



AmInvestment Bank

## Company report

## SUNWAY

(SWB MK EQUITY, SWAY.KL)

27 May 2021

Looking towards gradual recovery ahead

BUY

(Maintained)

Lee Ching Poh

ching-poh.lee@ambankgroup.com

03-20362300

Rationale for report: Company results

Price	RM1.66
Fair Value	RM1.98
52-week High/Low	RM1.76/RM1.22

## Key Changes

Fair value	⬇️
EPS	⬇️

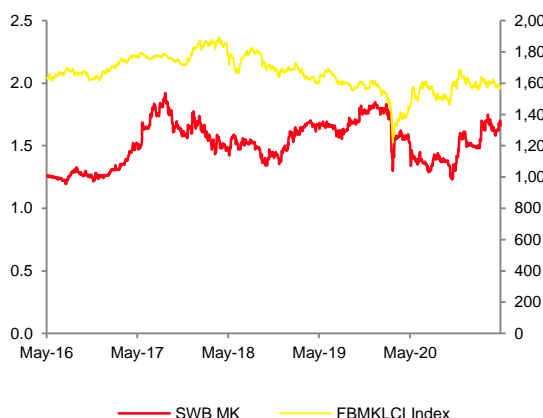
YE to Dec	FY20	FY21F	FY22F	FY23F
Revenue (RM mil)	3,833.3	5,054.2	6,376.2	6,745.3
Core net profit (RM mil)	338.4	553.6	682.5	750.1
FD Core EPS (sen)	6.9	11.3	13.9	15.3
FD Core EPS growth (%)	(51.1)	63.6	23.3	9.9
Consensus Net Profit (RM mil)	-	527.6	607.1	670.9
DPS (sen)	1.5	5.6	6.9	7.6
PE (x)	24.1	14.7	11.9	10.9
EV/EBITDA (x)	43.7	31.4	23.8	21.4
Div yield (%)	0.9	3.4	4.2	4.6
ROE (%)	4.0	5.7	6.8	7.2
Net Gearing (%)	51.2	47.1	49.6	49.0

## Stock and Financial Data

Shares Outstanding (million)	4,903.7
Market Cap (RM mil)	8,140.2
Book Value (RM/share)	1.94
P/BV (x)	0.9
ROE (%)	4.0
Net Gearing (%)	51.2

Major Shareholders	SUNGEI WAY CORP SDN (51.4%)
	EPF (9.3%)
	ACTIVE EQUITY SDN BHD (3.2%)
Free Float	0.4
Avg Daily Value (RM mil)	4.5

Price performance	3mth	6mth	12mth
Absolute (%)	10.7	24.8	8.5
Relative (%)	10.7	27.5	(1.2)



## Investment Highlights

- We maintain our BUY recommendation on Sunway with a lower SOP-derived fair value of RM1.98/share (vs. RM2.04/share previously), which also reflects a 3% premium for our 4-star ESG rating (Exhibits 5 & 6). We cut our FY21–FY23F net profit forecast by 14%, 7%, 5% respectively to reflect slower progress recognition timing amid the prolonged pandemic.
- Sunway's 1QFY21 core net profit of RM57.4mil came in below expectation, accounting for only 9% of our earlier FY21F earnings and 11% of consensus. The variance against our earlier forecast stemmed from weaker-than-expected earnings from all segments with the exception of the healthcare division.
- Property development revenue decreased by 30% YoY to RM97.2mil due to lower progress billings, which drove down the division's PBT by 47% YoY to RM20.7mil. However, Sunway's new sales doubled YoY to RM1.2bil (vs. RM583.2mil in 1QFY20), making up 73% of its unchanged FY21F sales target of RM1.6bil.
- The strong sales were mainly boosted by projects in Singapore (75% of total group sales), whereby the remaining came from local (24%) projects and China (1%). Meanwhile, the group's unbilled sales were relatively flat YoY at RM3.3bil as at 31 March 2021 (Exhibit 3).
- Revenue from the property investment division fell 56% YoY to RM58.7mil due to lower rental income from Covid-19 affected retail and hotel segments, which led to an LBT of RM16.9mil (vs. PBT of RM32mil in 1QFY20).
- Higher progress billings from local construction projects bumped up construction revenue by 47% YoY to RM321.4mil and a pretax profit by 23% YoY RM27.7mil.
- For the healthcare division, strong recovery in hospital activities after MCO 2.0 was lifted in early March boosted the segment's revenue by 14% YoY to RM170.6mil and turned around RM4.5mil LBT in 1QFY20 to a RM14mil PBT.
- QoQ, all segments posted weaker results on lower progress recognition and sales except for property investment's sharp 80% drop in losses due to revaluation loss and impairment of properties in 4QFY20 together with higher numbers of visitors to the theme parks despite MCO 2.0. This was partially offset by the continuing low occupancy rates for the hospitality business.

- Although starting off the year with a weak 1QFY21 earnings delivery, we believe the long-term outlook for Sunway remains positive premised on its :(i) strong unbilled sales of RM3.3bil (5.5x FY21F property development revenue) and (ii) a robust outstanding order book of RM5bil (2.5x FY21F construction revenue); and (iii) expansion plan in its healthcare business (which could increase capacity by 82% in FY23F).

## EXHIBIT 1: EARNINGS SUMMARY

YE to Dec (RM mil)	1QFY20	2QFY20	3QFY20	4QFY20	1QFY21	QoQ %	YoY %
Revenue	971.4	556.6	1,027.2	1,278.0	1,016.7	(20.4)	4.7
Operating costs	(867.8)	(488.8)	(836.1)	(1,342.7)	(913.9)	(31.9)	5.3
<b>EBITDA</b>	<b>103.6</b>	<b>67.8</b>	<b>191.1</b>	<b>(64.7)</b>	<b>102.8</b>	<b>&gt;100</b>	<b>(0.8)</b>
Depreciation	(60.9)	(59.9)	(56.0)	129.7	(53.8)	(>100)	(11.8)
Finance costs	26.5	2.8	5.8	(6.6)	14.5	>100	(45.3)
Associate contributions	38.6	(0.6)	30.4	161.6	23.6	(85.4)	(38.8)
Profit before tax	107.8	10.1	171.3	220.0	87.2	(60.4)	(19.1)
Taxation	(17.5)	(14.7)	(25.0)	(44.8)	(16.8)	(62.5)	(4.1)
MI	(12.0)	(2.1)	(13.5)	(20.1)	(11.9)	(40.6)	(0.7)
PATMI	78.3	(6.7)	132.8	155.2	58.5	(62.3)	(25.3)
<b>Core PATMI</b>	<b>66.4</b>	<b>(4.3)</b>	<b>80.3</b>	<b>196.0</b>	<b>57.4</b>	<b>(70.7)</b>	<b>(13.6)</b>
EPS (sen)	1.4	(0.1)	1.6	4.0	1.2	(0.7)	(13.6)
EBITDA margin (%)	10.7%	12.2%	18.6%	-5.1%	10.1%		
Effective tax rate (%)	16.2%	>100%	14.6%	20.3%	19.3%		
PATMI margin (%)	8.1%	-1.2%	12.9%	12.1%	5.7%		

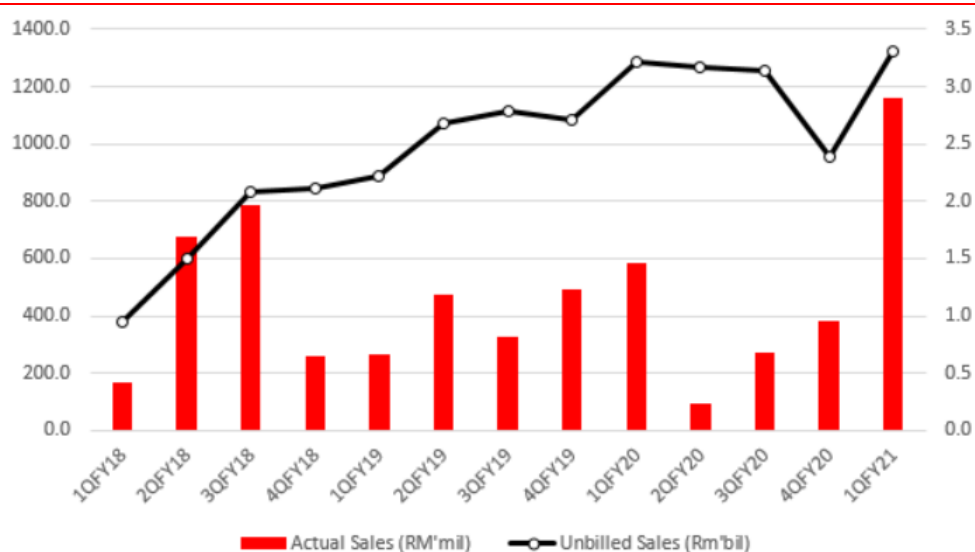
Source: Company, AmlInvestment Bank Bhd

## EXHIBIT 2: SEGMENTAL BREAKDOWN

FY31 Dec (RM mil)	1QFY20	4QFY20	1QFY21	QoQ (%)	YoY (%)
Property development	139.2	183.9	97.2	(47.2)	(30.2)
Property investment	134.3	46.1	58.7	27.4	(56.3)
Construction	218.0	424.6	321.4	(24.3)	47.4
Healthcare	149.2	178.0	170.6	(4.1)	14.4
Others	330.7	445.4	368.9	(17.2)	11.5
<b>Revenue</b>	<b>971.4</b>	<b>1,278.0</b>	<b>1,016.7</b>	<b>(20.4)</b>	<b>4.7</b>
Property development	39.1	218.6	20.7	(90.5)	(47.1)
Property investment	32.0	(82.6)	(16.9)	(79.6)	(>100)
Construction	22.6	39.0	27.7	(28.9)	22.6
Healthcare	(4.5)	22.5	14.0	(37.7)	>100
Others	18.6	54.4	41.7	(23.3)	>100
<b>PBT/(LBT)</b>	<b>107.8</b>	<b>251.7</b>	<b>87.2</b>	<b>(65.4)</b>	<b>(19.1)</b>
<b>Pretax margin (%)</b>					
Property development	28.1	>100	21.3		
Property investment	23.8	(>100)	(28.7)		
Construction	10.4	9.2	8.6		
Healthcare	(3.0)	12.6	8.2		
Others	5.6	12.2	11.3		

Source: AmlInvestment Bank Bhd, Company

## EXHIBIT 3: ACTUAL SALES AND UNBILLED SALES TREND



Source: AmlInvestment Bank Bhd, Company

## EXHIBIT 4: SOP VALUATIONS

DEVELOPMENT PROPERTIES	Outstanding GDV (RMmil)	NPV@7% (RMmil)	Stake	Segment	Value (RMmil)	% of SOP
<b>Selangor/KL</b>				Property (40% discount to RNAV)	2,126.6	19.7%
Sunway Damansara	2,235.3	126.7	60.0%	Investment properties	1,583.4	14.7%
Sunway South Quay	2,486.7	272.3	100.0%	Sunway Construction (54.4% stake @ AmInvestment Valuation)	1,188.6	11.0%
Sunway Monterez	38.0	2.5	60.0%	Sunway REIT (40.9% stake @ AmInvestment Valuation)	2,296.1	21.3%
Sunway Semenyih	728.6	55.8	70.0%	Healthcare (25x FY22 earnings)	3,279.2	30.4%
Sunway Cheras	16.8	1.8	100.0%	Quarry & building materials (6x FY22 earnings)	139.7	1.3%
Sunway Duta	120.0	7.2	60.0%	Trading & manufacturing (6x FY22 earnings)	184.2	1.7%
Sunway Resort City	660.1	66.1	100.0%			
Sunway Velocity	1,984.0	169.0	85.0%	Total SOP	10,797.9	
Sunway Velocity TWO	1,360.0	68.1	50.0%	Net cash/(debt) @ Company level	737.0	
Sunway Tower KL 1	240.0	24.0	100.0%	Proceeds from ICPS & conversion	977.8	
Sunway Termuning	277.0	22.2	80.0%	<b>Fair value</b>	<b>12,512.6</b>	
Mont Putra, Rawang	156.0	15.6	100.0%			
Kelana Jaya	1,450.0	145.3	100.0%	Enlarged share base (mil shares)	6,516.6	
Jalan Belfield	1,100.0	110.2	100.0%	<b>Fair value/share (RM)</b>	<b>1.92</b>	
Lot One, Kajang	460.0	46.1	100.0%	(+) 3% premium for 4-star ESG rating	0.06	
USJ 1, Subang Jaya	1,400.0	140.3	100.0%	<b>Fair value/share (RM)+ ESG Premium</b>	<b>1.98</b>	
Subang 2	52.0	3.6	70.0%			
Wangsa Maju-1	270.0	14.9	55.0%			
Dengkil (Emerald Tycoon)	796.6	79.8	100.0%			
Bukit Jalil (Sterling Paradise)	800.0	107.4	100.0%			
Wangsa Maju-2	300.0	59.1	55.0%			
Taman Mutiara, Cheras	225.0	39.0	100.0%			
Jalan Cochrane	1,150.0	126.2	100.0%			
<b>Perak</b>						
Sunway City Ipoh	928.4	84.7	96.0%			
<b>Penang</b>						
Sunway Hills	849.0	80.2	100.0%			
Sunway Wellesley, Bukit Mertajam	710.5	67.1	100.0%			
Paya Terubong	1,500.0	141.7	100.0%			
Sunway T unas, Balik Pulau	60.0	5.7	100.0%			
Sunway Betong, Balik Pulau	110.0	10.4	100.0%			
<b>Johor</b>						
Bukit Lenang	698.4	35.8	80.0%			
Medini	10,616.0	408.0	60.0%			
Pendas	18,000.0	691.8	60.0%			
<b>Singapore</b>						
Brookvale Park	3,000.0	87.8	30.0%			
Canberra Link, Sembawang	1,500.0	51.2	35.0%			
Tampines Ave 10	2,400.0	81.9	35.0%			
<b>China</b>						
Tianjin Eco-City	765.3	52.2	60.0%			
<b>India</b>						
Sunway OPUS Grand India	702.4	33.2	50.0%			
Sunway MAK Signature Residence	181.2	10.3	60.0%			
Unbilled sales		252.0				
<b>Subtotal</b>		<b>3,797.5</b>				

Source: AmInvestment Bank Bhd, Company

**EXHIBIT 5: ESG RATING**

Overall	★	★	★	★	
Eco-landscaping	★	★	★		
Progress of digitalization	★	★	★		
Employee welfare	★	★	★	★	
Corporate social responsibility	★	★	★	★	★
Strategic direction	★	★	★	★	
Gender diversity	★	★			
Earnings sustainability	★	★	★	★	
Accessibility & transparency	★	★	★		

We accord a discount/premium of -6%, -3%, 0%, +3% and +6% on fundamental fair value based on the overall ESG rating as appraised by us, from 1-star to 5-star

Source: AmlInvestment Bank Bhd

**EXHIBIT 6: PB BAND CHART**



**EXHIBIT 7: PE BAND CHART**



## EXHIBIT 8: FINANCIAL DATA

Income Statement (RMmil, YE 31 Dec)	FY19	FY20	FY21F	FY22F	FY23F
Revenue	4,780.3	3,833.3	5,054.2	6,376.2	6,745.3
EBITDA	801.1	297.9	405.9	552.7	622.6
Depreciation/Amortisation	(235.1)	(47.1)	(62.0)	(78.3)	(82.8)
Operating income (EBIT)	565.9	250.8	343.8	474.4	539.8
Other income & associates	261.2	230.0	372.4	389.4	407.0
Net interest	87.8	28.5	54.4	68.6	72.6
<b>Exceptional items</b>	-	-	-	-	-
Pretax profit	915.0	509.3	770.6	932.4	1,019.4
Taxation	(78.4)	(102.0)	(129.8)	(139.9)	(152.9)
<b>Minorities/pref dividends</b>	<b>(69.3)</b>	<b>(47.7)</b>	<b>(87.2)</b>	<b>(110.0)</b>	<b>(116.4)</b>
Net profit	767.3	359.6	553.6	682.5	750.1
Core net profit	691.5	338.4	553.6	682.5	750.1
Balance Sheet (RMmil, YE 31 Dec)	FY19	FY20	FY21F	FY22F	FY23F
Fixed assets	2,749.0	2,611.4	3,443.1	4,343.7	4,595.1
Intangible assets	331.6	350.8	350.8	350.8	350.8
<b>Other long-term assets</b>	<b>9,309.3</b>	<b>11,086.2</b>	<b>11,286.2</b>	<b>11,286.2</b>	<b>11,286.2</b>
Total non-current assets	12,390.0	14,048.3	15,080.0	15,980.6	16,232.0
Cash & equivalent	5,888.9	2,348.9	2,559.3	2,656.0	2,961.4
Stock	2,102.1	2,101.5	2,128.4	3,062.1	3,435.2
Trade debtors	1,638.4	2,440.6	1,661.7	2,096.3	2,909.9
<b>Other current assets</b>	<b>1,533.8</b>	<b>180.1</b>	<b>387.8</b>	<b>442.1</b>	<b>457.3</b>
Total current assets	11,163.1	7,071.1	6,737.2	8,256.6	9,763.8
Trade creditors	1,344.3	2,456.9	2,356.3	3,389.9	3,327.6
Short-term borrowings	8,024.9	5,132.5	5,081.2	5,128.2	5,425.0
<b>Other current liabilities</b>	<b>1,509.0</b>	<b>239.3</b>	<b>(593.3)</b>	<b>(337.5)</b>	<b>602.0</b>
Total current liabilities	10,878.2	7,828.8	6,844.2	8,180.7	9,354.6
Long-term borrowings	2,310.8	2,101.6	2,101.6	2,565.5	2,695.0
<b>Other long-term liabilities</b>	<b>189.9</b>	<b>857.3</b>	<b>857.3</b>	<b>857.3</b>	<b>857.3</b>
<b>Total long-term liabilities</b>	<b>2,500.7</b>	<b>2,958.8</b>	<b>2,958.8</b>	<b>3,422.8</b>	<b>3,552.3</b>
Shareholders' funds	8,392.9	9,534.6	9,813.1	10,157.7	10,536.1
Minority interests	1,781.4	797.2	2,201.1	2,476.0	2,552.8
BV/share (RM)	1.71	1.94	2.00	2.07	2.15
Cash Flow (RMmil, YE 31 Dec)	FY19	FY20	FY21F	FY22F	FY23F
Pretax profit	915.0	509.3	770.6	932.4	1,019.4
Depreciation/Amortisation	235.1	47.1	62.0	78.3	82.8
Net change in working capital	(1,220.0)	1,042.6	(650.7)	(182.9)	(333.2)
<b>Others</b>	<b>995.2</b>	<b>(771.2)</b>	<b>547.0</b>	<b>728.1</b>	<b>280.4</b>
Cash flow from operations	925.3	827.7	729.0	1,555.9	1,049.4
Capital expenditure	335.9	(527.2)	(831.7)	(900.6)	(251.4)
Net investments & sale of fixed assets	-	-	-	-	-
<b>Others</b>	<b>(1,260.1)</b>	<b>(357.6)</b>	<b>(200.0)</b>	-	-
Cash flow from investing	(924.2)	(884.8)	(1,031.7)	(900.6)	(251.4)
Debt raised/(repaid)	667.1	(141.2)	78.7	(231.2)	(121.0)
Equity raised/(repaid)	-	-	-	-	-
Dividends paid	(242.9)	(220.6)	(275.1)	(337.9)	(371.7)
<b>Others</b>	<b>234.0</b>	<b>183.4</b>	-	-	-
<b>Cash flow from financing</b>	<b>658.3</b>	<b>(178.3)</b>	<b>(196.5)</b>	<b>(569.1)</b>	<b>(492.7)</b>
<b>Net cash flow</b>	<b>659.4</b>	<b>(235.4)</b>	<b>(499.2)</b>	<b>86.1</b>	<b>305.3</b>
<b>Net cash/(debt) b/f</b>	<b>2,507.8</b>	<b>3,170.6</b>	<b>2,952.5</b>	<b>2,453.3</b>	<b>2,539.4</b>
Net cash/(debt) c/f	3,170.6	2,952.5	2,453.3	2,539.4	2,844.7
Key Ratios (YE 31 Dec)	FY19	FY20	FY21F	FY22F	FY23F
Revenue growth (%)	(11.6)	(19.8)	31.8	26.2	5.8
EBITDA growth (%)	8.6	(62.8)	36.3	36.2	12.6
Pretax margin (%)	19.1	13.3	15.2	14.6	15.1
Net profit margin (%)	16.1	9.4	11.0	10.7	11.1
Interest cover (x)	nm	nm	nm	nm	nm
Effective tax rate (%)	8.6	20.0	16.8	15.0	15.0
Dividend payout (%)	57.3	20.1	49.7	49.5	49.6
Debtors turnover (days)	125	232	120	120	157
Stock turnover (days)	151	200	153	149	176
Creditors turnover (days)	102	181	174	164	182

Source: Company, AmlInvestment Bank Bhd estimates

**DISCLOSURE AND DISCLAIMER**

This report is prepared for information purposes only and it is issued by AmInvestment Bank Berhad (“AmInvestment”) without regard to your individual financial circumstances and objectives. Nothing in this report shall constitute an offer to sell, warranty, representation, recommendation, legal, accounting or tax advice, solicitation or expression of views to influence any one to buy or sell any real estate, securities, stocks, foreign exchange, futures or investment products. AmInvestment recommends that you evaluate a particular investment or strategy based on your individual circumstances and objectives and/or seek financial, legal or other advice on the appropriateness of the particular investment or strategy.

The information in this report was obtained or derived from sources that AmInvestment believes are reliable and correct at the time of issue. While all reasonable care has been taken to ensure that the stated facts are accurate and views are fair and reasonable, AmInvestment has not independently verified the information and does not warrant or represent that they are accurate, adequate, complete or up-to-date and they should not be relied upon as such. All information included in this report constitute AmInvestment’s views as of this date and are subject to change without notice. Notwithstanding that, AmInvestment has no obligation to update its opinion or information in this report. Facts and views presented in this report may not reflect the views of or information known to other business units of AmInvestment’s affiliates and/or related corporations (collectively, “AmBank Group”).

This report is prepared for the clients of AmBank Group and it cannot be altered, copied, reproduced, distributed or republished for any purpose without AmInvestment’s prior written consent. AmInvestment, AmBank Group and its respective directors, officers, employees and agents (“Relevant Person”) accept no liability whatsoever for any direct, indirect or consequential losses, loss of profits and/or damages arising from the use or reliance of this report and/or further communications given in relation to this report. Any such responsibility is hereby expressly disclaimed.

AmInvestment is not acting as your advisor and does not owe you any fiduciary duties in connection with this report. The Relevant Person may provide services to any company and affiliates of such companies in or related to the securities or products and/or may trade or otherwise effect transactions for their own account or the accounts of their customers which may give rise to real or potential conflicts of interest.

This report is not directed to or intended for distribution or publication outside Malaysia. If you are outside Malaysia, you should have regard to the laws of the jurisdiction in which you are located.

If any provision of this disclosure and disclaimer is held to be invalid in whole or in part, such provision will be deemed not to form part of this disclosure and disclaimer. The validity and enforceability of the remainder of this disclosure and disclaimer will not be affected.