

Sunway Bhd

Recovery on Track

TP: RM1.98 (+16.4%)

Last Traded: RM1.70

BUY (ESG: ★★★★★)

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Review

- Sunway recorded normalised net profit of RM231.8mn in 4Q20 (+11% YoY, +230% QoQ), bringing FY20 normalised net profit to RM364.3mn (-43% YoY). Our normalised net profit was derived after excluding 1) fair value loss from revaluation of investment properties and impairment of assets which amounted to RM64.4mn and RM12.3mn respectively, 2) gain on disposal of the Pinnacle Sunway building of RM16.0mn, 3) RM50.5mn gain in relation to re-measurement of leases and 4) other ElS amounted to a gain of RM5.5mn.
- Overall, FY20 results came in slightly above ours but within consensus expectations, accounting for 106% and 101% of ours and consensus' full-year forecasts respectively. The positive variance was largely due to stronger-than-expected profit contribution from JVs.
- A first interim single tier cash dividend of 1.5sen was declared for ordinary shareholder. The group also declared a preferential dividend for its ICPS holders at 5.25% per annum for the financial period from 3 Dec 2020 (being the issue date) till 31 Dec 2020.
- Amid the COVID-19 pandemic which disrupted economic activities worldwide, Sunway's FY20 revenue and net profit plunged 20% YoY and 43% YoY to RM3.8bn and RM364.3mn. Net profit fell at faster pace largely due to weaker operating margin (-5.4%-pts YoY), and higher effective tax rate. The group's hospitality and leisure businesses which were under the property investment segment, were worst hit by the impact of the various phases of Movement Control Order (MCO).
- QoQ, 4Q20 normalised net profit jumped 230% to RM231.8mn on the back of 24% growth in revenue. Stronger bottom-line was largely boosted by lumpy recognition of development profits for Sunway Gardens Tianjin and Rivercove Residences Singapore which amounted to RM182.5mn.
- Sunway secured RM385mn property sales in 4Q20 (-22% YoY, +44% QoQ), bringing FY20 sales to RM1.3bn (-14% YoY). Following the completion of Sunway Gardens Tianjin and Rivercove Residences Singapore during the quarter under review, the group's 4Q20 unbilled sales declined to RM2.4bn from RM3.1bn a quarter ago.

Impact

- Our FY21-22 earnings are revised higher by 1-2% after incorporating the actual FY20 results. We introduce our FY23 earnings forecasts with an EPS growth of 5.4% YoY.

Outlook

- Sunway is targeting new sales of RM1.6bn this year, underpinned by new projects worth RM2.8bn - see **Figure 3** and other existing projects. Of the RM2.8bn new launches, 60% of the total launches are comprised of projects in overseas namely, Singapore (32%) and China (28%) and

Share Information

Bloomberg Code	SWB MK
Stock Code	5211
Listing	Main Market
Share Cap (mn)	4,888.9
Market Cap (RMmn)	8,311.1
52-wk Hi/Lo (RM)	1.74/1.22
12-mth Avg Daily Vol ('000 shrs)	3,644.0
Estimated Free Float (%)	31.2
Beta	0.7

Major Shareholders (%)

Sungei Way Corp (51.4)
EPF (9.7)

Forecast Revision

	FY21	FY22
Forecast Revision (%)	1.3	2.0
Net profit (RMmn)	527.8	552.4
Consensus	512.5	575.7
TA's / Consensus (%)	103.0	96.0
Previous Rating	Buy (Maintained)	

Financial Indicators

	FY21	FY22
Net gearing (%)	43.4	37.1
CFPS (sen)	20.1	11.5
P/CFPS (x)	8.5	14.8
ROE (%)	5.4	5.4
ROA (%)	2.5	2.5
NTA/Share (RM)	1.9	2.0
Price/NTA (x)	0.9	0.8

Scorecard

	% of FY	
vs TA	106.0	Within
vs Consensus	101.0	Within

Share Performance (%)

Price Change	SWB	FBM KLCI
1 mth	14.9	0.4
3 mth	5.6	(3.3)
6 mth	24.1	5.1
12 mth	9.0	19.0

(12-Mth) Share Price relative to the FBMKLCI



Source: Bloomberg

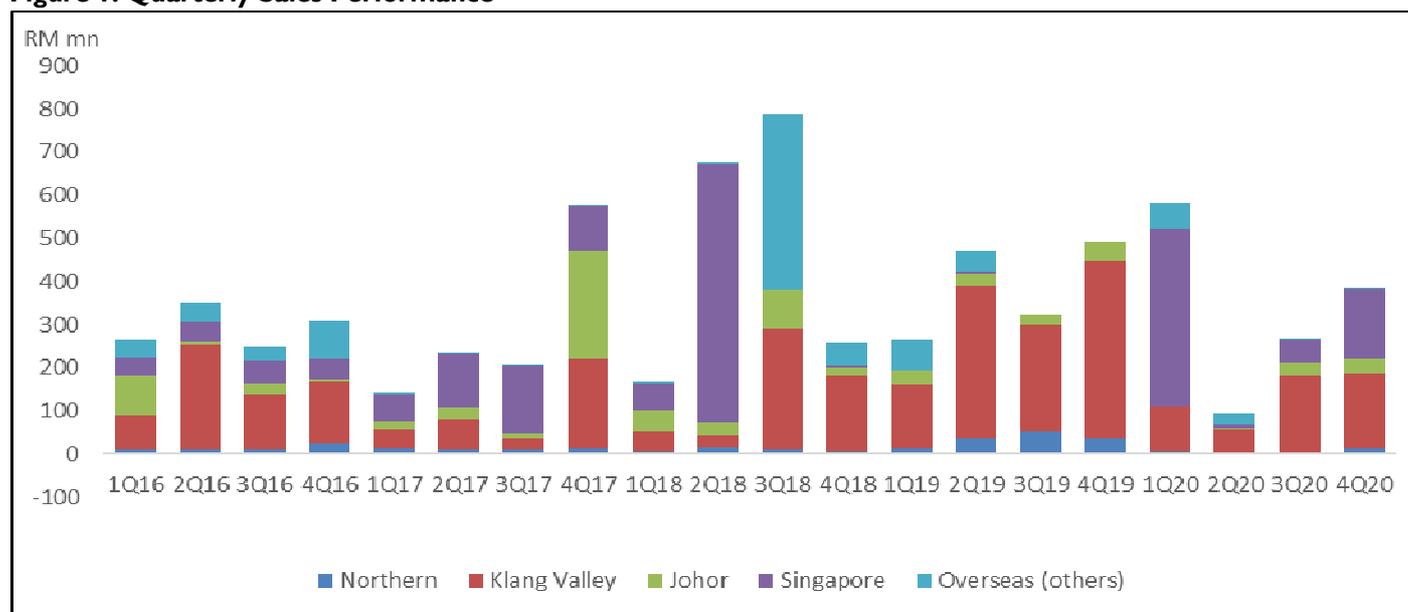
balance 40% from Klang Valley. The group's unbilled sales of RM2.4bn and outstanding construction order book of RM2.7bn (external jobs only) should provide earnings visibility for the next 2-3 years.

- We believe the RM1.6bn sales target is achievable, underpinned by on-going homeownership campaign that will spur demand and stronger sales from overseas projects. Recent launches such as Sunway Belfield, KL and Parc Central Residences, Singapore recorded encouraging booking rate of 80% and 70% respectively. Meanwhile, we also think the worst is over for Sunway and all the business divisions have staged steady recovery after bearing the full brunt of MCO impact in 2Q20.

Valuation

- Rolling forward our base-year valuation to CY22, we arrive at a new TP of RM1.98, based on P/Bk multiple of 0.95x. This represents +1SD from its 5-year mean of 0.84x. We believe the premium is justifiable given the group's solid track record and strong management capability. In addition, a potential value-unlocking exercise for its healthcare unit over the near-term would be a price catalyst.
- Meanwhile, Sunway is our top ESG pick for the property sector given its strong commitment to ESG principles to create long-term value for all stakeholders.

Figure 1: Quarterly Sales Performance



Source: Sunway

Figure 2: 2020 Indicative Launches & Sales Performance

Development	Location	Type	GDV (RM mn)	Status
Sunway Velocity Two (Tower C)	Jalan Peel, KL	Service Apartments	300	Launched in Dec-20, 40% take up
Parc Canberra, Canberra	Singapore	Executive Condominium	560	Launched in Feb-20, >90% take up
Ki Residence, Clementi	Singapore	Private Condominium	1,000	Launched in Dec-20, 40% take up
Total			1,860	

Source: Sunway

Figure 3: 2021 Indicative Launches

Development	Location	Type	GDV (RM mn)
Sunway Belfield Phase I	Jalan Belfield, KL	Service Apartments	320
Sunway ARTESSA	Wangsa Maju, KL	Condominium	300
Sunway Damansara Hill	Kota Damansara, KL	Service Residences & Retail	220
Sunway Kajang Phase I	Kajang, Selangor	Service Apartments & Retail	270
Parc Central Residences	Tampines, Singapore	Executive Condominium	910
Sunway Gardens Phase 3	Tianjin, China	Condominium	780
Total			2,800

Source: Sunway

Earnings Summary (RM mn)

YE Dec 31 (RM'mn)	2019	2020	2021F	2022F	2023F
Revenue	4,780.3	3,833.3	4,749.7	5,317.2	5,610.8
EBITDA	805.9	474.7	739.4	777.5	807.4
EBITDA margin (%)	16.9	12.4	15.6	14.6	14.4
Pretax profit	793.3	514.0	685.3	733.1	782.7
Net profit	709.2	359.6	527.8	552.4	582.3
Net profit -a dj	637.2	364.3	527.8	552.4	582.3
EPS (sen)	14.6	7.3	10.6	11.1	11.7
EPS - a dj (sen)	13.1	7.3	10.6	11.1	11.7
EPS Growth (Core) (%)	13.4	-43.9	44.9	4.6	5.4
PER (x)	13.0	23.2	16.0	15.3	14.5
GDPS (sen)	9.1	1.5	2.5	3.0	3.5
Div Yield (%)	5.3	0.9	1.5	1.8	2.1
ROE (%)	7.8	4.1	5.4	5.4	5.5

4Q20 Results Analysis (RM mn)

YE 31 Dec (RM'mn)		4Q19 [^]	3Q20 [^]	4Q20	QoQ (%)	YoY (%)	FY19 [^]	FY20	YoY(%)
Revenue		1,353.0	1,027.2	1,278.0	24.4	(5.5)	4,780.3	3,833.3	(19.8)
Property Development		218.2	103.4	184.3	78.2	(15.5)	545.9	495.0	(9.3)
Property Investment		220.9	98.1	46.1	(53.1)	(79.2)	803.5	334.0	(58.4)
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
Others		64.5	66.1	89.5	35.3	38.6	265.1	260.3	(1.8)
EBIT		110.9	135.1	46.0	(65.9)	(58.5)	570.1	250.8	(56.0)
Gain on derivative		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Finance income		78.0	34.2	51.3	50.0	(34.3)	202.3	228.5	13.0
Finance costs		(26.1)	(38.5)	(7.2)	(81.4)	(72.5)	(168.3)	(159.5)	(5.2)
Associates		54.5	16.7	12.0	(28.0)	(77.9)	192.8	59.8	(69.0)
JV		34.9	13.7	149.6	991.8	329.1	68.5	170.2	148.6
EI		(9.3)	50.5	(38.7)	(176.6)	316.1	72.0	(4.7)	(106.5)
PBT		252.1	161.2	251.7	56.2	(0.2)	865.3	530.8	(38.7)
Core PBT		266.6	110.7	290.4	162.5	8.9	793.3	535.5	(32.5)
Property Development		117.2	25.0	207.0	729.1	76.6	246.3	297.0	20.6
Property Investment		64.4	12.5	(56.0)	(547.7)	(186.9)	229.8	(30.8)	(113.4)
Construction		38.1	37.0	55.5	50.0	45.4	162.3	121.6	(25.1)
Trading & Manufacturing		4.5	7.4	10.8	47.3	139.6	31.4	24.9	(20.9)
Quarry		8.0	7.9	5.3	(33.0)	(34.2)	16.7	14.8	(11.7)
Healthcare		11.4	15.5	22.3	43.9	95.9	61.9	17.4	(71.9)
Others		31.2	15.7	25.6	63.8	(17.8)	103.2	81.0	(21.5)
Tax		(41.5)	(25.0)	(44.8)	78.9	8.0	(78.4)	(102.0)	30.0
MI		(27.2)	(15.3)	(13.9)	(9.4)	(48.9)	(77.7)	(47.7)	(38.6)
Net profit		200.3	120.8	193.1	59.8	(3.6)	709.2	359.6	(49.3)
Core net profit		209.6	70.3	231.8	229.7	10.6	637.2	364.3	(42.8)
Reported EPS	(sen)	3.8	2.5	3.8	52.4	(1.1)	14.6	7.3	(50.2)
Adj EPS	(sen)	4.0	1.4	4.5	214.4	13.5	13.1	7.3	(43.9)
DPS	(sen)	4.5	0.0	1.5	0.0	(66.7)	9.1	1.5	(83.5)
EBIT margin	(%)	8.2	13.2	3.6	(72.6)	(4.6)	11.9	6.5	(5.4)
PBT margin	(%)	19.7	10.8	22.7	111.0	3.0	16.6	14.0	(2.6)
Property Development	(%)	53.7	24.1	112.3	365.4	58.6	45.1	60.0	14.9
Property Investment	(%)	29.2	12.8	(121.6)	(1,053.8)	(150.8)	28.6	(9.2)	(37.8)
Construction	(%)	12.0	14.5	13.1	(9.9)	1.1	12.7	12.3	(0.5)
Trading & Manufacturing	(%)	1.9	3.2	4.4	38.4	2.5	3.3	3.1	(0.2)
Quarry	(%)	5.9	7.4	4.8	(35.5)	(1.1)	4.8	4.6	(0.2)
Healthcare	(%)	7.0	9.2	12.5	35.8	5.5	10.6	2.8	(7.8)
Others	(%)	48.3	23.7	28.7	21.0	(19.7)	38.9	31.1	(7.8)
Net margin	(%)	15.5	6.8	18.1	165.0	2.6	13.3	9.5	(3.8)
Effective tax rate	(%)	15.5	22.6	15.4	(31.9)	(0.1)	9.9	19.0	9.2

[^]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 Thursday, April 01, 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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