

HLIB Research

PP 9484/12/2012 (031413)

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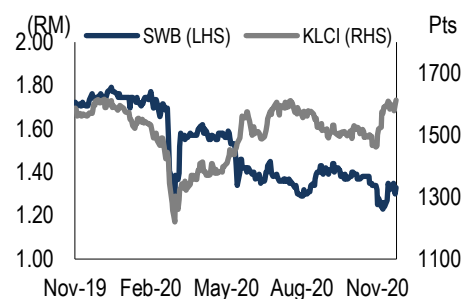
BUY (Maintain)

Target Price: **RM1.95**
Previously: **RM1.95**
Current Price: **RM1.36**

Capital upside	43.4%
Dividend yield	1.8%
Expected total return	45.2%

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


	1M	3M	12M
Absolute	0.7	-2.2	-23.6
Relative	-6.0	-5.4	-24.6

Stock information

Bloomberg Ticker	SWB MK
Bursa Code	5211
Issued Shares (m)	4,889
Market cap (RM m)	6,649
3-mth avg. volume ('000)	3,252
SC Shariah-compliant	Yes

Major shareholders

Sungei Way Corp Sdn Bhd	51.4%
EPF	9.9%

Earnings summary

FYE (Dec)	FY19	FY20f	FY21f
PATMI – core (RM m)	639.4	391.4	639.5
EPS – core (sen)	13.1	8.0	13.1
P/E (x)	10.4	16.9	10.4

Sunway

Going strong

Sunway reported 9MFY20 core PATMI to RM160.3m (-61.6% YoY) which was within expectations. New sales of RM270m was achieved in 3QFY20, bringing 9MFY20 to RM943m (86% of revised target). Effective unbilled sales stood at RM2.5bn (4.6x cover ratio). We expect strong earnings in 4QFY20 as it will be underpinned by the block recognition of property projects delivered in Singapore (RM120m) and Tianjin, China (RM40m). 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 3QFY20 core PATMI of RM83.9m (+11.3x QoQ, -49.7% YoY) bringing 9MFY20 core PATMI to RM160.3m (-61.6% YoY) which forms 41% of our and consensus full year forecasts. Despite only forming 41% of our estimates, we deem the results within expectations as 4QFY20 will be supported by the handover of overseas projects of c.RM160m to the bottom-line. 9MFY20 core PATMI was derived after excluding -RM13.3m in EIs (-RM16.5m revaluation loss, +RM46.2m gain in relation to a remeasurement of leases and the remaining from impairments and write-offs). No dividends were declared.

QoQ. Core PATMI rose to RM83.9m (+11.3x QoQ) largely due to lesser revenue sources throughout the MCO in 2QFY20 coupled with unavoidable operating costs.

YoY/YTD. Core PATMI fell -49.7%/-61.6% to RM83.9m/RM160.3m on the back of its operations impacted by MCO coupled with lower contributions from its associates.

Property development. New sales of RM270m was achieved in 3QFY20, bringing 9MFY20 to RM943m (86% of revised target). Effective unbilled sales stood at RM2.5bn, representing a strong cover ratio of 4.6x on FY19's property revenue. 4QFY20 will see the launch of RM1.66bn worth of products, with RM1bn stemming from a private condominium in Singapore.

Construction. SunCon reported 9MFY20 core earnings of RM54m (+600% QoQ, -10% YoY) while current orderbook stands at RM5.6bn which implies a healthy cover of 3.2x on FY19 construction revenue.

Healthcare. Overall performance in 3QFY20 saw improvements due to higher number of admissions and outpatient treatments following the less restrictive RMCO. Nonetheless, operations were slightly dragged by SMCV registering an operating loss of -RM6.6m (9MFY20: -RM28.1m).

Outlook. We expect strong earnings in 4QFY20 as it will be underpinned by the block recognition of property projects delivered in Singapore (RM120m) and Tianjin, China (RM40m). However, we do caution that the Leisure & Hospitality division may be impacted by the resurgence of Covid-19 cases and CMCO2.0.

Forecast. Unchanged.

Maintain BUY but 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. 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.

Financial Forecast

All items in (RM m) unless otherwise stated

Balance Sheet

FYE Dec	FY18	FY19	FY20f	FY21f	FY22f
Cash	2,609.6	2,261.5	3,212.3	3,224.0	3,836.2
Placement in funds	2,526.5	3,627.4	3,627.4	3,627.4	3,627.4
Receivables	1,514.5	1,638.4	1,234.3	1,986.6	2,013.5
Inventories	849.2	748.5	1,028.6	1,655.5	1,677.9
Others	14,280.6	15,277.3	14,829.2	15,282.2	15,541.5
Assets	21,780.3	23,553.1	23,931.7	25,775.6	26,696.6
Payables	1,336.2	1,344.3	1,234.3	1,986.6	2,013.5
Debt	8,872.3	9,567.5	10,067.5	10,567.5	11,067.5
Others	2,587.8	2,467.1	2,467.1	2,467.1	2,467.1
Liabilities	12,796.4	13,378.9	13,768.9	15,021.2	15,548.1
Shareholder's equity	7,964.9	8,392.9	8,342.2	8,859.8	9,182.0
Minority interest	619.1	631.4	670.6	744.6	816.4
Perpetual bond	400.0	1,150.0	1,150.0	1,150.0	1,150.0
Equity	8,984.0	10,174.3	10,162.8	10,754.5	11,148.5

Cash Flow Statement

FYE Dec	FY18	FY19	FY20f	FY21f	FY22f
Profit before taxation	836.9	915.0	525.6	907.8	951.5
D&A	222.9	233.6	265.5	268.6	271.3
Working capital	(131.0)	(310.5)	671.1	(912.1)	(128.0)
Taxation	(109.2)	(94.0)	(51.0)	(150.3)	(161.8)
JV and Associates	(51.2)	(113.3)	(174.4)	(136.3)	(125.1)
Perpetual bond	-	-	(44.0)	(44.0)	(44.0)
Others	136.2	83.7	-	-	-
CFO	955.8	827.8	1,192.8	(66.4)	763.9
Capex	(420.2)	(297.1)	(300.0)	(300.0)	(300.0)
Others	(993.2)	(1,636.2)	-	-	-
CFI	(1,413.4)	(1,933.3)	(300.0)	(300.0)	(300.0)
Changes in debt	1,070.6	596.6	500.0	500.0	500.0
Shares issued	397.1	750.0	-	-	-
Dividends	(382.3)	(305.9)	(442.0)	(121.8)	(351.7)
Others	(339.8)	(374.2)	-	-	-
CFF	745.7	666.4	58.0	378.2	148.3
Net cash flow	288.1	(439.1)	950.7	11.8	612.2
Forex	(17.1)	(2.9)	-	-	-
Others	101.7	195.7	-	-	-
Beginning cash	2,236.9	2,507.9	2,261.5	3,212.3	3,224.0
Ending cash	2,609.6	2,261.5	3,212.3	3,224.0	3,836.2

Income statement

FYE Dec	FY18	FY19	FY20f	FY21f	FY22f
Revenue	5410.2	4780.3	3754.4	6042.5	6124.5
Operating cost	(4592.3)	(3980.5)	(3330.2)	(5266.1)	(5302.4)
EBITDA	817.9	799.8	424.2	776.3	822.1
D&A	(223.2)	(233.8)	(265.5)	(268.6)	(271.3)
Net Interest	12.9	87.8	53.7	118.6	123.2
JV & Associates	229.3	261.2	313.2	281.5	277.5
Pretax profit	836.9	915.0	525.6	907.8	951.5
Taxation	(121.4)	(78.4)	(51.0)	(150.3)	(161.8)
Minority Interest	(69.9)	(69.3)	(39.2)	(74.0)	(71.8)
Holder of Perpetual	0.0	(54.5)	(44.0)	(44.0)	(44.0)
PATAMI	645.6	712.8	391.4	639.5	673.9
Exceptionals	89.0	73.4	0.0	0.0	0.0
Core Earning	556.6	639.4	391.4	639.5	673.9
Basic shares (m)	4873.7	4873.7	4873.7	4873.7	4873.7
Consensus core PATMI			391.0	553.9	616.6
HLIB/ Consensus			100%	115%	109%

Valuation ratios

FYE Dec	FY18	FY19	FY20f	FY21f	FY22f
Net DPS (sen)	7.1	9.1	2.5	7.2	7.6
Yield (%)	5.2	6.7	1.8	5.3	5.6
Core EPS (sen)	11.4	13.1	8.0	13.1	13.8
P/E (x)	11.9	10.4	16.9	10.4	9.8
Market capitalization (m)	6628.3	6628.3	6628.3	6628.3	6628.3
Net cash (m)	(3736.3)	(3678.6)	(3227.8)	(3716.1)	(3603.9)
Net gearing (%)	0.42	0.36	0.32	0.35	0.32
BV / share	1.8	2.1	2.1	2.2	2.3
P/BV (x)	0.7	0.7	0.7	0.6	0.6
ROA (%)	2.6	2.7	1.6	2.5	2.5
ROE (%)	6.2	6.3	3.9	5.9	6.0
Enterprise value	10364.6	10306.9	9856.1	10344.4	10232.1
EV/ EBITDA (x)	12.7	12.9	23.2	13.3	12.4

Margin ratios

FYE Dec	FY18	FY19	FY20f	FY21f	FY22f
EBITDA Margin	15.1	16.7	11.3	12.8	13.4
PBT Margin	15.5	19.1	14.0	15.0	15.5
PATMI	10.3	13.4	10.4	10.6	11.0

Figure #1 Quarterly results comparison

FYE Dec (RM m)	3Q19	2Q20	3Q20	QoQ	YoY	9M19	9M20	YoY
Revenue	1,226.5	556.6	1,027.2	84.5%	-16.2%	3,427.3	2,555.3	-25.4%
Property Development	126.2	68.1	103.4	51.8%	-18.1%	327.7	310.8	-5.2%
Property Investment	209.7	55.5	98.1	76.7%	-53.2%	582.5	287.9	-50.6%
Construction	315.6	92.6	255.0	175.6%	-19.2%	955.2	565.6	-40.8%
Trading/Manufacturing	246.2	141.1	231.0	63.7%	-6.2%	727.6	566.3	-22.2%
Quarry	114.9	31.9	105.6	231.1%	-8.1%	211.7	211.6	0.0%
Healthcare	154.4	125.1	168.0	34.2%	8.8%	422.0	442.3	4.8%
Investment Holdings	2.5	0.7	0.8	12.1%	-67.2%	2.5	3.3	29.9%
Others	57.0	41.5	65.3	57.2%	14.6%	198.1	167.5	-15.4%
EBIT	174.2	6.0	135.1	2155.2%	-22.4%	459.2	185.8	-59.5%
Property Development	45.1	13.7	2.7	-80.4%	-94.0%	85.6	42.5	-50.3%
Property Investment	52.2	(10.0)	56.7	-666.7%	8.4%	172.1	76.4	-55.6%
Construction	34.9	4.1	33.9	722.4%	-2.9%	116.4	57.8	-50.3%
Trading/Manufacturing	16.7	7.8	8.8	12.2%	-47.5%	34.0	18.7	-45.0%
Quarry	3.9	(3.1)	6.1	-299.7%	55.0%	6.2	5.4	-13.6%
Healthcare	14.7	(12.1)	19.5	-260.8%	33.2%	45.4	6.5	-85.7%
Investment Holdings	0.5	2.8	1.8	-35.6%	296.0%	(17.6)	(30.0)	70.9%
Others	6.2	2.7	5.7	107.3%	-9.0%	17.1	8.7	-49.3%
Net Interest	1.1	4.8	5.8	22.7%	445.0%	22.7	35.1	54.5%
Share of Associates/JCE	48.1	(0.6)	30.4	-4814.1%	-36.7%	171.9	68.4	-60.2%
PBT	223.3	10.1	171.3	1596.9%	-23.3%	653.8	289.3	-55.8%
PAT	202.3	(4.6)	146.3	-3286.6%	-27.7%	616.8	232.0	-62.4%
MI	(18.8)	(2.1)	(13.5)	536.4%	-28.4%	(50.5)	(27.6)	-45.3%
Holder of Perpetual Sukuk	(16.5)	(9.9)	(10.0)	1.1%	-39.5%	(38.0)	(31.7)	N.M.
PATAMI	166.9	(16.6)	122.8	-840.7%	-26.4%	528.3	172.7	-67.3%
EI	-	23.9	(39.0)	-262.7%	#DIV/0!	(111.5)	(12.4)	-88.9%
Core Earnings	166.9	7.4	83.9	1040.8%	-49.7%	416.8	160.3	-61.6%
EBIT margin	14.2%	1.1%	13.2%	12.1%	-1.0%	13.4%	7.3%	-6.1%
PBT margin	18.2%	1.8%	16.7%	14.9%	-1.5%	19.1%	11.3%	-7.8%
PAT margin	13.6%	1.3%	8.2%	6.8%	-5.4%	12.2%	6.3%	-5.9%
Sunway, HLIB								

Figure #2 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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Published & printed by:

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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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