

### COMPANY RESULTS

#### Sunway Bhd (SWB MK)

3Q20: In Line; Set To Grow Stronger

Sunway's 9M20 core net profit is in line and dropped 55% yoy as most of its businesses are vulnerable and have been severely affected by the COVID-19 pandemic and the MCO. The gradual recovery and resumption of its businesses in 3Q20 has led to a significant improvement of earnings in the quarter (qoq), and are expected to remain steady in the coming quarters, driven by improvements in its property, construction and healthcare arms. Maintain BUY and target price of RM1.57.

#### 3Q20 RESULTS

Year to 31 Dec	3Q20 (RMm)	2Q20 (RMm)	qoq % chg	yoy % chg	9M20 (RMm)	yoy % chg
<b>Revenue</b>	<b>1,027.2</b>	<b>556.6</b>	<b>84.5</b>	<b>(16.2)</b>	<b>2,555.3</b>	<b>(25.4)</b>
Construction	255.0	92.6	175.6	(19.2)	565.6	(40.8)
Property Development	103.4	68.1	51.8	(18.1)	310.8	(5.2)
Investment Property	98.1	55.5	76.7	(53.2)	287.9	(50.6)
<b>Pre-tax profit</b>	<b>171.3</b>	<b>10.1</b>	<b>1596.8</b>	<b>(23.3)</b>	<b>289.3</b>	<b>(55.8)</b>
- Construction	37.0	6.6	463.7	11.6	66.1	(45.1)
- Property Development	25.0	25.9	(3.6)	(57.7)	90.0	(30.3)
- Investment Property	63.0	(35.8)	(276.2)	(5.9)	59.2	(76.0)
Net profit	132.8	(6.7)	(2078.6)	(27.6)	204.4	(63.9)
Core net profit	132.8	9.8	1257.1	(27.6)	220.9	(54.5)
<b>Margins (%)</b>	<b>%</b>	<b>%</b>	<b>qoq ppt chg</b>	<b>yoy ppt chg</b>		<b>yoy ppt chg</b>
Pre-tax - Construction	14.5	7.1	7.4	4.0	11.7	(0.9)
Pre-tax - Property Development	24.1	38.0	(13.9)	(22.6)	29.0	(10.5)

Source: Sunway, UOB Kay Hian

#### RESULTS

• **In line, back on track.** Sunway Bhd (Sunway) reported a 3Q20 net profit of RM133m (+12x qoq, -28% yoy) on revenue of RM1b (+84% qoq, -16% yoy). 9M20 core PBT (excluding associates fair value losses of RM16.5m) came in at 61% of our full-year estimates. We deemed the results to be in line with our expectations as we expect 4Q20 to be better (qoq), underpinned by the resumption of its key businesses ie construction and property businesses. Its China property project (unbilled sales of RM198m) is slated for delivery from 4Q20 onwards, but this will be partly offset by its leisure business which will be affected by the conditional movement control order (CMCO) which was implemented in end-Oct 20. Separately, most of its core businesses have gradually improved in 3Q20 (qoq) following the lifting of the movement control order (MCO) in mid-May 20.

#### KEY FINANCIALS

Year to 31 Dec (RMm)	2018	2019	2020F	2021F	2022F
Net turnover	5,410	4,780	4,123	4,920	5,565
EBITDA	522	599	616	812	950
Operating profit	378	364	408	601	737
Net profit (rep./act.)	646	767	364	551	678
Net profit (adj.)	578	695	364	551	678
EPS (sen)	11.3	12.6	6.7	10.1	12.3
PE (x)	12.1	10.8	20.4	13.5	11.0
P/B (x)	0.8	0.7	0.7	0.7	0.6
EV/EBITDA (x)	22.1	19.2	18.7	14.2	12.1
Dividend yield (%)	3.5	4.2	1.6	3.3	4.1
Net margin (%)	11.9	16.0	8.8	11.2	12.2
Net debt/(cash) to equity (%)	54.4	46.6	42.5	37.6	31.9
Interest cover (x)	n.a.	n.a.	4.8	7.0	9.7
ROE (%)	7.7	8.6	3.8	5.5	6.6
Consensus net profit	-	-	390	554	617
UOBKH/Consensus (x)	-	-	0.93	1.00	1.10

Source: Sunway, Bloomberg, UOB Kay Hian

### BUY

(Maintained)

Share Price	RM1.36
Target Price	RM1.57
Upside	+15.6%

#### COMPANY DESCRIPTION

Sunway is a leading construction company and property developer in Malaysia.

#### STOCK DATA

GICS sector	Real Estate
Bloomberg ticker:	SWB MK
Shares issued (m):	4,888.9
Market cap (RMm):	6,648.9
Market cap (US\$m):	1,634.2
3-mth avg daily t'over (US\$m):	1.1

#### Price Performance (%)

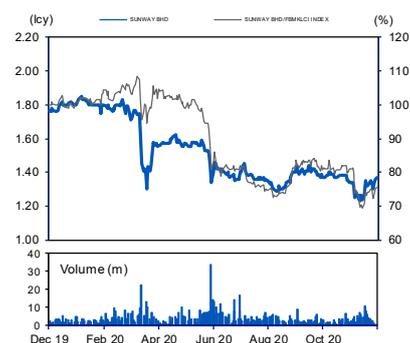
52-week high/low	RM1.85/RM1.23			
<b>1mth</b>	<b>3mth</b>	<b>6mth</b>	<b>1yr</b>	<b>YTD</b>
0.7	(2.2)	(9.9)	(23.6)	(24.4)

#### Major Shareholders

Sungei Way Corp Sdn Bhd	51.6
Skim Amanah Saham Bumiputera	5.7
Sharp Ventures Sdn Bhd	4.0

FY20 NAV/Share (RM)	1.99
FY20 Net Debt/Share (RM)	0.85

#### PRICE CHART



Source: Bloomberg

#### ANALYST(S)

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- Property development: Overseas property delivery from 4Q20 onwards.** PBT for property development arm of RM90m (-30% yoy) was dragged by the MCO, resulting in lower property sales and progress billings. Sequentially, 9M20 PBT margin eased by 10.5ppt to 29%. Despite the MCO directly impacting its 9M20 performance, we anticipate the property handovers in Singapore and China from 4Q20 onwards, coupled with accelerated billings of its unbilled sales of RM2.5b (effective stake), to positively contribute to bottom-line from 4Q20 onwards.
- Healthcare: Slowly improving post MCO.** The healthcare arm has reported improved 3Q20 PBT of RM15m (+197% qoq, -2% yoy) thanks to a higher number of admission and outpatient treatments for Sunway Medical Centre (SMC) during the recovery MCO period. Also, Sunway Velocity Medical Centre (SVMC) reported lower operating losses in 3Q20 of RM6.6m (vs RM9.5m in 2Q20). The overall healthcare business reported 9M20 LBT of RM5m (vs 9M19 PBT of RM50.5m) dragged by the MCO ruling imposed in 2Q20, while 9M20 operating margin is down to 1.5% from 10.8% for 9M19 period.
- Construction.** The segment's 9M20 core net profit declined 44% yoy on lower billings from its construction orderbook backlog and margin contraction as a result of the MCO impact from mid-Mar 20. On the bright side, construction activities have returned to near pre-MCO levels in 3Q20 as reflected by 3Q20 PBT. To date, Sunway Construction has secured new job wins of RM2b with outstanding orderbook of RM5.3b as of end-Sep 20.

### STOCK IMPACT

- Property development: Good sales take-up in Singapore.** As of end-Sep 20, Sunway's international property sales (ie Singapore) boosted its 9M20 overall property sales to RM809m (effective stake), while its unbilled sales stood at RM2.5b (effective stake). Amid the challenging period ahead, the company had earlier revised down its sales target to RM1.1b (effective stake) for 2020, underpinned by new launches worth RM2.2b (effective stake) with RM660m targeted to come from Malaysia and RM1.6b from Singapore. On the local front, Sunway applauds the government's recent move of reintroducing the House Ownership Campaign and lifting a few of the cooling measures such as real property gain tax and 70% loan to value. These initiatives could provide short-term relief and boost domestic property sales of local developers, including Sunway.
- Recovery is on its way post MCO.** We understand that occupancy rate in Aug-Sep 20 improved to 60-70% of pre MCO levels, while there has been similar improvement seen for Sunway's elective surgery cases. However, due to the recent spike in new COVID-19 cases, Sunway believes its healthcare business is likely to be affected by lower outpatient treatment and elective surgeries. Meanwhile, from our checks, insurance claims payout for most medical centres in Klang Valley has dropped (yoy) including for SMC and SVMC. However, we anticipate it to normalise in the coming months post CMCO. Separately, we reckon SVMC will continue to report losses in 4Q20 (qoq) but will see a gradual recovery thereafter due to the diseconomies of scale while booking lower margin treatments.
- REITs – resilient office segment.** Currently, offices in Sunway City are fully occupied and we understand Sunway (being the sponsor of Sunway REIT) is also looking to develop another office building to capture future demand for office space in Sunway City. Separately, we reckon that Sunway REIT's offices in the Kuala Lumpur city centre may experience a higher occupancy rate in the upcoming quarters as we understand selected offices in the city centre have received a higher-than-usual number of enquiries since the pandemic struck. As previously highlighted, we expect a modest recovery in the office segment as businesses observe physical distancing. Meanwhile, we anticipate both retail mall and hotel businesses to take longer to recover amid the increasing number of COVID-19 cases nationwide.

### EARNINGS REVISION/RISK

- No changes in earnings.

### VALUATION/RECOMMENDATION

- Maintain BUY and target price of RM1.57.** Our target price is based on a 15% discount to our SOTP valuation of RM1.86/share (post dilution of warrants) and implies 14x 2021F PE (+0.8SD to 3-year average PE of 13x). Our target price factors in the potential value of its healthcare division that could be worth RM1.3b based on a conservative PE of 25x and 2021F healthcare net profit of RM50m (representing RM0.25/share).

There should be further upside to our target price should the 25% stake divestment of its healthcare business raise an amount that is higher than our current estimates. Based on the hypothetical valuation from Bloomberg of US\$250m (25% stake divestment), that could lift our healthcare valuation estimates to RM0.61/share based on 75% stake. Post a 25% stake divestment (from RM0.25/share) of its healthcare business, TP will be increased to RM1.84 (from RM1.57) based on 15% discount to SOTP valuation.

### SOTP VALUATION

	(RMm)	Remarks
Property development	4,253	Property RNAV
REIT	1,807	Valuation based on TP of RM1.50, based on DDM
Construction	1,195	Valuation based on TP of RM1.70, 13x 2021F PE
Quarry & building materials	93	10x PE pegged to 2021F quarry profits
Trading	439	10x PE pegged to 2021F trading profits
Investment Properties	641	
Healthcare	1,250	Valuation based on 25x PE on 2021F profit of RM50m
Less: Holding co debt	(404.3)	
<b>Total SOTP value (A)</b>	<b>9,273</b>	
Share base (m) (B)	4,918	
Warrants proceeds (C)	908.6	Conservatively assumes conversion price at RM1.44/share (expiring in Oct 24)
<b>Total SOTP value post warrants proceeds (A+C)</b>	<b>10,181</b>	
Enlarged share base (m)	5,549	
SOTP/share (RM)	1.83	
Discount	15%	
<b>Target price (RM)</b>	<b>1.57</b>	

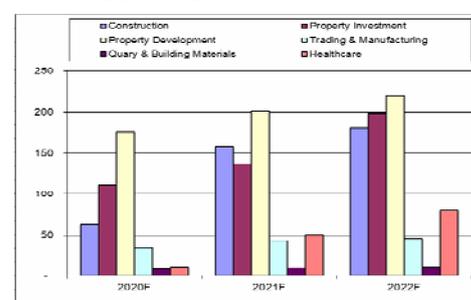
Source: UOB Kay Hian

### SUNWAY ICPS SNAPSHOT

	Descriptions
Tenure	5 years
Dividend rate	5.25%
Allotment	One ICPS for every 5 existing ordinary shares
Conversion of ICPS	Mandatory – At least 50% of outstanding ICPS to be converted on year 4. The balance in year 5
Proceeds	RM613m (min) to RM1.1b (max)
Utilization	Repay borrowings (RM232-733m) Capex for hospital (RM200m) Property development & Investment (RM179m)

Source: Sunway, UOB Kay Hian

### SUNWAY EBIT FORECASTS



Source: Sunway, UOB Kay Hian

### KEY ASSUMPTIONS

(RMm)	2020	2021	2022
Property sales target	1,000	1,000	1,000
Construction orderbook replenishment	1,900	1,700	1,700
Healthcare profits	15	50	80

Source: Sunway, UOB Kay Hian

### PROFIT & LOSS

Year to 31 Dec (RMm)	2019	2020F	2021F	2022F
<b>Net turnover</b>	<b>4,780</b>	<b>4,123</b>	<b>4,920</b>	<b>5,565</b>
EBITDA	599	616	812	950
Deprec. & amort.	235	208	211	214
EBIT	364	408	601	737
Total other non-operating income	202	n.a.	n.a.	n.a.
Associate contributions	261	243	262	262
Net interest income/(expense)	88	(129)	(115)	(98)
<b>Pre-tax profit</b>	<b>914</b>	<b>522</b>	<b>748</b>	<b>901</b>
Tax	(78)	(89)	(127)	(153)
Minorities	(69)	(69)	(69)	(69)
<b>Net profit</b>	<b>767</b>	<b>364</b>	<b>551</b>	<b>678</b>
Net profit (adj.)	695	364	551	678

### BALANCE SHEET

Year to 31 Dec (RMm)	2019	2020F	2021F	2022F
Fixed assets	2,753	2,795	2,834	2,870
Other LT assets	10,534	10,534	10,534	10,534
Cash/ST investment	5,889	6,171	6,532	6,972
Other current assets	4,382	4,382	4,382	4,382
<b>Total assets</b>	<b>23,558</b>	<b>23,882</b>	<b>24,282</b>	<b>24,758</b>
ST debt	7,417	7,417	7,417	7,417
Other current liabilities	2,791	2,791	2,791	2,791
LT debt	2,919	2,919	2,919	2,919
Other LT liabilities	259	259	259	259
Shareholders' equity	9,542	9,797	10,128	10,535
Minority interest	631	701	770	839
<b>Total liabilities &amp; equity</b>	<b>23,558</b>	<b>23,882</b>	<b>24,282</b>	<b>24,758</b>

### CASH FLOW

Year to 31 Dec (RMm)	2019	2020F	2021F	2022F
<b>Operating</b>	<b>925</b>	<b>641</b>	<b>832</b>	<b>962</b>
Pre-tax profit	914	522	748	901
Tax	(125)	(89)	(127)	(153)
Deprec. & amort.	235	208	211	214
Associates	(4)	0	0	0
Working capital changes	(177)	0	0	0
Other operating cashflows	82	0	0	0
<b>Investing</b>	<b>(924)</b>	<b>(250)</b>	<b>(250)</b>	<b>(250)</b>
Capex (growth)	(336)	(250)	(250)	(250)
Investments	(4)	0	0	0
Proceeds from sale of assets	0	0	0	0
Others	(584)	0	0	0
<b>Financing</b>	<b>658</b>	<b>(109)</b>	<b>(221)</b>	<b>(271)</b>
Dividend payments	(308)	(109)	(221)	(271)
Issue of shares	0	0	0	0
Proceeds from borrowings	667	0	0	0
Loan repayment	0	0	0	0
Others/interest paid	299	0	0	0
<b>Net cash inflow (outflow)</b>	<b>659</b>	<b>282</b>	<b>361</b>	<b>440</b>
<b>Beginning cash &amp; cash equivalent</b>	<b>2,508</b>	<b>3,171</b>	<b>3,453</b>	<b>3,814</b>
Changes due to forex impact	2,721	2,718	2,718	2,718
<b>Ending cash &amp; cash equivalent</b>	<b>5,889</b>	<b>6,171</b>	<b>6,532</b>	<b>6,972</b>

### KEY METRICS

Year to 31 Dec (%)	2019	2020F	2021F	2022F
<b>Profitability</b>				
EBITDA margin	12.5	14.9	16.5	17.1
Pre-tax margin	19.1	12.7	15.2	16.2
Net margin	16.0	8.8	11.2	12.2
ROA	3.4	1.5	2.3	2.8
ROE	8.6	3.8	5.5	6.6
<b>Growth</b>				
Turnover	(11.6)	(13.7)	19.3	13.1
EBITDA	14.8	3.0	31.7	17.1
Pre-tax profit	9.3	(42.9)	43.3	20.5
Net profit	18.8	(52.5)	51.5	23.0
Net profit (adj.)	20.2	(47.6)	51.5	23.0
EPS	12.0	(47.2)	50.6	22.8
<b>Leverage</b>				
Debt to total capital	50.4	49.6	48.7	47.6
Debt to equity	108.3	105.5	102.0	98.1
Net debt/(cash) to equity	46.6	42.5	37.6	31.9
Interest cover (x)	n.a.	4.8	7.0	9.7