

27 May 2021

Sunway Berhad

1QFY21 Below Expectations

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1QFY21 came below expectations due to our overly optimistic recovery projections for its hospitality division and weaker-than-expected construction contributions. That said, sales of RM1.16b came above due to strong demand from Singapore. Reduce FY21E/FY22E earnings estimates by 58%/29% post results. That said, we increase TP to RM1.77 (from RM1.55) after revaluing its healthcare segment on EV/EBITDA (from PER) methodology and rolling valuation base year forward. Maintain MP.

Below expectations. 1QFY21 CNP of RM58m (-76% QoQ; -7% YoY) came below our and consensus expectations at 12% and 11% of full-year estimates, respectively. The disappointment stemmed from: (i) our overly optimistic recovery projections for its hospitality division and (ii) weaker-than-expected construction (Suncon) contributions. No dividends as expected which are usually declared bi-annually in the second and fourth quarter of the year.

That said, 1QFY21 gross property sales of RM1.16b (effective RM1.13b) is trending way above our/management's gross target of RM1.6b (effective RM1.4b) for the year due to stronger-than-expected take-up from its three ongoing Singapore projects namely: (i) Ki Residence – launched Dec 2020 with GDV of RM1b, (ii) Parc Central – launched Jan 2021 with GDV of RM910m, and (iii) Parc Canberra – launched Feb 2020 with GDV of RM560m. These Singaporean projects contributed RM0.865b (or 75%) of 1QFY21 total sales of RM1.16b. That said, due to MFRS15 accounting standards, we note that earnings contributions will be on a lump-sum basis in FY23 (for Parc Canberra) and FY25 (for Ki and Parc Central) upon project completion. Consequent to this, **we increase our FY21 target gross sales to RM1.9b (effective RM1.7b).** Current unbilled sales of RM3.3b (effective RM2.8b) provide c.4x cover.

Highlights. 1QFY21 CNP of RM58m dipped 76% QoQ mainly because it came off a high base from 4QFY20 which was propped up by bumper JV contributions from developments in China and Singapore which were recognised upon completion. To a lesser extent, MCO 2.0 also affected productivity in 1QFY21 as compared to 4QFY20 when it was running at almost full capacity. 1QFY21 CNP declined 7% YoY mainly due to weaker hospitality division.

A slower recovery ahead. With stricter lockdowns in place to contain the Covid-19 spread, we anticipate all Sunway's divisions to take a longer recovery trajectory path ahead. Its hospitality division parked under the property investment arm would be the worst-hit division with international/interstate borders still closed. We are now projecting gradual recovery to start from FY22 instead of 2H 2021.

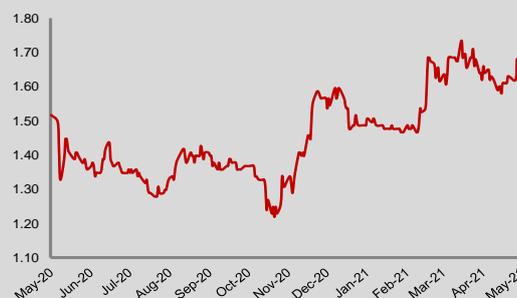
Reorganisation of healthcare assets could be a precursor towards a stake sale soon. In early May, Sunway reorganised their healthcare assets to be parked under a single entity – Sunway Healthcare Holdings S/B. We believe the move is a precursor towards a stake sale in which Maybank was appointed back in Sep 2020 to assist with a 20-25% stake sale. In light of this deal which would expedite the expansion of its healthcare unit, we revalue its healthcare unit to 25x EV/EBITDA (from 37x PER) in line with industry practice. Our ascribed 25x EV/EBITDA is higher compared to listed peers (IHH, KPJ) given Sunway Healthcare being in an initial growth phase.

Revise FY21E earnings lower by 58%/29% after factoring for: (i) the lower earnings for Suncon and Sunreit, and (ii) a loss in its property investment division arising from the slower-than-anticipated recovery. **Maintain MP with higher SoP-derived TP of RM1.77** (from RM1.55) after rolling valuation base year forward to FY22 and revaluing its healthcare unit with EV/EBITDA (from PER).

MARKET PERFORM ↔

Price : RM1.66
Target Price : RM1.77 ↑

Share Price Performance



KLCI 1,577.82
YTD KLCI chg -3.0%
YTD stock price chg 3.1%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	SWB MK Equity
Market Cap (RM m)	8,115.6
Shares Outstanding	4,888.9
52-week range (H)	1.76
52-week range (L)	1.22
3-mth avg daily vol:	2,752,328
Free Float	32%
Beta	0.8

Major Shareholders

Sunway Holdings Sdn	51.4%
Sungei Way Corp Sdn	9.7%
Employees Provident	3.2%

Summary Earnings Table

FYE Dec (RM m)	2020A	2021E	2022E
Turnover	3833	4695	5470
EBIT	251	114	298
PBT	509	367	606
Net Profit	334	200	396
Core PATAMI	355	200	396
Consensus (NP)	n.a.	528	607
Earnings Revision	n.a.	-58%	-29%
Core EPS (sen)	6.10	3.45	6.81
Core EPS growth (%)	-44	-44	97
*NDPS (sen)	1.5	1.4	2.7
NTA per Share (RM)	1.62	1.64	1.68
Price to NTA (x)	1.0	1.0	1.0
PER (x)	27.2	48.1	24.4
Net Gearing ratio (x)	0.4	0.3	0.3
Return on Asset (%)	1.5	0.8	1.6
Return on Equity (%)	3.7	2.0	3.9
Net Div. Yield (%)	1.9	0.8	1.6

*Only cash dividend is reflected.

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Result Highlight								
FYE Dec (RM m)	1Q21	4Q20	QoQ	1Q20	YoY	1Q21	1Q20	YoY
Revenue	1,016.7	1,278.0	-20%	971.4	5%	1,016.7	971.4	5%
Operating Expenses	-988.2	-1,354.3	-27%	-940.9	5%	-988.2	-940.9	5%
Other Operating Income	20.5	122.3	-83%	37.0	-44%	20.5	37.0	-44%
Operating Profit	49.1	46.0	7%	67.5	-27%	49.1	67.5	-27%
Finance Income	38.8	51.3	-24%	41.0	-5%	38.8	41.0	-5%
Finance costs	-24.3	-7.2	239%	-52.6	-54%	-24.3	-52.6	-54%
Associates	16.4	12.0	37%	30.7	-46%	16.4	30.7	-46%
JV	7.2	149.6	-95%	6.9	5%	7.2	6.9	5%
PBT	87.2	251.7	-65%	93.5	-7%	87.2	93.5	-7%
Tax	-16.8	-44.7	-62%	-17.6	-5%	-16.8	-17.6	-5%
PAT	70.4	207.0	-66%	75.8	-7%	70.4	75.8	-7%
MI	11.9	13.9	-14%	13.4	-11%	11.9	13.4	-11%
Perpetual Sukuk distribution	0.0	0.0	n.a.	0.0	n.a.	0.0	0.0	n.a.
PATAMI	58.5	193.1	-70%	62.4	-6%	58.5	62.4	-6%
Exceptionals	-0.2	50.6	-100%	0.0	n.a.	-0.2	0.0	n.a.
CNP	58.2	243.7	-76%	62.4	-7%	58.2	62.4	-7%
DPS	0.0	1.5	-100%	0.0	n.a.	0.0	0.0	n.a.
EBIT margin	5%	4%		7%		5%	7%	
Pretax margin	9%	20%		10%		9%	10%	
NP margin	7%	16%		8%		7%	8%	
CNP margin	6%	19%		6%		6%	6%	
Net gearing (x)	0.75	0.73		0.60		0.75	0.60	
Effective tax	19%	18%		19%		19%	19%	

Source: Company, Kenanga Research

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Sum of Parts (New)		
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)	1,297.7	Kenanga's TP of RM1.85 for SunCon
Trading & Manufacturing	338.4	P/E of 10x on FY22 earnings
Quarry	265.4	P/E of 12x on FY22 earnings
Healthcare	3,335.9	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	9,380.9	
No of shares (m)	5,292.2	Account for partial dilution of ICPS
RNAV per share (RM)	1.77	

Source: Company, Kenanga Research

Sum of Parts (Old)		
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)	2,104.8	Kenanga's TP of RM1.10 for SREIT + NBV of investment prop ex-SREIT
Construction (via 54.4%-owned Sunway Construction)	1,473.0	Kenanga's TP of RM2.10 for SunCon
Trading & Manufacturing	338.4	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	467.1	P/E of 10x on FY21 earnings
Net cash / (debt) at holding company level	(862.3)	As at 31 Dec 2019
Aggregate Valuation	7,586.7	
No of shares (m)	4,901.4	
RNAV per share (RM)	1.55	

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	0.630	1,855.0	Y	10/2021	7.9	7.9	7.0	0.4	0.4	5.1%	3.3%	0.660	MP	
IOI PROPERTIES GROUP BHD	1.29	7,102.9	Y	06/2021	11.5	10.4	10.2	0.4	0.4	3.7%	2.3%	1.32	MP	
MAH SING GROUP BHD	0.940	2,282.0	Y	12/2021	67.1	14.2	10.7	0.7	0.7	5.3%	3.2%	1.05	MP	
MALAYSIAN RESOURCES CORP BHD	0.425	1,898.7	Y	12/2021	N.A.	32.7	28.3	0.4	0.4	1.2%	2.4%	0.650	OP	
SIME DARBY PROPERTY BHD	0.605	4,114.5	Y	12/2021	N.A.	14.4	10.4	0.5	0.4	3.0%	2.1%	0.560	MP	
SP SETIA BHD	1.02	4,137.9	Y	12/2021	102.0	14.6	7.8	0.4	0.3	2.1%	2.2%	1.19	OP	
SUNWAY BHD	1.66	8,115.6	Y	12/2021	27.2	48.1	24.4	0.9	0.8	2.1%	0.8%	1.77	MP	
UEM SUNRISE BHD	0.410	2,074.0	Y	12/2021	N.A.	54.7	34.3	0.3	0.3	0.5%	0.0%	0.400	UP	
UOA DEVELOPMENT BHD	1.82	3,865.3	Y	12/2021	12.1	13.0	12.1	0.7	0.7	3.2%	7.1%	1.76	MP	
Simple Average					38.0	23.3	16.1	0.5	0.5	2.9%	2.6%			

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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