

26 August 2020

Sunway Berhad

1HFY20 Within Expectations

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1HFY20 CNP of RM66.1m is deemed within expectations despite only accounting for 15% each of our and consensus full-year estimates as we expect 2HFY20 to fare much better. No dividends declared as expected. With no change to earnings estimates, we maintain our Outperform rating with an unchanged SoP-derived TP of RM1.68. We continue to like Sunway for their calculated business approach despite the short-term headwinds.

Well within expectations. The small 2QFY20 core loss of RM0.4m brought 1HFY20 CNP to RM66.1m accounting for 15% each of our and consensus full-year estimates. We deem the results as well within expectations as we expect 2HFY20 to deliver much better profits from: (i) recommencement of business activities post MCO, and (ii) a lump sum PAT recognition worth RM160m from two property projects which will be billed upon completion namely Sunway Gardens, Tianjin and Rivercove Residence, Singapore.

1HFY20 property sales of RM673m is also deemed within our full-year target of RM1.4b (accounting for 48%). Meanwhile, no dividends as expected.

Highlights. QoQ, 2QFY20 dipped to core loss of RM0.4m (from profit of RM66.4m) as all business segments were affected by the longer lockdown period of two months' vs two weeks in 1QFY20. Segmental-wise, all divisions' PBTs were down except for manufacturing – thanks to cost saving measures undertaken. 1HFY20 CNP of RM66.1m plunged 76% YoY on lower revenue of 31% mainly attributable to the lockdowns (MCO + CMCO) spanning c.2.5 months.

Management's new sales targets on the lower end. Sunway has introduced new property sales target of RM1.1b (from RM2.0b) on the back of lower launches of RM2.2b (from RM3.5b). We find the new sales target of RM1.1b overly conservative – implying sales of only RM427m for 2H 2020 – lower than sales of RM673m during 1H 2020 MCO-laden period. This is also on top of (i) the ongoing HOC campaign and (ii) higher launches of RM1.66b in 2H 2020 vs RM0.56b in 1H 2020. Hence, we are keeping our FY20E sales target of RM1.4b for now. Unbilled sales of RM2.5b provides 3x cover.

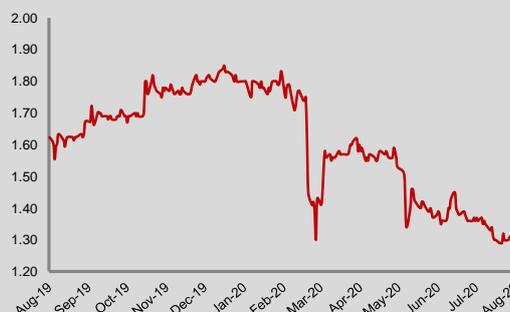
No change to our earnings estimates post results.

Maintain OP with unchanged SoP-derived TP of RM1.68. While there are multiple short-term headwinds arising from the current Covid-19 crisis, we believe we should take a longer-term investment stance with Sunway given their calculated business approach which had successfully help them rise in ranks within Corporate Malaysia to cement their brand name and reputation. Therefore, we are positive on the group in the long run given its vision to diversify away from being a pure play developer into growth segments such as healthcare.

OUTPERFORM ↔

Price : **RM1.51**
Target Price : **RM1.68** ↔

Share Price Performance



KLCI	1,554.96
YTD KLCI chg	-2.1%
YTD stock price chg	-25.6%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	SWB MK EQUITY
Market Cap (RM m)	6,567.9
Shares Outstanding	4,901.4
52-week range (H)	1.87
52-week range (L)	1.25
3-mth avg daily vol:	5,432,539
Free Float	31%
Beta	0.9

Major Shareholders

Sungei Way Corp Sdn Bhd	51.2%
Employee Provident Fund Board	9.7%
Active Equity Sdn Bhd	3.2%

Summary Earnings Table

FYE Dec (RM m)	2019A	2020E	2021E
Turnover	4780	4067	5388
EBIT	487	381	765
PBT	915	584	908
Net Profit	713	421	603
Core PATAMI	639	421	603
Consensus (NP)	n.a.	441	612
Earnings Revision	n.a.	0%	0%
Core EPS (sen)	13.0	8.6	12.3
Core EPS growth (%)	7%	-34%	43%
*NDPS (sen)	9.1	4.3	4.9
NTA per Share (RM)	1.87	1.92	1.99
Price to NTA (x)	0.7	0.7	0.7
PER (x)	10.3	15.7	10.9
Net Gearing ratio (x)	0.4	0.4	0.3
Return on Asset (%)	2.7	1.8	2.5
Return on Equity (%)	7.5	4.3	6.0
Net Div. Yield (%)	6.8	3.2	3.7

*Only cash dividend is reflected.

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Result Highlight								
FYE Dec (RM m)	2Q20	1Q20	QoQ	2Q19	YoY	1H20	1H19	YoY
Revenue	556.6	971.4	-43%	1,077.2	-48%	1,528.1	2,200.8	-31%
Operating Expenses	-585.3	-963.7	-39%	-980.3	-40%	-1,548.9	-2,012.6	-23%
Other Operating Income	34.6	37.0	-6%	70.4	-51%	71.6	96.9	-26%
Operating Profit	6.0	44.7	-87%	167.3	-96%	50.7	285.0	-82%
Finance Income	59.5	83.6	-29%	70.6	-16%	143.1	149.3	-4%
Finance costs	-54.7	-59.1	-7%	-66.8	-18%	-113.8	-127.7	-11%
Associates	0.4	30.7	-99%	70.4	-99%	31.1	100.9	-69%
JV	-1.0	7.9	-113%	11.7	-109%	6.9	23.0	-70%
PBT	10.1	107.8	-91%	253.2	-96%	117.9	430.5	-73%
Tax	-15.0	-17.5	-15%	9.4	-259%	-32.5	-15.9	104%
PAT	-4.9	90.3	-105%	262.6	-102%	85.4	414.6	-79%
MI	2.1	12.0	-82%	16.2	-87%	14.1	31.7	-55%
Perpetual Sukuk distribution	-9.9	-11.9	-17%	-16.2	-39%	-21.8	-21.5	1%
PATAMI	-16.9	66.4	-125%	230.3	-107%	49.6	361.4	-86%
Exceptionals	16.5	0.0	n.a.	-81.3	120%	16.5	-81.3	120%
CNP	-0.4	66.4	-101%	149.0	-100%	66.1	280.1	-76%
DPS	0.0	0.0	n.a.	4.6	-100%	0.0	4.6	-100%
EBIT margin	1%	5%		16%		3%	13%	
Pretax margin	2%	11%		24%		8%	20%	
NP margin	-1%	9%		24%		6%	19%	
CNP margin	0%	7%		14%		4%	13%	
Net gearing (x)	0.65	0.60		0.50		0.65	0.50	
Effective tax	148%	16%		-4%		28%	4%	

Source: Company, Kenanga Research

Segmental Breakdown								
External Revenue	2Q20	1Q20	QoQ	2Q19	YoY	1H20	1H19	YoY
Property Development	68.1	139.2	-51%	113.6	-40%	207.3	201.4	3%
Property Investment	55.5	134.3	-59%	176.1	-68%	189.8	372.8	-49%
Construction	92.6	218.0	-58%	293.5	-68%	310.6	639.6	-51%
Trading and Manufacturing	141.1	194.2	-27%	230.0	-39%	335.3	481.4	-30%
Quarry	31.9	74.1	-57%	52.6	-39%	106.0	96.8	10%
Healthcare	125.1	149.2	-16%	140.8	-11%	274.3	267.6	3%
Investment Holdings	0.7	1.7	-57%	0.9	-18%	2.5	1.7	41%
Others	41.5	60.7	-32%	69.7	-40%	102.2	139.4	-27%
Total Revenue	556.6	971.4	-43%	1,077.2	-48%	1,528.1	2,200.8	-31%
Pre-tax Segmentation								
Property Development	25.9	39.1	-34%	37.3	-31%	65.0	70.1	-7%
Property Investment	-35.8	32.0	-212%	122.3	-129%	-3.8	179.7	-102%
Construction	6.6	22.6	-71%	47.4	-86%	29.1	91.1	-68%
Trading and Manufacturing	6.2	0.5	1131%	6.6	-6%	6.7	13.1	-49%
Quarry	-1.4	3.1	-146%	2.1	-167%	1.6	3.9	-57%
Healthcare	-16.0	-4.5	259%	19.3	-183%	-20.4	34.7	-159%
Investment Holdings	21.1	14.0	51%	10.8	94%	35.1	27.3	29%
Others	3.6	1.0	249%	7.1	-50%	4.6	10.3	-55%
Total PBT	10.1	107.8	-91%	252.9	-96%	117.9	430.1	-73%
PBT margins								
Property Development	38%	28%		33%		31%	35%	
Property Investment	-64%	24%		69%		-2%	48%	
Construction	7%	10%		16%		9%	14%	
Trading and Manufacturing	4%	0%		3%		2%	3%	
Quarry	-4%	4%		4%		2%	4%	
Healthcare	-13%	-3%		14%		-7%	13%	
Investment Holdings	2834%	813%		1191%		1422%	1559%	
Others	9%	2%		10%		4%	7%	
Total	2%	11%		24%		8%	20%	

Source: Company, Kenanga Research

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Sum of Parts		
Segment	Value (RMm)	Valuation basis
Property Development	2,613.6	P/BV of 1.0x (+1.0 SD above mean) with inventory adjustment
Property Investment (backed by 40.9%-owned Sunway REIT)	3,101.5	Kenanga's TP of RM1.45 for SREIT + NBV of investment prop ex-SREIT
Construction (via 54.4%-owned Sunway Construction)	1,718.5	Kenanga's TP of RM2.45 for SunCon
Trading & Manufacturing	178.7	P/E of 10x on FY21 earnings
Quarry	265.4	P/E of 12x on FY21 earnings
Healthcare	1,788.0	P/E of 35x on FY21 earnings
Investment Holdings & Others	364.3	P/E of 12x on FY21 earnings
Net cash / (debt) at holding company level	(862.3)	As at 31 Dec 2019
Aggregate Valuation	9,167.6	
less holding company discount of 10%	(916.8)	
No of shares (m)	4,901.4	
RNAV per share (RM)	1.68	

Source: Company, Kenanga Research

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Peer Comparison

Name	Last Price (RM)	Market Cap (RM'm)	Shariah Compliant	Current FYE	PER (x) - Core Earnings			PBV (x)		ROE (%)		Net Div Yld (%)	Target Price	Rating
					Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.			
<u>STOCKS UNDER COVERAGE</u>														
ECO WORLD DEVELOPMENT GROUP	0.425	1,251.4	Y	10/2020	6.3	8.0	6.8	0.3	0.3	3.4%	1.9%	0.440	MP	
IOI PROPERTIES GROUP BHD	0.900	4,955.5	Y	06/2020	7.5	9.3	7.2	0.3	0.3	2.9%	3.3%	1.29	OP	
LBS BINA GROUP BHD	0.460	739.3	Y	12/2020	10.6	17.2	10.4	0.5	0.5	3.1%	1.7%	0.330	UP	
MAGNA PRIMA BHD	0.810	269.4	Y	12/2020	N.A.	N.A.	N.A.	0.6	0.6	-5.2%	0.0%	0.520	N.R	
MAH SING GROUP BHD	0.750	1,820.8	Y	12/2020	16.7	31.3	14.7	0.5	0.5	1.7%	4.0%	0.570	MP	
MALAYSIAN RESOURCES CORP BHD	0.505	2,228.1	Y	12/2020	93.5	85.6	34.1	0.5	0.5	1.4%	0.0%	0.750	OP	
SIME DARBY PROPERTY BHD	0.640	4,352.5	Y	12/2019	6.2	10.6	8.8	0.5	0.4	4.3%	2.8%	0.800	OP	
SP SETIA BHD	0.805	3,265.7	Y	12/2020	12.8	38.3	8.4	0.2	0.2	0.6%	0.7%	0.680	UP	
SUNWAY BHD	1.34	6,567.9	Y	12/2020	10.3	15.7	10.9	0.7	0.7	4.4%	3.2%	1.68	OP	
UEM SUNRISE BHD	0.405	1,837.7	Y	12/2020	5.9	6.5	7.5	0.2	0.2	0.8%	0.0%	0.555	OP	
UOA DEVELOPMENT BHD	1.68	3,567.9	Y	12/2020	9.1	9.3	8.2	0.7	0.6	7.0%	8.3%	1.82	MP	
					17.9	23.2	11.7	0.4	0.4	2.2%	2.4%			

Source: Bloomberg, Kenanga Research

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Stock Ratings are defined as follows:**Stock Recommendations**

OUTPERFORM	: A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM	: A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM	: A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT	: A particular sector's Expected Total Return is MORE than 10%
NEUTRAL	: A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT	: A particular sector's Expected Total Return is LESS than -5%

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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