

"3Q20 results showed an earnings recovery but risks remain"

### Share price performance



	1M	3M	12M
Absolute (%)	10.3	17.5	-16.3
Rel KLCI (%)	2.9	13.7	-17.3

	BUY	HOLD	SELL
Consensus	9	2	-

Source: Bloomberg

### Stock Data

Sector	Property
Issued shares (m)	4,888.9
Mkt cap (RMm)/(US\$m)	6,648.9/1,633.8
Avg daily vol - 6mth (m)	4.3
52-wk range (RM)	1.22-1.87
Est free float	31.0%
Stock Beta	0.76
Net cash/(debt) (RMm)	(4,813.5)
ROE (CY21E)	5.1%
Derivatives	Yes
Shariah Compliant	Yes

### Key Shareholders

Sungei Way Corp	51.4%
EPF	9.9%
Active Equity	3.2%
Cheah Fook Ling	2.4%

Source: Bloomberg

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## Sunway (SWB MK)

**HOLD (maintain)**

Up/Downside: -0.1%

**Price Target: RM1.35**

Previous Target (Rating): RM1.35 (HOLD)

### Recovery underway

- Sunway saw a strong 3.5-fold qoq increase in core earnings to RM90m as operations resumed in 3Q20 as the government's Movement Control Order (MCO) restrictions were eased.
- But core earnings were below expectations and fell 67% yoy to RM175m in 9M20 on weaker performance for all segments except its quarry operation.
- We cut our core EPS by 8-18% in 2020-22E to reflect a slower operational recovery. Maintain our HOLD call with RM1.35 target price (TP), based on 40% discount to RNAV.

### Below expectations

Sunway reported net profit of RM204m (-64% yoy) in 9M20, which only comprised 48-52% of market consensus and our previous full-year forecasts of RM390-426m. The bottom line was lifted by net exceptional gains of RM29m, mainly for the gain on remeasurement of leases on signing new Master Lease Agreements for some hotels. The weaker-than-expected recovery in 3Q20 was due to slower-than-expected progress billings for property projects, weak demand for its healthcare and hospitality businesses due to weak consumer sentiment and border restrictions. Revenue fell 25% yoy to RM2.56bn in 9M20 with lower revenue reported for all divisions except quarry (flat). PBT fell 56% yoy to RM289m with all divisions having reported weaker performance and profits margins except quarry operation.

### Reasonable property sales

Sunway achieved property sales of MR943m (effectively sales of RM809m) in 9M20 compared to RM1.1bn (effective sales of RM720m) in 9M19. Half of the sales came from its projects in Singapore, driven by pent-up demand following the lifting of the Circuit Breaker. The company is on track to achieve its revised target sales of RM1.1bn in 2020. High new construction contract wins of RM2.3bn YTD, improves construction earnings visibility. In 3Q20, Sunway completed the sale of The Pinnacle office building Sunway REIT, purchase of Dolomite's quarries and land in Kelantan for future hospital expansion to restructure the group for long-term growth.

### Maintain HOLD call

Prospects for Sunway remains challenging as we expect a slow recovery for its hospitality and healthcare businesses. But lumpy revenue recognition for its China and Singapore property sales in 4Q20 will mitigate the impact. We reiterate our HOLD call with RM1.35 target price, based on a 40% discount to RNAV. Key upside/downside risks are higher/lower property sales and new contract wins.

### Earnings & Valuation Summary

FYE 31 Dec	2018	2019	2020E	2021E	2022E
Revenue (RMm)	5,410.2	4,780.4	4,149.9	5,126.8	5,910.7
EBITDA (RMm)	706.7	771.2	518.8	665.9	910.1
Pretax profit (RMm)	836.8	914.2	531.8	736.4	956.9
Net profit (RMm)	645.5	766.6	367.4	530.6	718.9
EPS (sen)	13.2	15.7	7.5	10.9	14.7
PER (x)	10.1	8.5	17.8	12.3	9.1
Core net profit (RMm)	575.0	693.9	340.6	530.6	718.9
Core EPS (sen)	11.8	14.2	7.0	10.9	14.7
Core EPS growth (%)	15.9	20.6	(50.9)	55.8	35.5
Core PER (x)	11.4	9.4	19.2	12.3	9.1
Net DPS (sen)	7.1	9.1	4.0	6.0	8.0
Dividend Yield (%)	5.3	6.8	3.0	4.5	6.0
EV/EBITDA	14.5	13.2	19.2	15.7	12.0

Chg in EPS (%)	(18.2)	(8.4)	(8.9)
Affin/Consensus (x)	0.9	1.0	1.2

Source: Company, Affin Hwang estimates

Fig 1: Results comparison

FYE 31 Dec (RMm)	3Q19	2Q20	3Q20	QoQ % chg	YoY % chg	9M19	9M20	YoY % chg	Comment
<b>Revenue</b>	<b>1,226</b>	<b>557</b>	<b>1,027</b>	<b>85</b>	<b>(16)</b>	<b>3,427</b>	<b>2,555</b>	<b>(25)</b>	9M20: Lower revenue for all divisions except quarry operation due to the Covid-19 pandemic affecting demand for property and healthcare/leisure & hospitality services.
Op costs	(996)	(481)	(879)	83	(12)	(2,825)	(2,222)	(21)	
<b>EBITDA</b>	<b>230</b>	<b>76</b>	<b>148</b>	<b>95</b>	<b>(35)</b>	<b>603</b>	<b>334</b>	<b>(45)</b>	
<i>EBITDA margin (%)</i>	<i>18.8</i>	<i>13.7</i>	<i>14.4</i>	<i>0.8ppt</i>	<i>(4.3ppt)</i>	<i>17.6</i>	<i>13.1</i>	<i>13.1ppt</i>	
Depn and amort	(57)	16	92	469	NA	(174)	(177)	2	
<b>EBIT</b>	<b>173</b>	<b>16</b>	<b>92</b>	<b>469</b>	<b>(47)</b>	<b>428</b>	<b>157</b>	<b>(63)</b>	
<i>EBIT margin (%)</i>	<i>14.1</i>	<i>2.9</i>	<i>9.0</i>	<i>6.1ppt</i>	<i>(5.1ppt)</i>	<i>12.5</i>	<i>6.1</i>	<i>(6.4ppt)</i>	
Interest income	67	59	51	(14)	(24)	216	194	(10)	
Interest expense	(66)	(55)	(45)	(18)	(32)	(194)	(159)	(18)	
Associates	48	16	30	92	(37)	172	68	NA	Weaker Sunway REIT earnings.
Forex gain (losses)	(1)	(2)	2	NA	NA	(3)	0	(102)	
Exceptional items	3	(25)	41	NA	1,307	34	29	(15)	Gain on remeasurement of leases, partly offset by provisions and impairments.
<b>Pretax profit</b>	<b>223</b>	<b>10</b>	<b>171</b>	<b>1,597</b>	<b>(23)</b>	<b>654</b>	<b>289</b>	<b>(56)</b>	Lower PBT for all divisions except quarries (+9% yoy).
<b>Core pretax</b>	<b>222</b>	<b>37</b>	<b>129</b>	<b>249</b>	<b>(42)</b>	<b>623</b>	<b>260</b>	<b>(58)</b>	
Tax	(21)	(15)	(25)	70	19	(37)	(57)	55	
<i>Tax rate (%)</i>	<i>12.0</i>	<i>(255.2)</i>	<i>17.8</i>	<i>NA</i>	<i>NA</i>	<i>7.7</i>	<i>25.9</i>	<i>18.2ppt</i>	
Minority interests	(19)	(2)	(13)	536	(28)	(51)	(28)	(45)	
<b>Net profit</b>	<b>183</b>	<b>(7)</b>	<b>133</b>	<b>(2,079)</b>	<b>(28)</b>	<b>566</b>	<b>204</b>	<b>(64)</b>	Below expectations.
EPS (sen)	3	(0)	3	(838)	(27)	11	11	0	
<b>Core net profit</b>	<b>182</b>	<b>20</b>	<b>90</b>	<b>350</b>	<b>(50)</b>	<b>536</b>	<b>175</b>	<b>(67)</b>	Below expectations. Exclude exceptional items.

Source: Affin Hwang, Company

Fig 2: Segmental revenue breakdown

FYE 31 Dec (RMm)	3Q19	2Q20	3Q20	QoQ % chg	YoY % chg	9M19	9M20	YoY % chg
Ppty dev	126.2	68.1	103.4	(51.0)	(40.0)	327.7	310.8	(5.2)
Ppty inv	209.7	55.5	98.1	(58.7)	(68.5)	582.5	287.9	(50.6)
Construction	315.6	92.6	255.0	(57.5)	(68.5)	955.2	565.6	(40.8)
Trading	246.2	141.1	231.0	(27.3)	(38.6)	727.6	566.3	(22.2)
Quarry	114.9	31.9	105.6	(57.0)	(39.4)	211.7	211.6	(0.0)
Other	213.9	167.4	234.1	(20.9)	(20.8)	622.6	613.1	(1.5)
<b>Total</b>	<b>1,226.5</b>	<b>556.6</b>	<b>1,027.2</b>	<b>(42.7)</b>	<b>(48.3)</b>	<b>3,427.3</b>	<b>2,555.3</b>	<b>(25.4)</b>

Source: Affin Hwang, Company

**Fig 3: Segmental pre-tax profit breakdown**

FYE 31 Dec (RMm)	3Q19	2Q20	3Q20	QoQ % chg	YoY % chg	9M19	9M20	YoY % chg
Ppty dev	59.0	25.9	25.0	(33.8)	(30.5)	129.1	90.0	(30.3)
Ppty inv	67.0	(35.8)	63.0	NA	(129.2)	246.7	59.2	(76.0)
Construction	33.1	6.6	37.0	(71.0)	(86.2)	124.2	66.1	(46.8)
Trading	13.8	6.2	7.4	>100	(6.3)	26.9	14.0	(47.9)
Quarry	4.9	(1.4)	7.9	NA	(167.3)	8.7	9.5	9.0
Other	45.6	8.7	31.2	(18.0)	(76.9)	118.2	50.4	(57.3)
<b>Total</b>	<b>223.3</b>	<b>10.1</b>	<b>171.3</b>	<b>(90.6)</b>	<b>(96.0)</b>	<b>653.8</b>	<b>289.3</b>	<b>(55.8)</b>

Source: Affin Hwang, Company

**Fig 4: Segmental pre-tax profit margin**

FYE 31 Dec (%)	3Q19	2Q20	3Q20	QoQ ppt	YoY ppt	9M19	9M20	YoY ppt
Ppty dev	46.7	38.0	24.1	9.9	5.2	39.4	29.0	(10.5)
Ppty inv	31.9	(64.4)	64.2	NA	(133.9)	42.3	20.6	(21.8)
Construction	10.5	7.1	14.5	(3.3)	(9.1)	13.0	11.7	(1.3)
Trading	5.6	4.4	3.2	4.1	1.5	3.7	2.5	(1.2)
Quarry	4.2	(4.5)	7.4	NA	(8.5)	4.1	4.5	0.4
Others	21.3	5.2	13.3	0.2	(12.6)	19.0	8.2	(10.8)
<b>Total</b>	<b>18.2</b>	<b>1.8</b>	<b>16.7</b>	<b>(9.3)</b>	<b>(21.7)</b>	<b>19.1</b>	<b>11.3</b>	<b>(7.8)</b>

Source: Affin Hwang, Company

**Fig 5: RNAV and target price**

RNAV by business segments	PER (X)	RNAV (RMm)
Property development		5,268
Property development JV		1,628
Property investment		4,484
Construction	16	1,587
Building materials	14	700
Quarry	14	210
Healthcare	30	1,800
<b>Total</b>		<b>15,677</b>
Net cash/(debt)		(4,260.4)
<b>RNAV</b>		<b>11,416</b>
Number of shares		4,934
<b>RNAV/share (RM)</b>		<b>2.31</b>
Fully-diluted no. of shares		5,564
<b>Fully-diluted RNAV/share (RM)</b>		<b>2.25</b>
<b>Target price @ 40% discount to RNAV (RM)</b>		<b>1.35</b>

Source: Affin Hwang, Company

## Important Disclosures and Disclaimer

### Equity Rating Structure and Definitions

<b>BUY</b>	Total return is expected to exceed +10% over a 12-month period
<b>HOLD</b>	Total return is expected to be between -5% and +10% over a 12-month period
<b>SELL</b>	Total return is expected to be below -5% over a 12-month period
<b>NOT RATED</b>	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.*

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