

25 August 2021

Sunway Berhad

1HFY21 Within Our Expectation

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1HFY21 CNP of RM51.8m came within our expectation but below consensus which we believe may have yet to impute in the FMCO impact. Property sales of RM1.64b (effective RM1.56b) came above expectation due to strong demand from Sunway Belfield (KL) and its Singapore projects. We increase FY22E earnings by 2% after adjusting sales target higher to RM2.2b (from RM1.9b). Nonetheless, TP is reduced to RM1.90 (from RM1.95) after adjusting its SoP to cater for SUNCON's lowered TP. Maintain MP.

Within expectations. 2QFY21 CNP of RM51.8m* brought 1HFY21 CNP to RM110m – within our expectation at 55% but below consensus at 31%. We believe consensus projections may have yet to factor in: (i) the FMCO lockdown impact (starting June 2021) and (ii) ICPS dividend distributions of RM51.3m/annum. The 1.0 sen dividend declared is within expectation.

*We derive our CNP by deducting RM25.7m ICPS dividends declared to ICPS holders. Note that in its profit disclosure, Sunway does not adjust its profits distributable to ordinary shareholders for such ICPS payments. However, we believe such profit adjustment is necessary as the ICPS dividends come from the ordinary shareholders' profits pool. The ICPS dividends will be declared semi-annually in 2Q and 4Q.

1HFY21 gross property sales of RM1.64b (effective RM1.56b) came above our/management's FY21 gross target of RM1.9b/RM1.6b. This is mainly due to strong sales from Sunway Belfield (KL) and its three ongoing Singaporean projects: (i) Ki Residence – GDV of RM1b, (ii) Parc Central - GDV of RM910m, and (iii) Parc Canberra – GDV of RM560m. Consequent to the outperformance, we raise FY21 sales target to RM2.2b (effective RM1.9b), in line with managements' new guidance. Note that the new sales target is backed by unchanged launch target of RM2.8b (effective RM2.3b). Current unbilled sales of RM3.6b (effective RM3.1b) provide c.4x revenue cover.

Highlights. 2QFY21 CNP of RM52m declined 11% **QoQ** mainly due to the ICPS dividend payment worth RM25.7m. At the operating level where we eliminate the distortion effect of the ICPS, we note that 2QFY21 PBT came off by 9% mainly due to weaker contributions from its construction segment which was impacted by the FMCO. **YoY**, 1HFY21 CNP improved 126% on better contributions from all its segments (save for property development and investment division) on looser lockdowns measures.

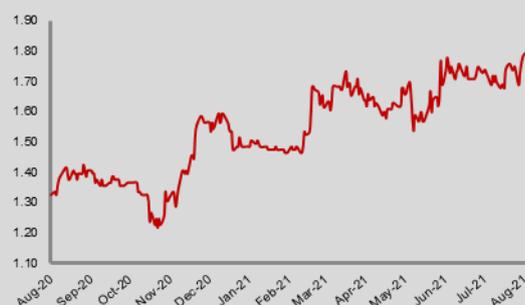
A recovery will only be prominent in FY22. Despite easing of lockdowns starting August 2021, we believe strong earnings recovery will only be prominent when its hospitality division which was severely hit by the pandemic can resume operations. We see such recovery only happening gradually in FY22 when the international/interstate borders reopen and people start getting comfortable living with Covid-19.

Revise FY22E earnings higher by 2% after factoring for the higher sales target. Maintain MP with lower SoP-TP of RM1.90 (from RM1.95) after adjusting for SUNCON's lowered TP.

MARKET PERFORM ↔

Price : RM1.80
Target Price : RM1.90 ↓

Share Price Performance



KLCI 1,553.37
YTD KLCI chg -4.5%
YTD stock price chg 11.8%

Stock Information

Shariah Compliant Yes
Bloomberg Ticker SWB MK Equity
Market Cap (RM m) 8,800.1
Shares Outstanding 4,888.9
52-week range (H) 1.82
52-week range (L) 1.22
3-mth avg daily vol: 3,655,079
Free Float 67%
Beta 0.8

Major Shareholders

Sunway Holdings Sdn 21.7%
Sungei Way Corp Sdn 8.5%
Employees Provident 1.4%

Summary Earnings Table

FYE Dec (RM m)	2020A	2021E	2022E
Turnover	3833	4695	5510
EBIT	257	113	308
PBT	505	367	616
Net Profit	338	200	404
Core PATAMI	359	200	404
Consensus (NP)	n.a.	354	459
Earnings Revision	n.a.	0%	2%
Core EPS (sen)	6.2	3.45	6.96
Core EPS growth (%)	-43	-44	102
*NDPS (sen)	2.9	1.4	2.8
NTA per Share (RM)	1.61	1.63	1.68
Price to NTA (x)	1.1	1.1	1.1
PER (x)	29.2	52.2	25.9
Net Gearing ratio (x)	0.4	0.3	0.3
Return on Asset (%)	1.5	0.8	1.6
Return on Equity (%)	3.5	2.0	4.0
Net Div. Yield (%)	1.6	0.8	1.5

*Only cash dividend is reflected.

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Result Highlight

FYE Dec (RM m)	2Q21	1Q21	QoQ	2Q20	YoY	1H21	1H20	YoY
Revenue	967.9	1,016.7	-5%	556.6	74%	1,984.7	1,528.1	30%
Operating Expenses	-956.2	-988.2	-3%	-582.6	64%	-1,944.4	-1,523.4	28%
Other Operating Income	24.7	20.5	20%	34.6	-29%	45.3	71.6	-37%
Operating Profit	36.5	49.1	-26%	8.7	320%	85.5	76.2	12%
Finance Income	45.6	38.8	18%	43.2	5%	84.4	84.2	0%
Finance costs	-25.7	-24.3	6%	-53.0	-52%	-50.0	-105.7	-53%
Associates	15.9	16.4	-3%	0.4	4377%	32.3	31.1	4%
JV	6.7	7.2	-7%	-0.1	n.a.	13.9	6.7	106%
PBT	79.0	87.2	-9%	-0.9	n.a.	166.2	92.6	79%
Tax	-7.9	-16.8	-53%	-14.5	-46%	-24.7	-32.2	-23%
PAT	71.1	70.4	1%	-15.5	n.a.	141.5	60.4	134%
MI	0.6	11.9	-95%	4.9	-88%	12.5	18.4	-32%
ICPS/Perpetual Sukuk distribution	-25.7	0.0	n.a.	-9.9	160%	-25.7	-9.9	160%
PATAMI	44.9	58.5	-23%	-30.3	n.a.	103.3	32.1	221%
Exceptionals	7.0	-0.2	n.a.	16.5	-58%	6.7	16.5	-59%
CNP	51.8	58.2	-11%	-13.8	n.a.	110.0	48.6	126%
DPS	1.0	0.0	n.a.	0.0	n.a.	1.0	0.0	n.a.
EBIT margin	4%	5%		2%		4%	5%	
Pretax margin	8%	9%		0%		8%	6%	
NP margin	7%	7%		-3%		7%	4%	
CNP margin	5%	6%		-2%		6%	3%	
Net gearing (x)	0.79	0.75		0.65		0.79	0.65	
Effective tax	10%	19%		-1592%		15%	35%	

Source: Company, Kenanga Research

Segmental Breakdown

External Revenue	2Q21	1Q21	QoQ	2Q20	YoY	1H21	1H20	YoY
Property Development	147.4	97.2	52%	68.1	116%	244.5	207.3	18%
Property Investment	62.3	58.7	6%	55.5	12%	121.0	189.8	-36%
Construction	218.1	321.4	-32%	92.6	136%	539.4	310.6	74%
Trading and Manufacturing	198.9	224.5	-11%	141.1	41%	423.4	335.3	26%
Quarry	70.5	77.2	-9%	31.9	121%	147.7	106.0	39%
Healthcare	200.6	170.6	18%	125.1	60%	371.2	274.3	35%
Investment Holdings	1.2	1.1	12%	0.7	63%	2.3	2.5	-7%
Others	69.0	66.0	4%	41.5	66%	135.0	102.2	32%
Total Revenue	967.9	1,016.7	-5%	556.6	74%	1,984.7	1,528.1	30%
PBT Segmentation								
Property Development	22.9	20.7	11%	25.9	-12%	43.6	65.0	-33%
Property Investment	-16.0	-16.9	-5%	-35.8	-55%	-32.9	-3.8	772%
Construction	8.6	27.7	-69%	6.6	31%	36.3	29.1	25%
Trading and Manufacturing	10.0	12.2	-19%	6.2	62%	22.2	6.7	233%
Quarry	-0.6	3.1	-118%	-1.4	-61%	2.5	1.6	52%
Healthcare	27.5	14.0	96%	-16.0	n.a.	41.5	-20.4	n.a.
Investment Holdings	23.1	21.8	6%	21.1	10%	44.9	35.1	28%
Others	3.5	4.6	-24%	3.6	-2%	8.1	4.6	76%
Total PBT	79.0	87.2	-9%	10.1	682%	166.1	117.9	41%
PBT margins								
Property Development	16%	21%		38%		18%	31%	
Property Investment	-26%	-29%		-64%		-27%	-2%	
Construction	4%	9%		7%		7%	9%	
Trading and Manufacturing	5%	5%		4%		5%	2%	
Quarry	-1%	4%		-4%		2%	2%	
Healthcare	14%	8%		-13%		11%	-7%	
Investment Holdings	1907%	2006%		2834%		1954%	1422%	
Others	5%	7%		9%		6%	4%	
Total	8%	9%		2%		8%	8%	

Source: Company, Kenanga Research

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Sum of Parts		
Segment	Value (RM m)	Valuation basis
Property Development	2,012.4	P/BV of 0.77x (-1.5 SD below mean)
Property Investment (backed by 40.9%-owned Sunway REIT)	2,526.4	Kenanga's TP of RM1.45 for SREIT + NBV of investment prop ex-SREIT
Construction (via 54.4%-owned Sunway Construction)	1,066.2	Kenanga's TP of RM1.52 for SunCon
Trading & Manufacturing	338.4	P/E of 10x on FY22 earnings
Quarry	265.4	P/E of 12x on FY22 earnings
Healthcare	4,257.0	25x on FY22 EV/EBITDA
Investment Holdings & Others	467.1	P/E of 10x on FY22 earnings
Net cash / (debt) at holding company level	(862.3)	As at 31 Dec 2019
Aggregate Valuation	10,070.5	
No of shares (m)	5,292.2	Account for partial dilution of ICPS
RNAV per share (RM)	1.90	

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	0.685	2,016.9	Y	10/2021	8.6	8.6	7.6	0.4	0.4	3.7%	3.1%	0.850	OP	
IOI PROPERTIES GROUP BHD	1.28	7,047.9	Y	06/2021	11.4	11.7	11.0	0.4	0.4	3.2%	2.0%	1.32	MP	
MAH SING GROUP BHD	0.815	1,978.6	Y	12/2021	58.2	12.3	9.5	0.6	0.6	5.3%	3.7%	1.05	OP	
MALAYSIAN RESOURCES CORP BHD	0.400	1,787.0	Y	12/2021	N.A.	30.8	26.7	0.4	0.4	0.2%	2.5%	0.650	OP	
SIME DARBY PROPERTY BHD	0.625	4,250.5	Y	12/2021	N.A.	21.6	10.8	0.5	0.5	2.1%	2.1%	0.605	MP	
SP SETIA BHD	1.16	4,718.8	Y	12/2021	95.1	24.2	9.3	0.4	0.4	1.4%	3.3%	1.19	MP	
SUNWAY BHD	1.80	8,800.1	Y	12/2021	29.0	52.2	25.9	0.9	0.9	2.1%	0.8%	1.90	MP	
UEM SUNRISE BHD	0.375	1,896.9	Y	12/2021	N.A.	N.A.	36.1	0.3	0.3	-0.4%	0.0%	0.400	MP	
UOA DEVELOPMENT BHD	1.61	3,745.6	Y	12/2021	10.7	11.5	10.7	0.6	0.6	3.0%	8.1%	1.76	MP	
Simple Average					35.5	21.6	16.4	0.5	0.5	2.3%	2.8%			

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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