

Sunway Bhd

Operational Disruptions from FMCO

TP: RM2.19(+21.8%)

Last Traded: RM1.80

BUY (ESG: ★★★★★)

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Review

- Sunway's 1H21 net profit of RM129.0mn came in below expectations, accounting for 34% and 36% of ours and consensus' full-year forecasts. The variance was mainly due to a more-severe-than-expected impact from the imposition of FMCO which caused operational disruptions to all business segments.
- A first interim dividend of 1sen/share was announced (1H20: Nil).
- Sunway's 1H21 net profit more than doubled to RM129mn, mainly due to low base effects which saw higher profit contributions from most business segments, except property development and property investment segments.
- The group's hospitality and leisure businesses, 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 RM32.9mn, compared with a PBT of RM12.7mn in 1H20. Meanwhile, the property development segment PBT was lower by 33% YoY, as 1H20 results were boosted by completion and handover of a local development project.
- Sequentially, Sunway's 2Q21 net profit grew 21% QoQ to RM70.5mn despite revenue declined by 5%. This was largely due to lower tax expenses and minority interest.
- While earnings came in below, Sunway's sales performance was encouraging. The group secured RM477mn sales in 2Q21 (-59% QoQ, +407% YoY), bringing the 1H21 sales to RM1.6bn (+142% YoY). The stellar sales performance was driven by a decent booking rate for new launches such as Sunway Belfield, KL and Parc Central Residences, Singapore, which recorded booking rates of 75% and 80% respectively.

Impact

- Our FY21/22/23 earnings are reduced by 25%/7%/8% after factoring in the following;
 - Adjust progress billings and margin assumptions for certain development projects given the on-going movement restrictions still affect the work progress,
 - Revised earnings for Sunway Construction (kindly refer to respective report dated 20 Aug for more information),
 - Reduced earnings contribution from property investment and other business segments which were also adversely impacted by the on-going lockdowns.

Share Information

Bloomberg Code	SWB MK
Stock Code	5211
Listing	Main Market
Share Cap (mn)	4,888.9
Market Cap (RMmn)	8,800.1
52-wk Hi/Lo (RM)	1.82/1.22
12-mth Avg Daily Vol ('000 shrs)	3,029.3
Estimated Free Float (%)	31.7
Beta	0.6
Major Shareholders (%)	
	Sungei Way Corp (51.4)
	EPF (8.5)

Forecast Revision

	FY21	FY22
Forecast Revision (%)	(24.5)	(6.9)
Net profit (RMmn)	286.3	478.4
Consensus	354.1	458.8
TA's / Consensus (%)	80.8	104.3
Previous Rating	Buy (Maintained)	

Financial Indicators

	FY21	FY22
Net gearing (%)	46.4	40.7
CFPS (sen)	16.0	10.5
P/CFPS (x)	11.3	17.1
ROE (%)	3.0	4.8
ROA (%)	1.4	2.3
NTA/Share (RM)	1.9	2.0
Price/NTA (x)	1.0	0.9

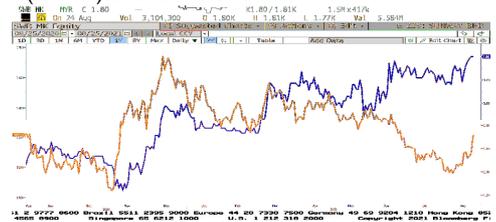
Scorecard

	% of FY	
vs TA	34.0	Below
vs Consensus	36.0	Below

Share Performance (%)

Price Change	SWB	FBM KLCI
1 mth	4.7	1.6
3 mth	5.9	(1.5)
6 mth	20.8	(0.6)
12 mth	33.3	(1.3)

(12-Mth) Share Price relative to the FBMKLCI



Source: Bloomberg

Outlook

- With 1H21 sales already accounting for 74% of the revised target of RM2.2bn, we believe it is achievable, underpinned by on-going HOC that spur home buying demand and more robust sales from overseas projects.
- The group's unbilled sales of RM3.6bn and outstanding construction order book of RM2.4bn (external jobs only) should provide earnings visibility for the next 2-3 years.
- As the group has managed to get 95% of its work force fully vaccinated, we believe it is well positioned to capitalise on the anticipated recovery in the later part of this year. YTD the group has acquired 2 parcels of land in Kuala Lumpur with a total GDV of RMI.4bn. This also reflects the group's confidence in the recovery of the property market in the coming years.

Valuation

- Factoring in the change in earnings forecasts and SunCon's new TP, we arrive at a new TP of RM2.19 (RM2.23 previously), based on SOP valuation – see **Figure 1**. Reiterate BUY.

Figure 1: SOP Valuation Table

	Stake	Value (RM mn)	RM/Share	Valuation Methodology
Property Dev & Inv	100.0%	3,434.1	0.69	16x CY22 Earnings
SunCon	54.6%	1,157.7	0.23	TP of RM1.64
Sunway REIT	40.9%	2,003.1	0.40	TP of RM1.43
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		10,876.7	2.19	

Source: TA Research

Earnings Summary (RM mn)

YE Dec 31 (RM'mn)	2019	2020	2021F	2022F	2023F
Revenue	4,780.3	3,833.3	3,904.3	5,149.5	5,638.9
EBITDA	805.9	474.7	482.0	699.8	768.4
EBITDA margin (%)	16.9	12.4	12.3	13.6	13.6
Pretax profit	793.3	514.0	378.8	646.8	721.7
Net profit	709.2	359.6	286.3	478.4	516.1
Net profit -adj	637.2	364.3	286.3	478.4	516.1
EPS (sen)	14.6	7.3	5.8	9.6	10.4
EPS - adj (sen)	13.1	7.3	5.8	9.6	10.4
EPS Growth (Core) (%)	13.4	(43.9)	(21.4)	67.1	7.9
PER (x)	13.8	24.5	31.2	18.7	17.3
GDPS (sen)	9.1	1.5	2.0	3.0	3.5
Div Yield (%)	5.0	0.8	1.1	1.7	1.9
ROE (%)	7.8	4.1	3.0	4.8	5.0

2Q21 Results Analysis (RM mn)

YE 31 Dec (RM'mn)	2Q20 [^]	1Q21	2Q21	QoQ (%)	YoY (%)	IHFY20 [^]	IHFY21	YoY(%)	
Revenue	556.6	1,016.7	967.9	(4.8)	73.9	1,528.1	1,984.7	29.9	
Property Development	68.1	97.2	147.4	51.7	>100	207.3	244.5	17.9	
Property Investment	55.5	58.7	62.3	6.2	12.3	189.8	121.0	(36.3)	
Construction	92.6	321.4	218.1	(32.2)	>100	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)	>100	106.0	147.7	39.3	
Healthcare	125.1	170.6	200.6	17.6	60.3	274.3	371.2	35.3	
Others	42.3	67.1	70.2	4.5	65.9	104.7	137.3	31.2	
EBIT	8.7	49.1	36.5	(25.6)	>100	76.2	85.5	12.2	
Gain on derivative	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Finance income	43.2	38.8	45.6	17.6	5.5	83.6	38.8	(53.6)	
Finance costs	(53.0)	(24.3)	(25.7)	5.7	(51.5)	(59.1)	(24.3)	(58.9)	
Associates	0.4	16.4	15.9	(3.3)	>100	30.7	16.4	(46.5)	
JV	(0.1)	7.2	6.7	(6.9)	>100	7.9	7.2	(9.1)	
EI	(16.5)	0.0	0.0	0.0	nm	0.0	0.0	0.0	
PBT	(0.9)	87.2	79.0	(9.4)	>100	107.8	87.2	(19.1)	
Core PBT	15.6	87.2	79.0	(9.4)	>100	107.8	87.2	(19.1)	
Property Development	32.2	20.7	22.9	10.6	(29.0)	65.0	43.6	(33.0)	
Property Investment	(16.5)	(16.9)	(16.0)	(5.0)	(2.7)	12.7	(32.9)	>-100	
Construction	6.6	27.7	8.6	(68.8)	31.5	29.1	36.3	24.6	
Trading & Manufacturing	6.4	12.2	10.0	(18.6)	54.9	6.7	22.2	>100	
Quarry	(1.3)	3.1	(0.5)	>-100	(58.2)	1.6	2.5	52.4	
Healthcare	(16.0)	14.0	27.5	96.5	>100	(20.4)	41.5	>100	
Others	29.5	26.4	26.6	0.8	(9.8)	39.7	53.0	33.6	
Tax	(14.5)	(16.8)	(7.9)	(53.2)	(45.9)	(32.2)	(24.7)	(23.4)	
MI	(4.9)	(11.9)	(0.6)	(95.0)	(87.9)	(18.4)	(12.5)	(31.8)	
Net profit	(20.4)	58.5	70.5	20.7	>100	42.0	129.0	>100	
Core net profit	(3.9)	58.5	70.5	20.7	>100	58.5	129.0	>100	
Reported EPS	(sen)	(0.4)	1.0	1.2	18.8	>100	0.9	2.2	>100
Adj EPS	(sen)	(0.1)	1.0	1.2	18.8	>100	1.3	2.2	74.0
DPS	(sen)	0.0	0.0	1.0	>100	>100	9.1	1.5	(83.5)
EBIT margin	(%)	1.6	4.8	3.8	(1.1)	2.2	5.0	4.3	(0.7)
PBT margin	(%)	2.8	8.6	8.2	(0.4)	5.4	7.1	4.4	(2.7)
Property Development	(%)	47.3	21.3	15.5	(5.8)	(31.7)	31.4	17.8	(13.5)
Property Investment	(%)	(29.7)	(28.7)	(25.7)	3.0	4.0	6.7	(27.2)	(33.9)
Construction	(%)	7.1	8.6	4.0	(4.7)	(3.1)	9.4	6.7	(2.7)
Trading & Manufacturing	(%)	4.6	5.4	5.0	(0.4)	0.5	2.0	5.2	3.3
Quarry	(%)	(4.1)	4.0	(0.8)	(4.7)	3.3	1.6	1.7	0.1
Healthcare	(%)	(12.8)	8.2	13.7	5.5	26.5	(7.5)	11.2	18.6
Others	(%)	69.7	39.3	37.9	(1.4)	(31.8)	37.9	38.6	0.7
Net margin	(%)	(0.7)	5.7	7.3	1.5	8.0	3.8	6.5	2.7
Effective tax rate	(%)	93.3	19.3	10.0	(9.3)	(83.4)	29.9	28.3	(1.6)

[^]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 Wednesday, August 25, 2021, the analyst, Thiam Chiann Wen, who prepared this report, has interest in the following securities covered in this report:
(a) nil

Kaladher Govindan – Head of Research

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