

### COMPANY RESULTS

## Sunway Bhd (SWB MK)

1Q21: Below Expectations; Strong Sales To Drive Future Earnings

Sunway reported a softer 1Q21 core net profit of RM58.4m (-6% yoy) due to slower progress billing and lower associates' profit. While 1Q21 made up only 12% of our full year estimates, we believe strong property sales in local and overseas projects will drive future earnings. The 2022 outlook is underpinned by a strong recovery in overseas' (China and Singapore) property and the reopening of the economy. Maintain BUY with an unchanged target price of RM1.92, factoring in a normalised earnings in 2022.

### 1Q21 RESULTS

Year to 31 Dec	1Q21 (RMm)	1Q20 (RMm)	qoq % chg	yoy % chg
Revenue	1016.7	971.4	(20.4)	4.7
Construction	321.4	218.0	(24.3)	47.4
Property Development	97.2	139.2	(47.3)	(30.2)
Healthcare	170.6	149.2	(4.1)	14.4
Pre-tax profit	87.2	93.5	25.9	(6.8)
- Construction	27.7	22.6	(28.9)	22.6
- Property Development	20.7	36.1	(42.7)	(37.1)
- Healthcare	14.0	(4.5)	(37.7)	->100
Core net profit	58.4	62.4	16.7	(6.3)
<b>Margins (%)</b>	<b>%</b>	<b>%</b>	<b>qoq ppt chg</b>	<b>yoy ppt chg</b>
Pre-tax - Construction	8.6	10.4	(0.6)	(1.7)
Pre-tax - Property Development	21.3	28.1	1.7	(2.3)

Source: Sunway, UOB Kay Hian

### RESULTS

- Below expectations.** Sunway Berhad (Sunway) reported 1Q21 core net profit of RM58.4m (-6% yoy, +17% qoq) with revenue increasing 5% yoy but 20% qoq lower amid slower progress billings from local property and construction projects. Lower interest income (-54% yoy, -24% qoq), and lower share of associates' profit (-39% yoy, -85% qoq) contributed to lower yoy earnings. 1Q21 earnings made up only 12% and 11% of our and the street's full year forecasts. The discrepancy was mainly due to lower-than-expected EBIT margin.
- Strong property sales of RM1.13b to drive future earnings.** Sunway achieved RM1.13b in effective property sales in 1Q21, which made up 80% of its full-year target of RM1.4b. This was mainly contributed by the strong take-up rate in Belfield and Singapore's Parc Central Residence. We expect higher 2021 sales targets given more launches in the Central region (RM790m GDV) and China (RM780m GDV) this year.

### KEY FINANCIALS

Year to 31 Dec (RMm)	2019	2020	2021F	2022F	2023F
Net turnover	4,780	3,833	4,580	5,439	6,097
EBITDA	800	475	586	773	896
Operating profit	566	251	386	561	668
Net profit (rep./act.)	705	360	426	566	650
Net profit (adj.)	777	304	426	566	650
EPS (sen)	15.8	6.1	8.6	11.4	13.1
PE (x)	10.5	27.1	19.3	14.6	12.7
P/B (x)	1.0	0.9	0.8	0.8	0.8
EV/EBITDA (x)	18.5	31.2	25.3	19.1	16.5
Dividend yield (%)	5.5	0.9	2.1	2.7	3.2
Net margin (%)	14.8	9.4	9.3	10.4	10.7
Net debt/(cash) to equity (%)	68.5	55.3	59.6	63.0	64.9
Interest cover (x)	16.7	8.8	(42.2)	(13.0)	(9.3)
ROE (%)	8.4	4.0	4.4	5.7	6.3
Consensus net profit	-	-	528	607	671
UOBKH/Consensus (x)	-	-	0.81	0.93	0.97

Source: Sunway, Bloomberg, UOB Kay Hian

## BUY

(Maintained)

Share Price	RM1.66
Target Price	RM1.92
Upside	+15.7%
(Previous TP)	RM1.80

### COMPANY DESCRIPTION

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):	8,115.6
Market cap (US\$m):	1,958.6
3-mth avg daily t'over (US\$m):	1.1

### Price Performance (%)

52-week high/low RM1.75/RM1.23

1mth	3mth	6mth	1yr	YTD
0.6	10.7	24.8	8.5	3.1

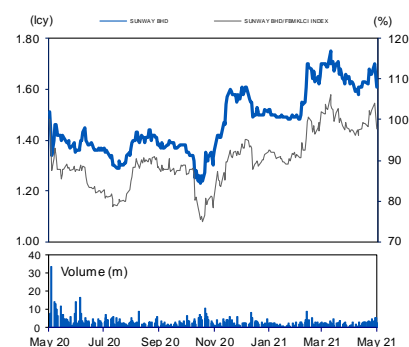
### Major Shareholders

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

FY21 NAV/Share (RM) 1.97

FY21 Net Debt/Share (RM) 1.17

### PRICE CHART



Source: Bloomberg

### ANALYST(S)

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### STOCK IMPACT

- Property development: Strong sales momentum; lumpy earnings from 2022 onwards.** 1Q21 PBT for its property development arm of RM20.7m (-47% yoy, -42% qoq) was mainly dragged by slower progress billing due to the reimplementation of the Movement Control Order (MCO). Given that total sales of RM1.13b was achieved in 1Q21, we expect the group to set a higher sales target for 2021 gauging from 1Q21's encouraging property sales/bookings momentum. This is also underpinned by resilient markets in both China and Singapore (which account for 60% of 2021 target launches) as the economies and business sentiments in these countries have recovered swiftly given the effective containment of COVID-10 cases/infections. However, lumpy earnings from two Singapore projects (Parc Canberra and Parc Central Tampanies) that launched recently will be recognised in 2022 upon project completion amid the adoption of MFRS15.
- Construction. Productivity level impacted by MCO.** Construction PBT was 23% yoy higher and 29% qoq lower. The weaker earnings qoq came as SunCon's productivity level dropped to 50% of the pre-pandemic level in Jan 21 (from 100% in 4Q20), gradually recovering to 80% in Feb 21 as the government eased restrictions. A thinner margin was also attributed to the competitive construction landscape. The group has secured RM462m worth of new contracts ytd (23% of its 2021 replenishment target) with an outstanding order book of RM5b.
- Healthcare: Diversifying into the pharmacy business.** The healthcare arm reported 1Q21 PBT of RM14m (-38% qoq) from LBT of RM4.5b in 1Q20, while revenue was 14% yoy higher due to the higher number of admissions and outpatient treatments, and lower operating losses from Sunway Velocity Medical Centre 1Q21 of RM4.2m (1Q20: -RM11.9m). Recently, Sunway has announced its plan to acquire a majority stake in Multicare Health Pharmacy with 76 retail outlets across six states nationwide. While no acquisition details were publicised, we expect this to further complement its existing healthcare service with the aim of an IPO listing eventually.
- Investment Property: Not out of the woods yet.** 1Q21 the LBT of RM16.9m (4Q20 LBT: RM 83m, 1Q20 PBT: RM32m) was mainly impacted by the continuous weak performance in the leisure and hospitality industry due to operations closures and low visitor arrivals. Sunway REIT was also affected due to lower rental income from its retail and hotel segments. With the nationwide MCO in place, tenant sales and footfall in the retail segment were adversely affected. We believe recovery in this segment will take longer than expected.

### EARNINGS REVISION/RISK

- Cut 2021 earnings by 16% to account for MCO impacted lower revenue across all divisions and lower-than-expected margin.**
- 2022 outlook.** Earnings are expected to recover about 30% yoy in 2022, This is underpinned by an effective unbilled sale of RM2.8b with strong recovery in overseas' property market (China and Singapore), and resilient performance from its core businesses - property development, construction and healthcare. However, we believe that earnings from overseas projects will be recognised in 2022 upon project completion.
- Key risks** include: a) prolonged stricter lockdown may dampen consumer sentiment on big ticket items, b) downward revision of economic outlook, c) lower-than-expected sales, d) no extension of HOC.

### VALUATION/RECOMMENDATION

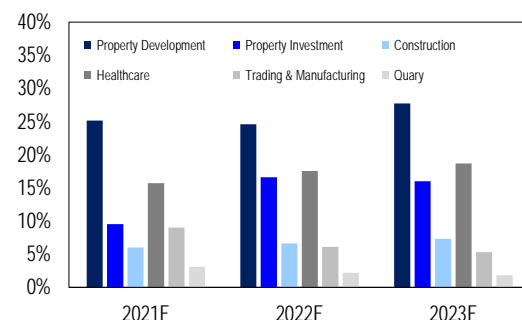
- Maintain BUY with an unchanged target price of RM1.92**, based on a 15% discount to our SOTP-based valuation of RM2.26/share (post dilution of warrants), where we pegged valuation to normalised earnings in 2022. Our target price implies its five-year mean valuation of 0.9x PB and 15.5x PE.

### SOTP-BASED VALUATION

	(RMm)	Remarks
Property development	3,481	20% discount to property RNAV
REIT (40.9% stake)	1,867	Valuation based on target price of RM1.55, based on DDM
Construction (54.4% stake)	1,054	Valuation based on target price of RM1.50, 13x 2021F PE
Quarry & building materials	274.8	8x PE 2022F quarry profits
Trading	274.2	8x PE 2022F trading profits
Investment Properties	1,372	
Healthcare	2,948	30x PE 2022F profit of RM98m
Less: Holding co (debt)/ cash	287.7	
<b>Total SOTP value (A)</b>	<b>11,560</b>	
Share base (m) (B)	4,963	
Warrants proceeds (C)	1,060	Assume conversion price at RM1.68/share (expiring in Oct 24)
<b>Total SOTP value post warrants proceeds (A+C)</b>	<b>12,651</b>	
Enlarged share base (m)	5,549	
<b>SOTP/share (RM)</b>	<b>2.26</b>	
Discount	15%	
<b>Target price (RM)</b>	<b>1.92</b>	

Source: Sunway, UOB Kay Hian

### % OF EBIT BY SEGMENT



Source: Sunway, UOB Kay Hian

### KEY ASSUMPTIONS

(RMm)	2021F	2022F	2023F
Property sales target	1,200	1,200	1,200
Construction orderbook replenishment	1,800	2,000	2,000
Healthcare profits	61	98	125

Source: Sunway, UOB Kay Hian

### PROFIT & LOSS

Year to 31 Dec (RMm)	2020	2021F	2022F	2023F
<b>Net turnover</b>	<b>3,833</b>	<b>4,580</b>	<b>5,439</b>	<b>6,097</b>
EBITDA	475	586	773	896
Deprec. & amort.	224	200	213	227
EBIT	251	386	561	668
Associate contributions	230	225	259	285
Net interest income/(expense)	28	(9)	(43)	(72)
<b>Pre-tax profit</b>	<b>509</b>	<b>602</b>	<b>777</b>	<b>881</b>
Tax	(102)	(121)	(156)	(176)
Minorities	(48)	(55)	(55)	(55)
<b>Net profit</b>	<b>360</b>	<b>426</b>	<b>566</b>	<b>650</b>
Net profit (adj.)	304	426	566	650

### BALANCE SHEET

Year to 31 Dec (RMm)	2020	2021F	2022F	2023F
<b>Fixed assets</b>	<b>6,446</b>	<b>6,566</b>	<b>6,734</b>	<b>6,934</b>
Other LT assets	7,602	7,828	8,087	8,372
Cash/ST investment	2,237	1,772	1,339	1,018
Other current assets	4,834	5,718	6,737	7,517
<b>Total assets</b>	<b>21,119</b>	<b>21,884</b>	<b>22,897</b>	<b>23,840</b>
ST debt	5,132	5,132	5,132	5,132
Other current liabilities	2,696	3,054	3,558	3,928
LT debt	2,374	2,470	2,584	2,712
Other LT liabilities	585	585	585	585
Shareholders' equity	9,535	9,790	10,130	10,520
Minority interest	797	852	907	962
<b>Total liabilities &amp; equity</b>	<b>21,119</b>	<b>21,884</b>	<b>22,897</b>	<b>23,840</b>

### CASH FLOW

Year to 31 Dec (RMm)	2020	2021F	2022F	2023F
<b>Operating</b>	<b>828</b>	<b>(61)</b>	<b>103</b>	<b>310</b>
Pre-tax profit	509	602	777	881
Tax	(71)	(121)	(156)	(176)
Deprec. & amort.	224	200	213	227
Associates	(230)	(225)	(259)	(285)
Working capital changes	67	(527)	(515)	(409)
Non-cash items	329	9	43	72
<b>Investing</b>	<b>(885)</b>	<b>(321)</b>	<b>(381)</b>	<b>(427)</b>
Capex (growth)	(527)	(321)	(381)	(427)
Investments	(204)	0	0	0
Proceeds from sale of assets	457	0	0	0
Others	(610)	0	0	0
<b>Financing</b>	<b>(178)</b>	<b>(84)</b>	<b>(155)</b>	<b>(204)</b>
Dividend payments	(254)	(171)	(226)	(260)
Issue of shares	0	0	0	0
Proceeds from borrowings	1,144	96	114	128
Others/interest paid	(1,069)	(9)	(43)	(72)
<b>Net cash inflow (outflow)</b>	<b>(235)</b>	<b>(465)</b>	<b>(433)</b>	<b>(321)</b>
<b>Beginning cash &amp; cash equivalent</b>	<b>2,455</b>	<b>2,237</b>	<b>1,772</b>	<b>1,339</b>
Changes due to forex impact	17	0	0	0
<b>Ending cash &amp; cash equivalent</b>	<b>2,237</b>	<b>1,772</b>	<b>1,339</b>	<b>1,018</b>

### KEY METRICS

Year to 31 Dec (%)	2020	2021F	2022F	2023F
<b>Profitability</b>				
EBITDA margin	12.4	12.8	14.2	14.7
Pre-tax margin	13.3	13.1	14.3	14.5
Net margin	9.4	9.3	10.4	10.7
ROA	1.7	2.0	2.5	2.8
ROE	4.0	4.4	5.7	6.3
<b>Growth</b>				
Turnover	(19.8)	19.5	18.8	12.1
EBITDA	(40.6)	23.4	32.0	15.8
Pre-tax profit	(40.9)	18.2	29.0	13.5
Net profit	(49.0)	18.6	32.8	14.8
Net profit (adj.)	(60.9)	40.4	32.8	14.8
EPS	(61.3)	40.4	32.8	14.8
<b>Leverage</b>				
Debt to total capital	42.1	41.7	41.1	40.6
Debt to equity	78.7	77.7	76.2	74.6
Net debt/(cash) to equity	55.3	59.6	63.0	64.9
Interest cover (x)	8.8	(42.2)	(13.0)	(9.3)

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