

Sunway Bhd

Steady Recovery

TP: RM2.24 (+33.5%)

Last Traded: RM1.68

BUY (ESG: ★★★★★)

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Review

- Sunway's FY21 core net profit of RM350.1mn, came in above expectations, accounting for 115% and 114% of our and consensus' full-year forecasts, respectively. The outperformance was mostly attributed to the stronger-than-expected contribution from the healthcare segment and better margins. Note that our core net profit was derived after excluding the net gain on partial divestment of Sunway Healthcare of RM2.3bn and other non-core items.
- A second interim dividend of 1.5sen/share was declared in 4Q21, bringing its full-year dividend declared to 2.5sen/share. (FY20: 1.5sen/share).
- Revenue climbed 16% YoY to RM3.2bn in FY21, owing to increasing contributions from all business segments except property investment. Hospitality and leisure businesses within the group's property investment segment remained impacted by the economic disruptions induced by the Covid-19 pandemic. Despite greater top-line growth, FY21 core net profit increased by only 3% YoY to RM350.1mn, as FY20 results were buoyed by the lumpy recognition of development profits for Sunway Gardens Tianjin and Rivercove Residences Singapore totalling RM182.5mn.
- Sequentially, Sunway's 4Q21 core net profit grew 73% QoQ to RM140.1mn driven by a 45% growth in revenue. The stronger sequential performance was underpinned by resumption of economic activities following the easing of containment measures under the National Recovery Plan.
- Sunway secured RM437mn new property sales in 4Q21 (-19% QoQ, +14% YoY), bringing the FY21 sales to RM2.61bn (+97% YoY). This surpassed management's sales target of RM2.2bn but in-line with our projections of RM2.6bn. 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 93%-98% and 99%, respectively (**Figure 1**).

Impact

- We raise our FY22/23 sales assumptions to RM2.2bn/ RM2.3bn, up from RM2.1bn/RM2.2bn previously. Factoring in the revision in sales assumptions and the actual FY21 results, our FY22 and FY23 earnings forecasts are revised higher by 2% and 1.5% respectively. We introduce our FY24 net profit forecast of RM602.5mn (+7% YoY), which is expected to be driven by a more stable economic recovery.

Outlook

- Sunway is targeting new sales of RM2.2bn this year, underpinned by new projects worth RM2.3bn – see **Figure 2** and other existing projects. Of the RM2.3bn new launches, 59% of the total launches are comprised of

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)	2,172.3
Estimated Free Float (%)	25.7
Beta	0.6

Major Shareholders (%)

Sungei Way Corp (56.9)
EPF (8.6)

Forecast Revision

	FY21	FY22
Forecast Revision (%)	2.0	1.5
Net profit (RMmn)	523.1	563.6
Consensus	477.5	589.0
TA's / Consensus (%)	109.5	95.7
Previous Rating	Buy (Maintained)	

Financial Indicators

	FY21	FY22
Net gearing (%)	44.5	42.8
CFPS (sen)	10.5	5.0
P/CFPS (x)	16.0	33.8
ROE (%)	4.3	4.5
ROA (%)	2.1	2.3
NTA/Share (RM)	2.0	2.1
Price/NTA (x)	0.8	0.8

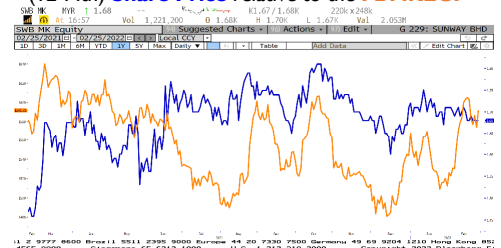
Scorecard

	% of FY	
vs TA	115.0	Above
vs Consensus	114.0	Above

Share Performance (%)

Price Change	SWB	FBM KLCI
1 mth	(1.2)	5.5
3 mth	0.0	4.9
6 mth	(5.1)	1.4
12 mth	12.8	0.6

(12-Mth) Share Price relative to the FBMKLCI



Source: Bloomberg

projects in Malaysia followed by 29% from Singapore and balance 12% from China.

- The group's unbilled sales of RM4.0bn and outstanding construction order book of RM2.3bn (external jobs only) should provide earnings visibility for the next 2-3 years.
- We view GIC's entry to Sunway Healthcare positively, not just purely from value-unlocking perspective, the transaction would also enable Sunway to: 1) utilise the investment proceeds to accelerate the group's hospital capacity expansion plan, and 2) tap on GIC's international experience and work together with GIC to achieve operational and financial excellence at Sunway Healthcare.

Valuation

- Rolled forward our base year valuation to CY23. We value the group's property development and property investment (exclude Sunway REIT) at 14x CY23 earnings, which is in line with our implied target PE for the larger cap developers. We value SunCon and Sunway REIT based on our TPs. As for the healthcare division, we peg the valuation to the effective equity value based on GIC's offer. Meanwhile, the trading & manufacturing and quarry division is valued at 10x earnings. All in, we arrive at a new target price of RM2.24. Reiterate Buy call on the stock.

SOP Valuation Table

	Stake	Value (RM mn)	RM/share	Valuation Methodology
Property Dev & Inv	100.0%	3,345.9	0.68	14x CY23 Earnings
SunCon	54.6%	1,087.1	0.22	TP of RM1.54
Sunway REIT	40.9%	2,213.2	0.45	TP of RM1.58
Healthcare	84.0%	3,937.5	0.81	Pegged to Effective Equity Value Based on GIC's Offer
Trading & Manufacturing	100.0%	320.6	0.07	10x CY23 Earnings
Quarry	100.0%	66.5	0.01	10x CY23 Earnings
Total		10,970.8	2.24	

Source: TA Research

Figure 1: 2021 Launches & Sales Performance

Development	Location	Type	GDV (RM mn)	Launch date and take up
Sunway Belfield Tower A			330	Launched in Jan - 21, 98% take up
Sunway Belfield Tower B	Jalan Belfield, KL	Service Apartments	360	Launched in Mar-21, 93% take up
Sunway Belfield Tower c			411	Soft launched in Dec-21, 14% take up
Sunway ARTESSA	Wangsa Maju, KL	Condominium	345	Previewed in Nov-21, 24% take up
Sunway D' Hills	Kota Damansara, KL	Service Residences & Retail	258	Previewed in Nov-21, 30% take up
Sunway Velocity Two (Tower D)	Jalan Peel, KL	Service Apartments	406	Soft launched in Dec-21, 13% take up
Parc Central Residences	Tampines, Singapore	Executive Condominium	968	Launched in Jan-21, 99% take up
Sunway Gardens Phase 3	Tianjin, China	Condominium	129	Launched in Dec-21
Total Launches in 2021			3,207	

Source: Sunway, TA Research

Figure 2: 2022 Indicative Launches

Development	Location	Type	GDV (RM mn)
Jernih Residence	Kajang, Selangor	Serviced Apartments & Retail	281
Sunway Bukit Jalil	Bukit Jalil, KL	Serviced Apartments	275
Sunway Alishan	Cheras, KL	Condominium & Superlinks	261
Project L5 (to be named)	Sunway Iskandar Puteri, Johor	Landed Linked Homes	213
Sunway Lenang Heights	Taman Molek, Johor Bahru	Semi Ds and Bungalows	93
Sunway City Ipoh	Sunway City Ipoh, Perak	Townhouses	75
Sunway Wellesley	Bukit Mertajam, Penang	Townhouses	120
Sunway Dora	Bayan Baru, Penang	Condominium	71
Flynn Park	Pasir Panjang, Singapore	Private Condominiums	676
Sunway Gardens	Tianjin, China	Condominium	276
Total Launches in 2022			2,341

Source: Sunway, TA Research

Earnings Summary (RM mn)

YE Dec 31 (RM'mn)	2020 [^]	2021	2022F	2023F	2024F
Revenue	3,208.8	3,714.2	4,674.8	4,927.1	5,004.5
EBITDA	376.5	457.7	590.4	608.2	584.3
EBITDA margin (%)	11.7	12.3	12.6	12.3	11.7
Pretax profit	494.8	465.7	680.7	745.1	770.5
Reported Net profit	340.3	2,665.4	523.1	563.6	602.5
Net profit -adj	362.0	350.1	523.1	563.6	602.5
EPS (sen)	7.3	45.4	8.9	9.6	10.3
EPS - adj (sen)	7.3	6.0	8.9	9.6	10.3
EPS Growth (Core) (%)	49.6	(18.2)	49.4	7.7	6.9
PER (x)	23.0	28.2	18.8	17.5	16.4
GDPS (sen)	1.5	2.5	3.0	3.5	3.5
Div Yield (%)	0.9	1.5	1.8	2.1	2.1
ROE (%)	4.0	3.2	4.3	4.5	4.7

[^] Restated

Note: Following the partial divestment, Sunway Healthcare is presented as discontinued operations in FY20 & FY21. For FY22 onwards, Sunway will recognise its share of the profit or loss in Sunway Healthcare (84% stake on a fully converted basis) under the equity method of accounting.

4Q21 Results Analysis (RM mn)

YE 31 Dec (RM'mn)	4Q20 [^]	3Q21	4Q21	QoQ (%)	YoY (%)	FY20 [^]	FY21	YoY(%)	
Continuing Operations									
Revenue	1,095.7	856.9	1,243.8	45.2	13.5	3,208.8	3,714.0	15.7	
Property Development	183.9	197.1	182.6	(7.3)	(0.7)	494.6	624.2	26.2	
Property Investment	42.2	58.0	133.4	>100	>100	330.1	312.3	(5.4)	
Construction	424.6	192.7	379.6	97.0	(10.6)	990.2	1,111.7	12.3	
Trading & Manufacturing	245.8	186.4	229.9	23.3	(6.5)	812.1	839.8	3.4	
Quarry	109.8	84.3	105.7	25.4	(3.7)	321.4	337.6	5.0	
Others	89.5	138.4	212.6	53.6	137.5	260.3	488.3	87.6	
Operating profits	26.7	51.5	237.1	>100	>100	232.7	327.1	40.6	
Finance income	50.1	40.7	37.8	(7.2)	(24.6)	162.8	157.2	(3.4)	
Finance costs	(5.2)	(28.6)	(34.9)	22.3	566.3	(136.2)	(102.3)	(24.9)	
Associates	15.4	21.8	8.6	(60.5)	(44.2)	63.2	62.7	(0.8)	
JV	149.2	(1.0)	8.1	>100	(94.5)	167.7	21.0	(87.5)	
EI	(38.7)	0.0	29.2	nm	(175.5)	(4.7)	29.2	>100	
PBT	236.2	84.4	256.6	>100	8.7	490.1	465.7	(5.0)	
Core PBT	274.9	84.4	227.4	>100	(17.2)	494.8	436.5	(11.8)	
Property Development	222.2	44.6	64.4	44.2	(71.0)	291.9	152.6	(47.7)	
Property Investment	(40.6)	(12.3)	7.6	>100	>100	(22.7)	(37.5)	65.2	
Construction	39.0	21.4	91.1	>100	>100	105.1	148.8	41.6	
Trading & Manufacturing	11.0	6.7	9.0	35.7	(18.1)	24.5	37.9	54.7	
Quarry	5.6	2.5	4.4	77.4	(21.3)	14.8	9.4	(36.5)	
Others	37.7	21.6	50.9	136.3	35.2	81.3	125.5	54.4	
Tax	(45.4)	(18.6)	(73.0)	>100	61.0	(102.6)	(116.2)	13.2	
MI	(13.7)	(14.1)	(28.7)	>100	>100	(47.2)	(55.1)	16.6	
Net profit from continuing operations	177.1	51.8	154.9	>100	(12.6)	340.3	294.4	(13.5)	
Core net profit from continuing operations (a)	215.8	51.8	125.7	>100	(41.8)	345.0	265.2	(23.1)	
Discontinued Operations									
Profit from discontinued operations, net of tax	22.5	29.3	33.7	14.8	50.0	17.4	104.4	>100	
Net gain arising from partial divestment of Sunway Healthcare	0.0	0.0	2,286.1	nm	nm	0.0	2,286.1	nm	
MI	(0.3)	(0.0)	(19.3)	nm	nm	(0.4)	(19.5)	>100	
Profits from discontinued operations	22.2	29.3	2,300.5	>100	>100	17.0	2,371.0	>100	
Core net profit from continuing operations (b)	22.2	29.3	14.4	(50.9)	(35.0)	17.0	84.9	>100	
Core net profit (a + b)	238.0	81.1	140.1	72.7	(41.1)	362.0	350.1	(3.3)	
Reported EPS	(sen)	3.9	1.4	41.9	>100	>100	7.2	45.4	>100
Adj EPS	(sen)	4.6	1.4	2.4	72.7	(48.4)	7.3	6.0	(18.2)
DPS	(sen)	1.5	0.0	1.5	nm	0.0	1.5	2.5	66.7
Core PBT margin	(%)	25.1	9.8	18.3	8.4	(6.8)	15.4	11.8	(3.7)
Property Development	(%)	120.9	22.6	35.2	12.6	(85.6)	59.0	24.4	(34.6)
Property Investment	(%)	(96.2)	(21.2)	5.7	26.9	101.9	(6.9)	(12.0)	(5.1)
Construction	(%)	9.2	11.1	24.0	12.9	14.8	10.6	13.4	2.8
Trading & Manufacturing	(%)	4.5	3.6	3.9	0.4	(0.6)	3.0	4.5	1.5
Quarry	(%)	5.1	2.9	4.2	1.2	(0.9)	4.6	2.8	(1.8)
Others	(%)	42.1	15.6	24.0	8.4	(18.2)	31.2	25.7	(5.5)
Core net margin	(%)	21.7	9.5	11.3	1.8	(10.5)	11.3	9.4	(1.9)
Effective tax rate	(%)	(19.2)	(22.0)	(28.5)	(6.5)	(9.3)	(20.9)	(25.0)	(4.0)

[^]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.

Disclaimer

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As of Monday, February 28, 2022, 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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