

Sunway (SWB MK)

On recovery mode

Profit below but sales above expectations

Sunway's 3Q21 net profit of MYR81m (-30% YoY, +15% QoQ) was below expectations but 9MFY21 property sales of MYR2.17b were above expectations. We lower our FY22/23 earnings forecasts by -0.1% to -11%. Our TP is largely intact at MYR1.72 (-1sen) on an unchanged 0.8x FY22 PBV. We reiterate HOLD on Sunway.

3Q21 results dragged by stricter SOPs and lockdown

Sunway's 3Q21 net profit was MYR81m (-30% YoY, +15% QoQ), lifting 9MFY21 net earnings to MYR210.1m (+20% YoY), at 66%/68% of our/consensus estimates - below expectations. The earnings gap was due to larger-than-expected operating losses from its investment properties caused by the imposition of lockdown and stricter SOPs. Net gearing improved to 0.56x in end-3Q21, from 0.57x in end 2Q21.

Exceeding its FY21 sales target

Sunway has locked-in MYR2.17b in property sales in 9M21, accounting for 98% of its FY21 sales target of MYR2.2b. The strong sales were mainly driven by its Singapore and Belfield projects. Effective unbilled sales were MYR3.38b as at end-Sep 2021 (3.6x FY22F property revenue). Elsewhere, 55%-owned Sunway Construction Group (SCGB MK; HOLD; MYR1.69 TP) has secured MYR796m worth of jobs in 9M21, increasing its outstanding orderbook to MYR4.7b as at end-Sep 2021.

Earnings adjustments

We lower our FY21/22/23 net profit forecasts by -6.1%/-11%/-0.1% to factor in higher sales assumption of MYR2.6b (+36%) for FY21 but offset by lower earnings contributions from SCGB and higher operating losses from its investment properties as well as change in progress billings assumptions. Impact from the one-off special windfall tax (Cukai Makmur) should be minimal as we understand that most of SWB's property projects are held under individual companies while Cukai Makmur would only be charged at the company level.

FYE Dec (MYR m)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue	4,780	3,833	4,757	6,174	7,332
EBITDA	570	251	448	748	973
Core net profit	635	395	295	499	684
Core EPS (sen)	13.0	8.0	5.9	10.0	13.8
Core EPS growth (%)	13.9	(38.9)	(25.4)	69.0	37.2
Net DPS (sen)	9.1	1.5	1.8	3.0	4.1
Core P/E (x)	13.8	20.2	28.3	16.7	12.2
P/BV (x)	1.0	0.8	0.9	0.8	0.8
Net dividend yield (%)	5.1	0.9	1.1	1.8	2.5
ROAE (%)	8.7	4.0	3.1	5.1	6.7
ROAA (%)	2.9	1.9	1.4	2.2	2.9
EV/EBITDA (x)	27.3	56.0	30.9	18.3	14.2
Net gearing (%) (incl perps)	60.9	51.0	45.0	42.1	41.4
Consensus net profit	-	-	307	449	573
MKE vs. Consensus (%)	-	-	(3.9)	11.1	19.4

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HOLD

Share Price	MYR 1.68
12m Price Target	MYR 1.72 (+2%)
Previous Price Target	MYR 1.73

Company Description

Sunway Bhd is involved in property development, investment properties and construction businesses

Statistics

52w high/low (MYR)	1.81/1.33
3m avg turnover (USDm)	0.6
Free float (%)	26.8
Issued shares (m)	4,934
Market capitalisation	MYR8.3B
	USD2.0B

Major shareholders:

Active Equity Sdn. Bhd.	60.1%
Employees Provident Fund	8.3%
AIA Bhd.	2.7%

Price Performance



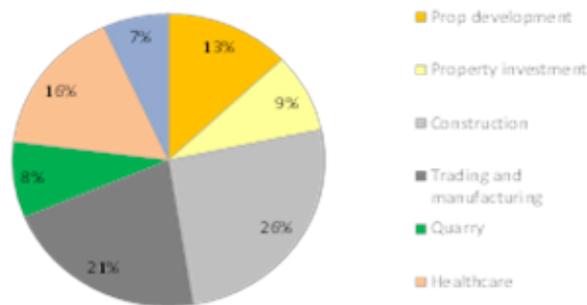
	-1M	-3M	-12M
Absolute (%)	(7)	(5)	29
Relative to index (%)	(3)	(2)	36

Source: FactSet

Value Proposition

- A conglomerate with core business in property development and businesses in other sectors comprising property investment, construction, building materials, leisure and healthcare.
- Property development landbank is located throughout Malaysia. Sunway also has property projects in Singapore (in partnership with Hoi Hup), India and China.
- Sunway also owns a 41% stake in SunREIT (SREIT MK, SELL, TP: MYR1.30) and 55% in SCG (SCGB MK, HOLD, TP: MYR1.69).

PBT (FY20) breakdown by businesses



Source: Company

Price Drivers

Historical share price trend



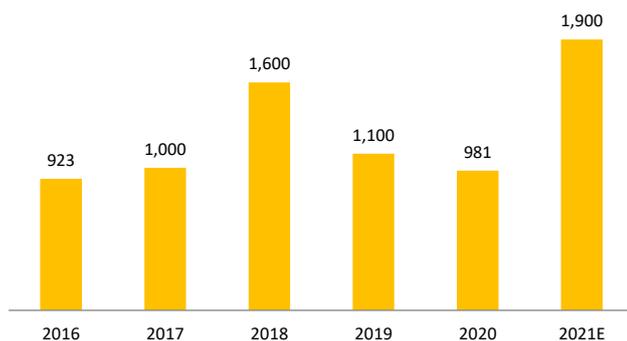
Source: Company, Maybank Kim Eng

1. June 2017: Proposed bonus issue of new shares and free warrants. Also announced plans to list healthcare business by 2022.
2. 1H18: Weak sentiment on property stocks pre-GE14.
3. 2H18: Weak sentiment on property stocks pre Budget 2019.
4. 2020: Proposed fund raising via the issuance of ICPS
5. 2021: Stake sale in healthcare business to GIC (source: Bursa Malaysia).

Financial Metrics

- Effective unbilled sales (property) stood at MYR3.1b (or 2.6x our FY22F property revenue) as at end-June 21.
- Sunway targets to achieve MYR2.2b in property sales in 2021 (effective sales: MYR1.9b).

Sunway's effective sales trend (actual and target) (MYRm)



Source: Company

Swing Factors

Upside

- RNAV-accretive land acquisitions.
- Higher-than-expected job wins at its construction business under SCG.

Downside

- Slow-than-expected property sales and longer-than-expected downturn in the property sector.
- Country/currency risks as Sunway has property projects in Singapore and China.

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Fig. 1: Results summary table - Sunway

FY Dec (MYRm)	Quarterly					Cumulative		
	3Q21	3Q20	%YoY	2Q21	%QoQ	9M21	9M20	%YoY
Revenue	1,065.0	1,027.2	3.7	967.9	10.0	3,049.7	2,555.3	19.3
- Property dev	197.1	103.4	90.5	147.4	33.7	441.6	310.8	42.1
- Property inv	58.0	98.1	-40.9	62.3	-7.0	179.0	287.9	-37.8
- Construction	192.7	255.0	-24.5	218.1	-11.6	732.1	565.6	29.4
- Trading	186.4	231.0	-19.3	198.9	-6.3	609.9	566.3	7.7
- Quarry	84.3	105.6	-20.1	70.5	19.7	232.0	211.6	9.6
- Healthcare	208.1	168.0	23.9	200.6	3.7	579.3	442.3	31.0
- Others	138.4	66.1	109.3	70.2	97.3	275.7	170.8	61.4
PBIT	83.3	136.3	-38.8	36.5	128.4	168.9	212.5	-20.5
Finance costs	9.8	-8.3	218.1	19.9	-50.8	44.2	-29.7	-248.5
Other income	20.7	28.4	-26.9	22.6	-8.3	67.0	66.2	1.2
Pretax profit	113.8	156.4	-27.2	79.0	44.1	280.0	248.9	12.5
- Property dev	44.6	16.9	164.3	22.9	95.2	88.2	69.7	26.5
- Property inv	-12.3	60.5	-120.3	-16.0	23.3	-45.2	51.9	-187.0
- Construction	21.4	37.0	-42.3	8.6	147.5	57.7	66.1	-12.8
- Trading	6.7	7.2	-7.2	10.0	-33.1	28.8	13.5	114.4
- Quarry	2.5	7.7	-67.8	-0.5	553.8	5.0	9.2	-45.7
- Healthcare	29.5	15.4	90.9	27.5	7.2	71.0	-5.1	-1,503.6
- Others	21.5	11.6	85.1	26.6	-19.0	74.5	43.6	70.9
Pretax profit ex-EI	113.8	156.3	-27.2	79.0	44.1	280.0	265.4	5.5
Taxation	-18.7	-25.1	25.5	-7.9	-137.5	-43.4	-57.3	24.3
Minority interest*	-14.1	-15.3	8.0	-0.6	>-100	-26.6	-33.6	21.0
Net profit	81.1	116.0	-30.1	70.5	15.0	210.1	158.0	33.0
Net profit ex-EI	81.1	116.0	-30.1	70.5	15.0	210.1	174.5	20.4
Exceptional item (pretax)	0.0	0.0	NA	0.0	NA	0.0	16.5	NM
	3Q21	3Q20	+/- ppt	2Q21	+/- ppt	9M21	9M20	+/- ppt
Pretax margin (%)	10.7	15.2	-4.5	8.2	2.5	9.2	10.4	-1.2
- Property dev	22.6	16.3	6.3	15.5	7.1	20.0	22.4	-2.5
- Property inv	-21.2	61.7	-82.9	-25.7	4.5	-25.2	18.0	-43.3
- Construction	11.1	14.5	-3.4	4.0	7.1	7.9	11.7	-3.8
- Trading	3.6	3.1	0.5	5.0	-1.4	4.7	2.4	2.4
- Quarry	2.9	7.3	-4.4	-0.8	3.7	2.1	4.3	-2.2
- Healthcare	14.2	9.2	5.0	13.7	0.5	12.2	-1.1	13.4
- Others	15.6	17.6	-2.0	37.9	-22.4	27.0	25.5	1.5
Tax rate (%)	-16.4	-16.0	-0.4	-10.0	-6.5	-15.5	-21.6	6.1

Source: Company

Our RNAV estimate

	Stake	Acres	MV (MYR m)	BV (MYR m)	Surplus (MYR m)
1. Landbank - MARKET VALUE					
Sunway Semenyih	70%	526.1	572.9	128.0	311.5
Suncity Ipoh	96%	336.4	58.6	58.7	(0.1)
Sunway Integrated Resort	100%	7.7	4.8	8.3	(3.5)
Sunway Tower KL 1	100%	1.9	122.8	28.3	94.5
Sunway JB, Bukit Lenang	80%	49.9	54.3	134.5	(64.1)
Sg Long Balakong	80%	111	140.2	21.8	94.8
Mont Putra Rawang	100%	163	49.7	35.1	14.6
Sunway Iskandar - Pendas, freehold	60%	1079	1175.1	596.6	347.1
Sub-total (1)					794.8
2. Active developments - WACC (10.5-13.1%)					
	Stake				(MYR m)
South Quay	100%				317.2
Sunway Cheras	100%				1.5
Sunway Damansara	60%				2.3
Bangi	100%				2.8
Casa Kiara III	80%				14.8
Sunway Velocity	85%				114.7
Penang projects	100%				22.8
Wonderland Business Park, Australia	31%				1.4
Singapore Sembawang	100%				2.3
Mount Sophia	30%				7.7
Sunway Iskandar -leasehold (Medini)	51%				273.1
Kelana Jaya	100%				32.5
Industrial projects at Kelana Jaya and Subang	100%				10.9
Sunway Velocity extension	50%				79.6
Belfield	100%				98.4
Kajang	100%				35.6
Subang	100%				62.2
Wangsamaju	55%				21.1
PKNS Kota Damansara	60%				26.9
Pasir Panjang	30%				32.0
Tanjong Katong	30%				84.7
Sub-total (2):					1,244.4
3. Investment properties - MARKET VALUE					
	Stake		MV (MYR m)	BV (MYR m)	Surplus (MYR m)
Sunway Velocity Mall	59%		1,600	1,172	252.3
Sub-total (3)					252.3

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	Surplus (MYR m)
4. Other businesses or assets	
Valuation for SunREIT on Maybank IB's MYR1.30 TP	(33.0)
Valuation for SCG based on Maybank IB's MYR1.69 TP	1,038.7
Healthcare (30x 2021 PER)	1,822.2
Building material (10x 2021 PER)	137.4
Trading (10x 2021 PER)	190.1
Sub-total (4)	3,155.5
Grand total = (1) + (2) + (3) + (4)	5,447.0
Shareholders' funds (MYR m) - Dec 2020	9,534.6
Proceeds from warrants (MYR1.56 exercise price; expiring in Oct 2024)	1,044.4
RNAV (MYR m)	16,026.1
Number of shares (m)	4,934.0
Number of warrants (m)	669.5
ICPS	977.8
FD RNAV/share (MYR)	2.44

Source: Maybank KE

FYE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
Key Metrics					
P/E (reported) (x)	11.4	20.7	28.3	16.7	12.2
Core P/E (x)	13.8	20.2	28.3	16.7	12.2
P/BV (x)	1.0	0.8	0.9	0.8	0.8
P/NTA (x)	1.0	0.8	0.8	0.8	0.8
Net dividend yield (%)	5.1	0.9	1.1	1.8	2.5
FCF yield (%)	nm	0.7	7.9	3.8	1.2
EV/EBITDA (x)	27.3	56.0	30.9	18.3	14.2
EV/EBIT (x)	27.3	56.0	38.4	20.9	15.8
INCOME STATEMENT (MYR m)					
Revenue	4,780.3	3,833.3	4,757.2	6,173.5	7,331.6
EBITDA	570.1	250.8	448.5	747.7	973.3
Depreciation	0.0	0.0	(87.9)	(93.6)	(99.4)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	570.1	250.8	360.5	654.1	873.9
Net interest income / (exp)	34.0	28.5	(131.9)	(128.4)	(130.5)
Associates & JV	261.2	230.0	163.0	149.5	150.3
Exceptionals	(79.1)	47.9	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	865.3	509.3	391.7	675.2	893.7
Income tax	(78.4)	(102.0)	(54.8)	(94.5)	(125.1)
Minorities	(77.7)	(47.7)	(41.9)	(82.0)	(84.5)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	709.2	359.6	295.0	498.7	684.0
Core net profit	635.3	395.4	295.0	498.7	684.0
BALANCE SHEET (MYR m)					
Cash & Short Term Investments	2,554.7	2,237.3	2,789.6	2,963.5	2,859.6
Accounts receivable	3,014.9	2,440.6	3,028.8	3,930.5	4,667.8
Inventory	2,102.1	2,101.5	2,607.9	3,384.4	4,019.3
Reinsurance assets	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	2,749.0	2,611.4	3,119.5	3,313.0	3,512.4
Intangible assets	331.6	350.8	350.8	350.8	350.8
Investment in Associates & JVs	4,085.1	4,346.2	4,940.5	4,100.3	3,802.4
Other assets	6,657.1	7,031.7	4,955.1	4,955.1	4,955.1
Total assets	21,494.6	21,119.4	21,792.1	22,997.6	24,167.4
ST interest bearing debt	7,024.8	5,132.5	5,132.5	5,132.5	5,132.5
Accounts payable	2,670.9	2,456.9	3,049.1	3,956.9	4,699.1
Insurance contract liabilities	0.0	0.0	0.0	0.0	0.0
LT interest bearing debt	1,273.7	2,373.7	2,373.7	2,373.7	2,373.7
Other liabilities	1,092.0	824.0	750.0	750.0	750.0
Total Liabilities	12,061.0	10,787.6	11,305.1	12,212.9	12,955.1
Shareholders Equity	8,389.3	9,534.6	9,689.8	9,987.6	10,415.0
Minority Interest	1,044.3	797.2	797.2	797.2	797.2
Total shareholder equity	9,433.6	10,331.8	10,487.0	10,784.7	11,212.2
Total liabilities and equity	21,494.6	21,119.4	21,792.1	22,997.6	24,167.4
CASH FLOW (MYR m)					
Pretax profit	865.3	509.3	391.7	675.2	893.7
Depreciation & amortisation	0.0	0.0	87.9	93.6	99.4
Adj net interest (income)/exp	167.4	141.2	(131.9)	(128.4)	(130.5)
Change in working capital	(354.2)	66.8	863.5	267.9	(140.5)
Cash taxes paid	(94.0)	(60.0)	(54.8)	(94.5)	(125.1)
Other operating cash flow	100.0	170.5	0.0	0.0	0.0
Cash flow from operations	684.6	827.7	1,156.4	813.8	597.0
Capex	(1,337.6)	(768.0)	(500.0)	(500.0)	(500.0)
Free cash flow	(653.0)	59.7	656.4	313.8	97.0
Dividends paid	(305.9)	(253.6)	(104.2)	(139.8)	(200.9)
Equity raised / (purchased)	(86.2)	(21.0)	0.0	0.0	0.0
Change in Debt	(974.7)	(792.3)	0.0	0.0	0.0
Other invest/financing cash flow	(292.0)	(321.4)	0.0	0.0	0.0
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	(2,311.9)	(1,328.7)	552.2	173.9	(103.9)

FYE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
Key Ratios					
Growth ratios (%)					
Revenue growth	(11.6)	(19.8)	24.1	29.8	18.8
EBITDA growth	(4.1)	(56.0)	78.8	66.7	30.2
EBIT growth	(4.1)	(56.0)	43.8	81.4	33.6
Pretax growth	3.4	(41.1)	(23.1)	72.4	32.4
Reported net profit growth	9.9	(49.3)	(18.0)	69.0	37.2
Core net profit growth	13.9	(37.8)	(25.4)	69.0	37.2
Profitability ratios (%)					
EBITDA margin	11.9	6.5	9.4	12.1	13.3
EBIT margin	11.9	6.5	7.6	10.6	11.9
Pretax profit margin	18.1	13.3	8.2	10.9	12.2
Payout ratio	62.5	20.7	30.0	30.0	30.0
DuPont analysis					
Net profit margin (%)	14.8	9.4	6.2	8.1	9.3
Revenue/Assets (x)	0.2	0.2	0.2	0.3	0.3
Assets/Equity (x)	2.6	2.2	2.2	2.3	2.3
ROAE (%)	8.7	4.0	3.1	5.1	6.7
ROAA (%)	2.9	1.9	1.4	2.2	2.9
Leverage & Expense Analysis					
Asset/Liability (x)	1.8	2.0	1.9	1.9	1.9
Net gearing (%) (incl perps)	60.9	51.0	45.0	42.1	41.4
Net gearing (%) (excl. perps)	60.9	51.0	45.0	42.1	41.4
Net interest cover (x)	na	na	2.7	5.1	6.7
Debt/EBITDA (x)	14.6	nm	16.7	10.0	7.7
Capex/revenue (%)	28.0	20.0	10.5	8.1	6.8
Net debt/ (net cash)	5,743.8	5,268.9	4,716.6	4,542.7	4,646.7

Source: Company; Maybank

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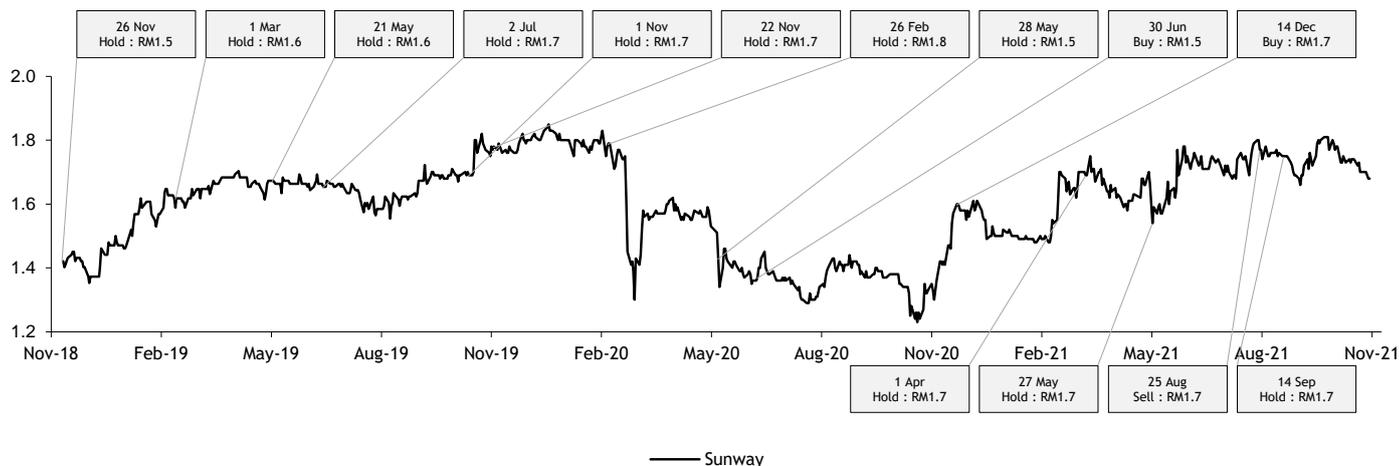
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