,147	
Share base (m) (B)	4,963	
Warrants proceeds (C)	964	Assume conversion price at RM1.44/share (expiring in Oct 24)
Total SOTP value post warrants proceeds (A+C)	14,110	
Enlarged share base (m)	5,633	
SOTP/share (RM)	2.50	
Discount	10%	
Target price (RM)	2.25	

Source: Sunway, UOB Kay Hian

% OF EBIT BY SEGMENT



Source: Sunway, UOB Kay Hian

KEY ASSUMPTIONS

(RMm)	2021F	2022F	2023F
Property sales target	1,800	1,500	1,300
Construction orderbook	1,800	2,000	2,000
Replenishment			
Healthcare profits	47	91	164

Source: Sunway, UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (RMm)	2020	2021F	2022F	2023F
Net turnover	3,833	4,052	5,505	6,568
EBITDA	475	491	817	1,007
Deprec. & amort.	224	198	211	228
EBIT	251	293	607	780
Associate contributions	230	161	209	230
Net interest income/(expense)	28	4	(31)	(80)
Pre-tax profit	509	458	785	930
Tax	(102)	(92)	(157)	(186)
Minorities	(48)	(55)	(55)	(55)
Net profit	360	311	573	689
Net profit (adj.)	416	311	573	689

BALANCE SHEET

Year to 31 Dec (RMm)	2020	2021F	2022F	2023F
Fixed assets	6,446	6,532	6,707	6,939
Other LT assets	7,602	7,763	7,973	8,203
Cash/ST investment	2,237	2,133	1,299	837
Other current assets	4,834	5,093	6,814	8,074
Total assets	21,119	21,522	22,793	24,052
ST debt	5,132	5,132	5,132	5,132
Other current liabilities	2,696	2,772	3,529	4,182
LT debt	2,374	2,459	2,574	2,712
Other LT liabilities	585	585	585	585
Shareholders' equity	9,535	9,721	10,065	10,478
Minority interest	797	852	907	962
Total liabilities & equity	21,119	21,522	22,793	24,052

CASH FLOW

Year to 31 Dec (RMm)	2020	2021F	2022F	2023F
Operating	828	215	(304)	215
Pre-tax profit	509	458	785	930
Tax	(71)	(92)	(157)	(186)
Deprec. & amort.	224	198	211	228
Associates	(230)	(161)	(209)	(230)
Working capital changes	67	(184)	(964)	(606)
Non-cash items	329	(4)	31	80
Investing	(885)	(284)	(385)	(460)
Capex (growth)	(527)	(284)	(385)	(460)
Investments	(204)	0	0	0
Proceeds from sale of assets	457	0	0	0
Others	(610)	0	0	0
Financing	(178)	(36)	(145)	(217)
Dividend payments	(254)	(124)	(229)	(275)
Issue of shares	0	0	0	0
Proceeds from borrowings	1,144	85	116	138
Others/interest paid	(1,069)	4	(31)	(80)
Net cash inflow (outflow)	(235)	(104)	(834)	(463)
Beginning cash & cash equivalent	2,455	2,237	2,133	1,299
Changes due to forex impact	17	0	0	0
Ending cash & cash equivalent	2,237	2,133	1,299	837

KEY METRICS

Year to 31 Dec (%)	2020	2021F	2022F	2023F
Profitability				
EBITDA margin	12.4	12.1	14.8	15.3
Pre-tax margin	13.3	11.3	14.3	14.2
Net margin	9.4	7.7	10.4	10.5
ROA	1.7	1.5	2.6	2.9
ROE	4.0	3.2	5.8	6.7
Growth				
Turnover	(19.8)	5.7	35.8	19.3
EBITDA	(40.6)	3.4	66.5	23.2
Pre-tax profit	(40.9)	(10.1)	71.4	18.5
Net profit	(49.0)	(13.5)	84.0	20.3
Net profit (adj.)	(34.4)	(25.1)	84.0	20.3
EPS	(35.0)	(36.1)	84.0	20.3
Leverage				
Debt to total capital	42.1	41.8	41.3	40.7
Debt to equity	78.7	78.1	76.6	74.9
Net debt/(cash) to equity	55.3	56.1	63.7	66.9
Interest cover (x)	8.8	77.9	(19.3)	(9.8)

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