

Sunway Bhd

On Track for Strong Recovery

TP: RM2.34 (+39.2%)

Last Traded: RM1.68

BUY (ESG: ★★★★★)

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Review

- Sunway's 9M21 net profit of RM210.1mn accounted for 73% and 72% of our and consensus' full-year forecasts, respectively. We deem the results to be above expectations, as we anticipate the solid 3Q results to sustain into 4Q, as most economic activities have resumed. That said, the outperformance was mostly attributed to the stronger-than-expected contribution from the property development and healthcare segments.
- Sunway's 9M21 net profit surged 69% YoY to RM210.1mn, mainly due to low base effects, which saw higher profit contributions from most business segments, except property investment, construction and quarry segments.
- The group's hospitality and leisure businesses, which are categorised under the property investment segment, continued to be affected by the various phases of MCO. During the period under review, the property investment segment slipped into the red with a loss before tax of RM45.2mn, compared with a PBT of RM25.2mn in 9M20.
- Sequentially, Sunway's 3Q21 net profit grew 15% QoQ to RM81.1mn driven by a 10% growth in revenue. The stronger sequential performance was driven by 1) the completion of a local development project, 2) improved contribution contributions from Sunway REITs, and 3) improved margin from local rail infrastructure projects.
- Sunway secured RM539mn sales in 3Q21 (+13% QoQ, +101% YoY), bringing the 9M21 sales to RM2.17bn (+131% YoY). The stellar sales performance was driven by decent booking rate for new launches such as Sunway Belfield, KL, and Parc Central Residences, Singapore, which recorded booking rates of 90% and 98%, respectively.

Impact

- We raise our FY21/22/23 sales assumptions to RM2.6bn/RM2.1bn/RM2.2bn, up from RM2.2bn/RM1.8bn/RM2.0bn previously. We adjust our progress billings and margin assumptions to factor in the stronger-than-expected contribution from the property development segment. Additionally, we also increase the contribution from healthcare segments to reflect a more robust recovery in hospital activity than anticipated. As a result, our FY21-23 earnings are raised by 7-8%.

Outlook

- We believe Sunway is set to exceed our FY21 sales assumptions and management's sales target of RM2.2bn (maintained), supported by 1) 9M21 sales of RM2.17bn (99% of target) and 2) RM1.2bn worth of new launches in 4Q – see **Figure 1**.
- The group's unbilled sales of RM3.8bn and outstanding construction order book of RM2.2bn (external jobs only) should provide earnings visibility for the next 2-3 years.

Share Information

Bloomberg Code	SWB MK
Stock Code	5211
Listing	Main Market
Share Cap (mn)	4,888.9
Market Cap (RMmn)	8,213.6
52-wk Hi/Lo (RM)	1.82/1.30
12-mth Avg Daily Vol ('000 shrs)	2,547.9
Estimated Free Float (%)	25.7
Beta	0.6
Major Shareholders (%)	
	Sungei Way Corp (56.9)
	EPF (8.4)

Forecast Revision

	FY21	FY22
Forecast Revision (%)	6.7	7.2
Net profit (RMmn)	305.4	512.8
Consensus	291.8	471.1
TA's / Consensus (%)	104.6	108.9
Previous Rating	Buy (Maintained)	

Financial Indicators

	FY21	FY22
Net gearing (%)	45.7	39.5
CFPS (sen)	16.9	11.3
P/CFPS (x)	9.9	14.9
ROE (%)	3.2	5.2
ROA (%)	1.5	2.4
NTA/Share (RM)	1.9	2.0
Price/NTA (x)	0.9	0.9

Scorecard

	% of FY	
vs TA	73.0	Above
vs Consensus	72.0	Above

Share Performance (%)

Price Change	SWB	FBM KLCI
1 mth	(6.7)	(4.4)
3 mth	(5.1)	(3.3)
6 mth	1.2	(3.8)
12 mth	29.2	(5.0)

(12-Mth) Share Price relative to the FBMKLCI



Source: Bloomberg

- YTD the group has acquired 2 parcels of land in Kuala Lumpur with a total GDV of RM1.4bn. Over in Singapore, the group has also entered into 2 land deals which would potentially generate a total GDV of SGD2.75bn (effective GDV: SGD825mn for a 30% stake in the JV). This reflects the group's confidence in the recovery of the property market in the coming years.

Figure 1: 2021 Launches

Development	Location	Type	GDV (RM mn)	Launch date and take up
Sunway Belfield Tower A	Jalan Belfield, KL	Service Apartments	330	Launched in Jan - 21, 93% take up
Sunway Belfield Tower B			360	Launched in Mar-21, 87% take up
Sunway ARTESSA	Wangsa Maju, KL	Condominium	320	Preview in Nov
Sunway D' Hills	Kota Damansara, KL	Service Residences & Retail	230	Preview in Nov
Sunway Velocity Two (Tower D)	Jalan Peel, KL	Service Apartments	390	Target launch in Dec
Parc Central Residences	Tampines, Singapore	Executive Condominium	940	Launched in Jan-21, 98% take up
Sunway Gardens Phase 3	Tianjin, China	Condominium	230	Target launch in Dec
Total Launches in 2021			2,800	

Valuation

- Post earnings revision, we raise Sunway TP's to RM2.34, based on SOP valuation - see **Figure 2**. Reiterate BUY.

Figure 2: SOP Valuation Table

	Stake	Value (RM mn)	RM/Share	Valuation Methodology
Property Dev & Inv	100.0%	3,908.7	0.79	16x CY22 Earnings
SunCon	54.6%	1,157.7	0.23	TP of RM1.64
Sunway REIT	40.9%	2,255.2	0.45	TP of RM1.61
Healthcare	84.0%	3,937.5	0.79	Pegged to Effective Equity Value Based on GIC's Offer
Trading & Manufacturing	100.0%	247.3	0.05	10x CY22 Earnings
Quarry	100.0%	97.0	0.02	10x CY22 Earnings
Total		11,603.4	2.34	

Source: TA Research

Earnings Summary (RM mn)

YE Dec 31 (RM'mn)	2019	2020	2021F	2022F	2023F
Revenue	4,780.3	3,833.3	4,129.3	5,271.7	5,766.6
EBITDA	805.9	474.7	540.3	749.6	841.0
EBITDA margin (%)	16.9	12.4	13.1	14.2	14.6
Pretax profit	793.3	514.0	437.1	696.6	794.3
Net profit	709.2	359.6	305.4	512.8	555.5
Net profit -adj	637.2	364.3	305.4	512.8	555.5
EPS (sen)	14.6	7.3	6.2	10.3	11.2
EPS - adj (sen)	13.1	7.3	6.2	10.3	11.2
EPS Growth (Core) (%)	13.4	(43.9)	(16.2)	67.9	8.3
PER (x)	12.9	22.9	27.3	16.3	15.0
GDPS (sen)	9.1	1.5	2.0	3.0	3.5
Div Yield (%)	5.4	0.9	1.2	1.8	2.1
ROE (%)	7.8	4.1	3.2	5.2	5.4

3Q21 Results Analysis (RM mn)

YE 31 Dec (RM'mn)	3Q20 [^]	2Q21	3Q21	QoQ (%)	YoY (%)	9MFY20 [^]	9MFY21	YoY(%)	
Revenue	1,027.2	967.9	1,065.0	10.0	3.7	2,555.3	3,049.68	19.3	
Property Development	103.4	147.4	197.1	33.7	90.5	310.8	441.6	42.1	
Property Investment	98.1	62.3	58.0	(7.0)	(40.9)	287.9	179.0	(37.8)	
Construction	255.0	218.1	192.7	(11.6)	(24.5)	565.6	732.1	29.4	
Trading & Manufacturing	231.0	198.9	186.4	(6.3)	(19.3)	566.3	609.9	7.7	
Quarry	105.6	70.5	84.3	19.7	(20.1)	211.6	232.0	9.6	
Healthcare	168.0	200.6	208.1	3.7	23.9	442.3	579.3	31.0	
Others	66.1	70.2	138.4	97.3	109.3	170.8	275.7	61.4	
EBIT	135.1	36.5	83.3	128.4	(38.3)	212.5	168.9	(20.5)	
Gain on derivative	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Finance income	34.2	45.6	43.7	(4.0)	28.0	118.4	128.1	8.2	
Finance costs	(38.5)	(25.7)	(34.0)	32.2	(11.9)	(148.1)	(84.0)	(43.3)	
Associates	16.7	15.9	27.8	74.7	66.2	47.8	60.1	25.8	
JV	13.7	6.7	(1.0)	(115.4)	(107.5)	18.4	12.9	(30.0)	
EI	50.5	0.0	0.0	0.0	nm	34.0	0.0	nm	
PBT	161.2	79.0	113.8	44.1	(29.4)	248.9	280.0	12.5	
Core PBT	110.7	79.0	113.8	44.1	2.9	214.9	280.0	30.3	
Property Development	25.0	22.9	44.6	95.2	78.8	90.0	88.2	(2.0)	
Property Investment	12.5	(16.0)	(12.3)	(23.3)	>100	25.2	(45.2)	>-100	
Construction	37.0	8.6	21.4	147.5	(42.3)	66.1	57.7	(12.8)	
Trading & Manufacturing	7.4	10.0	6.7	(33.1)	(9.5)	14.0	28.8	105.8	
Quarry	7.9	(0.5)	2.5	>100	(68.5)	9.5	5.0	(47.5)	
Healthcare	15.5	27.5	29.5	7.2	89.9	(4.9)	71.0	>100	
Others	15.7	26.6	21.5	(19.0)	37.6	55.3	74.5	34.7	
Tax	(25.0)	(7.9)	(18.7)	137.5	(25.3)	(57.3)	(43.4)	(24.3)	
MI	(15.3)	(0.6)	(14.1)	>100	(8.3)	(33.6)	(26.6)	(21.0)	
Net profit	120.8	70.5	81.1	15.0	(32.9)	158.0	210.1	33.0	
Core net profit	70.3	70.5	81.1	15.0	15.4	124.0	210.1	69.4	
Reported EPS	(sen)	2.5	1.2	1.4	15.0	(43.9)	3.2	3.6	11.5
Adj EPS	(sen)	1.4	1.2	1.4	15.0	(3.6)	2.6	3.6	37.7
DPS	(sen)	0.0	1.0	0.0	nm	0.0	1.0	>100	
EBIT margin	(%)	13.2	3.8	7.8	4.1	(5.3)	8.3	5.5	(2.8)
PBT margin	(%)	10.8	8.2	10.7	2.5	(0.1)	8.4	9.2	0.8
Property Development	(%)	24.1	15.5	22.6	7.1	(1.5)	29.0	20.0	(9.0)
Property Investment	(%)	12.8	(25.7)	(21.2)	4.5	(33.9)	8.8	(25.2)	(34.0)
Construction	(%)	14.5	4.0	11.1	7.1	(3.4)	11.7	7.9	(3.8)
Trading & Manufacturing	(%)	3.2	5.0	3.6	(1.4)	0.4	2.5	4.7	2.3
Quarry	(%)	7.4	(0.8)	2.9	3.7	(4.5)	4.5	2.1	(2.3)
Healthcare	(%)	9.2	13.7	14.2	0.5	4.9	(1.1)	12.2	13.4
Others	(%)	23.7	37.9	15.6	(22.4)	(8.1)	32.4	27.0	(5.4)
Net margin	(%)	6.8	7.3	7.6	0.3	0.8	4.9	6.9	2.0
Effective tax rate	(%)	22.6	10.0	16.4	6.5	(6.2)	26.7	15.5	(11.2)

[^]Restated

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Stock Recommendation Guideline

- BUY** : Total return within the next 12 months exceeds required rate of return by 5%-point.
HOLD : Total return within the next 12 months exceeds required rate of return by between 0-5%-point.
SELL : Total return is lower than the required rate of return.
Not Rated: The company is not under coverage. The report is for information only.

Total Return is defined as expected share price appreciation plus gross dividend over the next 12 months. Gross dividend is excluded from total return if dividend discount model valuation is used to avoid double counting.

Required Rate of Return of 7% is defined as the yield for one-year Malaysian government treasury plus assumed equity risk premium.

ESG Scoring & Guideline

	Environmental	Social	Governance	Average
Scoring	★★★★★	★★★★★	★★★★★	★★★★★
Remark	The group implements a comprehensive programme aiming to reduce to GHG emission, water & waste with relevant targets and deadlines. It implemented a Zero Single Plastic Use Policy in its property division's assets, venues, and events	The group provides a conducive work environment. Promoting diversity and equal opportunity, 58% of its non-executive workforce are women. The company has strict regulations concerning health and safety, collaborating with suppliers and subcontractors to enforce them.	Sunway upholds high standards of corporate governance and transparency to safeguard shareholders' interests. It has an in-house investor relations team that is easily contactable.	

- ★★★★★ (≥80%) : Displayed market leading capabilities in integrating ESG factors in all aspects of operations, management and future directions.
★★★★★ (60-79%) : Above adequate integration of ESG factors into most aspects of operations, management and future directions.
★★★ (40-59%) : Adequate integration of ESG factors into operations, management and future directions.
★★ (20-39%) : Have some integration of ESG factors in operations and management but are insufficient.
★ (<20%) : Minimal or no integration of ESG factors in operations and management.

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As of Friday, November 26, 2021, the analyst, Thiam Chiann Wen, who prepared this report, has interest in the following securities covered in this report:
(a) nil

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