

HLIB Research

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BUY (Maintain)

Target Price: RM1.95
Previously: RM1.95
Current Price: RM1.70

Capital upside	14.7%
Dividend yield	4.2%
Expected total return	18.9%

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	13.3	5.6	9.7
Relative	13.6	9.2	-5.8

Stock information

Bloomberg Ticker	SWB MK
Bursa Code	5211
Issued Shares (m)	4,889
Market cap (RM m)	8,311
3-mth avg. volume ('000)	2,532
SC Shariah-compliant	Yes
F4GBM Index member	Yes
ESG rating	★★★

Major shareholders

Sungei Way Corp Sdn Bhd	51.4%
EPF	9.7%

Earnings summary

FYE (Dec)	FY20	FY21f	FY22f
PATMI – core (RM m)	385.6	639.5	673.9
EPS – core (sen)	7.9	13.1	13.8
P/E (x)	21.6	13.0	12.3

Sunway

Finishing inline

Sunway reported FY20 core PATMI of RM385.6m (-39.3% YoY) which was within expectations. New sales of RM357m was achieved in 4QFY20, bringing FY20 to RM1.3bn (exceeding their sales target of RM1.1bn). Effective unbilled sales stood at RM1.9bn (3.8x cover ratio). We expect a recovery in FY21 underpinned by higher FY21 sales target of RM1.6bn from property development division with RM2.8bn worth of products targeted to be launched as well as recovery in other divisions. We maintain our forecasts and BUY rating with an unchanged TP of RM1.95 based on a 10% holding discount to a SOP-derived value of RM2.17.

Within expectations. Sunway reported 4QFY20 core PATMI of RM225.4m (+168.6% QoQ, +24.5% YoY) bringing FY20's sum to RM385.6m (-39.3% YoY) which forms 99% of our and 106% of consensus full year forecasts. FY20 core PATMI was derived after we added back RM26.0m in EIs (-RM47.2m revaluation loss, +RM46.2m gain in relation to a remeasurement of leases and the remaining -RM25m from impairments and write-offs).

Dividend. Declared a first interim dividend of 1.5 sen per ordinary share, going ex on 14 Apr 2021 (FY19: 9.07 sen per share). The group also declared preferential dividend of 5.25% per annum on a pro-rata basis (based on the issue price of RM1.00 per irredeemable convertible preference shares) going ex on 14 Apr 2021.

QoQ. Core PATMI rose by 168.6% underpinned by 24.4% increase in revenue driven by higher contributions from most business segments except property investment as well as higher contribution from the results of share associate and JV (from the full recognition of the development profits for the Singapore and China projects which amounted to RM182.5m).

YoY. Core PATMI increased by 24.5% despite registering a decrease in revenue by 5.5% on the back higher contribution from the associate and JV as mentioned above.

YTD. Revenue decreased by 19.8% YoY due to lower contribution across the board except healthcare (+6.1% YoY). EBIT and PBT fell by 56% and 41.1% YoY dragged by lower contribution especially from the group's property investment and healthcare division due to the resurgence of cases in 4Q which affected footfall and occupancy of mall and hotels, as well as impacted their outpatient treatment at Sunway Medical Centre (SMC). In turn, core PATMI fell by 39.3%.

Property development. New sales of RM357m was achieved in 4QFY20, bringing FY20 to RM1.3bn (exceeding their sales target of RM1.1bn). Effective unbilled sales stood at RM1.9bn, representing a strong cover ratio of 3.8x on FY20's property revenue. For FY21, management is setting a RM1.6bn sales target with RM2.8bn worth of products targeted to be launched.

Property investment. Moving forward, we anticipate a recovery with the easing restrictions backed by local leisure and business travellers, higher footfall and potential "revenge spending".

Construction. Current orderbook stands at RM5.1bn which implies a healthy cover of 5.2x on FY20 construction revenue. Furthermore, the division is benefitted from the group's wide expansion in healthcare with numerous hospitals building.

Healthcare. Overall performance in FY20 saw improvements due to higher number of admissions and outpatient treatments following the less restrictive RMCO. As for the 20% healthcare divestment, we understand that it currently at the advance stage of discussion and this potential entrance of a strategic partner should unlocked the value

of the healthcare business and further strengthen its position for listing in the future.

Forecast. Unchanged.

Transfer of coverage; maintain BUY. With the transfer of coverage, we maintain **BUY** call with an unchanged **TP** of **RM1.95** based on a 10% holding discount to a SOP-derived value of RM2.17. Sunway remains our top pick in the property sector given its well-integrated property and construction developments and offers a proxy to the economic recovery. The value of the healthcare business (with new hospitals and the SMC expansion coming on stream over the next three years) has yet to be appreciated as it is embedded within the parent-co. This, coupled with the resilient earnings from matured investment properties alongside its growing building materials business and quarry operations, justifies for the re-rating of the stock.

Figure #1 Financial forecast summary

FYE Dec (RM m)	FY18	FY19	FY20	FY21f	FY22f
Revenue	5,410.2	4,780.3	3,833.3	6,042.5	6,124.5
EBIT	594.7	566.0	250.8	507.8	550.8
PBT	836.9	915.0	509.3	907.8	951.5
PAT	645.6	712.8	407.3	639.5	673.9
PAT – Core	556.6	639.4	385.6	639.5	673.9
PAT – Consensus Core			362.5	512.5	575.7
HLIB/ Consensus (%) – Core PAT			106%	125%	117%
Core EPS (sen)	11.4	13.1	7.9	13.1	13.8
P/E (x)	14.9	13.0	21.6	13.0	12.3
EV/EBITDA (x)	14.7	15.0	28.6	15.5	14.5
DPS (sen)	7.1	9.1	1.5	7.2	7.6
Yield (%)	4.2	5.3	0.9	4.2	4.5
Shareholder's equity	7,964.9	8,392.9	9,534.6	8,859.8	9,182.0
BVPS (RM/share)	1.8	2.1	2.0	2.2	2.3
P/B (x)	0.9	0.8	0.9	0.8	0.7
ROE (%)	6.2	6.3	3.7	5.9	6.0
Net Gearing (%)	0.42	0.36	0.51	0.35	0.32

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Figure #2 Quarterly results comparison

FYE Dec (RM m)	4Q19	3Q20	4Q20	QoQ	YoY	FY19	FY20	YoY
Revenue	1,353.0	1,027.2	1,278.0	24.4%	-5.5%	4,780.3	3,833.3	-19.8%
Property Development	218.2	103.4	184.3	78.2%	-15.5%	545.9	495.0	-9.3%
Property Investment	220.9	98.1	46.1	-53.1%	-79.2%	803.5	334.0	-58.4%
Construction	318.0	255.0	424.6	66.5%	33.5%	1,273.3	990.2	-22.2%
Trading/Manufacturing	232.2	231.0	245.8	6.4%	5.9%	959.8	812.1	-15.4%
Quarry	136.4	105.6	109.8	4.0%	-19.5%	348.1	321.4	-7.7%
Healthcare	162.9	168.0	178.0	6.0%	9.3%	584.8	620.3	6.1%
Investment Holdings	2.6	0.8	1.4	64.0%	-48.3%	5.2	4.7	-10.0%
Others	61.9	65.3	88.1	35.0%	42.4%	260.0	255.6	-1.7%
EBIT	110.9	135.1	65.0	-51.9%	-41.4%	570.1	250.8	-56.0%
Property Development	77.7	2.7	42.2	1465.3%	-45.7%	163.3	84.7	-48.1%
Property Investment	67.2	56.7	(48.9)	-186.4%	-172.8%	239.3	27.4	-88.5%
Construction	28.1	33.9	36.1	6.7%	28.7%	144.5	93.9	-35.0%
Trading/Manufacturing	7.0	8.8	12.4	41.4%	76.0%	41.1	31.1	-24.3%
Quarry	6.4	6.1	5.3	-13.0%	-17.4%	12.6	10.7	-15.5%
Healthcare	13.8	19.5	25.2	28.9%	82.2%	59.2	31.7	-46.5%
Investment Holdings	(3.9)	1.8	(21.2)	-1281.8%	451.2%	(73.4)	(51.3)	-30.1%
Others	(12.1)	5.7	14.0	145.8%	-215.0%	(21.4)	22.6	-205.5%
Net Interest	49.3	(4.1)	25.2	-706.6%	-48.9%	34.0	28.5	-16.2%
Share of Associates/JCE	89.3	30.4	161.6	431.4%	80.9%	261.2	230.0	-12.0%
PBT	211.5	161.4	251.8	56.0%	19.0%	865.3	509.3	-41.1%
Property Development	99.4	25.0	207.0	729.1%	108.2%	228.5	297.0	29.9%
Property Investment	76.4	63.0	-90.0	-242.8%	-217.8%	323.1	-30.8	-109.5%
Construction	38.1	37.0	39.0	5.3%	2.1%	162.3	105.1	-35.3%
Trading/Manufacturing	3.1	7.4	10.8	47.3%	247.2%	30.0	24.9	-17.2%
Quarry	7.4	7.9	5.3	-33.0%	-28.9%	16.1	14.8	-8.4%
Healthcare	11.0	15.5	22.3	43.9%	102.4%	61.5	17.4	-71.7%
Investment Holdings	29.1	8.5	13.2	56.3%	-54.5%	79.9	56.8	-28.9%
Others	-37.5	7.2	12.4	72.4%	-133.1%	-20.6	24.2	-217.8%
PAT	170.0	136.3	207.0	51.8%	21.7%	786.9	407.3	-48.2%
MI	(27.2)	(13.5)	(20.1)	48.8%	-26.2%	(77.7)	(47.7)	-38.6%
PATAMI	142.8	122.8	186.9	52.2%	30.9%	709.2	359.6	-49.3%
EI	38.1	(39.0)	38.4	-198.6%	0.7%	(73.4)	26.0	-135.4%
Core Earnings	181.0	83.9	225.4	168.6%	24.5%	635.8	385.6	-39.3%
EBIT margin	8.2%	13.2%	5.1%	-8.1%	-3.1%	11.9%	6.5%	-5.4%
PBT margin	15.6%	15.7%	19.7%	4.0%	4.1%	18.1%	13.3%	-4.8%
PAT margin	13.4%	8.2%	17.6%	9.5%	4.3%	13.3%	10.1%	-3.2%
Sunway, HLIB								

Figure #3 SOP table

Division	Stake	Value (RM m)	RM/share	Methodology
Construction (SunCon)	54.56%	1,459	0.30	Based on TP of RM 2.10
Sunway REIT	40.88%	2,095	0.43	Based on TP of RM 1.74
Property Development & Investment	100%	4,543	0.93	Discounted RNAV
Healthcare	100%	1,734	0.36	25X forward P/E
Trading/Manufacturing	100%	253	0.05	10X trailing P/E
Quarry	100%	151	0.03	10X trailing P/E
		10,235	2.10	
Holding Company Net Debt		328	0.07	
		10,563	2.17	
10% Holding Company Discount		-1,056	(0.22)	
Equity Value (RM)		9,507	1.95	

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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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