

**HLIB Research**

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**BUY** (Maintain)

**Target Price: RM2.58**
**Previously: RM2.58**
**Current Price: RM1.80**

Capital upside	43.3%
Dividend yield	1.4%
Expected total return	44.7%

**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**


Historical return (%)	1M	3M	12M
Absolute	4.7	5.9	33.3
Relative	2.6	7.5	33.5

**Stock information**

Bloomberg Ticker	SWB MK
Bursa Code	5211
Issued Shares (m)	4,889
Market cap (RM m)	8,800
3-mth avg. volume ('000)	3,655
SC Shariah-compliant	Yes
F4GBM Index member	Yes
ESG rating	★★★★

**Major shareholders**

Sungei Way Corp Sdn Bhd	21.7%
EPF	8.5%

**Earnings summary**

FYE (Dec)	FY20	FY21f	FY22f
PATMI – core (RM m)	331.9	276.3	501.5
EPS – core (sen)	5.7	4.7	8.5
P/E (x)	31.8	38.2	21.1

# Sunway

## Missed expectations

1HFY21 core PATMI of RM108.1m (+57.7% YoY) came below our and consensus expectation. This was largely due to lower contribution from hospitality and leisure businesses as well as lower progressive billing. New sales of RM1.64bn was achieved in 1HFY21 representing 74.5% of Sunway's FY21 sales target of RM2.2bn. Point to note is the turnaround of healthcare in 1HFY21 vs loss in 1HFY20. Despite the earnings shortfall this quarter, we expect the group to pick up momentum strongly in 4Q inline with economic reopening by government. We cut our earnings forecast by 27.3% in FY21 to account for the drag by hospitality as reflected in lower property investment and lower progressive billing associated with the lockdown in NRP Phase 1 period. We maintain our BUY call with an unchanged TP of RM2.58 based on SOP-derived valuation.

**Below expectations.** 2QFY21 core PATMI of RM50.9m (-11.0% QoQ, +14.1x YoY) brought 1HFY21's sum to RM108.1m (+57.7% YoY). The results were below expectation accounting 28% of our and 30% of consensus full year forecasts. Results shortfall was largely due to lower contribution from hospitality and leisure businesses under the property investment segment as well as lower progressive billings recognition under property development segment. 1H21 core PATMI was derived after we excluded the payment to ICPS holder amounting to RM25.7m and subsequently we added back net EIs of RM6.1m (mostly from impairment loss).

**Dividend.** Declared a first interim dividend of 1.0 sen per ordinary share, going ex on 30 Sept 2021. The group also declared 1H21 preferential dividend of 2.625% (5.25% p.a.) based on the issue price of RM1.00 per ICPS going ex on 30 Sept 2021.

**QoQ.** Core PATMI declined by 11% on the back of lower revenue by 4.8%. This was mainly due to lower contribution from construction (lower progressive billings), trading and manufacturing (lower sales due to subdued local and overseas market conditions) and quarry segments (lower aggregates and premix sales volumes).

**YoY.** Core PATMI increased by 14.1x lifted by higher revenue of 73.9%. Improvements were across all business segments due to low base effect (MCO1.0 in SPLY).

**YTD.** Core PATMI increased by 57.7% attributable to higher revenue of 29.9%. This was underpinned by higher contributions from all business segments except property investments as lockdown had adversely impacted the footfall of mall, hospitality and leisure businesses as well as lower contribution from Sunway REIT.

**Property development.** New sales of RM1.64bn was achieved in 1HFY21 representing 74.5% of Sunway's FY21 sales target of RM2.2bn. Unbilled sales rose to RM3.6bn in 2Q21 from RM3.3bn in 1Q21. This was lifted by higher sales of the Group's Singapore property development projects, Parc Central Residence, which will only be recognised upon completion. Hence, we are expecting better contribution from this project moving forward.

**Property investment.** We remain hopeful for a gradual recovery of retail segment given the PM's recent announcement of economic easing for fully vaccinated consumers who can now shop in several retail type stores (electric & electronics, household & kitchen appliances, furniture, sports equipment, clothing & accessories, jewellery and haircuts).

**Construction.** Current orderbook stands at RM4.8bn which implies a healthy cover of 3.1x on FY20 construction revenue. 1H21 saw RM620m order book replenishment where it mostly came from the Sunway Medical Centre Damansara and precast

projects. Furthermore, the division is benefitting from the group's wide expansion in healthcare with several hospitals buildings.

**Healthcare.** Healthcare segment 2Q21 PBT recorded an impressive 96.5% growth QoQ, bringing 1H21's sum to RM41.5m (SPLY: LBT of -RM20.5m), attributable to strong recovery in hospital activities with higher number of admissions and outpatient treatments at Sunway Medical Centre (SMC) and Sunway Medical Centre Velocity (SMCV). As a result, the profit of SMC rebounded strongly, while the operating loss of SMCV reduced from -RM21.5m to -RM8.4m in the current period.

**Forecast.** We cut our earnings forecast by 27.3% in FY21 to account for lower progressive billing as well as lower contribution from group's property investment segment. Maintain our FY22-FY23 earnings forecasts.

We maintain our **BUY** call with an unchanged **TP** of **RM2.58** based on SOP-derived valuation. Despite the earnings shortfall this quarter, we expect the group to pick up momentum strongly in 4Q inline with easing of restrictions by government. To-date, the Group has managed to get 95% of its workforce fully vaccinated and is well positioned to capitalise on the anticipated strong recovery in the later part of this year. 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 eventual economic recovery. The group has a huge potential in growing its healthcare business with its strategic partner of Singapore GIC.

## 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	2,611.0	3,430.0	4,353.2
Placement in funds	376.4	100.3	100.3	100.3	100.3
Receivables	1,638.4	1,451.9	1,362.5	1,540.9	1,561.3
Inventories	748.5	607.4	624.5	706.2	715.6
Others	16,176.5	16,723.0	16,852.3	16,868.0	16,801.7
<b>Assets</b>	<b>21,494.6</b>	<b>21,121.1</b>	<b>21,550.5</b>	<b>22,645.3</b>	<b>23,532.1</b>
Payables	1,344.3	1,467.5	1,362.5	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
<b>Liabilities</b>	<b>12,061.0</b>	<b>10,782.6</b>	<b>11,177.5</b>	<b>11,855.9</b>	<b>12,376.3</b>
Shareholder's equity	8,389.3	9,540.7	9,537.9	9,887.5	10,178.5
Minority interest	1,044.3	797.8	835.1	902.0	977.2
Perpetual bond	-	-	-	-	-
<b>Equity</b>	<b>9,433.6</b>	<b>10,338.5</b>	<b>10,373.0</b>	<b>10,789.4</b>	<b>11,155.7</b>

### Cash Flow Statement

FYE Dec	FY19	FY20	FY21f	FY22f	FY23f
Profit before taxation	865.3	512.5	365.0	703.4	779.9
D&A	233.6	236.5	242.7	247.5	251.8
Working capital	(310.5)	270.7	1.2	35.8	246.8
Taxation	(94.0)	(61.3)	(51.5)	(135.0)	(137.7)
JV and Associates	(113.3)	(41.8)	(105.8)	(80.7)	(141.7)
Perpetual bond	-	-	-	-	-
Others	(5.5)	(139.4)	-	-	-
<b>CFO</b>	<b>689.0</b>	<b>777.2</b>	<b>451.6</b>	<b>770.9</b>	<b>999.0</b>
Capex	(1,292.7)	(984.9)	(300.0)	(300.0)	(300.0)
Others	(67.2)	158.5	-	-	-
<b>CFI</b>	<b>(1,359.9)</b>	<b>(826.4)</b>	<b>(300.0)</b>	<b>(300.0)</b>	<b>(300.0)</b>
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)	(151.9)	(275.8)
Others	(254.7)	38.6	(191.0)	-	-
<b>CFF</b>	<b>499.0</b>	<b>(134.3)</b>	<b>221.0</b>	<b>348.1</b>	<b>224.2</b>
<b>Net cash flow</b>	<b>(172.0)</b>	<b>(183.5)</b>	<b>372.6</b>	<b>819.0</b>	<b>923.2</b>
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	2,751.2	3,570.1
Ending cash	2,554.7	2,238.4	2,611.0	3,430.0	4,353.2

### Income statement

FYE Dec	FY19	FY20	FY21f	FY22f	FY23f
<b>Revenue</b>	<b>4780.3</b>	<b>3829.1</b>	<b>4144.1</b>	<b>4686.8</b>	<b>4749.0</b>
Operating cost	(3978.5)	(3344.5)	(3704.7)	(3880.6)	(3910.3)
<b>EBITDA</b>	<b>801.8</b>	<b>484.5</b>	<b>439.4</b>	<b>806.2</b>	<b>838.6</b>
D&A	(233.8)	(236.8)	(242.7)	(247.5)	(251.8)
Net Interest	36.2	31.4	17.9	4.0	(12.9)
JV & Associates	261.2	233.4	150.4	140.7	206.0
<b>Pretax profit</b>	<b>865.3</b>	<b>512.5</b>	<b>365.0</b>	<b>703.4</b>	<b>779.9</b>
Taxation	(78.4)	(102.0)	(51.5)	(135.0)	(137.7)
Minority Interest	(77.7)	(47.7)	(37.3)	(66.9)	(75.2)
Holders of Perpetual	0.0	0.0	0.0	0.0	0.0
PATAMI	709.2	362.8	276.3	501.5	566.9
Exceptionals	24.4	30.9	0.0	0.0	0.0
<b>Core Earning</b>	<b>684.8</b>	<b>331.9</b>	<b>276.3</b>	<b>501.5</b>	<b>566.9</b>
Basic shares (m)	5866.7	5866.7	5866.7	5866.7	5866.7
Consensus core PATMI			354.1	458.8	593.1
HLIB/ Consensus			78%	109%	96%

### Valuation ratios

FYE Dec	FY19	FY20	FY21f	FY22f	FY23f
Net DPS (sen)	9.1	1.5	2.6	4.7	5.3
Yield (%)	5.0	0.8	1.4	2.6	3.0
Core EPS (sen)	11.7	5.7	4.7	8.5	9.7
P/E (x)	15.4	31.8	38.2	21.1	18.6
Market capitalization (m)	10560.1	10560.1	10560.1	10560.1	10560.1
Net cash (m)	(5364.4)	(5171.9)	(5299.3)	(4980.3)	(4557.1)
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)	1.1	1.0	1.0	1.0	0.9
ROA (%)	3.2	1.6	1.3	2.2	2.4
ROE (%)	7.3	3.2	2.7	4.6	5.1
Enterprise value	15924.4	15732.0	15859.4	15540.4	15117.2
EV/ EBITDA (x)	19.9	32.5	36.1	19.3	18.0

### Margin ratios

FYE Dec	FY19	FY20	FY21f	FY22f	FY23f
EBITDA Margin	16.8	12.7	10.6	17.2	17.7
PBT Margin	18.1	13.4	8.8	15.0	16.4
PATMI	14.3	8.7	6.7	10.7	11.9

**Figure #1** Quarterly results comparison

FYE Dec (RM m)	2Q20	1Q21	2Q21	QoQ	YoY	1H20	1H21	YoY
Revenue	556.6	1,016.7	967.9	-4.8%	73.9%	1,528.1	1,984.7	29.9%
Property Development	68.1	97.2	147.4	51.7%	116.3%	207.3	244.5	17.9%
Property Investment	55.5	58.7	62.3	6.2%	12.3%	189.8	121.0	-36.3%
Construction	92.6	321.4	218.1	-32.2%	135.6%	310.6	539.4	73.7%
Trading/Manufacturing	141.1	224.5	198.9	-11.4%	40.9%	335.3	423.4	26.3%
Quarry	31.9	77.2	70.5	-8.8%	121.0%	106.0	147.7	39.3%
Healthcare	125.1	170.6	200.6	17.6%	60.3%	274.3	371.2	35.3%
Investment Holdings	0.7	1.1	1.2	11.6%	63.0%	2.5	2.3	-6.8%
Others	41.5	66.0	69.0	4.4%	66.0%	102.2	135.0	32.1%
EBIT	8.7	49.1	36.5	-25.6%	320.3%	76.2	85.5	12.2%
Property Development	13.7	13.1	15.6	18.7%	13.3%	39.8	28.7	-27.9%
Property Investment	-10.0	-14.3	-9.3	35.0%	7.1%	19.7	-23.6	N.M.
Construction	4.1	26.3	5.7	-78.4%	38.1%	23.9	32.0	33.7%
Trading/Manufacturing	7.8	13.0	10.8	-17.1%	37.8%	9.9	23.7	138.5%
Quarry	-3.1	2.6	-0.1	N.M.	96.5%	-0.7	2.5	N.M.
Healthcare	-12.1	17.1	30.0	75.0%	N.M.	-13.1	47.1	N.M.
Investment Holdings	2.8	-13.8	-19.4	-41.0%	N.M.	-31.8	-33.1	-4.1%
Others	2.7	5.0	3.3	-34.6%	20.4%	3.0	8.3	180.1%
Net Interest	-9.8	14.5	19.9	37.4%	N.M.	-21.5	34.4	N.M.
Share of Associates/JCE	0.2	23.6	22.6	-4.4%	10363.9%	37.8	46.2	22.3%
PBT	-0.9	87.2	79.0	-9.4%	N.M.	92.6	166.2	79.5%
Property Development	20.0	20.7	22.9	10.6%	14.2%	52.8	43.6	-17.6%
Property Investment	-37.8	-16.9	-16.0	5.0%	57.7%	-8.7	-32.9	-280.0%
Construction	6.6	27.7	8.6	-68.8%	31.5%	29.1	36.3	24.6%
Trading/Manufacturing	6.0	12.2	10.0	-18.6%	64.7%	6.3	22.2	253.4%
Quarry	-1.5	3.1	-0.5	N.M.	62.7%	1.5	2.5	68.7%
Healthcare	-16.0	14.0	27.5	96.5%	N.M.	-20.5	41.5	N.M.
Investment Holdings	10.1	21.8	23.1	6.1%	129.5%	27.4	44.9	64.0%
Others	3.6	4.6	3.5	-24.2%	-2.4%	4.6	8.1	75.9%
PAT	-15.5	70.4	71.1	1.0%	N.M.	60.4	141.5	134.4%
MI	-4.9	-11.9	-0.6	95.0%	87.9%	-18.4	-12.5	31.8%
Payment to ICPS holders	0.0	0.0	-25.7	N.M.	N.M.	0.0	-25.7	N.M.
PATAMI	-20.4	58.5	44.8	-23.3%	-319.9%	42.0	103.3	145.8%
EI	23.9	-1.2	6.1	N.M.	N.M.	26.5	4.9	N.M.
<b>Core Earnings</b>	<b>3.6</b>	<b>57.2</b>	<b>50.9</b>	<b>-11.0%</b>	<b>1331.2%</b>	<b>68.6</b>	<b>108.1</b>	<b>57.7%</b>

				Ppts change	Ppts change			Ppts change
EBIT margin	1.6%	4.8%	3.8%	-1.1	2.2	5.0%	4.3%	-0.7
PBT margin	-0.2%	8.6%	8.2%	-0.4	8.3	6.1%	8.4%	2.3
PAT margin	0.6%	5.6%	5.3%	-0.4	4.6	4.5%	5.4%	1.0

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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
<b>Equity Value (RM)</b>		<b>12,558</b>	<b>2.58</b>	

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

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

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