

30 November 2020

# Sunway Berhad

## 9MFY20 Below Expectations

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**9MFY20 CNP of RM142.7m came below expectations due to weaker-than-expected performance at its hospitality and leisure unit. No dividends declared as expected. With the recent vaccine breakthrough, we anticipate Sunway to embark on a recovery trajectory moving forward. Hence, maintain Outperform but with a lower SoP-derived TP of RM1.54 (from RM1.57) after updating for lower Sunreit and property investment valuations.**

**Below expectations.** While 3QFY20 CNP of RM76.7m rebounded QoQ, lifting 9MFY20 CNP to RM142.7m; it was still not up to our/consensus expectations – only accounting for 34%/37% of full-year estimates. The disappointment mainly stemmed from its property investment performance, bogged down by its hospitality and leisure unit i.e. hotels and theme parks which did not recover as strongly-as-expected despite interstate travel and local tourism being allowed and encouraged in 3QFY20. Meanwhile, no dividends as expected.

**9MFY20 effective property sales of RM809m** which would have been deemed to be within our full-year target of RM1.4b may now fall short as management has deferred the RM1.66b effective launches planned in 4QFY20 slightly later to Dec 2020 (from Oct 2020) – leaving a shorter window to close sales. In view of the launch deferment, we lower our FY20E sales to RM1.2b, closer to management’s RM1.1b target. Current unbilled sales of RM2.5b provide 3x cover.

**Highlights. QoQ,** 3QFY20 CNP of RM77m rebounded strongly from a CNL position of RM0.4m as all divisions emerged from a MCO-laden quarter registering stronger revenue and PBT (except for property development which dipped marginally). 9MFY20 CNP of RM142.7m plunged 68% YoY on lower revenue by 25% mainly attributable to the lockdowns (MCO + CMCO) spanning c.2.5 months.

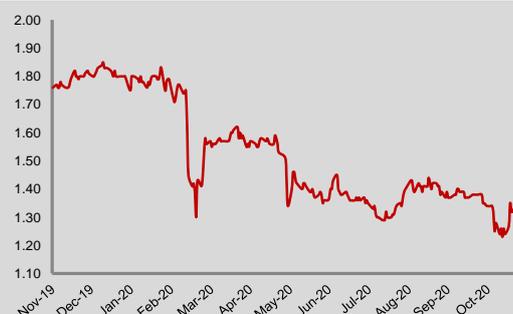
**Revise FY20E/FY21E** earnings downwards by 14%/17% after factoring for weaker property investment earnings and the marginal revision of FY20 sales target. Note that we are anticipating a lump sum PAT recognition worth RM160m in 4QFY20 from two property projects which will be billed upon completion namely Sunway Gardens, Tianjin and Rivercove Residence, Singapore.

**Maintain OP with marginally lower SoP-derived TP of RM1.54** (from RM1.57) after updating for lower SUNREIT and property investment valuations. While the short-term headwinds from the pandemic still persists, we 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 remain positive on the group given its vision to diversify away from property development into growth segments i.e. healthcare. Also, we believe the recent vaccine breakthrough would kick start a recovery for the group, paving the way for a multi-year growth trajectory.

# OUTPERFORM ↔

**Price :** RM1.36  
**Target Price :** RM1.54 ↓

### Share Price Performance



KLCI	1,607.59
YTD KLCI chg	1.2%
YTD stock price chg	-24.4%

### Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	SWB MK EQUITY
Market Cap (RM m)	6,648.9
Shares Outstanding	4,888.9
52-week range (H)	1.87
52-week range (L)	1.22
3-mth avg daily vol:	3,182,944
Free Float	31%
Beta	0.8

### Major Shareholders

Sungei Way Corp Sdn Bhd	51.4%
Employee Provident Fund Board	9.9%
Active Equity Sdn Bhd	3.2%

### Summary Earnings Table

FYE Dec (RM m)	2019A	2020E	2021E
Turnover	4780	3986	5292
EBIT	487	310	642
PBT	915	513	784
<b>Net Profit</b>	<b>713</b>	<b>361</b>	<b>498</b>
<b>Core PATAMI</b>	<b>639</b>	<b>361</b>	<b>498</b>
Consensus (NP)	n.a.	390	554
Earnings Revision	n.a.	-14%	-17%
Core EPS (sen)	13.0	7.3	10.1
Core EPS growth (%)	7	-44	38
*NDPS (sen)	9.1	3.7	4.1
NTA per Share (RM)	1.87	1.91	1.97
Price to NTA (x)	0.7	0.7	0.7
PER (x)	10.5	18.6	13.4
Net Gearing ratio (x)	0.4	0.4	0.3
Return on Asset (%)	2.7	1.5	2.0
Return on Equity (%)	7.5	3.7	5.0
Net Div. Yield (%)	6.7	2.7	3.0

\*Only cash dividend is reflected.

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## Result Highlight

FYE Dec (RM m)	3Q20	2Q20	QoQ	3Q19	YoY	9M20	9M19	YoY
Revenue	1,027.2	556.6	85%	1,226.5	-16%	2,555.3	3,427.3	-25%
Operating Expenses	-973.1	-585.3	66%	-1,066.6	-9%	-2,522.0	-3,079.2	-18%
Other Operating Income	81.0	34.6	134%	14.3	467%	152.5	111.2	37%
<b>Operating Profit</b>	<b>135.1</b>	<b>6.0</b>	<b>2155%</b>	<b>174.2</b>	<b>-22%</b>	<b>185.8</b>	<b>459.2</b>	<b>-60%</b>
Finance Income	50.9	59.5	-14%	67.0	-24%	194.0	216.4	-10%
Finance costs	-45.1	-54.7	-18%	-66.0	-32%	-158.9	-193.7	-18%
Associates	16.7	0.4	4606%	37.4	-55%	47.8	138.3	-65%
JV	13.7	-1.0	1470%	10.6	29%	20.6	33.6	-39%
<b>PBT</b>	<b>171.3</b>	<b>10.1</b>	<b>1597%</b>	<b>223.3</b>	<b>-23%</b>	<b>289.3</b>	<b>653.8</b>	<b>-56%</b>
Tax	-25.0	-15.0	67%	-21.1	19%	-57.5	-37.0	55%
<b>PAT</b>	<b>146.3</b>	<b>-4.9</b>	<b>3110%</b>	<b>202.3</b>	<b>-28%</b>	<b>231.8</b>	<b>616.8</b>	<b>-62%</b>
MI	13.5	2.1	536%	18.8	-28%	27.6	50.5	-45%
Perpetual Sukuk distribution	-10.0	-9.9	1%	-16.5	-40%	-31.7	-38.0	-16%
<b>PATAMI</b>	<b>122.8</b>	<b>-16.9</b>	<b>829%</b>	<b>166.9</b>	<b>-26%</b>	<b>172.4</b>	<b>528.3</b>	<b>-67%</b>
Exceptionals	-46.2	16.5	-380%	-6.3	633%	-29.7	-87.6	-66%
<b>CNP</b>	<b>76.7</b>	<b>-0.4</b>	<b>21702%</b>	<b>160.6</b>	<b>-52%</b>	<b>142.7</b>	<b>440.7</b>	<b>-68%</b>
DPS	0.0	0.0	n.a.	0.0	n.a.	0.0	4.6	-100%
EBIT margin	13%	1%		14%		7%	13%	
Pretax margin	17%	2%		18%		11%	19%	
NP margin	14%	-1%		16%		9%	18%	
CNP margin	7%	0%		13%		6%	13%	
Net gearing (x)	0.67	0.65		0.52		0.67	0.52	
Effective tax	15%	148%		9%		20%	6%	

Source: Company, Kenanga Research

## Segmental Breakdown

	3Q20	2Q20	QoQ	3Q19	YoY	9M20	9M19	YoY
<b>External Revenue</b>	<b>1,027.2</b>	<b>556.6</b>	<b>85%</b>	<b>1,226.5</b>	<b>-16%</b>	<b>2,555.3</b>	<b>3,427.3</b>	<b>-25%</b>
Property Development	103.4	68.1	52%	126.2	-18%	310.8	327.7	-5%
Property Investment	98.1	55.5	77%	209.7	-53%	287.9	582.5	-51%
Construction	255.0	92.6	176%	315.6	-19%	565.6	955.2	-41%
Trading and Manufacturing	231.0	141.1	64%	246.2	-6%	566.3	727.6	-22%
Quarry	105.6	31.9	231%	114.9	-8%	211.6	211.7	0%
Healthcare	168.0	125.1	34%	154.4	9%	442.3	422.0	5%
Investment Holdings	0.8	0.7	12%	0.8	5%	3.3	2.5	30%
Others	65.3	41.5	57%	58.7	8%	167.5	198.1	-15%
<b>Total Revenue</b>	<b>1,027.2</b>	<b>556.6</b>	<b>85%</b>	<b>1,226.5</b>	<b>-16%</b>	<b>2,555.3</b>	<b>3,427.3</b>	<b>-25%</b>
<b>Pre-tax Segmentation</b>								
Property Development	25.0	25.9	-4%	59.0	-58%	90.0	129.1	-30%
Property Investment	63.0	-35.8	276%	67.0	-6%	59.2	246.7	-76%
Construction	37.0	6.6	464%	33.1	12%	66.1	124.2	-47%
Trading and Manufacturing	7.4	6.2	20%	13.8	-47%	14.0	26.9	-48%
Quarry	7.9	-1.4	652%	4.9	62%	9.5	8.7	9%
Healthcare	15.5	-16.0	197%	15.8	-2%	-4.9	50.5	-110%
Investment Holdings	8.5	21.1	-60%	23.5	-64%	43.5	50.8	-14%
Others	7.2	3.6	102%	6.6	9%	11.8	16.9	-30%
<b>Total PBT</b>	<b>171.3</b>	<b>10.1</b>	<b>1597%</b>	<b>223.7</b>	<b>-23%</b>	<b>289.3</b>	<b>653.8</b>	<b>-56%</b>
<b>PBT margins</b>								
Property Development	24%	38%		47%		29%	39%	
Property Investment	64%	-64%		32%		21%	42%	
Construction	14%	7%		10%		12%	13%	
Trading and Manufacturing	3%	4%		6%		2%	4%	
Quarry	7%	-4%		4%		4%	4%	
Healthcare	9%	-13%		10%		-1%	12%	
Investment Holdings	1014%	2834%		2968%		1319%	1999%	
Others	11%	9%		11%		7%	9%	
<b>Total</b>	<b>17%</b>	<b>2%</b>		<b>18%</b>		<b>11%</b>	<b>19%</b>	

Source: Company, Kenanga Research

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<b>Sum of Parts</b>		
<b>Segment</b>	<b>Value (RMm)</b>	<b>Valuation basis</b>
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)	1,718.5	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	326.9	P/E of 7x on FY21 earnings
Net cash / (debt) at holding company level	(862.3)	As at 31 Dec 2019
<b>Aggregate Valuation</b>	<b>7,532.4</b>	
No of shares (m)	4,901.4	
<b>RNAV per share (RM)</b>	<b>1.54</b>	

*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.				
<b>STOCKS UNDER COVERAGE</b>															
ECO WORLD DEVELOPMENT GROUP	0.400	1,177.7	Y	10/2020	5.7	5.0	5.0	0.3	0.2	4.8%	2.8%	0.490	OP		
IOI PROPERTIES GROUP BHD	1.16	6,387.1	Y	06/2021	10.4	9.4	9.2	0.3	0.3	3.7%	2.6%	0.970	MP		
LBS BINA GROUP BHD	0.385	601.2	Y	12/2020	9.0	15.4	8.8	0.4	0.4	2.8%	1.8%	0.330	UP		
MAH SING GROUP BHD	0.880	2,136.4	Y	12/2020	21.5	41.9	12.6	0.6	0.6	1.7%	3.4%	1.05	OP		
MALAYSIAN RESOURCES CORP BHD	0.440	1,941.3	Y	12/2020	N.A.	440.0	33.8	0.4	0.4	0.1%	0.1%	0.650	OP		
SIME DARBY PROPERTY BHD	0.570	3,876.5	Y	12/2020	5.5	53.8	13.6	0.4	0.4	0.8%	3.7%	0.540	MP		
SP SETIA BHD	0.780	3,164.3	Y	12/2020	13.0	n.a.	11.1	0.2	0.2	-2.4%	0.2%	0.680	UP		
SUNWAY BHD	1.36	6,648.9	Y	12/2020	10.5	18.6	13.4	0.7	0.7	3.7%	2.7%	1.54	OP		
UEM SUNRISE BHD	0.405	2,048.7	Y	12/2020	5.9	59.8	18.7	0.2	0.2	0.4%	0.0%	0.430	MP		
UOA DEVELOPMENT BHD	1.59	3,376.8	Y	12/2020	8.6	8.8	8.4	0.6	0.6	7.0%	8.8%	1.82	OP		
					<b>10.0</b>	<b>72.5</b>	<b>13.5</b>	<b>0.4</b>	<b>0.4</b>	<b>2.3%</b>	<b>2.6%</b>				

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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