Results Note | **RM1.80 @ 24 August 2021**

"6M21 results were below expectations mainly due to weak property earnings"

Share price performance

	1M	3M	12M
Absolute (%)	4.7	5.9	33.3
Rel KLCI (%)	2.6	7.1	34.6

	BUY	HOLD	SELL
Consensus	8	4	-

Stock Data

Sector	Property
Issued shares (m)	4,888.9
Mkt cap (RMm)/(US$m)	8,800.1/2,087.1
Avg daily vol - 6mth (m)	3.2
52-wk range (RM)	1.22-1.82
Est free float	67.1%
Stock Beta	0.77
Net cash/(debt) (RMm)	(5,889.8)
ROE (2021E)	2.9%
Derivatives	Yes
Shariah Compliant	Yes
FTSE4Good Constituent	Yes
FBM EMAS (Top 200)	Top 25%
ESG Rank	
ESG Risk Rating	20.2 (+0.1 yoy)

Key Shareholders

Sungei Way Corp	51.4%
EPF	9.7%
Active Equity	3.2%
Cheah Fook Ling	2.4%

Source: Bloomberg, Affin Hwang, ESG Risk Rating Powered by Sustainalytics

Loong Chee Wei, CFA
T (603) 2146 7548
E cheewei.loong@affinhwang.com

Sunway (SWB MK)

BUY (maintain)
Up/Downside: +27.8%

Price Target: RM2.30
Previous Target (Rating): RM2.27 (BUY)

Adverse impact of extended lockdowns

- **Sunway's core earnings rebounded 85% yoy to RM134m in 6M21, driven by higher earnings for most divisions except its property development and investment segments**
- **But the results were below market and our expectations. We cut core EPS by 11% in 2021E to reflect the adverse impact of the extended lockdowns on its property businesses**
- **We continue to like Sunway as a proxy for an economic recovery in 2022. We reiterate our BUY call with a higher 12-month target price (TP) of RM2.30, based on 20% discount to RNAV**

Below expectations

Core net profit of RM134m (+85% yoy) in 6M21 lags the market consensus full-year forecast of RM379m and our previous estimate of RM340m (6M21 earnings comprised 35-39% of 2021E). Revenue grew 30% yoy to RM1.98bn in 6M21, driven by higher revenue for most segments except property investment division (-36% yoy). The full lockdown adversely impacted its leisure and hospitality businesses. PBT jumped 80% yoy to RM166m in 6M21, driven by the higher revenue and recovery in overall profit margin.

Services-related businesses saw a strong recovery

The star performers were its construction, trading and manufacturing, health care businesses in 6M21. Strong construction (+25% yoy) and trading (+253% yoy) earnings growth was mainly driven by higher revenue. The healthcare segment saw a strong turnaround to a PBT of RM41m in 6M21 compared to a RM20m loss in 6M20 on the back of a higher number of hospital admissions and outpatient treatments. However, the property investment segment incurred a nearly 3-fold increase in losses to RM33m.

Strong property sales

Sunway achieved high property sales of RM1.64bn (effectively sales of RM1.56bn) in 6M21 and is likely to meet its revised target sales of RM2.2bn in 2021. About 61% of sales were from its Singapore projects, which are seeing a faster recovery in demand. High unbilled sales of RM3.3bn (effective unbilled sales of RM2.8bn) and construction order book of RM5bn will support earnings in 2021-23E.

Maintain our BUY call

We like Sunway for an economic recovery play and unlocking value in its healthcare business via the proposed disposal of a 16% stake to GIC for RM750m. We lift our RNAV/share estimate to RM2.87 from RM2.83 to reflect higher property and equity investment valuations. Based on the same 20% discount to RNAV, we raise our TP to RM2.30 from RM2.27. Maintain BUY. Key downside risk is weak property sales.

Earnings & Valuation Summary

FYE 31 Dec	2019	2020	2021E	2022E	2023E
Revenue (RMm)	4,780.4	3,833.3	4,220.5	4,510.2	4,808.9
EBITDA (RMm)	776.1	500.7	518.4	678.9	783.6
Pretax profit (RMm)	865.3	509.3	417.1	618.0	727.3
Net profit (RMm)	709.2	359.6	297.4	443.6	521.8
EPS (sen)	14.5	7.2	6.1	9.1	10.7
PER (x)	12.4	24.8	29.6	19.8	16.9
Core net profit (RMm)	636.4	402.1	302.2	443.6	521.8
Core EPS (sen)	13.1	8.1	6.2	9.1	10.7
Core EPS growth (%)	10.6	(37.9)	(23.7)	46.8	17.6
Core PER (x)	13.8	22.2	29.1	19.8	16.9
Net DPS (sen)	9.1	1.5	4.5	5.0	5.5
Dividend Yield (%)	5.1	0.8	2.5	2.8	3.1
EV/EBITDA	18.7	28.4	27.4	21.3	18.7
Chg in EPS (%)			-11.1	+0.7	+1.7
Affin/Consensus (x)			0.8	0.9	0.9

Source: Company, Affin Hwang estimates

Fig 1: Results comparison

FYE 31 Dec (RMm)	2Q20	1Q21	2Q21	QoQ % chg	YoY % chg	6M20	6M21	YoY % chg	1H21 Comment
Revenue	**557**	**1,017**	**968**	***(5)***	***74***	**1,528**	**1,985**	***30***	Higher revenue for all divisions except property investment division. Its leisure & hospitality businesses were affected by the pandemic lockdowns.
Op costs	(461)	(892)	(873)	*(2)*	*89*	(1,368)	(1,788)	*31*	
EBITDA	**95**	**125**	**95**	***(24)***	***(0)***	**160**	**197**	***23***	`
EBITDA margin (%)	*17.1*	*12.3*	*9.8*	*(2.5ppt)*	*(7.3ppt)*	*10.5*	*9.9*	*(0.6ppt)*	
Depn and amort	(60)	(54)	(53)	*(2)*	*NA*	(121)	(106)	*(12)*	
EBIT	**35**	**71**	**43**	***(40)***	***20***	**39**	**90**	***131***	
EBIT margin (%)	*6.4*	*7.0*	*4.4*	*(2.6ppt)*	*(2.0ppt)*	*2.6*	*4.6*	*2.0ppt*	
Interest income	43	39	46	*18*	*5*	143	84	*(41)*	
Interest expense	(53)	(24)	(26)	*6*	*(52)*	(114)	(50)	*(56)*	
Associates	0	1	23	*>100*	*>100*	54	46	*(15)*	Lower Singapore and China property development earnings.
Forex gain (losses)	(2)	0	1	*100.0*	*NA*	(2)	2	*NA*	
Exceptional items	(25)	(0)	(7)	*>100*	*(72)*	(28)	(7)	*(75)*	
Pretax profit	**(1)**	**87**	**79**	***(9)***	***(8,742)***	**93**	**166**	***79***	Higher PBT for all divisions except its property development and investment divisions.
Tax	(15)	(17)	(8)	*(53)*	*(46)*	(32)	(25)	*(23)*	
Tax rate (%)	*NA*	*19.6*	*14.0*	*(5.6ppt)*	*NA*	*84.5*	*20.6*	*(64ppt)*	
Minority interests	(5)	(12)	(1)	*(95)*	*(88)*	(18)	(13)	*(32)*	
Net profit	**(20)**	**58**	**71**	***21***	***(446)***	**42**	**129**	***207***	Below expectations.
EPS (sen)	(0.3)	1.0	1.2	*19*	*NA*	1.0	2.2	*116*	
Core net profit	**6**	**59**	**77**	***31***	***>100***	**72**	**134**	***85***	Below expectations. Exclude exceptional items.

Source: Affin Hwang, Company

Fig 2: Segmental revenue breakdown

FYE 31 Dec (RMm)	2Q20	1Q21	2Q21	QoQ % chg	YoY % chg	6M20	6M21	YoY % chg
Ppty dev	68.1	97.2	147.4	*51.7*	*116.3*	207.3	244.5	*17.9*
Ppty inv	55.5	58.7	62.3	*6.2*	*12.3*	189.8	121.0	*(36.3)*
Construction	92.6	321.4	218.1	*(32.2)*	*135.6*	310.6	539.4	*73.7*
Trading	141.1	224.5	198.9	*(11.4)*	*40.9*	335.3	423.4	*26.3*
Quarry	31.9	77.2	70.5	*(8.8)*	*121.0*	106.0	147.7	*39.3*
Other	167.4	237.8	270.8	*13.9*	*61.7*	379.0	508.6	*34.2*
Total	**556.6**	**1,016.7**	**967.9**	***(4.8)***	***73.9***	**1,528.1**	**1,984.7**	***29.9***

Source: Affin Hwang, Company

Fig 3: Segmental PBT breakdown

FYE 31 Dec (RMm)	2Q20	1Q21	2Q21	QoQ % chg	YoY % chg	6M20	6M21	YoY % chg
Ppty dev	25.9	20.7	22.9	*10.6*	*(11.7)*	52.8	43.6	*(17.6)*
Ppty inv	(35.8)	(16.9)	(16.0)	*(5.0)*	*(55.2)*	(8.7)	(32.9)	*280.0*
Construction	6.6	27.7	8.6	*(68.8)*	*31.5*	29.1	36.3	*24.6*
Trading	6.2	12.2	10.0	*(18.6)*	*61.6*	6.3	22.2	*253.4*
Quarry	(1.4)	3.1	(0.5)	*NA*	*(61.7)*	1.5	2.5	*68.7*
Other	8.7	40.4	54.1	*33.9*	*524.2*	11.5	94.5	*723.3*
Total	**10.1**	**87.2**	**79.0**	***(9.4)***	***682.2***	**92.6**	**166.2**	***79.5***

Source: Affin Hwang, Company

Fig 4: Segmental PBT margin

FYE 31 Dec (RMm)	2Q20	1Q21	2Q21	QoQ ppt	YoY ppt	6M20	6M21	YoY ppt
Ppty dev	38.0	21.3	15.5	*NA*	*(22.5)*	25.5	17.8	*(7.7)*
Ppty inv	NA	NA	NA	*NA*	*NA*	NA	NA	*NA*
Construction	7.1	8.6	4.0	*(4.7)*	*(3.1)*	9.4	6.7	*(2.7)*
Trading	4.4	5.4	5.0	*(0.4)*	*0.6*	1.9	5.2	*3.4*
Quarry	NA	4.0	NA	*NA*	*NA*	1.4	1.7	*0.3*
Other	5.2	17.0	20.0	*3.0*	*14.8*	3.0	18.6	*15.6*
Total	**1.8**	**8.6**	**8.2**	***(0.4)***	***6.3***	**6.1**	**8.4**	***2.3***

Source: Affin Hwang, Company

Fig 5: RNAV and target price

RNAV by business segments	PER (X)	New RNAV (RMm)	Old RNAV (RMm)	Change (%)
Property development		2,551	2,722	(6.3)
Property development JV		3,106	3,263	(4.8)
Property investment		4,605	4,029	14.3
Construction	16	1,533	1,533	0.0
Building materials	14	700	700	0.0
Quarry	14	420	420	0.0
Healthcare	94	4,688	4,688	0.0
Total		**17,602**	**17,355**	**1.4**
Co. net cash/(debt)		115.5	115.5	0.0
RNAV		**17,718**	**17,470**	**1.4**
Number of shares		4,889	4,889	0.0
RNAV/share (RM)		**3.62**	**3.57**	**1.4**
Fully-diluted no. of shares		6,536	6,536	0.0
Fully-diluted RNAV/share (RM)		**2.87**	**2.83**	**1.3**
Target price @ 20% discount to RNAV (RM)		**2.30**	**2.27**	**1.3**

Source: Affin Hwang estimates

Important Disclosures and Disclaimer

Equity Rating Structure and Definitions

BUY	Total return is expected to exceed +10% over a 12-month period
HOLD	Total return is expected to be between -5% and +10% over a 12-month period
SELL	Total return is expected to be below -5% over a 12-month period
NOT RATED	Affin Hwang Investment Bank Berhad does not provide research coverage or rating for this company. Report is intended as information only and not as a recommendation

The total expected return is defined as the percentage upside/downside to our target price plus the net dividend yield over the next 12 months.

OVERWEIGHT	Industry, as defined by the analyst's coverage universe, is expected to outperform the KLCI benchmark over the next 12 months
NEUTRAL	Industry, as defined by the analyst's coverage universe, is expected to perform inline with the KLCI benchmark over the next 12 months
UNDERWEIGHT	Industry, as defined by the analyst's coverage universe is expected to under-perform the KLCI benchmark over the next 12 months

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Affin Hwang Investment Bank Berhad (14389-U)
A Participating Organisation of Bursa Malaysia Securities Berhad

22nd Floor, Menara Boustead,
69, Jalan Raja Chulan,
50200 Kuala Lumpur, Malaysia.

T : + 603 2142 3700
F : + 603 2146 7630
research@affinhwang.com

www.affinhwang.com