

HLIB Research

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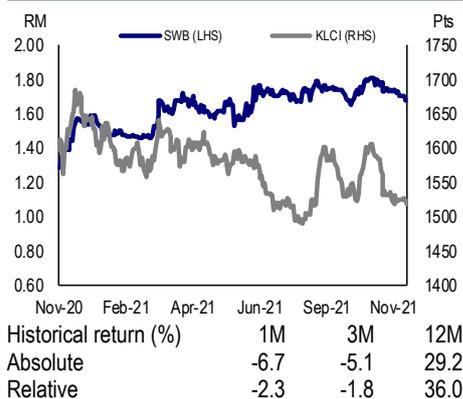
BUY (Maintain)

| | |
|-----------------------|---------------|
| Target Price: | RM2.58 |
| Previously: | RM2.58 |
| Current Price: | RM1.68 |

| | |
|-----------------------|-------|
| Capital upside | 53.6% |
| Dividend yield | 1.6% |
| Expected total return | 55.2% |

Sector coverage: Property

Company description: Sunway is a conglomerate that engages in property development, property investment, construction, leisure and hospitality, education, trading and manufacturing, building materials and healthcare.

Share price

Stock information

| | |
|--------------------------|--------|
| Bloomberg Ticker | SWB MK |
| Bursa Code | 5211 |
| Issued Shares (m) | 4,889 |
| Market cap (RM m) | 8,214 |
| 3-mth avg. volume ('000) | 1,412 |
| SC Shariah-compliant | Yes |
| F4GBM Index member | Yes |
| ESG rating | ★★★★ |

Major shareholders

| | |
|-------------------------|-------|
| Sungei Way Corp Sdn Bhd | 56.9% |
| EPF | 8.4% |

Earnings summary

| FYE (Dec) | FY20 | FY21f | FY22f |
|---------------------|-------|-------|-------|
| PATMI – core (RM m) | 331.9 | 286.2 | 501.7 |
| EPS – core (sen) | 5.7 | 4.9 | 8.6 |
| P/E (x) | 29.7 | 34.4 | 19.6 |

Sunway

Impressive showing given the circumstances

9MFY21's core PATMI RM198.9m (+36.7% YoY) beat our and consensus expectations from the higher property development segment (handover of local projects) as well as higher others segment (new contribution of Multicare Pharmacy). New sales of RM2.17bn was achieved in 9M21 representing 99% of Sunway's FY21 sales target of RM2.2bn. Point to note is the turnaround of healthcare in 9MFY21 vs losses SPLY. We increase our FY21 forecast by 5% but maintain our FY22-23 forecast. Reiterate our BUY call with an unchanged TP of RM2.58 based on SOP-derived valuation.

Beat expectations. 3QFY21 core PATMI of RM90.8m (+78.3% QoQ, +17.9% YoY) brought 9MFY21's sum to RM198.9m (+36.7% YoY). The latter accounted 72% of our full year forecast which we deem to be above expectations (consensus: 68%) after taking into account Phase 1 restrictions (i.e. the negative impact was less profound than initially expected). The positive deviation stemmed from higher property development segment (handover of local projects) as well as higher others segment (new contribution of Multicare Pharmacy). 9M21 core PATMI was derived after we excluded the payment to ICPS holder amounting to RM25.7m (during last 2Q) and subsequently we added back net EIs of RM14.6m (mostly from impairment loss).

QoQ. Despite longer number of days for lockdown in 3Q21 vs 2Q21, core PATMI rebounded strongly by 78.3% on the back of higher total revenue by 10% as well as improved margin. This was mainly due to (1) higher revenue (+33.7%) and PBT (+95.7%) from property development segment attributable to completion and handover of a local development project, (2) narrower losses from property investment segment thanks to improved contributions from the REIT assets, (3) higher PBT from construction segment owing to better margin from the local rail infrastructure project, (4) profitable PBT of quarry segment from higher sales volume and average selling price for both aggregates and premix, and (5) higher contribution of healthcare segment thanks to narrower losses of Sunway Medical Centre Velocity (SMCV) with higher number of admissions.

YoY/YTD. Core PATMI was higher (+17.9% YoY, +36.7% YTD) largely lifted by higher revenue (+3.7% YoY; +19.3% YTD) prominently from property development segment, healthcare and others segment (additional contribution from the newly acquired majority stake in Multicare Health Pharmacy Group's business and higher contribution from the Group's treasury functions)

Property development. New sales of RM2.17bn was achieved in 9M21 representing 99% of Sunway's FY21 sales target of RM2.2bn. Unbilled sales rose to RM3.83bn in 3Q21 from RM3.6bn in 2Q21.

Property investment. Despite registering lower revenue by -7% QoQ (which we believe stems from longer number of days for lockdown), the segment showed narrower losses of -RM12m in 3Q21 vs -RM16m in 2Q21 thanks to lower expenses.

Construction. Current orderbook stands at RM4.7bn which implies a healthy cover of 3.0x on FY20 construction revenue. 9M21 saw RM796m order book replenishment where it mostly came from the Sunway Medical Centre Damansara and precast projects.

Healthcare. Healthcare segment 3Q21 PBT recorded an impressive 90.9% growth YoY (and growth of 7.2% QoQ), bringing 9M21's PBT sum to RM71m (SPLY: LBT of -RM5.1m), attributable to strong recovery in hospital activities with higher number of admissions and outpatient treatments at Sunway Medical Centre (SMC) and SMCV. As a result, the YTD profit of SMC rebounded strongly, while the operating loss of

SMCV reduced to -RM9.0m (from -RM28.1m).

Forecast. We increase our FY21 forecast by 5% to account for higher contribution from property development segment as well as others segment (new contribution from majority stake in Multicare Health Pharmacy). Maintain our FY22-23 forecast.

We maintain our **BUY** call with an unchanged **TP** of **RM2.58** based on SOP-derived valuation pegged to FY22 horizon. We are expecting a stronger 4Q from higher operational activities across all segments, in line with the economic reopening. Sunway remains our top pick given its well-integrated property, construction and building material operations. With its wide ranging business exposure, the group is a good proxy to the economic recovery. Meanwhile, its efforts to expedite expansion of healthcare with its new strategic partner GIC, will culminate in the separate listing of healthcare unit to help unlock value in the group.

Financial Forecast

All items in (RM m) unless otherwise stated

Balance Sheet

| FYE Dec | FY19 | FY20 | FY21f | FY22f | FY23f |
|----------------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Cash | 2,554.7 | 2,238.4 | 2,617.8 | 3,435.0 | 4,358.3 |
| Placement in funds | 376.4 | 100.3 | 100.3 | 100.3 | 100.3 |
| Receivables | 1,638.4 | 1,451.9 | 1,370.2 | 1,540.9 | 1,561.3 |
| Inventories | 748.5 | 607.4 | 628.0 | 706.2 | 715.6 |
| Others | 16,176.5 | 16,723.0 | 16,852.3 | 16,868.0 | 16,801.7 |
| Assets | 21,494.6 | 21,121.1 | 21,568.5 | 22,650.3 | 23,537.2 |
| Payables | 1,344.3 | 1,467.5 | 1,370.2 | 1,540.9 | 1,561.3 |
| Debt | 8,295.5 | 7,510.6 | 8,010.6 | 8,510.6 | 9,010.6 |
| Others | 2,421.3 | 1,804.5 | 1,804.5 | 1,804.5 | 1,804.5 |
| Liabilities | 12,061.0 | 10,782.6 | 11,185.2 | 11,855.9 | 12,376.3 |
| Shareholder's equity | 8,389.3 | 9,540.7 | 9,547.9 | 9,892.1 | 10,183.3 |
| Minority interest | 1,044.3 | 797.8 | 835.4 | 902.3 | 977.5 |
| Perpetual bond | - | - | - | - | - |
| Equity | 9,433.6 | 10,338.5 | 10,383.3 | 10,794.4 | 11,160.9 |

Cash Flow Statement

| FYE Dec | FY19 | FY20 | FY21f | FY22f | FY23f |
|------------------------|------------------|----------------|----------------|----------------|----------------|
| Profit before taxation | 865.3 | 512.5 | 378.6 | 703.7 | 780.2 |
| D&A | 233.6 | 236.5 | 242.7 | 247.5 | 251.8 |
| Working capital | (310.5) | 270.7 | (2.3) | 39.3 | 246.8 |
| Taxation | (94.0) | (61.3) | (54.8) | (135.1) | (137.8) |
| JV and Associates | (113.3) | (41.8) | (105.8) | (80.7) | (141.7) |
| Perpetual bond | - | - | - | - | - |
| Others | (5.5) | (139.4) | - | - | - |
| CFO | 689.0 | 777.2 | 458.4 | 774.6 | 999.3 |
| Capex | (1,292.7) | (984.9) | (300.0) | (300.0) | (300.0) |
| Others | (67.2) | 158.5 | - | - | - |
| CFI | (1,359.9) | (826.4) | (300.0) | (300.0) | (300.0) |
| Changes in debt | 1,059.6 | (897.1) | 500.0 | 500.0 | 500.0 |
| Shares issued | - | 977.8 | - | - | - |
| Dividends | (305.9) | (253.6) | (88.0) | (157.4) | (275.9) |
| Others | (254.7) | 38.6 | (191.0) | - | - |
| CFF | 499.0 | (134.3) | 221.0 | 342.6 | 224.1 |
| Net cash flow | (172.0) | (183.5) | 379.4 | 817.2 | 923.3 |
| Forex | (2.9) | 7.3 | - | - | - |
| Others | 195.7 | (140.2) | (140.2) | (140.2) | (140.2) |
| Beginning cash | 2,533.9 | 2,554.7 | 2,378.6 | 2,758.0 | 3,575.1 |
| Ending cash | 2,554.7 | 2,238.4 | 2,617.8 | 3,435.0 | 4,358.3 |

Income statement

| FYE Dec | FY19 | FY20 | FY21f | FY22f | FY23f |
|----------------------|---------------|---------------|---------------|---------------|---------------|
| Revenue | 4780.3 | 3829.1 | 4167.6 | 4686.8 | 4749.0 |
| Operating cost | (3978.5) | (3344.5) | (3714.5) | (3880.6) | (3910.3) |
| EBITDA | 801.8 | 484.5 | 453.0 | 806.2 | 838.6 |
| D&A | (233.8) | (236.8) | (242.7) | (247.5) | (251.8) |
| Net Interest | 36.2 | 31.4 | 17.9 | 4.2 | (12.6) |
| JV & Associates | 261.2 | 233.4 | 150.4 | 140.7 | 206.0 |
| Pretax profit | 865.3 | 512.5 | 378.6 | 703.7 | 780.2 |
| Taxation | (78.4) | (102.0) | (54.8) | (135.1) | (137.8) |
| Minority Interest | (77.7) | (47.7) | (37.6) | (66.9) | (75.2) |
| Holders of Perpetual | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| PATAMI | 709.2 | 362.8 | 286.2 | 501.7 | 567.1 |
| Exceptionals | 24.4 | 30.9 | 0.0 | 0.0 | 0.0 |
| Core Earning | 684.8 | 331.9 | 286.2 | 501.7 | 567.1 |
| Basic shares (m) | 5866.7 | 5866.7 | 5866.7 | 5866.7 | 5866.7 |
| Consensus core PATMI | | | 291.8 | 471.1 | 580.8 |
| HLIB/ Consensus | | | 98% | 106% | 98% |

Valuation ratios

| FYE Dec | FY19 | FY20 | FY21f | FY22f | FY23f |
|---------------------------|----------|----------|----------|----------|----------|
| Net DPS (sen) | 9.1 | 1.5 | 2.7 | 4.7 | 5.3 |
| Yield (%) | 5.4 | 0.9 | 1.6 | 2.8 | 3.2 |
| Core EPS (sen) | 11.7 | 5.7 | 4.9 | 8.6 | 9.7 |
| P/E (x) | 14.4 | 29.7 | 34.4 | 19.6 | 17.4 |
| Market capitalization (m) | 9856.1 | 9856.1 | 9856.1 | 9856.1 | 9856.1 |
| Net cash (m) | (5364.4) | (5171.9) | (5292.5) | (4975.3) | (4552.0) |
| Net gearing (%) | 0.57 | 0.50 | 0.51 | 0.46 | 0.41 |
| BV / share | 1.6 | 1.8 | 1.8 | 1.8 | 1.9 |
| P/BV (x) | 1.0 | 1.0 | 0.9 | 0.9 | 0.9 |
| ROA (%) | 3.2 | 1.6 | 1.3 | 2.2 | 2.4 |
| ROE (%) | 7.3 | 3.2 | 2.8 | 4.6 | 5.1 |
| Enterprise value | 15220.4 | 15028.0 | 15148.6 | 14831.4 | 14408.1 |
| EV/ EBITDA (x) | 19.0 | 31.0 | 33.4 | 18.4 | 17.2 |

Margin ratios

| FYE Dec | FY19 | FY20 | FY21f | FY22f | FY23f |
|---------------|------|------|-------|-------|-------|
| EBITDA Margin | 16.8 | 12.7 | 10.9 | 17.2 | 17.7 |
| PBT Margin | 18.1 | 13.4 | 9.1 | 15.0 | 16.4 |
| PATMI | 14.3 | 8.7 | 6.9 | 10.7 | 11.9 |

Figure #1 Quarterly results comparison

| FYE Dec (RM m) | 3Q20 | 2Q21 | 3Q21 | QoQ | YoY | 9M20 | 9M21 | YoY |
|-------------------------|-------------|-------------|-------------|--------------|--------------|--------------|--------------|--------------|
| Revenue | 1027.2 | 967.9 | 1065.0 | 10.0% | 3.7% | 2555.3 | 3049.7 | 19.3% |
| Property Development | 103.4 | 147.4 | 197.1 | 33.7% | 90.5% | 310.8 | 441.6 | 42.1% |
| Property Investment | 98.1 | 62.3 | 58.0 | -7.0% | -40.9% | 287.9 | 179.0 | -37.8% |
| Construction | 255.0 | 218.1 | 192.7 | -11.6% | -24.5% | 565.6 | 732.1 | 29.4% |
| Trading/Manufacturing | 231.0 | 198.9 | 186.4 | -6.3% | -19.3% | 566.3 | 609.9 | 7.7% |
| Quarry | 105.6 | 70.5 | 84.3 | 19.7% | -20.1% | 211.6 | 232.0 | 9.6% |
| Healthcare | 168.0 | 200.6 | 208.1 | 3.7% | 23.9% | 442.3 | 579.3 | 31.0% |
| Others | 66.1 | 70.2 | 138.4 | 97.3% | 109.3% | 170.8 | 275.7 | 61.4% |
| EBIT | 136.3 | 36.5 | 83.3 | 128.4% | -38.8% | 212.5 | 168.9 | -20.5% |
| Net Interest | -8.3 | 19.9 | 9.8 | -50.8% | -218.1% | -29.7 | 44.2 | -248.5% |
| Share of Associates/JCE | 28.4 | 22.6 | 20.7 | -8.3% | -26.9% | 66.2 | 67.0 | 1.2% |
| PBT | 156.3 | 79.0 | 113.8 | 44.1% | -27.2% | 248.9 | 280.0 | 12.5% |
| Property Development | 16.7 | 22.9 | 44.6 | 95.2% | 164.6% | 69.7 | 88.2 | 26.5% |
| Property Investment | 60.5 | -16.0 | -12.3 | -23.3% | N.M. | 51.9 | -45.2 | N.M. |
| Construction | 37.0 | 8.6 | 21.4 | 147.5% | -42.3% | 66.1 | 57.7 | -12.8% |
| Trading/Manufacturing | 7.2 | 10.0 | 6.7 | -33.1% | -7.2% | 13.5 | 28.8 | 114.4% |
| Quarry | 7.7 | -0.5 | 2.5 | N.M. | -67.8% | 9.2 | 5.0 | -45.7% |
| Healthcare | 15.4 | 27.5 | 29.5 | 7.2% | 90.9% | -5.1 | 71.0 | N.M. |
| Others | 11.6 | 26.6 | 21.5 | -19% | 85.1% | 43.6 | 74.5 | 70.9% |
| PAT | 131.3 | 71.1 | 95.2 | 33.8% | -27.5% | 191.6 | 236.6 | 23.5% |
| MI | -15.3 | -0.6 | -14.1 | 2266.7% | -8.0% | -33.6 | -26.6 | -21.0% |
| Payment to ICPS holders | 0.0 | -25.7 | 0.0 | N.M. | N.M. | 0.0 | -25.7 | N.M. |
| PATAMI | 116.0 | 44.8 | 81.1 | 80.9% | -30.1% | 158.0 | 184.4 | 16.7% |
| EI | -39.0 | 6.1 | 9.7 | 58.8% | -124.9% | -12.4 | 14.6 | -217.2% |
| Core Earnings | 77.0 | 50.9 | 90.8 | 78.3% | 17.9% | 145.6 | 198.9 | 36.7% |
| | | | | | Ppts change | Ppts change | | Ppts change |
| EBIT margin | 13.3% | 3.8% | 7.8% | 4.1% | -5.4 | 8.3 | 5.5% | -2.8 |
| PBT margin | 15.2% | 8.2% | 10.7% | 2.5% | -4.5 | 9.7 | 9.2% | -0.6 |
| PAT margin | 7.5% | 5.3% | 8.5% | 3.3% | 1.0 | 5.7 | 6.5% | 0.8 |

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Figure #2 SOP table

| Division | Stake | Value (RM m) | RM/share | Methodology |
|-----------------------------------|--------|---------------|-------------|------------------------|
| Construction (SunCon) | 54.56% | 1,322 | 0.27 | Based on TP of RM 1.88 |
| Sunway REIT | 40.88% | 1,932 | 0.40 | Based on TP of RM 1.38 |
| Property Development & Investment | 100% | 4,893 | 1.00 | Discounted RNAV |
| Healthcare | 84% | 3,948 | 0.81 | 31x EV/EBITDA |
| Trading/Manufacturing | 100% | 295 | 0.06 | 10X trailing P/E |
| Quarry | 100% | 167 | 0.03 | 10X trailing P/E |
| Equity Value (RM) | | 12,558 | 2.58 | |

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Stock rating guide

| | |
|---------------------|---|
| BUY | Expected absolute return of +10% or more over the next 12 months. |
| HOLD | Expected absolute return of -10% to +10% over the next 12 months. |
| SELL | Expected absolute return of -10% or less over the next 12 months. |
| UNDER REVIEW | Rating on the stock is temporarily under review which may or may not result in a change from the previous rating. |
| NOT RATED | Stock is not or no longer within regular coverage. |

Sector rating guide

| | |
|--------------------|---|
| OVERWEIGHT | Sector expected to outperform the market over the next 12 months. |
| NEUTRAL | Sector expected to perform in-line with the market over the next 12 months. |
| UNDERWEIGHT | Sector expected to underperform the market over the next 12 months. |

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