

1 April 2021

Property | Real Estate

Sunway (SWB MK)

Buy (Maintained)

Expect Strong Property Sales In 1H21; BUY

Target Price (Return): MYR1.94 (+14%)
 Price: MYR1.70
 Market Cap: USD2,005m
 Avg Daily Turnover (MYR/USD) 3.74m/0.92m

- **BUY, with a higher TP of MYR1.94 from MYR1.88, 14% upside with 2% yield.** Sunway's 4Q20 results are largely in line. FY20 property sales hit MYR1.3bn. We expect property sales in the coming quarters to be strong, largely driven by the successful launches of projects in Singapore, as well as selected local developments. All divisions except for property investment should see a stronger recovery in FY21, while the potential disposal of its minority stake (in the healthcare business) may bring about a further share price catalyst.
- **All divisions recovered QoQ, except for property investment.** Sunway's property development earnings were boosted by the balance of development profits from projects in Singapore and China that amounted to MYR182.5m. Meanwhile, EBIT for the healthcare division also saw a greater sequential improvement, largely due to a narrower operating loss of MYR3.9m from Sunway Medical Centre Velocity (vs MYR11.7m in 4Q19). Its full-year DPS was only 1.5 sen (FY19: 9.1 sen), but Sunway also declared a preferential dividend of 5.25% pa per irredeemable convertible preference shares for the period of 3-31 Dec 2020.
- **Property sales reached MYR1.3bn.** New property sales hit MYR357m in 4Q20, vs MYR270m in 3Q20. Full-year sales of MYR1.3bn exceeded management's target (FY19: MYR1.55bn). The key contributors were Ki Residences in Singapore (MYR637m), as well as Sunway Avila (MYR166m), Velocity TWO (MYR126m) and Serene (MYR99m) in Malaysia.
- **We expect Sunway's property sales to be rather strong in 1H21,** largely driven by the encouraging take-up rates at Parc Central Tampines in Singapore (currently at 70%). Besides this, the new Sunway Belfield project (GDV: MYR320m) launched in Jan 2021 has been well-received with a take-up rate (plus booking) of 80% currently. In the pipeline for rollout are: Sunway ARTESSA condominiums in Wangsa Maju, Sunway Damansara Hill, Sunway Kajang Phase 1 as well as Sunway Gardens Phase 3 in Tianjin, China. While it may be too early to conclude, we think Sunway could surpass its FY21 sales target of MYR1.6bn.
- **Minor adjustments in earnings forecasts.** We expect FY21 earnings to recover across all divisions, except for hospitality (under the property investment arm) due to the impact of COVID-19. Unbilled sales declined to MYR2.4bn, vs MYR3.1bn as at 3Q20, while its outstanding construction orderbook stood at MYR5.1bn, from MYR5.3bn as at 3Q20.
- **New TP.** After updating for the latest financials, our SOP-based TP rises to MYR1.94. 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.

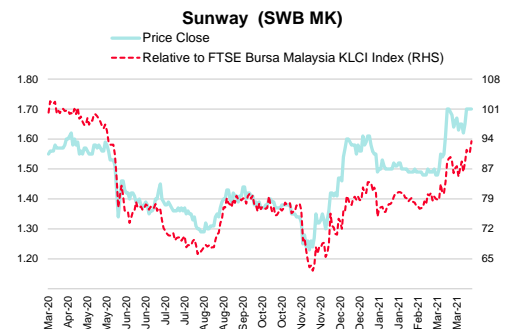
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	5.6	13.3	5.6	24.1	9.7
Relative	8.9	13.6	8.9	19.5	(6.8)
52-wk Price low/high (MYR)	1.23 – 1.70				



Source: Bloomberg

Overall ESG Score: 3.4 (out of 4)

E: Excellent

Sunway City is a Green Building Index (GBI) certified township. The company managed to avoid 40,131 tonnes of CO2e from 2015-2019, and 1% of its electricity is from renewable sources (in 2019). Its main townships also have more than 40% open space, with green spaces and bluescapes.

S: Excellent

Sunway has made donations to aid the underserved communities in the B40 group, people with disabilities, youth, women, children and senior citizens. The Good Run in Oct 2019 managed to raise MYR275k to support medical treatment costs for cancer patients of the B40 group.

G: Excellent

56% of board members are independent. Sunway has an in-house investor relations team that is easily accessible, and holds investor meetings, embodying good transparency and disclosure practices.

Forecasts and Valuation	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
Total turnover (MYRm)	4,780	3,833	5,047	5,490	5,716
Recurring net profit (MYRm)	693	461	493	612	686
Recurring net profit growth (%)	17.2	(33.4)	7.0	23.9	12.1
Recurring EPS (MYR)	0.14	0.09	0.09	0.12	0.13
DPS (MYR)	0.09	0.02	0.03	0.03	0.04
Recurring P/E (x)	12.07	18.97	17.91	14.59	13.15
P/B (x)	1.00	0.92	0.89	0.86	0.83
Dividend Yield (%)	5.3	0.9	1.5	1.8	2.4
Return on average equity (%)	9.1	4.0	5.1	6.0	6.5
Net debt to equity (%)	36.2	50.7	43.2	43.3	39.8

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	0.09	0.12	0.13
Property	EPS	0.16	0.07	0.09	0.12	0.13
Sunway	DPS	0.09	0.02	0.03	0.03	0.04
SWB MK	BVPS	1.71	1.85	1.90	1.97	2.04
Buy	Return on average equity (%)	9.1	4.0	5.1	6.0	6.5
	Return on average assets (%)	3.4	1.6	2.3	2.7	3.0
Valuation basis						
Our TP is based on :	Valuation metrics	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
i. A 40% discount to the property RNAV;	Recurring P/E (x)	12.07	18.97	17.91	14.59	13.15
ii. 15x P/E for the trading/building materials business;	P/B (x)	1.0	0.9	0.9	0.9	0.8
iii. 32x P/E for the healthcare division, and	Dividend Yield (%)	5.3	0.9	1.5	1.8	2.4
iv. A 10% holding company discount applied over the total.	EV/EBITDA (x)	16.06	49.63	24.18	19.95	17.75
Key drivers	Income statement (MYRm)	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
i. New property sales; and	Total turnover	4,780	3,833	5,047	5,490	5,716
ii. Disposal of investment properties	Gross profit	1,318	804	1,126	1,243	1,366
	EBITDA	789	298	593	738	829
	Depreciation and amortisation	(224)	(47)	(140)	(123)	(130)
	Operating profit	565	251	453	615	699
	Net interest	88	28	(15)	(32)	(49)
	Pre-tax profit	914	509	695	849	952
	Taxation	(78)	(102)	(139)	(170)	(190)
	Reported net profit	767	360	493	612	686
	Recurring net profit	693	461	493	612	686
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)	(473)	(149)	(112)
	Cash flow from operations	916	(18)	239	661	753
	Capex	(2,205)	0	0	(603)	(269)
	Cash flow from investing activities	(2,659)	(529)	786	(441)	(54)
	Dividends paid	(494)	(60)	(130)	(157)	(212)
	Cash flow from financing activities	(563)	(1,380)	(227)	(254)	(307)
	Cash at beginning of period	5,134	5,889	2,269	2,755	2,618
	Net change in cash	(2,306)	(1,926)	798	(33)	391
	Ending balance cash	2,829	3,963	3,067	2,721	3,009
Company Profile	Balance sheet (MYRm)	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
Sunway is a well-known developer in the Klang Valley. Its flagship project, Bandar Sunway, is a well-established integrated township. The company has successfully transformed mining land into a matured residential and commercial cluster	Total cash and equivalents	5,889	2,269	2,755	2,618	2,839
	Tangible fixed assets	12,878	13,632	12,811	13,291	13,430
	Intangible assets	331	351	351	351	351
	Total other assets	77	65	246	379	500
	Total assets	23,558	21,119	22,091	22,764	23,332
	Short-term debt	7,417	5,132	5,132	5,132	5,132
	Total long-term debt	2,154	2,374	2,265	2,369	2,413
	Total liabilities	13,384	10,788	11,333	11,484	11,502
	Shareholders' equity	8,392	9,535	9,898	10,352	10,826
	Minority interests	631	797	860	928	1,004
	Total equity	10,174	10,332	10,758	11,280	11,830
	Total liabilities & equity	23,558	21,119	22,091	22,764	23,332
	Key metrics	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
	Revenue growth (%)	(11.6)	(19.8)	31.7	8.8	4.1
	Recurring net profit growth (%)	17.2	(33.4)	7.0	23.9	12.1
	Recurrent EPS growth (%)	16.0	(36.4)	5.9	22.7	11.0
	Gross margin (%)	27.6	21.0	22.3	22.6	23.9
	Recurring net profit margin (%)	14.5	12.0	9.8	11.1	12.0
	Dividend payout ratio (%)	64.4	16.7	26.3	25.8	30.9

Source: Company data, RHB

Results At A Glance

Figure 1: Quarterly results

FYE Dec (MYR mil)	4Q19	3Q20	4Q20	QoQ (%)	YoY (%)	FY19	FY20	YoY (%)	Comments
Turnover	1,353.2	1,027.2	1,278.0	24.4	(5.6)	4,780.4	3,833.3	(19.8)	
Prop dev	218.2	103.4	184.3	78.2	(15.5)	545.9	495.0	(9.3)	Revenue was higher QoQ due to higher sales and progress billings from local projects.
Prop invt	220.9	98.1	46.1	(53.1)	(79.2)	803.5	334.0	(58.4)	The QoQ decline was due to the resurgence of COVID-19 cases, and hence theme parks were only operational for 25 days in 4Q20 compared to a full 3 months in 3Q20.
Construction	318.0	255.0	424.6	66.5	33.5	1,273.3	990.2	(22.2)	
Trading & Manufacturing	232.2	231.0	245.8	6.4	5.9	959.8	812.1	(15.4)	
Quarry	136.4	105.6	109.8	4.0	(19.5)	348.1	321.4	(7.7)	
Healthcare	162.9	168.0	178.0	6.0	9.3	584.8	620.3	6.1	Revenue was higher QoQ due to higher number of outpatient treatments at Sunway Medical Centre and Sunway Medical Centre Velocity.
Investment holdings	2.6	0.8	1.4	n.m.	n.m.	5.2	4.7	(10.0)	
Others	61.9	65.3	88.1	35.0	42.4	260.0	255.6	(1.7)	
EBIT	106.0	135.1	46.0	(65.9)	(56.6)	565.2	231.8	(59.0)	
EBIT Margin (%)	7.8%	13.2%	3.6%			11.8%	6.0%		
Prop dev	77.7	2.7	42.2	1465.3	(45.7)	163.3	84.7	(48.1)	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	67.2	56.7	(48.9)	(186.4)	(172.8)	239.3	27.4	(88.5)	The 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	28.1	33.9	36.1	6.7	28.7	144.5	93.9	(35.0)	The lower margin was due to higher provision made for one of its trade debtors in 4Q20.
Trading & Manufacturing	7.0	8.8	12.4	41.4	76.0	41.1	31.1	(24.3)	
Quarry	6.4	6.1	5.3	(13.0)	(17.4)	12.6	10.7	(15.5)	
Healthcare	13.8	19.5	25.2	28.9	82.2	59.2	31.7	(46.5)	The higher EBIT was due to lower operating loss of MYR3.9m for Sunway Medical Centre Velocity as compared to the loss of MYR11.7m in 4Q19.
Investment holdings	(55.8)	1.8	(21.2)	n.m.	(61.9)	(73.4)	(51.3)	(30.1)	
Others	(38.5)	5.7	14.0	145.8	(136.2)	(21.4)	22.6	(205.5)	
Exceptional items	(30.3)	0.0	47.2	n.m.	n.m.	(73.9)	63.7	(186.2)	
Finance cost	65.1	5.8	44.1	656.3	(32.3)	87.8	79.2	(9.9)	
Asso & JV	89.3	30.4	161.6	431.4	80.9	261.2	230.0	(12.0)	
Other Income	0.0	0.0	0.0	n.m.	n.m.	0.0	0.0	0.0	
Pretax profit	260.4	171.3	251.7	46.9	(3.3)	914.2	541.0	(40.8)	
PBT margin (%)	19.2%	16.7%	19.7%			19.1%	14.1%		
Tax	(41.3)	(25.0)	(44.8)	78.9	8.3	(78.3)	(102.0)	30.2	
Tax (%)	15.9%	14.6%	17.8%			8.6%	18.9%		
PAT	219.1	146.3	207.0	41.4	(5.5)	835.9	439.0	(47.5)	
MI	(18.8)	(13.5)	(13.9)	2.9	(26.0)	(69.3)	(41.5)	(40.1)	
Net profit	200.3	132.8	193.1	45.4	(3.6)	766.6	397.5	(48.2)	
Core net profit	170.0	132.8	240.3	80.9	41.3	692.7	461.2	(33.4)	Within expectations.
Net margin (%)	12.6	12.9	18.8						
EPS (sen)	3.8	2.5	3.8			14.6	14.6		
NTA (RM)	1.70	1.71	1.95			1.70	1.70		
DPS (sen)	4.5	0.0	1.5			9.1	9.1		
EBIT margin:									
Prop dev	35.6%	2.6%	22.9%			29.9%	29.9%		
Prop invt	30.4%	57.8%	-106.2%			29.8%	29.8%		
Construction	8.8%	13.3%	8.5%			11.3%	11.3%		
Trading & Manufacturing	3.0%	3.8%	5.0%			4.3%	4.3%		
Quarry	4.7%	5.8%	4.8%			3.6%	3.6%		
Healthcare	8.5%	11.6%	14.1%			10.1%	10.1%		
Investment holdings	n.m.	n.m.	n.m.			n.m.	n.m.		
Others	-62.2%	8.7%	15.8%			-8.2%	-8.2%		

Source: Company data, RHB

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 Monterez	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
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	3,452.86	67,972.22		3,767.89

Investment properties	Est. market value (MYR m)	Book value (MYR m)	Equity interest	Net surplus (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				4,437.29
Shareholders' equity (ex cons. & healthcare)				9,812.40
Total				14,249.69
Discount to Property RNAV				40%
Discounted Property RNAV				8,549.81

Other divisions	Market value (MYR m)	Book value (MYR m)	Est. FY21 earnings (MYR m)	PE target (x)	Equity value surplus (MYR m)
40.9% Sunway REIT	2,129.1	1,479.0			650.13
54.4% Sunway Construction	1,533.4	844.1			689.32
Healthcare			65	32	2,080.00
Others			60	15	900.00
Total					12,869.27
ESOS proceeds					151.21
Warrants conversion @ MYR1.56					1,044.44
Total RNAV					14,064.93
Holding company discount					10%
Discounted RNAV					12,658.43
Share base (mil) incl. warrants & ICPS					6,525.86
TP (MYR)					1.94

Source: RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
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
2018-11-22	Buy	1.82	1.45

Source: RHB, Bloomberg

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Buy:	Share price may exceed 10% over the next 12 months
Trading Buy:	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
Neutral:	Share price may fall within the range of +/- 10% over the next 12 months
Take Profit:	Target price has been attained. Look to accumulate at lower levels
Sell:	Share price may fall by more than 10% over the next 12 months
Not Rated:	Stock is not within regular research coverage

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