

### COMPANY RESULTS

#### Sunway (SWB MK)

4Q20: Above Expectations; Earnings On The Mend; Maintain BUY

Sunway delivered 4Q20 core net profit of RM233m (+11% yoy, +75% qoq) due to recognition of lumpy earnings from overseas projects, lower finance costs and improved progress billings from the property and construction segment. 2020 core earnings were above our expectations. No changes to earnings. Maintain BUY and we raised our target price to RM1.92 by pegging normalised earnings in FY22. The stake sale of its healthcare unit remains a key focus. Maintain BUY with a target price of RM1.80.

#### 4Q20 RESULTS

Year to 31 Dec (RMm)	4Q20	3Q20	qoq % chg	yoy % chg	2020	yoy % chg
Revenue	1,278.0	1,027.2	24.4	(5.6)	3833.3	(19.8)
Construction	424.6	255.0	66.5	33.5	990.2	(22.2)
Property Development	184.3	103.4	78.2	(15.5)	495.0	(9.3)
Healthcare	178.0	168.0	6.0	9.3	620.3	6.1
<b>Pre-tax profit</b>	<b>251.7</b>	<b>171.3</b>	<b>46.9</b>	<b>(3.3)</b>	<b>541.0</b>	<b>(40.8)</b>
- Construction	39.0	37.0	5.3	(7.5)	105.1	(33.7)
- Property Development	218.6	25.0	+>100	86.5	308.6	25.3
- Healthcare	22.5	15.5	44.8	97.7	17.5	(70.4)
Net profit	193.1	132.8	45.4	(3.6)	359.6	(53.1)
Core net profit	232.6	132.8	75.1	11.0	415.6	(40.2)
<b>Margins (%)</b>	<b>%</b>	<b>%</b>	<b>qoq ppt chg</b>	<b>yoy ppt chg</b>	<b>%</b>	<b>yoy ppt chg</b>
Pre-tax - Construction	9.2	14.5	(5.3)	(2.8)	10.6	1.8
Pre-tax - Property Development	118.6*	24.1	94.5	64.9	62.3*	(17.2)

\*due to lumpy earnings recognition from overseas JV property development projects

Source: Sunway, UOB Kay Hian

#### RESULTS

• **Above expectations.** Sunway Berhad (Sunway) delivered 4Q20 core net profit of RM232.6m (+11% yoy, +75% qoq) due to: a) full recognition of its overseas projects earnings (China and Singapore) that amounted to RM182.5m, b) lower interest expenses amid the prior year adjustment in this quarter, and c) improved progress billings from both the property and the construction segments. This excludes fair value losses of RM47.2m and RM7.7m gain from land disposal. Full-year 2020 core earnings of RM415.6m (-40% yoy) accounted for 120% and 114% of our and the street's estimates respectively, and were above expectations. The group declared a full-year dividend of 1.5 sen/share, representing 20% of core earnings payout, in line with its dividend policy.

#### KEY FINANCIALS

Year to 31 Dec (RMm)	2019	2020	2021F	2022F	2023F
Net turnover	4,780	3,833	4,702	5,571	6,230
EBITDA	800	475	648	797	909
Operating profit	566	251	447	583	680
Net profit (rep./act.)	705	360	529	615	675
Net profit (adj.)	777	304	529	615	675
EPS (sen)	15.8	6.1	10.7	12.4	13.6
PE (x)	10.8	27.8	16.0	13.7	12.5
P/B (x)	1.0	0.9	0.9	0.8	0.8
EV/EBITDA (x)	18.8	31.7	23.2	18.9	16.6
Dividend yield (%)	5.3	0.9	2.5	2.9	3.2
Net margin (%)	14.8	9.4	11.2	11.0	10.8
Net debt/(cash) to equity (%)	68.5	55.3	59.8	63.1	64.9
Interest cover (x)	16.7	8.8	24.1	(25.0)	(11.5)
ROE (%)	8.4	4.0	5.5	6.1	6.5
Consensus net profit	-	-	512	576	-
UOBKH/Consensus (x)	-	-	1.03	1.07	-

Source: Sunway, Bloomberg, UOB Kay Hian

### BUY

(Maintained)

Share Price	RM1.70
Target Price	RM1.92
Upside	+12.9%
(Previous TP:	RM1.80)

#### COMPANY DESCRIPTION

A leading construction company and property developer in Malaysia

#### STOCK DATA

GICS sector	Real Estate
Bloomberg ticker:	SWB MK
Shares issued (m):	4,888.9
Market cap (RMm):	8,311.2
Market cap (US\$m):	2,005.1
3-mth avg daily t'over (US\$m):	1.0

#### Price Performance (%)

52-week high/low RM1.70/RM1.23

1mth	3mth	6mth	1yr	YTD
13.3	5.6	24.1	9.7	5.6

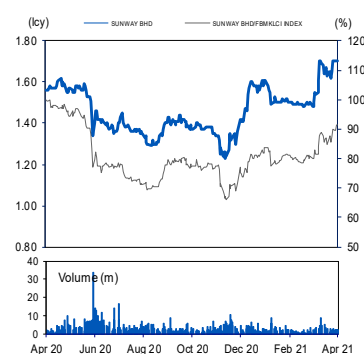
#### Major Shareholders

	%
Sungei Way Corp Sdn Bhd	51.6
Skim Amanah Saham Bumiputera	5.7
Sharp Ventures Sdn Bhd	4.0

FY21 NAV/Share (RM) 1.99

FY21 Net Debt/Share (RM) 1.19

#### PRICE CHART



Source: Bloomberg

#### ANALYST(S)

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### STOCK IMPACT

- Property development: Strong sales momentum.** 4Q20 PBT for its property development arm of RM218.6m (+87% yoy, +>100% qoq) was mainly driven by the full recognition of the remaining unbilled profit that amounted to RM182.5m from two overseas property projects (China and Singapore). Excluding this, it remains a 45% qoq growth given improved progress billings. While the group has achieved RM1.3b sales (effective stake) in 2020 vs its target of RM1.1b, it aims to achieve RM1.4b sales (effective stake) in 2021. We believe it is achievable gauging from current encouraging property sales/bookings momentum post lockdown. We gathered that the recently-launched projects (Singapore: Parc Central Residence; KL: Sunway Bellfield) have garnered strong traction, with the take-up rate for Parc Central at 60% and Sunway Bellfield at 80% (including bookings) in less than three months after the launch.
- Construction. Strong and diversified orderbooks.** The improved sequential PBT in 4Q20 (+5.3% qoq) was mainly driven by accelerated construction billings recognition and precast products' deliveries. We gathered that productivity levels at its sites had reached the pre-COVID-19 level in 4Q20. Meanwhile, precast products' deliveries to Singapore yield better margins and will contribute to better earnings in upcoming quarters. To date, Sunway Construction has secured new job wins of RM2.3b with an outstanding orderbook of RM5.1b as of end-Dec 20.
- Healthcare: SVMC approaching breakeven level.** The healthcare arm has reported improved 4Q20 PBT of RM22.5m (+98% yoy, +45% qoq) while 2020 revenue grew 6% yoy despite COVID-19, thanks to a higher number of admissions and outpatient treatments for Sunway Medical Centre (SMC), and lower operating losses from Sunway Velocity Medical Centre (SVMC) in 4Q20 of RM3.9m (3Q20: -RM6.6m, 4Q19: -RM11.7m). At this juncture, we understand that SMCV is approaching the EBITDA breakeven level, and we raised our assumption by expecting the healthcare unit to contribute 9% and 12% (from 7% and 11%) for 2021 and 2022 respectively.
- Investment Property: 4Q20 LBT of RM82m (3Q20: RM 63m; 4Q19: RM 85m)** was mainly dragged by the continuous weak performance in leisure and hospitality due to operations closure and low visitor arrivals. Sunway REIT was also affected due to lower rental income from its retail and hotel segments. The office, industrial, services and other segments should cushion the impact as they are resilient and not affected by the pandemic. We expect the REIT to pick up from 2Q21 amid the economic recovery and improvement of consumer sentiment, given that retail is the main earnings contributor to the segment.
- Balance sheet remains healthy.** As the group has restated its balance sheet items in accordance with MFRS 10 and MFRS 132, this has resulted in a higher net gearing ratio of 0.51x in 4Q20 (3Q20: 0.49x) as perpetual sukuk has been reclassified from equity to non current liabilities. Without the accounting impact, the net gearing would have been 0.43x. The reclassification would not see operating cash flow impact but it may result in slightly higher interest expenses given the higher borrowing position. However, this should be partly offset by a lower interest rate.

### EARNINGS REVISION/RISK

- We adjust our earnings assumption by 2% and -3% for 2021 and 2022 to account for higher healthcare earnings, offset by higher interest expenses.
- 2021 outlook.** Earnings are expected to recover 27% yoy in 2021, underpinned by resilient performance from its core businesses - property development, construction and healthcare segments. However, we reckon the earnings from overseas projects will only be recognised towards FY23 upon project completion.

### VALUATION/RECOMMENDATION

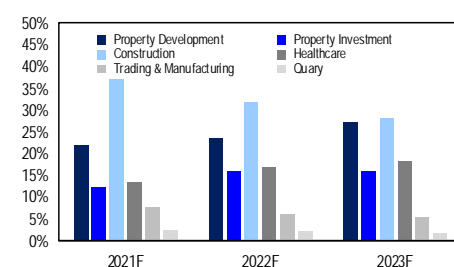
- Maintain BUY and an unchanged target price of RM1.80**, based on a 15% discount to our SOTP-based valuation of RM2.11/share (post dilution of warrants). We raise a higher target price as we pegged valuation to a normalised earnings in FY22, which implies its 5-year mean valuation of 0.9x PB and 15.5x PE.
- Potential upside to target price at RM2.05.** There should be further upside to our target price should the 20-25% stake divestment of its healthcare business be higher than our SOTP-based valuation. Based on the hypothetical valuation from Bloomberg of US\$250m (up to 25% stake divestment), it could lift our healthcare valuation estimates to RM0.72/share (from RM0.59/share) based on a 75% stake. Our target price could potentially increase to RM2.05 (from RM1.92) based on a 15% discount to the SOTP-based valuation should the alluring valuation materialise.

### SOTP-BASED VALUATION

	(RMm)	Remarks
Property development	3,442	20% discount to property RNAV
REIT (40.9% stake)	1,867	Valuation based on target price of RM1.55, based on DDM
Construction (54.4% stake)	1,125	Valuation based on target price of RM1.60, 13x 2021F PE
Quarry & building materials	274.8	8x PE 2022F quarry profits
Trading	274.2	8x PE 2022F trading profits
Investment Properties	1,372	
Healthcare	2,948	30x PE 2022F profit of RM98m
Less: Holding co (debt)/ cash	287.7	
<b>Total SOTP value (A)</b>	<b>11,591</b>	
Share base (m) (B)	4,963	
Warrants proceeds (C)	1,060	Assume conversion price at RM1.68/share (expiring in Oct 24)
<b>Total SOTP value post warrants proceeds (A+C)</b>	<b>12,651</b>	
Enlarged share base (m)	5,549	
<b>SOTP/share (RM)</b>	<b>2.26</b>	
Discount	15%	
<b>Target price (RM)</b>	<b>1.92</b>	

Source: Sunway, UOB Kay Hian

### % OF EBIT BY SEGMENT



Source: Sunway, UOB Kay Hian

### KEY ASSUMPTIONS

(RMm)	2021F	2022F	2023F
Property sales target	1,200	1,200	1,200
Construction orderbook replenishment	1,800	2,000	2,000
Healthcare profits	61	98	125

Source: Sunway, UOB Kay Hian

### PROFIT & LOSS

Year to 31 Dec (RMm)	2020	2021F	2022F	2023F
Net turnover	3,833	4,702	5,571	6,230
EBITDA	475	648	797	909
Deprec. & amort.	224	201	214	229
EBIT	251	447	583	680
Associate contributions	230	264	278	292
Net interest income/(expense)	28	19	(23)	(59)
<b>Pre-tax profit</b>	<b>509</b>	<b>730</b>	<b>838</b>	<b>913</b>
Tax	(102)	(146)	(168)	(183)
Minorities	(48)	(55)	(55)	(55)
<b>Net profit</b>	<b>360</b>	<b>529</b>	<b>615</b>	<b>675</b>
Net profit (adj.)	304	529	615	675

### CASH FLOW

Year to 31 Dec (RMm)	2020	2021F	2022F	2023F
<b>Operating</b>	<b>828</b>	<b>69</b>	<b>235</b>	<b>409</b>
Pre-tax profit	509	730	838	913
Tax	(71)	(146)	(168)	(183)
Deprec. & amort.	224	201	214	229
Associates	(230)	(264)	(278)	(292)
Working capital changes	67	(602)	(524)	(415)
Non-cash items	329	151	153	156
<b>Investing</b>	<b>(885)</b>	<b>(329)</b>	<b>(390)</b>	<b>(436)</b>
Capex (growth)	(527)	(329)	(390)	(436)
Investments	(204)	0	0	0
Proceeds from sale of assets	457	0	0	0
Others	(610)	0	0	0
<b>Financing</b>	<b>(178)</b>	<b>(264)</b>	<b>(282)</b>	<b>(295)</b>
Dividend payments	(254)	(211)	(246)	(270)
Issue of shares	0	0	0	0
Proceeds from borrowings	1,144	(52)	(36)	(25)
Others/interest paid	(1,069)	0	0	0
<b>Net cash inflow (outflow)</b>	<b>(235)</b>	<b>(524)</b>	<b>(437)</b>	<b>(323)</b>
Beginning cash & cash equivalent	2,455	2,237	1,713	1,276
Changes due to forex impact	17	0	0	0
<b>Ending cash &amp; cash equivalent</b>	<b>2,237</b>	<b>1,713</b>	<b>1,276</b>	<b>953</b>

### BALANCE SHEET

Year to 31 Dec (RMm)	2020	2021F	2022F	2023F
Fixed assets	6,446	6,574	6,750	6,957
Other LT assets	7,602	7,867	8,145	8,436
Cash/ST investment	2,237	1,713	1,276	953
Other current assets	4,834	5,863	6,893	7,674
<b>Total assets</b>	<b>21,119</b>	<b>22,017</b>	<b>23,064</b>	<b>24,021</b>
ST debt	5,132	5,132	5,132	5,132
Other current liabilities	2,696	3,123	3,629	3,995
LT debt	2,374	2,472	2,589	2,720
Other LT liabilities	585	585	585	585
Shareholders' equity	9,535	9,852	10,221	10,626
Minority interest	797	852	907	962
<b>Total liabilities &amp; equity</b>	<b>21,119</b>	<b>22,017</b>	<b>23,064</b>	<b>24,021</b>

### KEY METRICS

Year to 31 Dec (%)	2020	2021F	2022F	2023F
<b>Profitability</b>				
EBITDA margin	12.4	13.8	14.3	14.6
Pre-tax margin	13.3	15.5	15.0	14.7
Net margin	9.4	11.2	11.0	10.8
ROA	1.7	2.5	2.7	2.9
ROE	4.0	5.5	6.1	6.5
<b>Growth</b>				
Turnover	(19.8)	22.7	18.5	11.8
EBITDA	(40.6)	36.4	23.1	14.1
Pre-tax profit	(40.9)	43.3	14.8	9.0
Net profit	(49.0)	47.0	16.3	9.8
Net profit (adj.)	(60.9)	74.1	16.3	9.8
EPS	(61.3)	74.1	16.3	9.8
<b>Leverage</b>				
Debt to total capital	42.1	41.5	41.0	40.4
Debt to equity	78.7	77.2	75.6	73.9
Net debt/(cash) to equity	55.3	59.8	63.1	64.9
Interest cover (x)	8.8	24.1	(25.0)	(11.5)

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