

26 November 2021

Sunway Berhad

9MFY21 Beat Our Expectations

By Lum Joe Shen | lumjs@kenanga.com.my

9MFY21 CNP of RM92.3m came within consensus expectation, but above ours, as its property, construction and healthcare segments performed stronger than expected. No dividends declared as expected. 9MFY21 property sales of RM2.17b also beat our/management's target of RM2.2b due to strong demand for Sunway Belfield and its Singapore projects. Increase FY21E/FY22E earnings by 42%/17% after imputing better margins and revenue recognition for property, construction and healthcare segments. Upgrade to OP (from MP) on higher SoP-TP of RM2.05 (from RM1.90).

Beat our expectation but within consensus. 3QFY21 CNP of RM92.3m* brought 9MFY21 CNP to RM202m – above our expectation at 101% but within consensus at 69%. The positive deviation stems from stronger-than-expected contributions from its property development, construction and healthcare segments. Its property division saw the completion and handover of Sunway Geo Lake during the quarter which shored up property margins while construction segment saw upward revision to contract margins for projects near completion. Meanwhile, its healthcare segment's revenue was stronger than expected on higher inpatient and outpatient activities while PBT margins remain healthy at double digit as losses at Sunway Medical Velocity continued to narrow. No dividends as expected.

3QFY21 gross sales of RM0.53b led 9MFY21 gross property sales of RM2.17b (effective RM2.08b) - above our/management's FY21 gross target of RM2.2b each. Note, this is the second time sales have surpassed expectations during the year. The beat is mainly due to strong sales from Sunway Belfield (KL) and its three ongoing Singaporean projects which contributed RM0.46b during the quarter. Consequent to the outperformance, we raise FY21 sales target to RM2.7b. Note that the new sales target is backed by unchanged launch target of RM2.8b (effective RM2.3b). Current unbilled sales of RM3.8b (effective RM3.4b) provide c.4x revenue cover.

Highlights. 3QFY21 CNP of RM92m improved 78% **QoQ** mainly due to: (i) the absence of ICPS dividend payment worth RM25.7m, and (ii) stronger contributions from the property development, construction and healthcare segment as explained above. **YoY**, 9MFY21 CNP improved 76% on better contributions from healthcare segment, lower finance cost (-42%) and lower effective tax rate (-8ppt).

Revise FY21E/FY22E earnings higher by 42%/17% to RM285m/RM472m after factoring for better contributions from its development, construction and healthcare segments.

Upgrade to OP (from MP) with higher SoP-TP of RM2.05 after earnings upgrade for its healthcare division. Being severely affected by this pandemic especially its leisure and hospitality segments, we believe Sunway would be a good proxy for a recovery next year.

OUTPERFORM ↑

Price : **RM1.68**
Target Price : **RM2.05** ↑

Share Price Performance



KLCI 1,517.60
YTD KLCI chg -6.7%
YTD stock price chg 4.3%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	SWB MK Equity
Market Cap (RM m)	8,213.6
Shares Outstanding	4,889.1
52-week range (H)	1.82
52-week range (L)	1.30
3-mth avg daily vol:	1,412,113
Free Float	26%
Beta	0.7

Major Shareholders

Sunway Holdings Sdn	56.9%
Sungei Way Corp Sdn	8.4%
Employees Provident	3.2%

Summary Earnings Table

FYE Dec (RM m)	2020A	2021E	2022E
Turnover	3833	4764	5541
EBIT	257	223	375
PBT	505	442	684
Net Profit	338	285	472
Core PATAMI	359	285	472
Consensus (NP)	n.a.	292	471
Earnings Revision	n.a.	42%	17%
Core EPS (sen)	6.2	4.90	8.12
Core EPS growth (%)	-43%	-21%	66%
*NDPS (sen)	2.9	2.0	3.2
NTA per Share (RM)	1.61	1.64	1.69
Price to NTA (x)	1.0	1.0	1.0
PER (x)	27.2	34.3	20.7
Net Gearing ratio (x)	0.4	0.3	0.3
Return on Asset (%)	1.5	1.2	1.9
Return on Equity (%)	3.5	2.9	4.6
Net Div. Yield (%)	1.7	1.2	1.9

*Only cash dividend is reflected.

26 November 2021

Result Highlight

FYE Dec (RM m)	3Q21	2Q21	QoQ	3Q20	YoY	9M21	9M20	YoY
Revenue	1,065.0	967.9	10%	1,027.2	4%	3,049.7	2,555.3	19%
Operating Expenses	-1,007.4	-956.2	5%	-973.1	4%	-2,951.8	-2,496.5	18%
Other Operating Income	25.7	24.7	4%	81.0	-68%	71.0	152.5	-53%
Operating Profit	83.3	36.5	128%	135.1	-38%	168.9	211.3	-20%
Finance Income	43.7	45.6	-4%	34.2	28%	128.1	118.4	8%
Finance costs	-34.0	-25.7	32%	-38.5	-12%	-84.0	-144.2	-42%
Associates	21.8	15.9	37%	16.7	30%	54.1	47.8	13%
JV	-1.0	6.7	-115%	13.7	-108%	12.9	20.4	-37%
PBT	113.8	79.0	44%	161.2	-29%	280.0	253.7	10%
Tax	-18.7	-7.9	138%	-25.0	-25%	-43.4	-57.2	-24%
PAT	95.2	71.1	34%	136.1	-30%	236.6	196.5	20%
MI	14.1	0.6	2267%	13.5	4%	26.6	31.9	-17%
ICPS/Perpetual Sukuk distribution	0.0	-25.7	n.a.	-10.0	n.a.	-25.7	-19.9	29%
PATAMI	81.1	44.9	81%	112.7	-28%	184.4	144.8	27%
Exceptionals	11.2	7.0	60%	-46.2	n.a.	17.9	-29.7	n.a.
CNP	92.3	51.8	78%	66.5	39%	202.3	115.1	76%
DPS	0.0	1.0	-100%	0.0	n.a.	1.0	0.0	n.a.
EBIT margin	8%	4%		13%		6%	8%	
Pretax margin	11%	8%		16%		9%	10%	
NP margin	9%	7%		13%		8%	8%	
CNP margin	9%	5%		6%		7%	5%	
Net gearing (x)	0.78	0.79		0.67		0.78	0.67	
Effective tax	16%	10%		16%		15%	23%	

Source: Company, Kenanga Research

Segmental Breakdown

External Revenue	3Q21	2Q21	QoQ	3Q20	YoY	9M21	9M20	YoY
Property Development	197.1	147.4	34%	103.4	91%	441.6	310.8	42%
Property Investment	58.0	62.3	-7%	98.1	-41%	179.0	287.9	-38%
Construction	192.7	218.1	-12%	255.0	-24%	732.1	565.6	29%
Trading and Manufacturing	186.4	198.9	-6%	231.0	-19%	609.9	566.3	8%
Quarry	84.3	70.5	20%	105.6	-20%	232.0	211.6	10%
Healthcare	208.1	200.6	4%	168.0	24%	579.3	442.3	31%
Investment Holdings	8.6	1.2	606%	0.8	927%	10.9	3.3	229%
Others	129.9	69.0	88%	63.3	105%	264.9	165.5	60%
Total Revenue	1,065.0	967.9	10%	1,025.2	4%	3,049.7	2,553.3	19%
PBT Segmentation								
Property Development	44.6	22.9	95%	25.0	79%	88.2	90.0	-2%
Property Investment	-12.3	-16.0	-23%	63.0	-120%	-45.2	59.2	-176%
Construction	21.4	8.6	148%	37.0	-42%	57.7	66.1	-13%
Trading and Manufacturing	6.7	10.0	-33%	7.4	-10%	28.8	14.0	106%
Quarry	2.5	-0.6	n.a.	7.9	-68%	5.0	9.5	-48%
Healthcare	29.5	27.5	7%	15.5	90%	71.0	-4.9	n.a.
Investment Holdings	10.6	23.1	-54%	8.5	25%	55.5	43.5	27%
Others	11.0	3.5	215%	7.2	52%	19.0	11.8	61%
Total PBT	113.9	79.0	44%	171.3	-34%	280.0	289.3	-3%
PBT margins								
Property Development	23%	16%		24%		20%	29%	
Property Investment	-21%	-26%		64%		-25%	21%	
Construction	11%	4%		14%		8%	12%	
Trading and Manufacturing	4%	5%		3%		5%	2%	
Quarry	3%	-1%		7%		2%	4%	
Healthcare	14%	14%		9%		12%	-1%	
Investment Holdings	123%	1907%		1014%		511%	1319%	
Others	8%	5%		11%		7%	7%	
Total	11%	8%		17%		9%	11%	

Source: Company, Kenanga Research

26 November 2021

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	5,187.1	30x on FY22 EV/EBITDA
Investment Holdings & Others	467.0	P/E of 10x on FY22 earnings
Net cash / (debt) at holding company level	(870.9)	As at 31 Dec 2019
Aggregate Valuation	10,992.0	
No of shares (m)	5,292.2	Account for partial dilution of ICPS
RNAV per share (RM)	2.05	

Source: Company, Kenanga Research

This section is intentionally left blank

26 November 2021

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	0.855	2,517.4	Y	10/2021	10.7	10.7	9.5	0.5	0.5	3.7%	2.5%	0.850	MP	
IOI PROPERTIES GROUP BHD	1.11	6,111.8	Y	06/2022	9.7	9.6	8.6	0.3	0.3	3.4%	2.5%	1.32	OP	
MAH SING GROUP BHD	0.705	1,711.5	Y	12/2021	50.4	14.7	10.7	0.5	0.5	3.9%	4.3%	0.850	MP	
MALAYSIAN RESOURCES CORP BHD	0.370	1,653.0	Y	12/2021	N.A.	N.A.	33.6	0.3	0.3	-0.6%	2.7%	0.405	MP	
SIME DARBY PROPERTY BHD	0.665	4,522.6	Y	12/2021	31.7	28.9	13.0	0.5	0.5	1.7%	2.0%	0.735	MP	
SP SETIA BHD	1.38	5,613.8	Y	12/2021	153.3	44.5	11.0	0.5	0.5	0.9%	2.8%	1.19	UP	
SUNWAY BHD	1.68	8,213.6	Y	12/2021	27.1	34.3	20.7	0.9	0.8	3.0%	1.2%	2.05	OP	
UEM SUNRISE BHD	0.335	1,694.6	Y	12/2021	N.A.	N.A.	32.2	0.2	0.2	-0.9%	0.0%	0.400	OP	
UOA DEVELOPMENT BHD	1.70	3,955.0	Y	12/2021	11.3	12.1	11.3	0.7	0.7	3.0%	7.6%	1.76	OP	
Simple Average					42.0	22.1	16.7	0.5	0.5	2.0%	2.8%			

Source: Bloomberg, Kenanga Research

26 November 2021

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.**

This document has been prepared for general circulation based on information obtained from sources believed to be reliable but we do not make any representations as to its accuracy or completeness. Any recommendation contained in this document does not have regard to the specific investment objectives, financial situation and the particular needs of any specific person who may read this document. This document is for the information of addressees only and is not to be taken in substitution for the exercise of judgement by addressees. Kenanga Investment Bank Berhad accepts no liability whatsoever for any direct or consequential loss arising from any use of this document or any solicitations of an offer to buy or sell any securities. Kenanga Investment Bank Berhad and its associates, their directors, and/or employees may have positions in, and may effect transactions in securities mentioned herein from time to time in the open market or otherwise, and may receive brokerage fees or act as principal or agent in dealings with respect to these companies.

Published and printed by:

KENANGA INVESTMENT BANK BERHAD (15678-H)

Level 17, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia
Telephone: (603) 2172 0880 Website: www.kenanga.com.my E-mail: research@kenanga.com.my

