

27 May 2021

Property | Real Estate

Sunway (SWB MK)

Buy (Maintained)

Strong Property Sales In 1Q21; Keep BUY

Target Price (Return): MYR1.92 (15.7%)
 Price: MYR1.66
 Market Cap: USD1,959m
 Avg Daily Turnover (MYR/USD) 4.33m/1.05m

- **BUY, with a lower TP of MYR1.92 from MYR1.95, 16% upside with c.1% yield.** Sunway's 1Q21 results missed expectations, mainly due to weak performance from the property development and property investment divisions. As expected, 1Q property sales were very strong at MYR1.16bn, driven mainly by projects in Singapore. We think management may potentially revise up its sales target from the current MYR1.6bn in the next quarter. The potential disposal of its minority stake in Sunway Healthcare remains a share price catalyst over the near term.
- **1Q21 results.** Earnings from Sunway's property development and property investment earnings were weak, as progress billings were slower during the quarter and property investment was affected by the loss of income after the disposal of The Pinnacle Sunway in 4Q20. Note that, 4Q20 development earnings were boosted by the balance of development profits from projects in Singapore and China. At the meantime, the hospitality assets continued to be under pressure due to lower occupancy rates. The healthcare division was partly affected by MCO 2.0 during the quarter, and hence Sunway Medical Centre reported lower revenue, while performance of Sunway Medical Centre Velocity remained stable with an operating loss of MYR4.2m (vs -MYR3.9m in 4Q20).
- **Strong property sales in 1Q21 as expected.** New property sales hit MYR1.16bn in 1Q21 (vs MYR357m in 4Q20), of which MYR865m was from Parc Central Tampines and Ki Residences in Singapore. Both projects are now 74% and 47% sold. Locally, Sunway Belfield, which contributed MYR164m sales, has received a take-up rate of 86% for Tower One. Tower Two, which was launched in March, is now 50% sold.
- **Potential upward revision in full-year sales.** In view of the strong sales in 1Q, we believe management may potentially revise up its full-year sales target from the current MYR1.6bn. In the pipeline, Sunway is looking in the coming months to launch Sunway ARTESSA condominiums in Wangsa Maju and Sunway Damansara Hill, while monitoring the current market conditions given rising new COVID-19 cases recently.
- **Expect 2Q earnings to be weaker.** Given the imposition of MCO 3.0, we expect 2Q21 earnings to be much weaker, particularly for the property investment segment. We cut our FY21-23F earnings by 32-39%. As a results of strong property sales, unbilled sales rose to MYR3.3bn from MYR2.4bn as at 4Q20, while its outstanding construction orderbook remained steady at MYR5.0bn (vs MYR5.1bn as at 4Q20).
- **Lower TP.** As we impute our latest TP for Sunway REIT (SREIT MK, NEUTRAL, TP: MYR1.44) and Sunway Construction (SCGB MK, BUY, TP: MYR2.03), our SOP-based TP falls slightly to MYR1.92. Our valuation comprises a 40% discount to RNAV for the property business, 15x P/E for the trading division, and 32x for the healthcare segment.

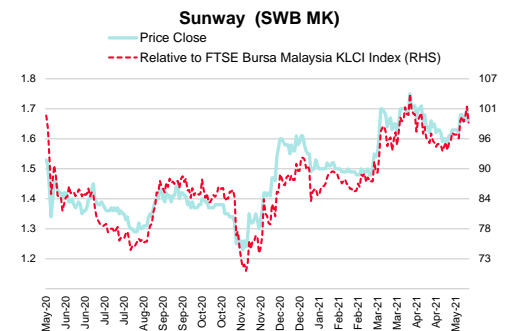
Analyst

Loong Kok Wen CFA
 +603 9280 8861
loong.kok.wen@rhbgroup.com



Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	3.1	1.2	11.4	27.7	8.5
Relative	6.1	3.1	11.6	28.9	(1.3)
52-wk Price low/high (MYR)	1.23 – 1.75				



Source: Bloomberg

Forecasts and Valuation	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
Total turnover (MYRm)	4,780	3,833	4,119	4,502	5,211
Recurring net profit (MYRm)	693	461	320	371	466
Recurring net profit growth (%)	17.2	(33.4)	(30.7)	16.0	25.6
Recurring EPS (MYR)	0.14	0.09	0.06	0.07	0.09
DPS (MYR)	0.10	0.01	0.02	0.03	0.04
Recurring P/E (x)	11.79	18.52	26.99	23.50	18.91
P/B (x)	0.97	0.90	0.88	0.87	0.86
Dividend Yield (%)	6.0	0.7	0.9	1.8	2.4
Return on average equity (%)	9.1	4.0	3.3	3.8	4.6
Net debt to equity (%)	36.2	50.7	54.4	59.5	47.5

Source: Company data, RHB

Financial Exhibits

Asia	Financial summary (MYR)	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
Malaysia	Recurring EPS	0.14	0.09	0.06	0.07	0.09
Property	EPS	0.16	0.07	0.06	0.07	0.09
Sunway	DPS	0.10	0.01	0.02	0.03	0.04
SWB MK	BVPS	1.71	1.85	1.88	1.90	1.93
Buy	Return on average equity (%)	9.1	4.0	3.3	3.8	4.6
	Return on average assets (%)	3.4	1.6	1.5	1.7	2.1
Valuation basis	Valuation metrics	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
40% discount to property RNAV, 15x P/E for trading/building material division, 32x P/E for healthcare division, and 10% holding co discount	Recurring P/E (x)	11.79	18.52	26.99	23.50	18.91
	P/B (x)	1.0	0.9	0.9	0.9	0.9
	Dividend Yield (%)	6.0	0.7	0.9	1.8	2.4
	EV/EBITDA (x)	15.81	48.94	51.49	42.14	30.77
Key drivers	Income statement (MYRm)	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
New property sales, disposal of investment properties	Total turnover	4,780	3,833	4,119	4,502	5,211
	Gross profit	1,318	804	796	935	1,090
	EBITDA	789	298	296	381	489
	Depreciation and amortisation	(224)	(47)	(108)	(117)	(114)
	Operating profit	565	251	188	264	375
	Net interest	88	28	5	(15)	(30)
	Pre-tax profit	914	509	450	515	647
	Taxation	(78)	(102)	(90)	(103)	(129)
	Reported net profit	767	360	320	371	466
	Recurring net profit	693	461	320	371	466
Key risks	Cash flow (MYRm)	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
Weaker-than-expected market conditions	Change in working capital	(153)	(514)	(3)	(132)	(350)
	Cash flow from operations	916	(18)	481	405	255
	Capex	(2,205)	0	(743)	(797)	0
	Cash flow from investing activities	(2,659)	(529)	(637)	(635)	1,418
	Dividends paid	(494)	(60)	(78)	(157)	(212)
	Cash flow from financing activities	(563)	(1,380)	(175)	(254)	(307)
	Cash at beginning of period	5,134	5,889	2,269	1,871	1,317
	Net change in cash	(2,306)	(1,926)	(332)	(484)	1,365
	Ending balance cash	2,829	3,963	1,937	1,387	2,682
Company Profile	Balance sheet (MYRm)	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
A well-known developer in the Klang Valley. Its flagship project - Bandar Sunway is a well-established integrated township. The company has successfully transformed a mining land to a matured residential and commercial cluster	Total cash and equivalents	5,889	2,269	1,871	1,317	2,266
	Tangible fixed assets	12,878	13,632	14,267	14,948	13,630
	Intangible assets	331	351	351	351	351
	Total other assets	77	65	246	379	500
	Total assets	23,558	21,119	21,622	22,064	22,433
	Short-term debt	7,417	5,132	5,132	5,132	5,132
	Total long-term debt	2,154	2,374	2,512	2,649	2,447
	Total liabilities	13,384	10,788	11,008	11,196	11,259
	Shareholders' equity	8,392	9,535	9,776	9,990	10,243
	Minority interests	631	797	838	879	931
	Total equity	10,174	10,332	10,614	10,869	11,174
	Total liabilities & equity	23,558	21,119	21,622	22,064	22,433
	Key metrics	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
	Revenue growth (%)	(11.6)	(19.8)	7.5	9.3	15.8
	Recurring net profit growth (%)	17.2	(33.4)	(30.7)	16.0	25.6
	Recurrent EPS growth (%)	16.0	(36.4)	(31.4)	14.8	24.3
	Gross margin (%)	27.6	21.0	19.3	20.8	20.9
	Recurring net profit margin (%)	14.5	12.0	7.8	8.2	8.9
	Dividend payout ratio (%)	64.4	16.7	24.4	42.5	45.6

Source: Company data, RHB

Results At a Glance

Figure 1: Quarterly results

FYE Dec (MYR mil)	1Q20	4Q20	1Q21	QoQ (%)	YoY (%)	Comments
Turnover	971.4	1,278.0	1,016.7	(20.4)	4.7	
Prop dev	139.2	184.3	97.2	(47.3)	(30.2)	QoQ drop in revenue was due to slower progress billings.
Prop invt	134.3	46.1	58.7	27.4	(56.3)	The leisure business benefited from higher numbers of visitors to the theme park, but travel restrictions have nonetheless hit the hospitality business.
Construction	218.0	424.6	321.4	(24.3)	47.4	
Trading & Manufacturing	194.2	245.8	224.5	(8.7)	15.6	
Quarry	74.1	109.8	77.2	(29.6)	4.2	
Healthcare	149.2	178.0	170.6	(4.1)	14.4	Revenue was lower QoQ, as contribution from Sunway Medical Centre was affected by MCO 2.0.
Investment holdings	1.7	1.4	1.1	n.m.	n.m.	
Others	60.7	88.1	66.0	(25.0)	8.9	
EBIT	44.7	46.0	49.1	6.6	9.7	
EBIT Margin (%)	4.6%	3.6%	4.8%			
Prop dev	26.1	42.2	13.1	(68.9)	(49.7)	4Q20 EBIT was boosted by the full recognition of the balance of development profits for one of the Singapore and China property projects, as well as a gain on land disposal of MYR7.7m (Pinnacle Sunway).
Prop invt	29.7	(48.9)	(14.3)	(70.8)	(148.1)	The larger LBIT was mainly due to fair value loss from revaluation of investment properties and impairment of assets which amounted to MYR47.9m and MYR12.3m, but partially offset by gain on disposal of Pinnacle Sunway (MYR16.7m).
Construction	19.8	36.1	26.3	(27.3)	32.8	
Trading & Manufacturing	2.1	12.4	13.0	4.7	505.7	
Quarry	2.3	5.3	2.6	(51.6)	10.9	
Healthcare	(0.9)	25.2	17.1	(32.0)	(1987.3)	
Investment holdings	(34.6)	(21.2)	(13.8)	n.m.	(60.3)	
Others	0.2	14.0	5.0	(63.8)	2002.5	
Exceptional items	0.0	47.2	0.0	n.m.	n.m.	
Finance cost	24.5	44.1	14.5	(67.2)	(40.8)	
Asso & JV	38.6	161.6	23.6	(85.4)	(38.8)	
Other Income	0.0	0.0	0.0	n.m.	n.m.	
Pretax profit	107.8	251.7	87.2	(65.4)	(19.1)	
PBT margin (%)	11.1%	19.7%	8.6%			
Tax	(17.5)	(44.8)	(16.8)	(62.5)	(4.1)	
Tax (%)	16.2%	17.8%	19.3%			
PAT	90.3	207.0	70.4	(66.0)	(22.1)	
MI	(12.0)	(13.9)	(11.9)	(14.2)	(0.7)	
Net profit	78.3	193.1	58.5	(69.7)	(25.3)	
Core net profit	78.3	240.3	58.5	(75.7)	(25.3)	Below expectations.
Net margin (%)	8.1	18.8	0.0			
EPS (sen)	1.4	3.8	1.0			
NTA (RM)	1.73	1.95	1.96			
DPS (sen)	0.0	1.5	0.0			
EBIT margin:						
Prop dev	18.7%	22.9%	22.9%			
Prop invt	22.1%	-106.2%	-106.2%			
Construction	9.1%	8.5%	8.5%			
Trading & Manufacturing	1.1%	5.0%	5.0%			
Quarry	3.1%	4.8%	4.8%			
Healthcare	-0.6%	14.1%	14.1%			
Investment holdings	n.m.	n.m.	n.m.			
Others	0.4%	15.8%	15.8%			

Source: Company data, RHB

27 May 2021

Property | Real Estate

Figure 2: RNAV estimate

Developments	Remaining	Remaining	Effective stake	NPV @ 9%
	Landbank (acre)	GDV (MYR m)		
Selangor/KL				
Sunway Damansara	21.70	2,235.30	60%	230.6
Sunway South Quay	29.90	2,486.70	100%	357.6
Sunway Montez	4.40	38.00	60%	3.0
Sunway Semenyih	526.10	728.59	70%	59.5
Sunway Cheras	2.90	16.82	100%	1.7
Sunway Duta	3.16	120.00	60%	7.5
Sunway Resort City	7.7	660	100%	106.9
Sunway Velocity	2.20	1,983.98	85%	209.9
Sunway Velocity 2	5.50	1,360.00	50%	50.5
New land in Cochrane	6.59	1,150.00	100%	112.9
Sunway Tower KL 1	1.90	240.00	100%	22.2
Sunway Termuning	28.90	277.00	80%	17.3
Sg Long	28.90	277.00	80%	22.0
Mont Putra, Rawang	163.00	156.00	100%	14.4
Kelana Jaya	14.00	1,450.00	100%	118.6
Subang industrial	4.20	52.00	70%	3.9
Sunway Belfield	4.53	1,100.00	100%	90.0
Sunway Kajang	5.28	460.00	60%	25.6
USJ 1	14.80	1,400.00	100%	114.5
Sunway Avila	2.30	270.00	55%	14.9
Sunway ARTESSA, Wangsa Maju	3.69	300.00	55%	13.5
Sunway Damansara Hill, Kota Damansara	9.46	544.00	60%	37.3
Cheras land	3.34	225.00	100%	19.9
Mutiara Bukit Jalil	11.80	800.00	100%	62.9
Dengkil (Emerald Tycoon)	74.50	796.60	100%	48.3
Perak				
Sunway City Ipoh	336.4	928.40	96%	124.8
Penang				
Sunway Hills	80.70	849.00	100%	75.7
Sunway Wellesley, Bukit Mertajam	51.47	710.47	100%	74.8
Paya Terubong	24.90	1,500.00	100%	145.8
Sunway Tunas, Balik Pulau	9.00	60.00	100%	6.3
Sunway Betong, Balik Pulau	19.87	110.00	100%	11.6
S'pore				
Anchorvale Lane, Sengkang (Rivercove EC)	5.19	1,560.00	30%	44.7
Ki Residences (Clementi)	8.56	3,410.00	30%	106.4
Canberra Link, Sembawang	4.46	1,643.00	35%	59.8
Parc Central, Tampines EC	6.16	2,650.50	35%	84.4
Johor				
Bukit Lenang	64.79	698.40	80%	54.3
Medini	632.80	10,616.00	60%	572.3
Pendas	1,079.07	18,000.00	60%	682.9
China				
Tianjin Phase 3	6.85	780.00	60%	39.5
India				
Sunway OPUS Grand India	23.80	702.36	50%	23.9
Sunway MAK Signature Residence (JV with M.A.K Builders)	14.00	181.22	60%	7.7
TOTAL	3,459.45	69,122.22		3,880.84

Investment properties	Est. market value	Book value	Equity	Net surplus
	(MYR m)	(MYR m)	interest	(MYR m)
Monash University Campus	302.8	302.8	100%	0
Monash U Residence	239.0	239.0	100%	0
Sunway Geo Tower	168.0	111.0	100%	57.0
Sunway Hotel Georgetown	60.0	37.6	100%	22.4
Sunway Hotel Phnom Penh	19.0	19.0	53%	0
Sunway Hotel Hanoi	5.0	5.0	100%	0
Sunway Giza	50.0	50.0	60%	0
Sunway Velocity Mall	1,805.0	805.0	59%	590.0
Sunway Citrine Hub	42.0	42.0	60%	0.0
Sunway Geo Avenue	94.0	94.0	100%	0.0
Subtotal				4,550.24
Shareholders' equity (ex cons. & healthcare)				9,812.40
Total				14,362.64
Discount to Property RNAV				40%
Discounted Property RNAV				8,617.58

Other divisions	Market value	Book value	Est. FY21 earnings	PE target	Equity value surplus
	(MYR m)	(MYR m)	(MYR m)	(x)	(MYR m)
40.9% Sunway REIT	2,017.1	1,479.0			538.07
54.4% Sunway Construction	1,427.9	844.1			583.82
Healthcare			65	32	2,080.00
Others			60	15	900.00
Total					12,719.47
ESOS proceeds					151.21
Warrants conversion @ MYR1.56					1,044.44
Total RNAV					13,915.13
Holding company discount					10%
Discounted RNAV					12,523.61
Share base (mil) incl. warrants & ICPS					6,525.86
TP (MYR)					1.92

Source: RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2021-04-19	Buy	1.95	1.64
2021-04-01	Buy	1.94	1.69
2021-03-16	Buy	1.88	1.64
2020-03-23	Buy	1.86	1.41
2019-11-22	Buy	2.00	1.78
2019-09-27	Buy	1.95	1.66
2019-08-28	Buy	1.85	1.59
2019-07-02	Buy	1.86	1.65
2019-04-01	Buy	1.85	1.67
2019-01-24	Buy	1.83	1.54

Source: RHB, Bloomberg

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KUALA LUMPUR

RHB Investment Bank Bhd

Level 3A, Tower One, RHB Centre
Jalan Tun Razak
Kuala Lumpur 50400
Malaysia
Tel : +603 9280 8888
Fax : +603 9200 2216

JAKARTA

PT RHB Sekuritas Indonesia

Revenue Tower, 11th Floor, District 8 - SCBD
Jl. Jendral Sudirman Kav 52-53
Jakarta 12190
Indonesia
Tel : +6221 509 39 888
Fax : +6221 509 39 777

BANGKOK

RHB Securities (Thailand) PCL

10th Floor, Sathorn Square Office Tower
98, North Sathorn Road, Silom
Bangrak, Bangkok 10500
Thailand
Tel: +66 2088 9999
Fax :+66 2088 9799

SINGAPORE

RHB Bank Berhad (Singapore branch)

90 Cecil Street
#04-00 RHB Bank Building
Singapore 069531