

Sunway Bhd

MCO Bites Again

TP: RM1.95 (+17.4%)

Last Traded: RM1.66

BUY (ESG: ★★★★★)

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Review

- Sunway's IQ21 net profit of RM58.5mn came in below expectations, accounting for 11% of both ours and consensus' full-year forecasts. Most of Sunway's operations were disrupted by the worsening Covid-19 outbreak and the reimposition of Movement Control Order (MCO 2.0), which led to: 1) slower progress billings for its property development and construction divisions, and 2) lower earnings contribution from property investment, hospitality and leisure division.
- Amid the COVID-19 pandemic which disrupted economic activities worldwide, Sunway's IQ21 net profit declined 25% YoY to RM58.5mn. 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). Property investment segment slipped into the red with a loss before tax of RM16.9mn compared with a PBT of RM29.2mn in IQ20. Meanwhile, property development segment PBT was lower by 37% YoY, as IQ20 results were boosted by completion and handover of a local development project.
- Sequentially, Sunway's IQ21 net profit plunged 75% QoQ as the lumpy recognition of development profits for Sunway Gardens Tianjin and Rivercove Residences Singapore which amounted to RM182.5mn boosted the group's performance in the preceding quarter.
- While earnings came in below, Sunway's sales performance surprised on the upside with IQ21 new sales nearly doubled QoQ and more than tripled YoY to RM1.16bn. This marked the group's highest quarterly sales in recent years – see **Figure 1**. The stellar sales performance was driven by encouraging booking rate for recent launches such as Sunway Belfield, KL and Parc Central Residences, Singapore, which recorded booking rate of 86% and 74% respectively – see **Figure 2**.

Impact

- Our FY21/22/23 earnings are reduced by 24%/6%/5% after factoring in the following:
 - Revised earnings for Sunway REIT and Sunway Construction (kindly refer to respective report dated 20 May and 21 May for more information).
 - Reduced earnings contribution from all business segments, as we expect restrictive environment under various MCO phases will likely to last until end of this year.

Outlook

- Sunway is targeting new sales of RM1.6bn this year, underpinned by new projects worth RM2.8bn - see **Figure 2** and other existing projects. According to management, there is no change in the planned launches as well as the sales target at this juncture. However, there is likely for an

Share Information

Bloomberg Code	SWB MK
Stock Code	5211
Listing	Main Market
Share Cap (mn)	4,888.9
Market Cap (RMmn)	8,115.6
52-wk Hi/Lo (RM)	1.76/1.22
12-mth Avg Daily Vol ('000 shrs)	3,474.1
Estimated Free Float (%)	31.7
Beta	0.7

Major Shareholders (%)

Sungei Way Corp	(51.4)
EPF	(9.2)

Forecast Revision

	FY21	FY22
Forecast Revision (%)	(24.0)	(6.4)
Net profit (RMmn)	401.2	516.8
Consensus	527.6	607.1
TA's / Consensus (%)	76.0	85.1
Previous Rating	Buy (Maintained)	

Financial Indicators

	FY21	FY22
Net gearing (%)	45.3	39.3
CFPS (sen)	17.7	10.9
P/CFPS (x)	9.4	15.3
ROE (%)	4.1	5.2
ROA (%)	1.9	2.4
NTA/Share (RM)	1.9	2.0
Price/NTA (x)	0.9	0.8

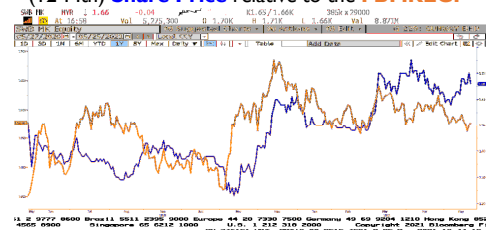
Scorecard

	% of FY	
vs TA	11.0	Below
vs Consensus	11.0	Below

Share Performance (%)

Price Change	SWB	FBM KLCI
1 mth	1.2	(1.9)
3 mth	11.4	(0.2)
6 mth	27.7	(1.2)
12 mth	8.5	9.8

(12-Mth) Share Price relative to the FBMKLCI



Source: Bloomberg

upward revision in the sales target should the government decides to extend home ownership campaign till year end.

- The group's unbilled sales of RM3.3bn and outstanding construction order book of RM2.5bn (external jobs only) should provide earnings visibility for the next 2-3 years.
- That said, we believe meaningful recovery would kick in next year, underpinned by an acceleration of mass vaccination rollout in Malaysia. YTD the group has acquired 2 parcels of land in Kuala Lumpur with a total GDV of RMI.4bn. This reflects the group's confidence in the recovery of the property market in the coming years.

Valuation

- Post earnings revision, we cut Sunway's TP to RM1.95 (from RM1.98), based on unchanged 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. Maintain Buy.
- 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 I: Quarterly Sales Performance

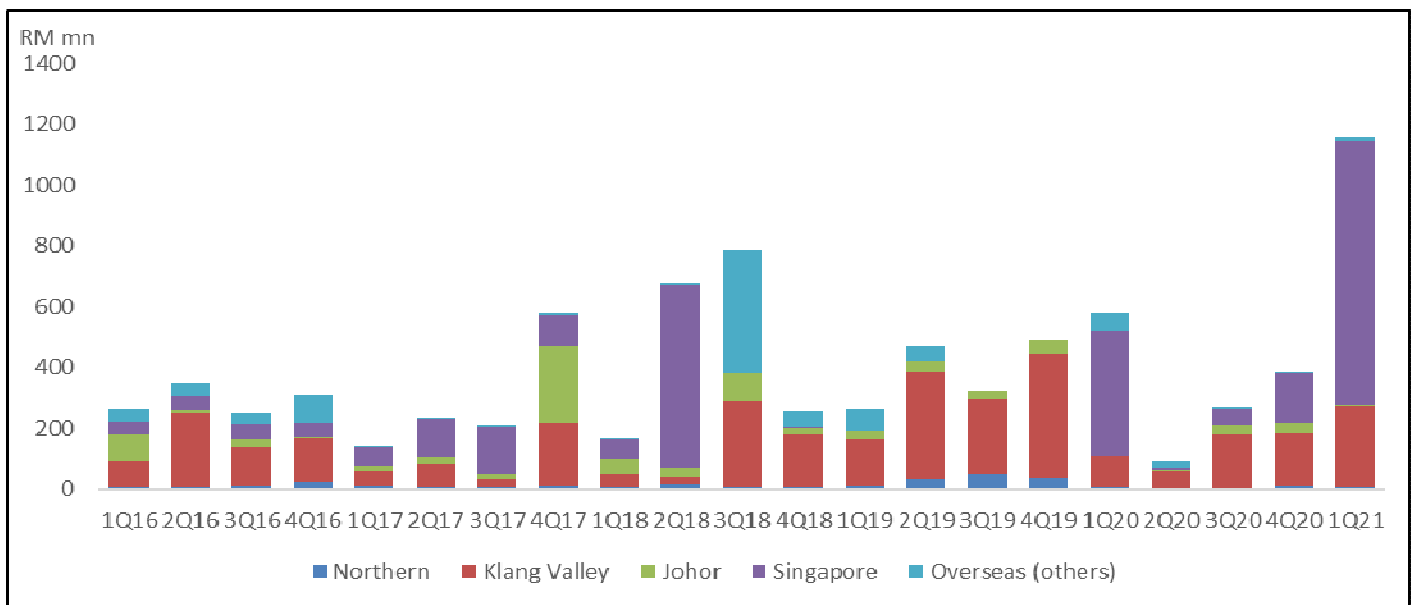


Figure 2: 2021 Indicative Launches & Sales Performance

Development	Location	Type	GDV (RM mn)	Status
Sunway Belfield Phase I	Jalan Belfield, KL	Service Apartments	320	Tower A (launched in Jan - 21 86%) Tower B (launched in Mar-21, 50%)
Sunway ARTESSA	Wangsa Maju, KL	Condominium	300	Target launch in 2Q
Sunway Damansara Hill	Kota Damansara, KL	Service Residences & Retail	220	Target launch in 2Q
Sunway Kajang Phase I	Kajang, Selangor	Service Apartments & Retail	270	Target launch in 2H
Parc Central Residences	Tampines, Singapore	Executive Condominium	910	Launched in Jan-21, 74% take up
Sunway Gardens Phase 3	Tianjin, China	Condominium	780	Target launch in 2H
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	4,349.7	5,211.3	5,592.4
EBITDA	805.9	474.7	593.8	736.3	775.3
EBITDA margin (%)	16.9	12.4	13.7	14.1	13.9
Pretax profit	793.3	514.0	539.8	691.8	750.6
Net profit	709.2	359.6	401.2	516.8	553.3
Net profit -adj	637.2	364.3	401.2	516.8	553.3
EPS (sen)	14.6	7.3	8.1	10.4	11.1
EPS - a dj (sen)	13.1	7.3	8.1	10.4	11.1
EPS Growth (Core) (%)	13.4	(43.9)	10.1	28.8	7.1
PER (x)	12.7	22.6	20.5	15.9	14.9
GDPS (sen)	9.1	1.5	2.5	3.0	3.5
Div Yield (%)	5.5	0.9	1.5	1.8	2.1
ROE (%)	7.8	4.1	4.1	5.2	5.3

IQ21 Results Analysis (RM mn)

YE 31 Dec (RM'mn)		I Q20	4Q20	I Q21	QoQ (%)	YoY (%)
Revenue		971.4	1,278.0	1,016.7	(20.4)	4.7
Property Development		139.2	184.3	97.2	(47.3)	(30.2)
Property Investment		134.3	46.1	58.7	27.4	(56.3)
Construction		218.0	424.6	321.4	(24.3)	47.4
Trading & Manufacturing		194.2	245.8	224.5	(8.7)	15.6
Quarry		74.1	109.8	77.2	(29.6)	4.2
Healthcare		149.2	178.0	170.6	(4.1)	14.4
Others		62.4	89.5	67.1	(25.0)	7.6
EBIT		44.7	46.0	49.1	6.6	9.7
Gain on derivative		0.0	0.0	0.0	0.0	0.0
Finance income		83.6	51.3	38.8	(24.4)	(53.6)
Finance costs		(59.1)	(7.2)	(24.3)	239.3	(58.9)
Associates		30.7	12.0	16.4	36.7	(46.5)
JV		7.9	149.6	7.2	(95.2)	(9.1)
EI		0.0	(38.7)	0.0	(100.0)	0.0
PBT		107.8	251.7	87.2	(65.4)	(19.1)
Core PBT		107.8	290.4	87.2	(70.0)	(19.1)
Property Development		32.8	207.0	20.7	(90.0)	(37.0)
Property Investment		29.2	(56.0)	(16.9)	(69.9)	(157.7)
Construction		22.6	55.5	27.7	(50.1)	22.6
Trading & Manufacturing		0.2	10.8	12.2	12.9	5,126.9
Quarry		3.0	5.3	3.1	(42.0)	3.5
Healthcare		(4.5)	22.3	14.0	(37.4)	(412.9)
Others		10.2	25.6	26.4	2.9	159.1
Tax		(17.5)	(44.8)	(16.8)	(62.5)	(4.1)
MI		(12.0)	(13.9)	(11.9)	(14.2)	(0.7)
Net profit		78.3	193.1	58.5	(69.7)	(25.3)
Core net profit		78.3	231.8	58.5	(74.8)	(25.3)
Reported EPS	(sen)	1.4	3.8	1.0	(73.1)	(25.2)
Adj EPS	(sen)	1.4	4.5	1.0	(77.6)	(25.2)
DPS	(sen)	0.0	1.5	0.0	(100.0)	0.0
EBIT margin	(%)	4.6	3.6	4.8	1.2	0.2
PBT margin	(%)	11.1	22.7	8.6	(14.2)	(2.5)
Property Development	(%)	23.6	112.3	21.3	(91.0)	(2.3)
Property Investment	(%)	21.7	(121.6)	(28.7)	92.9	(50.5)
Construction	(%)	10.4	13.1	8.6	(4.4)	(1.7)
Trading & Manufacturing	(%)	0.1	4.4	5.4	1.0	5.3
Quarry	(%)	4.0	4.8	4.0	(0.8)	(0.0)
Healthcare	(%)	(3.0)	12.5	8.2	(4.3)	11.2
Others	(%)	16.3	28.7	39.3	10.7	23.0
Net margin	(%)	8.1	18.1	5.7	(12.4)	(2.3)
Effective tax rate	(%)	16.2	15.4	19.3	3.9	3.0

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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, May 27, 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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