

25 August 2021

Property | Real Estate

## Sunway (SWB MK)

**Buy** (Maintained)

### Strong Property Sales In 1H21; BUY

Target Price (Return): MYR2.00 (11.1%)  
 Price: MYR1.80  
 Market Cap: USD2,087m  
 Avg Daily Turnover (MYR/USD) 5.78m/1.39m

- BUY, with new MYR2.00 TP from MYR2.02, 11% upside, c.1% yield.** Sunway's 1Q21 results missed expectations, mainly due to the impact of the lockdown in June. 1H property sales stood at MYR1.64bn, and in view of the launches in the pipeline, the company should be able to meet its new MYR2.2bn sales target. While earnings growth will see some hiccups due to the pandemic, we like Sunway's strategic business and geographical diversification, as its Singapore projects are seeing strong demand, while the healthcare segment provides earnings resilience.
- 2Q21 results.** The quarter's revenue and earnings saw the impact of the nationwide lockdown and weak market sentiment arising from the sharp increase in daily COVID-19 infections. Property investment, construction, trading & manufacturing, and quarry were amongst segments that experienced sequential declines in earnings. The healthcare division recovered strongly QoQ, on higher admission and outpatient treatments at Sunway Medical Centre. Meanwhile, operating losses at Sunway Medical Centre Velocity remained relatively unchanged at MYR4.3m. A 1 sen first interim dividend was declared.
- Strong 1H21 property sales.** New property sales stood at MYR480m in 2Q21, vs 1Q21's MYR1.16bn. Of 1H's total sales of MYR1.64bn, MYR994m was from Parc Central Tampines and Ki Residences in Singapore. Both projects are now 85% and 58% sold. Locally, Sunway Belfield continued to see strong demand, contributing MYR333m in sales. Its take-up rate has reached 87% for Tower One and 65% for Tower Two.
- New sales target at MYR2.2bn.** Management revised upwards its sales target to MYR2.2bn (from MYR1.6bn) last month, given the strong sales momentum seen in 1H. Despite the pandemic, management is committed to launch other projects in the pipeline, including Sunway ARTESSA (GDV: MYR320m), and Velocity TWO Tower D (GDV: MYR390m). The soft launch of Sunway D'Hills in Kota Damansara also started in July.
- Expect 3Q earnings to be weaker.** Due to the full lockdown in Jun-Aug 2021, we expect 3Q earnings to be much weaker QoQ. While the property development segment will see slow billings due to the temporary halt in construction works, the property investment and quarry segments will likely incur bigger losses. We maintain our earnings forecasts, as we had already cut our numbers earlier. Unbilled sales increased to MYR3.6bn from MYR3.3bn as at 1Q21, while its outstanding construction orderbook declined slightly to MYR4.8bn from MYR5.0bn as at 4Q20.
- Lower TP.** As we impute our latest TP for Sunway Construction (SCGB MK, BUY, TP: MYR1.88), our SOP-based TP falls slightly to MYR2.00.

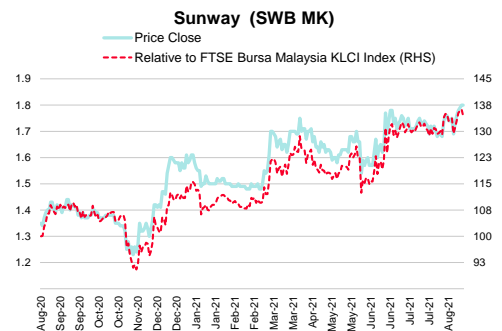
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#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	11.8	4.7	5.9	20.8	33.3
Relative	16.3	2.7	7.1	21.1	34.3
52-wk Price low/high (MYR)				1.23 – 1.80	



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 carbon dioxide equivalent (CO<sub>2</sub>e) 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 bluespaces.

##### S: Excellent

Sunway has made donations to aid 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 from the B40 group.

##### G: Excellent

56% of its 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	4,119	3,811	4,438
Recurring net profit (MYRm)	693	461	320	374	470
Recurring net profit growth (%)	17.2	(33.4)	(30.7)	17.1	25.5
Recurring EPS (MYR)	0.14	0.09	0.06	0.07	0.09
DPS (MYR)	0.10	0.01	0.02	0.02	0.03
Recurring P/E (x)	12.78	20.08	29.26	25.25	20.32
P/B (x)	1.05	0.97	0.96	0.94	0.92
Dividend Yield (%)	5.6	0.6	0.8	1.1	1.4
Return on average equity (%)	9.1	4.0	3.3	3.8	4.6
Net debt to equity (%)	36.2	50.7	54.4	53.7	52.0

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
<b>Sunway</b>	DPS	0.10	0.01	0.02	0.02	0.03
SWB MK	BVPS	1.71	1.85	1.88	1.91	1.96
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
<b>Valuation basis</b>	<b>Valuation metrics</b>	<b>Dec-19</b>	<b>Dec-20</b>	<b>Dec-21F</b>	<b>Dec-22F</b>	<b>Dec-23F</b>
40% discount to property RNAV, 15x P/E for trading/building material division, 18.5x EV/EBITDA for healthcare division, and 10% holding co discount.	Recurring P/E (x)	12.78	20.08	29.26	25.25	20.32
	P/B (x)	1.1	1.0	1.0	0.9	0.9
	Dividend Yield (%)	5.6	0.6	0.8	1.1	1.4
	EV/EBITDA (x)	16.69	51.35	53.95	49.88	37.36
<b>Key drivers</b>	<b>Income statement (MYRm)</b>	<b>Dec-19</b>	<b>Dec-20</b>	<b>Dec-21F</b>	<b>Dec-22F</b>	<b>Dec-23F</b>
i. New property sales;	Total turnover	4,780	3,833	4,119	3,811	4,438
ii. Disposal of investment properties.	Gross profit	1,318	804	796	752	908
	EBITDA	789	298	296	325	438
	Depreciation and amortisation	(224)	(47)	(108)	(116)	(120)
	Operating profit	565	251	188	209	318
	Net interest	88	28	5	(15)	(32)
	Pre-tax profit	914	509	450	520	652
	Taxation	(78)	(102)	(90)	(104)	(130)
	Reported net profit	767	360	320	374	470
	Recurring net profit	693	461	320	374	470
<b>Key risks</b>	<b>Cash flow (MYRm)</b>	<b>Dec-19</b>	<b>Dec-20</b>	<b>Dec-21F</b>	<b>Dec-22F</b>	<b>Dec-23F</b>
i. Weaker-than-expected market conditions.	Change in working capital	(153)	(514)	(3)	209	(309)
	Cash flow from operations	916	(18)	481	688	241
	Capex	(2,205)	0	(743)	(600)	(85)
	Cash flow from investing activities	(2,659)	(529)	(637)	(437)	129
	Dividends paid	(494)	(60)	(78)	(105)	(133)
	Cash flow from financing activities	(563)	(1,380)	(175)	(201)	(228)
	Cash at beginning of period	5,134	5,889	2,269	1,871	1,877
	Net change in cash	(2,306)	(1,926)	(332)	50	143
	Ending balance cash	2,829	3,963	1,937	1,921	2,020
<b>Company Profile</b>	<b>Balance sheet (MYRm)</b>	<b>Dec-19</b>	<b>Dec-20</b>	<b>Dec-21F</b>	<b>Dec-22F</b>	<b>Dec-23F</b>
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	1,877	1,885
	Tangible fixed assets	12,878	13,632	14,267	14,751	14,717
	Intangible assets	331	351	351	351	351
	Total other assets	77	65	246	379	500
	Total assets	23,558	21,119	21,622	21,690	22,334
	Short-term debt	7,417	5,132	5,132	5,132	5,132
	Total long-term debt	2,154	2,374	2,512	2,616	2,631
	Total liabilities	13,384	10,788	11,008	10,765	11,019
	Shareholders' equity	8,392	9,535	9,776	10,046	10,383
	Minority interests	631	797	838	879	931
	Total equity	10,174	10,332	10,614	10,925	11,314
	Total liabilities & equity	23,558	21,119	21,622	21,690	22,334
	<b>Key metrics</b>	<b>Dec-19</b>	<b>Dec-20</b>	<b>Dec-21F</b>	<b>Dec-22F</b>	<b>Dec-23F</b>
	Revenue growth (%)	(11.6)	(19.8)	7.5	(7.5)	16.5
	Recurring net profit growth (%)	17.2	(33.4)	(30.7)	17.1	25.5
	Recurrent EPS growth (%)	16.0	(36.4)	(31.4)	15.9	24.2
	Gross margin (%)	27.6	21.0	19.3	19.7	20.5
	Recurring net profit margin (%)	14.5	12.0	7.8	9.8	10.6
	Dividend payout ratio (%)	64.4	16.7	24.4	28.1	28.2

Source: Company data, RHB

25 August 2021

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Figure 1: Quarterly results

FYE Dec (MYRm)	2Q20	1Q21	2Q21	QoQ (%)	YoY (%)	1H20	1H21	YoY (%)	Comments
<b>Turnover</b>	<b>556.6</b>	<b>1,016.7</b>	<b>967.9</b>	<b>(4.8)</b>	<b>1320.5</b>	<b>1,528.1</b>	<b>1,984.7</b>	<b>29.9</b>	
Property development	68.1	97.2	147.4	51.7	116.3	207.3	244.5	17.9	Higher revenue was mainly driven by higher sales and progress billings from local projects
Property investment	55.5	58.7	62.3	6.2	12.3	189.8	121.0	(36.3)	The slightly better revenue was mainly due to improved occupancy rates for the hotels.
Construction	92.6	321.4	218.1	(32.2)	135.6	310.6	539.4	73.7	
Trading & Manufacturing	141.1	224.5	198.9	(11.4)	40.9	335.3	423.4	26.3	
Quarry	31.9	77.2	70.5	(8.8)	121.0	106.0	147.7	39.3	
Healthcare	125.1	170.6	200.6	17.6	60.3	274.3	371.2	35.3	The higher revenue was mainly driven by higher admission and outpatient treatments at Sunway Medical Centre.
Investment holdings	0.7	1.1	1.2	n.m.	n.m.	2.5	2.3	(6.8)	
Others	41.5	66.0	69.0	4.4	66.0	102.2	135.0	32.1	
<b>EBIT</b>	<b>6.0</b>	<b>49.1</b>	<b>36.5</b>	<b>(25.6)</b>	<b>338940.9</b>	<b>50.7</b>	<b>85.5</b>	<b>68.7</b>	
<i>EBIT Margin (%)</i>	<i>1.1%</i>	<i>4.8%</i>	<i>3.8%</i>			<i>3.3%</i>	<i>4.3%</i>		
Property development	13.7	13.1	15.6	18.7	13.3	39.8	28.7	(27.9)	EBIT margin was stronger last year due to the completion and handover of some local projects.
Property investment	(10.0)	(14.3)	(9.3)	(35.0)	(7.1)	19.7	(23.6)	(219.7)	The larger LBIT in 4QFY20 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	4.1	26.3	5.7	(78.4)	38.1	23.9	32.0	33.7	
Trading & Manufacturing	7.8	13.0	10.8	(17.1)	37.8	9.9	23.7	138.5	
Quarry	(3.1)	2.6	(0.1)	(104.2)	(96.5)	(0.7)	2.5	(435.2)	
Healthcare	(12.1)	17.1	30.0	75.0	(346.6)	(13.1)	47.1	(460.6)	
Investment holdings	2.8	(13.8)	(19.4)	n.m.	(794.2)	(31.8)	(33.1)	4.1	
Others	2.7	5.0	3.3	(34.6)	20.4	3.0	8.3	180.1	
Exceptional items	16.5	0.0	0.0	n.m.	n.m.	16.5	0.0	(100.0)	
Finance cost	4.8	14.5	(25.7)	(277.5)	(640.8)	29.2	(11.2)	(138.4)	
Associate & JV	(0.6)	23.6	22.6	(4.4)	(3604.2)	38.0	46.2	21.7	
Other Income	0.0	0.0	0.0	n.m.	n.m.	0.0	0.0	0.0	
Pre-tax profit	10.1	87.2	79.0	(9.4)	682.2	117.9	166.2	40.9	
<i>PBT margin (%)</i>	<i>1.8%</i>	<i>8.6%</i>	<i>8.2%</i>			<i>7.7%</i>	<i>8.4%</i>		
Tax	(14.7)	(16.8)	(7.9)	(53.2)	(46.4)	(32.2)	(24.7)	(23.4)	
<i>Tax (%)</i>	<i>145.5%</i>	<i>19.3%</i>	<i>10.0%</i>			<i>27.3%</i>	<i>14.8%</i>		
PAT	(4.6)	70.4	71.1	1.0	(1648.7)	85.7	141.5	65.1	
MI	(2.1)	(11.9)	(0.6)	(95.0)	(72.0)	(14.1)	(12.5)	(11.4)	
<b>Net profit</b>	<b>(6.7)</b>	<b>58.5</b>	<b>70.5</b>	<b>20.7</b>	<b>620.6</b>	<b>71.6</b>	<b>129.0</b>	<b>80.2</b>	
<b>Core net profit</b>	<b>9.8</b>	<b>58.5</b>	<b>70.5</b>	<b>20.7</b>	<b>3910.9</b>	<b>88.1</b>	<b>129.0</b>	<b>46.4</b>	Below expectations.
<i>Net margin (%)</i>	<i>1.8</i>	<i>5.7</i>	<i>7.3</i>						
EPS (sen)	-0.3	1.0	1.2			1.0	1.0		
NTA (RM)	1.68	1.96	1.64			1.68	1.68		
DPS (sen)	0.0	0.0	1.0			0.0	0.0		
EBIT margin:									
Prop dev	20.2%	13.5%	10.6%			19.2%	19.2%		
Prop invt	-	-	-			10.4%	10.4%		
Construction	18.0%	24.4%	14.9%			7.7%	7.7%		
Trading & Manufacturing	4.5%	8.2%	2.6%			3.0%	3.0%		
Quarry	5.5%	5.8%	5.4%			3.0%	3.0%		
Healthcare	-9.6%	3.3%	-0.2%			-0.7%	-0.7%		
Investment holdings	-9.7%	10.0%	14.9%			-4.8%	-4.8%		
Others	n.m.	n.m.	n.m.			n.m.	n.m.		
Others	6.6%	7.6%	4.8%			2.9%	2.9%		

Source: Company data, RHB

Figure 2: RNAV estimate

Developments	Remaining		Effective stake	NPV @ 9%	
	Landbank (acre)	GDV (MYR m)			
<b>Selangor/KL</b>					
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	
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	
<b>Perak</b>					
Sunway City Ipoh	336.4	928.40	96%	124.8	
<b>Penang</b>					
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	
<b>S'pore</b>					
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	
<b>Johor</b>					
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	
<b>China</b>					
Tianjin Phase 3	6.85	780.00	60%	39.5	
<b>India</b>					
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	
<b>TOTAL</b>	<b>3,459.45</b>	<b>69,122.22</b>		<b>3,880.84</b>	
<b>Investment properties</b>					
	<b>Est. market value (MYR m)</b>	<b>Book value (MYR m)</b>	<b>Equity interest</b>	<b>Net surplus (MYR m)</b>	
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	
<b>Other divisions</b>					
	<b>Market value (MYR m)</b>	<b>Book value (MYR m)</b>	<b>Est. FY22 earnings (MYR m)</b>	<b>PE target (x)</b>	<b>Equity value surplus (MYR m)</b>
40.9% Sunway REIT	2,017.1	1,479.0			538.07
54.4% Sunway Construction	1,273.1	844.1			429.07
Others			60	15	900.00
84% Sunway Healthcare			182.9	18.5	2,841.60
Total					13,326.33
ESOS proceeds					151.21
Warrants conversion @ MYR1.56					1,044.44
Total RNAV					14,521.98
Holding company discount					10%
Discounted RNAV					13,069.78
Share base (mil) incl. warrants & ICPS					6,525.86
TP (MYR)					2.00

Source: RHB

## Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2021-07-13	Buy	2.02	1.71
2021-06-24	Buy	2.09	1.73
2021-05-26	Buy	1.92	1.66
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
2019-05-23	Buy	1.85	1.66

Source: RHB, Bloomberg

## RHB Guide to Investment Ratings

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

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