

"1Q21 results were disappointing due to MCO 2.0 impact"

Share price performance



	1M	3M	12M
Absolute (%)	1.2	11.4	8.5
Rel KLCI (%)	3.2	11.7	-1.2

	BUY	HOLD	SELL
Consensus	8	4	-

Source: Bloomberg

Stock Data

Sector	Property
Issued shares (m)	4,888.9
Mkt cap (RMm)/(US\$m)	8,115.6/1,959.1
Avg daily vol - 6mth (m)	2.6
52-wk range (RM)	1.22-1.76
Est free float	31.7%
Stock Beta	0.79
Net cash/(debt) (RMm)	(5,477.6)
ROE (CY21E)	3.3%
Derivatives	Yes
Shariah Compliant	Yes

Key Shareholders

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

Source: Bloomberg

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Sunway (SWB MK)

BUY (maintain)

Up/Downside: +16.9%

Price Target: RM1.94

Previous Target (Rating): RM1.92 (BUY)

Recovery disrupted

- After strong 4Q20 results, Sunway's core earnings fell 77% qoq and 28% yoy to RM58.6m in 1Q21 due to disruptions caused by the Movement Control Order (MCO) 2.0
- We cut core EPS by 8-31% in 2021-23E to reflect a slower earnings recovery especially for its property development and investment segments, given the weak sentiment caused by the MCO and rising Covid-19 cases
- We continue to like Sunway as a proxy for an economic recovery in 2H21. We reiterate our BUY call with a higher target price (TP) of RM1.94 after rolling forward our valuation base year to 2022E

Below expectations

Sunway's core net profit of RM59m (-28% yoy) in 1Q21 comprised only 11-12% of full-year consensus and our previous forecasts of RM491-528m. We were surprised by the sharp decline in qoq earnings as most of its divisions were adversely impacted by MCO 2.0. Revenue fell 20% qoq to RM1.02bn in 1Q21 but was up 5% yoy as MCO 2.0 impact was not as severe as MCO 1.0 since economic activities were allowed to continue. But PBT plunged 65% qoq and 19% yoy to RM87m in 1Q21 and most of its divisions saw lower revenue and narrower profit margins. Only its trading and manufacturing division reported improved PBT as demand of building materials recovered. Its property investment division remained in the red due to lower rentals for its malls, losses incurred by its leisure and hospitality business and lower share of income from The Pinnacle Sunway office following the disposal to Sunway REIT.

Strong property sales

Sunway achieved high property sales of RM1.16bn (effectively sales of RM1.13bn) in 1Q21 and is likely to exceed its target sales of RM1.6bn in 2021. About 75% 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 cut our core EPS by 8-31% in 2021-23E, mainly earnings contributions from its property development and investment operations that are severely impacted by the MCO 2.0 and will see further impact under MCO 3.0 currently. We lift our RNAV/share to RM2.42 from RM2.25 previously as we roll forward our valuation base year to 2022E, partly offset by the lower valuation for SunCon and Sunway REIT. Based on the same 20% discount to RNAV, we lift our TP to RM1.94 from RM1.92. Maintain our BUY call on Sunway as an economic recovery play. Key downside risks are weak property sales and new contract wins.

Earnings & Valuation Summary

FYE 31 Dec	2019	2020	2021E	2022E	2023E
Revenue (RMm)	4,780.4	3,833.3	4,320.4	4,622.5	4,762.1
EBITDA (RMm)	776.1	500.7	571.4	663.6	783.8
Pretax profit (RMm)	865.3	509.3	479.7	619.0	726.2
Net profit (RMm)	709.2	359.6	339.8	440.7	513.3
EPS (sen)	14.5	7.2	7.0	9.0	10.5
PER (x)	11.4	22.9	23.9	18.4	15.8
Core net profit (RMm)	636.4	402.1	339.8	440.7	513.3
Core EPS (sen)	13.1	8.1	7.0	9.0	10.5
Core EPS growth (%)	10.6	(37.9)	(14.2)	29.7	16.5
Core PER (x)	12.7	20.5	23.9	18.4	15.8
Net DPS (sen)	9.1	1.5	4.5	5.0	5.5
Dividend Yield (%)	5.5	0.9	2.7	3.0	3.3
EV/EBITDA	17.8	27.0	23.7	20.8	17.7

Chg in EPS (%)	-30.8	-19.7	-7.8
Affin/Consensus (x)	0.6	0.7	0.8

Source: Company, Affin Hwang estimates

Fig 1: Results comparison

FYE 31 Dec (RMm)	1Q20	4Q20	1Q21	QoQ % chg	YoY % chg	Comment
Revenue	971	1,278	1,017	(20)	5	Lower revenue for all divisions except trading and manufacturing division due to the Covid-19 pandemic and MCO 2.0 affecting demand for property and healthcare/leisure & hospitality services.
Op costs	(862)	(1,128)	(892)	(21)	3	
EBITDA	109	150	125	(16)	15	
<i>EBITDA margin (%)</i>	<i>11.2</i>	<i>11.7</i>	<i>12.3</i>	<i>0.6ppt</i>	<i>1.1ppt</i>	
Deprn and amort	(61)	(47)	(54)	14	NA	
EBIT	48	103	71	(30)	48	
<i>EBIT margin (%)</i>	<i>5.0</i>	<i>8.0</i>	<i>7.0</i>	<i>(1.0ppt)</i>	<i>2.1ppt</i>	
Interest income	84	51	39	(24)	(54)	
Interest expense	(59)	(7)	(24)	239	(59)	
Associates	39	162	1	(99)	(97)	
Forex gain (losses)	(0)	(1)	0	(100)	(100)	
Exceptional items	(3)	(56)	(0)	(100)	(96)	
Pretax profit	108	252	87	(65)	(19)	Lower PBT for all divisions except its trading and manufacturing division.
Tax	(18)	(45)	(17)	(62)	(4)	
<i>Tax rate (%)</i>	<i>25.3</i>	<i>49.7</i>	<i>19.6</i>	<i>(30.1ppt)</i>	<i>(5.7ppt)</i>	
Minority interests	(12)	(14)	(12)	(14)	(1)	
Net profit	78	193	58	(70)	(25)	Below expectations.
EPS (sen)	1	4	1	(73)	(25)	
Core net profit	82	250	59	(77)	(28)	Below expectations. Exclude exceptional items.

Source: Affin Hwang, Company

Fig 2: Segmental revenue breakdown

FYE 31 Dec (RMm)	1Q20	4Q20	1Q21	QoQ % chg	YoY % chg
Ppty dev	139.2	184.3	97.2	(47.3)	(30.2)
Ppty inv	134.3	46.1	58.7	27.4	(56.3)
Construction	218.0	424.6	321.4	(24.3)	47.4
Trading	194.2	245.8	224.5	(8.7)	15.6
Quarry	74.1	109.8	77.2	(29.6)	4.2
Other	211.6	267.5	237.8	(11.1)	12.4
Total	971.4	1,278.0	1,016.7	(20.4)	4.7

Source: Affin Hwang, Company

Fig 3: Segmental PBT breakdown

FYE 31 Dec (RMm)	1Q20	4Q20	1Q21	QoQ % chg	YoY % chg
Ppty dev	39.1	207.0	20.7	(90.0)	(47.1)
Ppty inv	32.0	(90.0)	(16.9)	(81.3)	NA
Construction	22.6	39.0	27.7	(28.9)	22.6
Trading	0.5	10.8	12.2	12.9	>100
Quarry	3.1	5.3	3.1	(42.0)	(0.5)
Other	10.6	79.7	40.4	(49.3)	282.1
Total	107.8	251.7	87.2	(65.4)	(19.1)

Source: Affin Hwang, Company



Fig 4: Segmental PBT margin

FYE 31 Dec (RMm)	1Q20	4Q20	1Q21	QoQ % chg	YoY % chg
Ppty dev	28.1	>100	21.3	NA	(6.8)
Ppty inv	23.8	NA	NA	NA	NA
Construction	10.4	9.2	8.6	(0.6)	(1.7)
Trading	0.3	4.4	5.4	1.0	5.2
Quarry	4.1	4.8	4.0	(0.8)	(0.2)
Other	5.0	29.8	17.0	(12.8)	12.0
Total	11.1	19.7	8.6	(11.1)	(2.5)

Source: Affin Hwang, Company

Fig 5: RNAV and target price

RNAV by business segments	PER	New RNAV (RMm)	Old RNAV (RMm)	Change
	(X)			(%)
Property development		2,722	2,617	4
Property development JV		3,263	3,127	4
Property investment		4,029	4,083	(1)
Construction	16	1,533	1,587	(3)
Building materials	14	700	700	0
Quarry	14	420	420	0
Healthcare	40	2,000	2,000	0
Total		14,668	14,534	1
Co. net cash/(debt)		115.5	115.5	0
RNAV		14,783	14,650	1
Number of shares		4,889	4,889	0
RNAV/share (RM)		3.02	3.00	1
Fully-diluted no. of shares		6,536	6,536	0
Fully-diluted RNAV/share (RM)		2.42	2.40	1
Target price @ 20% discount to RNAV (RM)		1.94	1.92	1

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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