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Sunway Bhd

Slashing FY20 Sales Target by 45% to RM1.1bn

TP: RM1.58 (+17.9%)

Last Traded: RM1.34

Buy

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Review

- Excluding the fair value loss from revaluation of Sunway REIT properties of RM16.5mn, Sunway's 1H20 normalised net profit of RM88.1mn came in below expectations, accounting for 17% and 19% of both ours and consensus' full-year forecasts respectively. The variance was mainly due to more-severe-than-expected impact from the enforcement of Movement Control Order (MCO)/conditional MCO/recovery MCO, resulting in unprecedented disruptions to all its business segments.
- No interim dividend was declared for the quarter under review compared to interim cash dividend of 3sen/share and 1 treasury share for every 100 share held (translating to 1.57sen/share) declared in 2QFY19.
- Amid the COVID-19 pandemic which disrupted economic activities worldwide, Sunway's 1H20 revenue and net profit plunged 31% YoY and 71% YoY to RM1.5bn and RM88.1mn. Net profit fell at faster pace largely due to weaker operating margin (-9.6%-pts YoY), lower share of associates' and JVs' profits (collectively -69% YoY) and higher effective tax rate.
- QoQ, 2Q20 normalised net profit decreased 88% to RM9.8mn, largely due to lower contributions from all business segments. Specifically, property development and construction division reported weaker results attributed to lower sales and progress billing from local projects. Meanwhile, hospitality and leisure businesses under the property investment segment were worst hit because of the MCO and full operations only resumed in early July after suspension of operations for over 3 months.
- Sunway secured RM92mn sales in 2Q20 (-81% QoQ, -84% YoY), bringing the 1H20 sales to RM673mn (-8% YoY). Weaker 2Q20 sales were largely impacted by the MCO. Although digital and promotional activities continued to attract potential sales, with Sunway raking in some RM300mn bookings during MCO period, the lead time for converting these bookings into sales were longer given legal documents could not be executed during the MCO. In addition, home buyers also experienced longer processing time to obtain financing. Latest unbilled sales stood at RM3.2bn (effective RM2.5bn).

Impact

- Our FY20/21/22 earnings are reduced by 34%/12%/11% after factoring in the followings,
  1. Lower FY20 sales assumptions to RM1.1bn from RM1.2bn previously to be in line with management's guidance,
  2. Adjust progress billings and margin assumptions to reflect the more-severe-than-expected impact of two-month MCO and one-month Conditional MCO till 9 June as well as the slow recovery for

Share Information	
Bloomberg Code	SWB MK
Stock Code	5211
Listing	Main Market
Share Cap (mn)	4,901.4
Market Cap (RMmn)	6,567.9
52-wk Hi/Lo (RM)	1.87/1.25
12-mth Avg Daily Vol ('000 shrs)	4,142.2
Estimated Free Float (%)	30.9
Beta	0.9
Major Shareholders (%)	
	Sungei Way Corp (51.2)
	EPF (9.7)

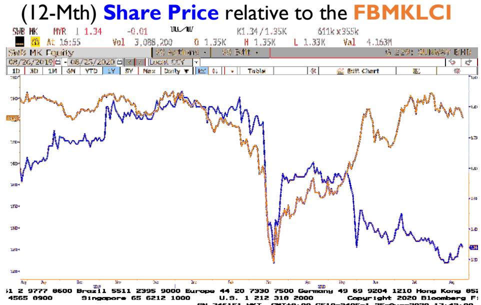
Forecast Revision	FY20	FY21
Forecast Revision (%)	(34.1)	(12.2)
Net profit (RMmn)	344.4	512.7
Consensus	469.6	619.0
TA's / Consensus (%)	73.3	82.8
Previous Rating	Buy (Maintained)	

Financial Indicators	FY20	FY21
Net gearing (%)	40.6	38.4
CFPS (sen)	8.2	9.2
P/CFPS (x)	16.3	14.5
ROE (%)	4.1	6.0
ROA (%)	1.5	2.2
NTA/Share (RM)	1.7	1.7
Price/ NTA (x)	0.8	0.8

Scorecard	% of FY	
vs TA	17.0	Below
vs Consensus	19.0	Below

Share Performance (%)		
Price Change	**SWB**	**FBM KLCI**
1 mth	(1.5)	(2.2)
3 mth	(12.4)	8.2
6 mth	(25.1)	4.0
12 mth	(16.5)	(2.8)

(12-Mth) Share Price relative to the FBMKLCI



Source: Bloomberg

construction works post-CMCO,

3. Lower contribution from other business segments which were also adversely impacted by the MCO,

4. Revised earnings for Sunway REIT and Sunway Construction (kindly refer to respective report dated 4 Aug and 21 Aug more information).

- We also reduce FY20/21/22 DPS assumptions to 4.5sen/7.5sen/7.5sen from 8.0sen/8.5sen/8.5sen previously.

Outlook

- 2020 new launch target is revised lower to RM2.2bn from RM3.5bn previously - see **Figure 2**. With that, management has slashed its FY20 sales target to RM1.1bn from RM2.0bn previously, in view of the on-going market uncertainties brought on by the Covid-19 pandemic.

- Management believes the recent incentives and policies relaxation from Penjana would help to spur demand for properties. Meanwhile, record low interest rate should also make house purchase more affordable. However, weak consumer sentiment largely arising from fears of second wave of Covid-19 and uncertainty over job security may cause potential buyers to continue adopting wait-and-see attitude.

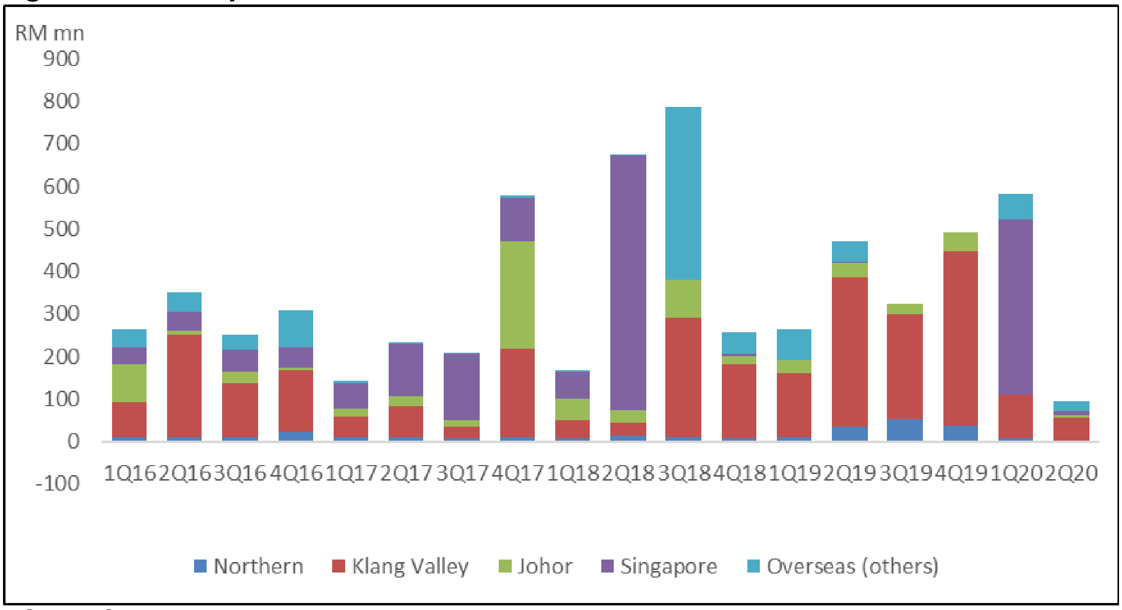
- The group's unbilled sales of RM3.2bn and outstanding construction order book of RM3.8bn (external jobs only) should provide earnings visibility for the next 2-3 years.

- Recall, the group has proposed to raise up to RM1.1bn from a renounceable rights issue of irredeemable convertible preference shares (ICPS). The ICPS, which has an issue price of RM1.00, will be issued to shareholders at an entitlement date to be fixed based on one ICPS for every five shares held. Management believes ICPS is one of the most appropriate tools to fund future expansions as well as to strengthen its war chest to weather this uncertain period. The preferential dividend rate of 5.25% rate should also attractively reward the shareholders. Meanwhile, as ICPS is classified as equity, it would allow Sunway to gear up further should any opportunistic acquisitions arise. We have not factored in the impact of the ICPS issuance in our earnings model pending the completion of this exercise, which is targeted in 4Q20.

Valuation

- We arrive at a new TP of RM1.58 (previous RM1.67), based on a lower target CY21 P/B of 0.9x (previous 0.95x). Having said that, we continue to like Sunway for its 1) diversified and resilient earnings base (FY19 core PBT breakdown: property development: 29%, property investment: 27%, construction: 19% and others: 25%); and 2) above sector average ROE of 6% vs other big-cap peers of 4%. With a potential upside of 17.9%, we maintain our Buy recommendation on Sunway.

Figure 1: Quarterly Sales Performance



Source: Sunway

Figure 2: New Launches for 2020

Development	Location	Type	GDV (RM mn)	Status
Sunway Velocity Two (Tower C)	Jalan Peel, KL	Service Apartments	300	Target launch Oct 20
Sunway Belfield	Jalan Belfield, KL	Service Apartments	360	Target launch Oct 20
Parc Canberra, Canberra	Singapore	Executive Condominium	560	Launched in Feb, 75% take up
Ki Residence, Clementi	Singapore	Private Condominium	1000	Target launch Nov 20
Total			**2220**	

Source: Sunway

Earnings Summary (RM mn)

YE Dec 31 (RM'mn)	2018	2019	2020F	2021F	2022F
Revenue	5,410.2	4,780.4	3,667.5	4,551.7	5,207.5
EBITDA	683.8	716.7	487.5	658.2	699.7
EBITDA margin (%)	12.6	15.0	13.3	14.5	13.4
Pretax profit	747.7	842.2	441.7	660.2	687.1
Net profit	645.5	766.6	344.4	512.7	526.4
Net profit -adj	577.7	694.6	344.4	512.7	526.4
Adj Net Profit Afer Distribution to Perps Holder	567.9	640.1	281.1	449.4	463.1
EPS (sen)	13.1	14.6	7.1	10.5	10.8
EPS - adj (sen)	11.5	13.1	7.1	10.5	10.8
EPS Growth (Core) (%)	2.7	13.9	-46.2	48.9	2.7
PER (x)	11.6	10.2	19.0	12.7	12.4
GDPS (sen)	7.1	9.1	4.5	7.5	7.5
Div Yield (%)	5.3	6.8	3.4	5.6	5.6
ROE (%)	7.3	8.5	4.1	6.0	6.0

2Q20 Results Analysis (RM mn)

YE 31 Dec (RM'mn)		2Q19	1Q20	2Q20	QoQ (%)	YoY (%)	1HFY19	1HFY20	YoY(%)
Revenue		**1,077.2**	**971.4**	**556.6**	**(42.7)**	**(48.3)**	**2,200.8**	**1,528.1**	**(30.6)**
Property Development		*113.6*	*139.2*	*68.1*	*(51.0)*	*(40.0)*	*201.4*	*207.3*	*2.9*
Property Investment		*176.1*	*134.3*	*55.5*	*(58.7)*	*(68.5)*	*372.8*	*189.8*	*(49.1)*
Construction		*293.5*	*218.0*	*92.6*	*(57.5)*	*(68.5)*	*639.6*	*310.6*	*(51.4)*
Trading & Manufacturing		*230.0*	*194.2*	*141.1*	*(27.3)*	*(38.6)*	*481.4*	*335.3*	*(30.3)*
Quarry		*52.6*	*74.1*	*31.9*	*(57.0)*	*(39.4)*	*96.8*	*106.0*	*9.5*
Healthcare		*140.8*	*149.2*	*125.1*	*(16.1)*	*(11.1)*	*267.6*	*274.3*	*2.5*
Others		*70.6*	*62.4*	*42.3*	*(32.2)*	*(40.1)*	*141.1*	*104.7*	*(25.8)*
EBIT		167.3	44.7	6.0	(86.6)	(96.4)	285.0	50.7	(82.2)
Gain on derivative		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Finance income		70.6	83.6	59.5	(28.9)	(15.8)	149.3	143.1	(4.2)
Finance costs		(66.8)	(59.1)	(54.7)	(7.5)	(18.1)	(127.7)	(113.8)	(10.9)
Associates		70.4	30.7	0.4	(98.8)	(99.5)	100.9	31.1	(69.2)
JV		11.7	7.9	(1.0)	(112.6)	(108.5)	23.0	6.9	(69.8)
EI		81.3	0.0	(16.5)	0.0	(120.3)	81.3	(16.5)	(120.3)
PBT		253.2	107.8	10.1	(90.6)	(96.0)	430.5	117.9	(72.6)
Core PBT		**171.9**	**107.8**	**26.6**	**(75.3)**	**(84.5)**	**349.2**	**134.4**	**(61.5)**
Property Development		*37.3*	*39.1*	*25.9*	*(33.8)*	*(30.5)*	*70.1*	*65.0*	*(7.3)*
Property Investment		*41.0*	*32.0*	*(19.3)*	*(160.2)*	*(147.0)*	*98.4*	*12.7*	*(87.1)*
Construction		*43.2*	*22.6*	*6.6*	*(71.0)*	*(84.8)*	*86.8*	*29.1*	*(66.4)*
Trading & Manufacturing		*6.6*	*0.5*	*6.2*	*1,131.4*	*(6.3)*	*13.1*	*6.7*	*(49.3)*
Quarry		*2.1*	*3.1*	*(1.4)*	*(146.4)*	*(167.3)*	*3.9*	*1.6*	*(57.3)*
Healthcare		*19.3*	*(4.5)*	*(16.0)*	*258.9*	*(183.0)*	*34.7*	*(20.4)*	*(159.0)*
Others		*22.5*	*15.0*	*24.7*	*64.1*	*9.5*	*42.1*	*39.7*	*(5.9)*
Tax		9.4	(17.5)	(14.7)	(16.1)	(256.3)	(15.9)	(32.2)	102.3
MI		(16.2)	(12.0)	(2.1)	(82.3)	(86.9)	(31.7)	(14.1)	(55.4)
Net profit		246.5	78.3	(6.7)	(108.6)	(102.7)	382.9	71.6	(81.3)
Core net profit		165.2	78.3	9.8	(87.5)	(94.1)	301.6	88.1	(70.8)
Reported EPS	(sen)	4.7	1.4	(0.3)	(125.2)	(107.2)	7.4	1.0	(86.4)
Adj EPS	(sen)	3.2	1.4	0.5	(63.3)	(84.3)	5.9	1.8	(68.5)
DPS	(sen)	4.6	0.0	0.0	0.0	(100.0)	4.6	0.0	(100.0)
EBIT margin	(%)	15.5	4.6	1.1	(3.5)	(14.5)	13.0	3.3	(9.6)
PBT margin	**(%)**	**16.0**	**11.1**	**4.8**	**(6.3)**	**(11.2)**	**15.9**	**8.8**	**(7.1)**
Property Development	(%)	*32.8*	*28.1*	*38.0*	*9.9*	*5.2*	*34.8*	*31.4*	*(3.5)*
Property Investment	(%)	*23.3*	*23.8*	*(34.7)*	*(58.5)*	*(58.0)*	*26.4*	*6.7*	*(19.7)*
Construction	(%)	*14.7*	*10.4*	*7.1*	*(3.3)*	*(7.6)*	*13.6*	*9.4*	*(4.2)*
Trading & Manufacturing	(%)	*2.9*	*0.3*	*4.4*	*4.1*	*1.5*	*2.7*	*2.0*	*(0.7)*
Quarry	(%)	*4.0*	*4.1*	*(4.5)*	*(8.6)*	*(8.5)*	*4.0*	*1.6*	*(2.4)*
Healthcare		*13.7*	*(3.0)*	*(12.8)*	*(9.8)*	*(26.5)*	*13.0*	*(7.5)*	*(20.4)*
Others	(%)	*31.9*	*24.1*	*58.3*	*34.2*	*26.4*	*29.9*	*37.9*	*8.0*
Net margin	(%)	15.3	8.1	1.8	(6.3)	(13.6)	13.7	5.8	(7.9)
Effective tax rate	(%)	(5.5)	16.2	55.2	39.0	60.7	4.6	24.0	19.4

^Restated

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.

Disclaimer

As of Wednesday, August 26, 2020, 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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