

# Sunway Berhad

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

**Maintain BUY**

## Stronger earnings anticipated for 2HFY20

**Revised Target Price: RM1.50**

(Previously RM1.61)

### KEY INVESTMENT HIGHLIGHTS

- **1HFY20 earnings below expectations hit by MCO**
- **1HFY20 new sales at RM673m**
- **New sales target revised to RM1.1b**
- **Earnings estimates revised downwards**
- **Maintain BUY with a lower TP of RM1.50**

**1HFY20 earnings below expectations.** Sunway Berhad (SUNWAY) 1HFY20 core net income of RM88.1m came in below expectations, meeting only 16% and 20% of our and consensus full year estimates. The earnings miss was mainly attributed to worse than expected impact on its business divisions from the commencement of Movement Control Order (MCO) in March 2020.

**Earnings hit by MCO.** 2QFY20 core net income plunged by 91.4%yoy to RM9.8m as earnings were hit by the commencement of MCO in March 2020. Note that we have excluded fair value loss of associate in our core net income calculations. Property investment division was worst hit by MCO as it suffered operating loss of RM10m in 2QFY20 due to the shutdown of its hospitality and leisure businesses during MCO. Similarly, healthcare division was also in the red after posting operating loss of RM12.1m in 2QFY20 due to lower number of admissions and outpatient treatments at Sunway Medical Centre. Meanwhile, operating profit of property development division fell by 36.6%yoy to RM13.7m due to suspension of construction activities during MCO. That brought cumulative earnings in 1HFY20 to RM88.1m (-70.8%yoy). Looking forward, we expect moderate earnings recovery in 2HFY20 as business operations resume in 3QFY20.

**1HFY20 new sales at RM673m.** SUNWAY chalked up low property sales of RM92m in 2QFY20 as compared to new sales of RM581m in 1QFY20 due to disruption to business activity during MCO. That brought cumulative new sales to RM673m. New sales from oversea projects in Singapore and China contributed 75% to total new sales while the remaining 25% were contributed by local projects. Meanwhile, total new sales of RM673m in 1HFY20 makes up only 34% of management new sales target of RM2b. Hence, management is revising downward its new sales target to RM1.1b from RM2b and lower target launches with total GDV of RM2.2b (previously RM3.5b) for FY20. Meanwhile, unbilled sales was unchanged at RM3.2b in 2QFY20, providing close to 6 years earnings visibility to the property development division.

### RETURN STATISTICS

Price @ 25 August 2020 (RM)	1.34
Expected share price return (%)	11.9
Expected dividend yield (%)	3.7
<b>Expected total return (%)</b>	<b>15.6</b>

### SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	-1.47	0.72
3 months	-2.19	-19.08
12 months	-16.46	-14.01

### KEY STATISTICS

FBM KLCI	1554.96
Syariah compliant	Yes
Issue shares (m)	4933.931
Estimated free float (%)	30.87776
Market Capitalisation (RM'm)	6567.851
52-wk price range (RM)	RM1.25 - RM1.87
Beta vs FBM KLCI (x)	0.919393
Monthly velocity (%)	1.976216
Monthly volatility (%)	5.859036
3-mth average daily volume (m)	5.394727
3-mth average daily value (RM'm)	7.528675
Top Shareholders (%)	
Sungei Way Corp Sdn Bhd	51.23
Employees Provident Fund Board	9.66

### Analyst(s)

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**Earnings forecasts revised downwards.** We cut our earnings forecasts for FY20/21F by -28.6%/-19.4% as we factor in lower new sales assumption for FY20 as well as weaker earnings contribution from healthcare and property investment divisions. Nevertheless, we expect earnings to be stronger in 2HFY20 as earnings contribution from its divisions should improve following the resumption of business activities. Besides, we expect earnings in 2HFY20 to be boosted by earnings recognition of its overseas projects namely Rivercove Residences in Singapore and Sunway Gardens in Tianjian, China as the projects are expected to handover in 2HFY20.

**Maintain BUY with a revised TP of RM1.50.** Corresponding to the cut in forward in earnings, our TP for Sunway Berhad is revised to RM1.50 from RM1.61. Our TP of RM1.50 is based on sum-of-parts valuation. We maintain our BUY call on SUNWAY as we think the worst is over and earnings recovery is anticipated in 2HFY20, underpinning by the resumption in business operations and earnings recognition of its projects in China and Singapore. 

## 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	802.6	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	4.5%	5.3%	6.8%	3.7%	4.9%
Core PER	11.69	11.16	9.97	16.23	12.14
NTA/share (RM)	1.54	1.66	1.66	1.76	1.81
P/NTA	0.87	0.81	0.81	0.76	0.74
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: 2QFY20 RESULTS SUMMARY

FYE Dec (RM'm, unless otherwise stated)	Quarterly Results			Cumulative	
	2QFY20	%YoY	%QoQ	2QFY20	%YoY
Revenue	556.6	-48.3%	-42.7%	1,528.1	-30.6%
EBIT	6.0	-96.4%	-86.6%	50.7	-82.2%
Core PBT	26.6	-84.5%	-75.3%	134.4	-61.5%
Net Income	-6.7	NA	NA	71.6	-81.3%
Core Net Income	9.8	-94.1%	-87.5%	88.1	-70.8%
EPS (sen)	-0.14	NA	NA	1.5	-81.3%
Core EPS (sen)	0.20	-94.1%	-87.5%	1.8	-70.8%
Net DPS (sen)	0.00	NA	NA	0.0	NA
NTA/share (RM)	1.62	-1%	-3%	1.6	-0.8%
Net Gearing (x)	0.67	NA	NA	0.7	NA
EBIT Margin	1.1%	NA	NA	3.3%	NA
Core PBT Margin	4.8%	NA	NA	8.8%	NA

Source: Company, MIDF Research

**Sum-of-Parts**

<b>Division</b>	<b>Methodology</b>	<b>PER (x)</b>	<b>Stake</b>	<b>Discount</b>	<b>Value (RM m)</b>
Property Development	NPV of profits	n/a	100%	18%	2719.5
Property Investment	Net Book Value	n/a	100%	n/a	1490.0
Construction	18x FY21E PER - KL Construction Index PER	18	54%	n/a	908.8
Sunway REIT	Target Price of RM1.70	n/a	35%	n/a	1727.3
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
<b>Total SOP</b>					<b>7401.0</b>
Number of shares					4918.0
<b>Target Price (RM)</b>					<b>1.50</b>

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### MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

#### STOCK RECOMMENDATIONS

<b>BUY</b>	Total return is expected to be >10% over the next 12 months.
<b>TRADING BUY</b>	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.
<b>NEUTRAL</b>	Total return is expected to be between -10% and +10% over the next 12 months.
<b>SELL</b>	Total return is expected to be <10% over the next 12 months.
<b>TRADING SELL</b>	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

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