

Flash Note



Refer to important disclosures at the end of this report

AllianceDBS Research, Malaysia Equity

25 Aug 2020

Sunway (SWB MK) : BUY

Mkt. Cap: US\$1,576m | 3m Avg. Daily Val: US\$1.8m

Last Traded Price (25 Aug 2020): RM1.34

Price Target 12-mth: RM1.85 (38% upside) (Prev RM1.85)

Analyst

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Strong unbilled sales to lift 2H20

- 2Q20 results below expectations
- Contributions across business divisions fell due to nationwide lockdown
- 2H20 improvement expected on recurring income stream and strong order book
- Maintain BUY and RM1.85 TP

Forecasts and Valuation

FY Dec (RMm)	2019A	2020F	2021F	2022F
Revenue	4,780	4,267	5,368	6,178
EBITDA	854	784	863	923
Pre-tax Profit	914	661	729	793
Net Profit	767	471	552	619
Net Pft (Pre Ex.)	655	471	552	619
Net Pft Gth (Pre-ex) (%)	10.9	(28.1)	17.1	12.2
EPS (sen)	15.6	9.58	11.2	12.6
EPS Pre Ex. (sen)	13.3	9.58	11.2	12.6
EPS Gth Pre Ex (%)	11	(28)	17	12
Diluted EPS (sen)	15.6	9.58	11.2	12.6
Net DPS (sen)	9.08	5.75	6.73	7.56
BV Per Share (sen)	194	198	202	207
PE (X)	8.6	14.0	11.9	10.6
PE Pre Ex. (X)	10.1	14.0	11.9	10.6
P/Cash Flow (X)	8.0	9.1	17.0	19.5
EV/EBITDA (X)	12.8	14.5	14.2	14.3
Net Div Yield (%)	6.8	4.3	5.0	5.6
P/Book Value (X)	0.7	0.7	0.7	0.6
Net Debt/Equity (X)	0.4	0.4	0.5	0.5
ROAE (%)	8.7	4.9	5.6	6.1

Source of all data on this page: Company, AllianceDBS, Bloomberg Finance L.P.

What's New

Weak 2Q20 earnings: Stripping out RM16.5m fair value loss, Sunway (SWB) reported weak 2Q20 core earnings of RM9.8m (-87% q-o-q, -94% y-o-y). The weaker-than-expected performance was largely due to the COVID-19 pandemic and nationwide lockdown imposed since 18 March which caused significant disruptions across SWB's business divisions, particularly the hospitality and leisure businesses.

Property segment remains profitable. SWB's property segment did relatively well during the quarter despite the suspension of construction activities due to the lockdown. 2Q20 segmental earnings before interest and taxes (EBIT) dipped 37% y-o-y to RM14m, compared to 40% y-o-y contraction in property revenue, leading to a healthy EBIT margin of 20.2%. SWB's 2Q20 property sales were understandably lower at RM92m, taking 1H20 property sales to RM673m (-8% y-o-y)

Investment properties hit by pandemic induced slowdown.

The property investment segment was among the biggest casualties during the lockdown, especially the group's hospitality and leisure businesses including theme parks that were shut down during the quarter. The segment registered loss before interest and taxes (LBIT) of RM10m, on the back of much lower segmental revenue of RM56m (-68% y-o-y).

Healthcare segment was not spared. SWB's healthcare division performed worse-than-expected due to the MCO. It



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posted a segmental LBIT of RM12.1m which was due to a sharp drop in the number of admissions and outpatient treatments. It was also dragged by an operating loss of RM9.5m from Sunway Medical Centre Velocity which was opened in 3Q19.

Outlook

Strong unbilled sales. Unbilled sales remained high at RM3.2bn as at end-June. In accordance with the adoption of the Malaysian Financial Reporting Standard 15 (MFRS 15), profit contribution from SWB's Singapore and China projects, which account for 47% of its total unbilled sales, will be recognised upon completion of the projects in 2H20. This will result in lumpy earnings contribution from the property development division, leading to a much better 2H20 financial performance.

Lower property sales target. In tandem with the challenging property market, SWB's management has revised its FY20 sales target from RM2bn to RM1.1bn as its initial launch pipeline has been deferred. This is in line with our existing sales assumption of RM1.07bn.

Earnings revision due to COVID-19. We cut our FY20-22F earnings forecast by 7%/7%/5% as we impute a more severe impact of the MCO on SWB's property investment segment, as some of its operations only resumed in early July. Business recovery could be slow due to adjustments to the new normal and standard operating procedures.

Valuation and Recommendation

Maintain BUY. We maintain our sum-of-parts (SOP)-derived target price (TP) of RM1.85. We reiterate our BUY recommendation on SWB given its underlying strength as an all-round integrated real estate player with strong brand equity which will ensure its long term earnings sustainability.

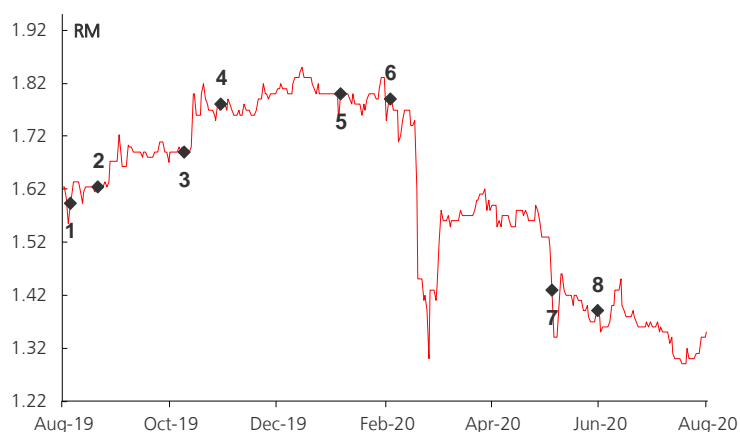
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Quarterly Income Statement (RMm)

FY Dec	2Q2019	1Q2020	2Q2020	% chg yoy	% chg qoq
Revenue	1,077	971	557	(48.3)	(42.7)
Cost of Goods Sold	(980)	(964)	(585)	(40.3)	(39.3)
Gross Profit	96.9	7.76	(28.6)	nm	nm
Other Oper. (Exp)/Inc	32.7	37.0	34.6	5.9	(6.4)
Operating Profit	130	44.7	5.99	(95.4)	(86.6)
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	nm	nm
Associates & JV Inc	38.6	38.6	15.9	(58.9)	(59.0)
Net Interest (Exp)/Inc	3.82	24.5	4.75	24.4	(80.6)
Exceptional Gain/(Loss)	81.3	0.0	(16.5)	nm	nm
Pre-tax Profit	253	108	10.1	(96.0)	(90.6)
Tax	9.40	(17.5)	(14.7)	(256.3)	(16.1)
Minority Interest	(16.2)	(12.0)	(2.1)	86.9	(82.3)
Net Profit	246	78.3	(6.7)	nm	(108.6)
Net Profit bef Except.	165	78.3	9.79	(94.1)	(87.5)
EBITDA	229	144	81.7	(64.4)	(43.4)
Margins (%)					
Gross Margins	9.0	0.8	(5.1)		
Opg Profit Margins	12.0	4.6	1.1		
Net Profit Margins	22.9	8.1	(1.2)		

Source of all data: Company, AllianceDBS

Target Price & Ratings History



Note : Share price and target price are adjusted for corporate actions.

Source: AllianceDBS

Analyst: QUAH He Wei, CFA

DISCLOSURE

Stock rating definitions

STRONG BUY	-	> 20% total return over the next 3 months, with identifiable share price catalysts within this time frame
BUY	-	> 15% total return over the next 12 months for small caps, >10% for large caps
HOLD	-	-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps
FULLY VALUED	-	negative total return > -10% over the next 12 months
SELL	-	negative total return of > -20% over the next 3 months, with identifiable catalysts within this time frame

Commonly used abbreviations

Adex = advertising expenditure	EPS = earnings per share	PBT = profit before tax
bn = billion	EV = enterprise value	P/B = price / book ratio
BV = book value	FCF = free cash flow	P/E = price / earnings ratio
CF = cash flow	FV = fair value	PEG = P/E ratio to growth ratio
CAGR = compounded annual growth rate	FY = financial year	q-o-q = quarter-on-quarter
Capex = capital expenditure	m = million	RM = Ringgit
CY = calendar year	M-o-m = month-on-month	ROA = return on assets
Div yld = dividend yield	NAV = net assets value	ROE = return on equity
DCF = discounted cash flow	NM = not meaningful	TP = target price
DDM = dividend discount model	NTA = net tangible assets	trn = trillion
DPS = dividend per share	NR = not rated	WACC = weighted average cost of capital
EBIT = earnings before interest & tax	p.a. = per annum	y-o-y = year-on-year
EBITDA = EBIT before depreciation and amortisation	PAT = profit after tax	YTD = year-to-date

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