

Sunway Berhad

(5211 | SWB MK) Industrial Products & Services | Diversified Industrials

Expect stronger earnings in 4Q20

KEY INVESTMENT HIGHLIGHTS

- **9MFY20 earnings deemed within expectations**
- **Earnings recovery from healthcare and construction segments**
- **Weaker 9MFY20 earnings**
- **9MFY20 new sales at RM943m**
- **Maintain NEUTRAL with an unchanged TP of RM1.34**

9MFY20 earnings deemed within expectations. Sunway Berhad (SUNWAY) 9MFY20 core net income of RM192m deemed within expectations despite meeting only 49% of our and consensus full year estimates as we expect stronger earnings in 4QFY20. Note that we have excluded mainly gain on re-measurement of leases in our core net income calculations.

Earnings recovery from healthcare and construction segments. Sequentially, 3QFY20 core net income surged to RM90.1m (+349.6%qoq) mainly due to higher contribution from healthcare and construction divisions. Healthcare segment recorded operating profit of RM19.5m in 3QFY20 against operating loss of RM12.1m in 2QFY20 due to improved performance of Sunway Medical Centre Velocity as well as higher number of admissions and outpatients treatments at Sunway Medical Centre. Similarly, operating profit of construction segment jumped 727%qoq as construction operations resumed post-MCO. Meanwhile, operating profit of property development segment fell 80.3%qoq despite increase in revenue due to higher expenses. On the other hand, core operating profit of property investment division was flattish as leisure and hospitality segments remained impacted by Covid-19 pandemic.

Weaker 9MFY20 earnings. SUNWAY recorded lower core net income of RM90.1m (-50.5%yoy) in 3QFY20 due to varied recovery rates of business segments post MCO. That led cumulative core net earnings in 9MFY20 to RM192m (-60.3%yoy). The lower earnings were due to lower earnings contribution from all business divisions as a result of Covid-19 pandemic and MCO. Notable, operating profit of property development division halved in 9MFY20 due to lower sales and progress billing from local development projects. Nevertheless, we expect earnings of property development division to be strong in 4QFY20 as SUNWAY is expected to recognize bumper profits from its projects in Singapore and China. Note that Rivercove Residences project in Singapore and Sunway Gardens project in China are expected to handover in 4QFY20.

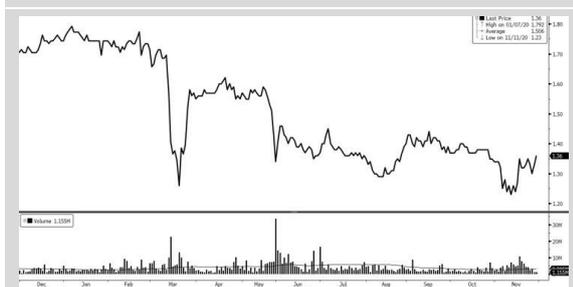
Maintain NEUTRAL

Unchanged Target Price: RM1.34

RETURN STATISTICS

Price @ 27 Nov 2020 (RM)	1.36
Expected share price return (%)	-1.5
Expected dividend yield (%)	3.6
Expected total return (%)	2.1

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	0.7	-8.1
3 months	-0.7	-7.8
12 months	-23.2	-25.4

KEY STATISTICS

FBM KLCI	1,607.59
Syariah compliant	Yes
Issue shares (m)	4933.93
Estimated free float (%)	30.98
Market Capitalisation (RM'm)	6,648.94
52-wk price range (RM)	RM1.22 - RM1.87
Beta vs FBM KLCI (x)	0.76
Monthly velocity (%)	1.98
Monthly volatility (%)	5.86
3-mth average daily volume (m)	3.18
3-mth average daily value (RM'm)	4.29
Top Shareholders (%)	
Sungei Way Corp Sdn Bhd	51.36
Employees Provident Fund Board	9.89

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9MFY20 new sales at RM943m. SUNWAY registered new sales of RM270m in 3QFY20, bringing cumulative new sales to RM943m in 9MFY20. Note that SUNWAY recorded low property sales of RM92m in 2QFY20 as imposition of MCO affected its new sales activity. Meanwhile, total new sales of RM943m in 9MFY20 made up 86% of management new sales target of RM1.1b for FY20 and management is maintaining its new sales target at RM1.1b. On the other hand, unbilled sales eased marginally to RM3.1b in 3QFY20 from RM3.2b in 2QFY20, providing close to 6 years earnings visibility to the property development division.

Maintain Neutral with an unchanged TP of RM1.34. We maintain our FY20/21F earnings forecasts. We also maintain our target price for SUNWAY at RM1.34, based on sum-of-parts valuation. Despite earnings in 4QFY20 is expected to be boosted by earnings recognition from overseas projects, we see new sales outlook for SUNWAY to be tepid as the re-imposition of CMCO in Malaysia may hamper buyer sentiment. Hence, we maintain our Neutral call on SUNWAY. 

INVESTMENT STATISTICS

FYE Dec	FY17A	FY18A	FY19A	FY20F	FY21F
Revenue	5239.3	5410.3	4780.4	3733.5	4737.4
Core EBIT	653.0	559.9	565.2	355.6	555.7
Core PBT	799.0	782.8	801.2	569.8	780.9
Net Income	620.6	659.0	766.6	400.5	535.6
Core Net Income	563.8	591.2	655.0	400.5	535.6
EPS (sen)	12.6	13.4	15.7	8.3	11.0
Core EPS (sen)	11.5	12.0	13.4	8.3	11.0
Net DPS (sen)	6.00	7.12	9.10	4.95	6.62
Net Dvd Yield	4.4%	5.2%	6.7%	3.6%	4.9%
Core PER	11.86	11.33	10.12	16.48	12.32
NTA/share (RM)	1.54	1.66	1.66	1.76	1.81
P/NTA	0.88	0.82	0.82	0.77	0.75
Core ROE	7.1%	7.0%	7.8%	4.7%	6.1%
Core ROA	2.9%	2.8%	3.1%	1.8%	2.3%

Source: MIDF Research

SUNWAY BERHAD: 3QFY20 RESULTS SUMMARY

FYE Dec (RM'm, unless otherwise stated)	Quarterly Results			Cumulative	
	3QFY20	%YoY	%QoQ	FY20	%YoY
Revenue	1027.2	-16.2%	84.5%	2,555.3	-25.4%
EBIT	135.1	-22.4%	2155.2%	185.8	-59.5%
Core PBT	128.6	-42.0%	249.0%	276.8	-51.5%
Net Income	132.8	-27.6%	NA	204.4	-63.9%
Core Net Income	90.1	-50.5%	349.6%	192.0	-60.3%
EPS (sen)	2.71	-28.0%	NA	4.2	-64.0%
Core EPS (sen)	1.84	-50.8%	349.6%	3.9	-60.4%
Net DPS (sen)	0.00	NA	NA	0.0	NA
NTA/share (RM)	1.64	-1%	2%	1.6	-0.7%
Net Gearing (x)	0.58	NA	NA	0.6	NA
EBIT Margin	13.2%	NA	NA	7.3%	NA
Core PBT Margin	12.5%	NA	NA	10.8%	NA

Source: Company, MIDF Research

Sum-of-Parts

Division	Methodology	PER (x)	Stake	Discount	Value (RM m)
Property Development	NPV of profits	n/a	100%	36%	2122.5
Property Investment	Net Book Value	n/a	100%	n/a	1490.0
Construction	15x FY21E PER - KL Construction Index PER	15	54%	n/a	765.8
Sunway REIT	Target Price of RM1.61	n/a	35%	n/a	1635.8
Trading and manufacturing	10x FY21E PER - In line with small cap PER of 10x	10	100%	n/a	120.6
Quarry	10x FY21E PER - In line with small cap PER of 10x	10	100%	n/a	434.9
Total SOP					6569.7
Number of shares					4918.0
Target Price (RM)					1.34

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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <10% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.