

COMPANY RESULTS

Sunway Bhd (SWB MK)

3Q21: In Line; A Proxy Of Economic Reopening. BUY On Weakness

Sunway saw 3Q21 earnings improve by 15% qoq on higher property revenue recognition and strong healthcare growth. Yoy weaker earnings were dragged by lower construction margin. We deem 9M21 earnings (70% of our full-year estimates) in line as we expect a strong 4Q21 with all divisions to benefit from the economy reopening. Earnings recovery is underway given the resilient healthcare division and strong property take-up. Maintain BUY on share price weakness with a target price of RM2.25.

3Q21 RESULTS

	3Q21	qoq	yoy	9M21	yoy
Year to 31 Dec	(RMm)	% chg	% chg	(RMm)	% chg
Revenue	1,065.0	10.0	3.7	3,049.7	19.3
Property Development	197.1	33.7	90.5	441.6	42.1
Construction	192.7	(11.6)	(24.5)	732.1	29.4
Healthcare	208.1	3.7	23.9	579.3	31.0
Pre-tax profit	113.8	44.1	(27.2)	280.0	12.5
- Property Development	44.6	95.2	+>100	88.2	26.5
- Construction	21.4	147.5	(42.3)	57.7	(12.8)
- Healthcare	29.5	7.2	91.0	71.0	n.m.
Core net profit	81.0	14.9	(30.2)	210.0	20.3
Pre-tax Margins	%	+ppt	+ppt	%	+ppt
- Property Development	22.6	7.1	6.3	20.0	(2.5)
- Construction	11.1	7.1	(3.4)	7.9	(3.8)
- Healthcare	14.2	0.5	5.0	12.2	13.4

Source: Sunway, UOB Kay Hian

RESULTS

- 9M21 results in line.** Sunway Berhad (Sunway) saw a sequentially stronger core net profit of RM81m (+15% qoq) despite the lockdown in 3Q21, on the back of: a) higher revenue recognition from the property division with the completion and handover of local projects, and b) defensive performance in healthcare with increased patient volumes. Yoy, earnings dropped 30% on lowered construction margin (-3ppt), lower share of associate contribution (-27% yoy) and lower other income (-81% yoy). 9M21 earnings of RM210m (+20% yoy) made up 70% and 72% of our and the street's full-year forecasts respectively, within expectations as we expect earnings to catch up in 4Q21 with the reopening of the economy.
- Property sales reaches 109% of full-year target.** In 1H21, the group revised up its sales target to RM1.9b (effective) after achieving 114% of its full-year target. For 9M21, Sunway achieved RM2.08b worth of property sales, representing 108% of its full-year target. This was mainly contributed by strong sales from local and Singapore projects.

KEY FINANCIALS

Year to 31 Dec (RMm)	2019	2020	2021F	2022F	2023F
Net turnover	4,780	3,833	4,012	4,363	4,942
EBITDA	800	475	482	669	809
Operating profit	566	251	284	464	595
Net profit (rep./act.)	705	360	300	530	650
Net profit (adj.)	633	416	300	530	650
EPS (sen)	12.9	8.4	6.1	10.8	13.3
PE (x)	13.0	20.1	27.3	15.5	12.6
P/B (x)	1.0	0.9	0.8	0.8	0.8
EV/EBITDA (x)	18.1	30.5	30.1	21.7	17.9
Dividend yield (%)	5.4	0.9	1.5	2.6	3.2
Net margin (%)	14.8	9.4	7.5	12.2	13.1
Net debt/(cash) to equity (%)	68.5	55.3	55.9	57.9	59.8
Interest cover (x)	16.7	8.8	62.1	(46.9)	(17.8)
ROE (%)	8.4	4.0	3.1	5.4	6.4
Consensus net profit	-	-	292	471	581
UOBKH/Consensus (x)	-	-	1.03	1.13	1.12

Source: Sunway Bhd, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	RM1.68
Target Price	RM2.25
Upside	+33.9%

COMPANY DESCRIPTION

A leading construction company and property developer in Malaysia

STOCK DATA

GICS sector	Industrials
Bloomberg ticker:	SWB MK
Shares issued (m):	4,889.1
Market cap (RMm):	8,213.6
Market cap (US\$m):	1,941.9
3-mth avg daily t'over (US\$m):	0.6

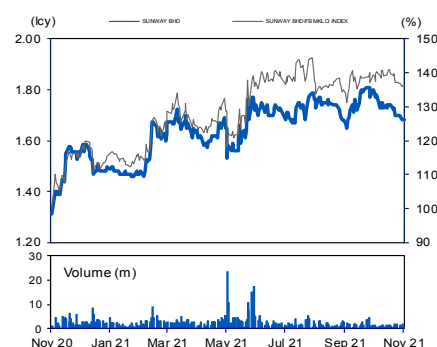
Price Performance (%)

52-week high/low	RM1.81/RM1.33			
1mth	3mth	6mth	1yr	YTD
(6.7)	(5.1)	1.2	29.2	4.3

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)	1.99
FY21 Net Debt/Share (RM)	1.11

PRICE CHART



Source: Bloomberg

ANALYST(S)

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STOCK IMPACT

- Property development: Strong sales momentum; lumpy earnings from 2022 onwards.** Its property development arm reported 3Q21 PBT of RM44.6m (>100% yoy, +95% qoq). Note that its projects launched in 2021 have seen good take-up rates - Parc Central Tampines in Singapore has achieved a 98% take-up rate, while local project Sunway Belfield saw 93% and 87% take-up rates respectively for Phases 1 and 2. However, earnings from the Singapore projects (Parc Canberra and Parc Central Tampines) will only be recognised in 2022 upon project completion amid the adoption of MFRS15. Sunway is slated to launch another RM1.17b worth of projects in 4Q21, which should see much higher sales to be achieved in 2021 (2020 effective sales was RM980m). Unbilled sales of RM3.38b represents 2.9x 2022F revenue.
- Healthcare: Strong recovery; key earnings driver for the group.** Despite the nationwide lockdown, the healthcare arm reported 3Q21 PBT of RM29.5m (+91% yoy, +7% qoq) with a higher number of admissions and outpatient treatments, and lower operating losses from Sunway Velocity Medical Centre of RM0.6m (2Q21: -RM4.3m, 3Q20: -RM11.7m). The healthcare segment's PBT accounts for 25% of the group's total PBT, a significant improvement from <10% pre-COVID-19. We believe its aggressive expansion plan could see 5-year (2022-27F) earnings CAGR of 20-25%, assuming an average 25% EBITDA margin. This is expected to contribute about 22% of Sunway's 2023 earnings vs 3% in 2020.
- Construction: Sequential improvement despite lockdown.** Construction PBT was higher qoq (>100%) on the back of improvement in constructions' margin with the re-calibration of margins for some of its nearly-completed projects. The group has secured RM796m worth of new contracts ytd (40% of its 2021 replenishment target) with an outstanding orderbook of RM4.7b.

EARNINGS REVISION/RISK

- None.

VALUATION/RECOMMENDATION

- Maintain BUY with an unchanged target price of RM2.25**, based on a 10% discount to our SOTP-based valuation of RM2.50/share (post dilution of warrants) where we peg valuation to normalised earnings in 2022. Our target price implies a 2022F PE of 18x and 2022F P/B of 1.1x, above its five-year mean valuation of 13x PE and 0.85x P/B. Earnings are expected to recover strongly in 2022 given a strong unbilled sale of RM3.4b, earnings recognition from its Singapore project and resilient performance of its healthcare division. We also believe the strong growth trajectory of Sunway Healthcare Group could help Sunway to build a formidable growth engine and increase its valuation over time.

ENVIRONMENTAL, SOCIAL, GOVERNANCE (ESG) UPDATES

<ul style="list-style-type: none"> Environmental <ul style="list-style-type: none"> - In 2020, 3% electricity was generated by solar panels, equivalent to powering up 604 homes for one year. The group also diverted 4% of waste from landfill. - Key targets by 2030 include: a) reducing emission intensity of revenue by 10% (from 2025), b) at least 25% of electricity to be generated from renewable energy sources, c) to divert 40% of landfill waste, d) to reduce overall water intensity from municipal potable water supply by 10% (from 2025), and e) all industrial property and construction sites to be ISO 14001:2015 certified. Social <ul style="list-style-type: none"> - The group has donated RM1m to the National COVID-19 Fund. Governance <ul style="list-style-type: none"> - Good company transparency along with an anti-bribery and anti-corruption policy.
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SOTP-BASED VALUATION

	(RMm)	Remarks
Property development	3,923	20% discount to property RNAV
REIT (40.9% stake)	2,171	Valuation based on target price of RM1.55, based on DDM
Construction (54.4% stake)	1,052	Valuation based on target price of RM1.50, 16.2x 2022F PE
Quarry & building materials	289	8x PE 2022F quarry profits
Trading	383	8x PE 2022F trading profits
Investment Properties	1,521	
Healthcare	3,930	84% stake of RM4.67b
Less: Holding co (debt)/ cash	-121	Based on hold.co 2020's net debt plus RM0.75b stake sales proceeds
Total SOTP value (A)	13,147	
Share base (m) (B)	4,963	
Warrants proceeds (C)	964	Assume conversion price at RM1.44/share (expiring in Oct 24)
Total SOTP value post warrants proceeds (A+C)	14,110	
Enlarged share base (m)	5,633	
SOTP/share (RM)	2.50	
Discount	10%	
Target price (RM)	2.25	

Source: Sunway, UOB Kay Hian

EXPANSION PLAN FOR MEDICAL CENTRES

State	Location	Total beds	Exp. completion
Existing Medical Centre			
Kuala Lumpur	Sunway City - (Tower A,B,C)	616	Completed
	Velocity	240*	Completed
Expansion plan			
Kuala Lumpur	Sunway City - (Tower D,E,F)	465	Q222
	Velocity (Phase 2)	110	Q323
Selangor	Damansara	336	Q323
Penang	Seberang Jaya	333	2022
	Paya Terubong	120**	Planning stage
Perak	Ipoh	260	Q124
Kelantan	Kota Bharu	200	Q325
Johor	Iskandar	200**	Planning stage
Total		2,880	

*Full capacity

**Estimates

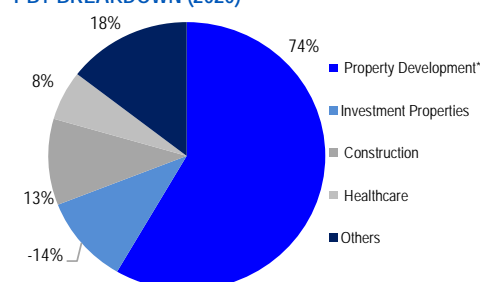
Source: Sunway, UOB Kay Hian

KEY ASSUMPTIONS

(RMm)	2021F	2022F	2023F
Property sales target	1975	1600	1290
Construction orderbook replenishment	1,000	2,000	2,000
Healthcare profits	47	91	164

Source: Sunway, UOB Kay Hian

PBT BREAKDOWN (2020)



* Lumpy earnings due to recognition from overseas' project based on completion basis

Source: Sunway, UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (RMm)	2020	2021F	2022F	2023F
Net turnover	3,833	4,012	4,363	4,942
EBITDA	475	482	669	809
Deprec. & amort.	224	198	205	215
EBIT	251	284	464	595
Associate contributions	230	161	321	434
Net interest income/(expense)	28	5	(10)	(33)
Pre-tax profit	509	450	775	995
Tax	(102)	(94)	(171)	(219)
Minorities	(48)	(55)	(75)	(126)
Net profit	360	300	530	650
Net profit (adj.)	416	300	530	650

CASH FLOW

Year to 31 Dec (RMm)	2020	2021F	2022F	2023F
Operating	828	231	158	207
Pre-tax profit	509	450	775	995
Tax	(71)	(94)	(171)	(219)
Deprec. & amort.	224	198	205	215
Associates	(230)	(161)	(321)	(434)
Working capital changes	67	(156)	(341)	(383)
Non-cash items	329	(5)	10	33
Investing	(885)	(281)	(305)	(346)
Capex (growth)	(527)	(281)	(305)	(346)
Investments	(204)	0	0	0
Proceeds from sale of assets	457	0	0	0
Others	(610)	0	0	0
Financing	(178)	(31)	(130)	(189)
Dividend payments	(254)	(120)	(212)	(260)
Issue of shares	0	0	0	0
Proceeds from borrowings	1,144	84	92	104
Others/interest paid	(1,069)	5	(10)	(33)
Net cash inflow (outflow)	(235)	(81)	(278)	(328)
Beginning cash & cash equivalent	2,455	2,237	2,156	1,878
Changes due to forex impact	17	0	0	0
Ending cash & cash equivalent	2,237	2,156	1,878	1,550

BALANCE SHEET

Year to 31 Dec (RMm)	2020	2021F	2022F	2023F
Fixed assets	6,446	6,529	6,630	6,761
Other LT assets	7,602	7,763	8,084	8,518
Cash/ST investment	2,237	2,156	1,878	1,550
Other current assets	4,834	5,046	5,462	6,147
Total assets	21,119	21,494	22,054	22,975
ST debt	5,132	5,132	5,132	5,132
Other current liabilities	2,696	2,752	2,827	3,129
LT debt	2,374	2,458	2,550	2,653
Other LT liabilities	585	585	585	585
Shareholders' equity	9,535	9,715	10,033	10,423
Minority interest	797	852	927	1,053
Total liabilities & equity	21,119	21,494	22,054	22,975

KEY METRICS

Year to 31 Dec (%)	2020	2021F	2022F	2023F
Profitability				
EBITDA margin	12.4	12.0	15.3	16.4
Pre-tax margin	13.3	11.2	17.8	20.1
Net margin	9.4	7.5	12.2	13.1
ROA	1.7	1.4	2.4	2.9
ROE	4.0	3.1	5.4	6.4
Growth				
Turnover	(19.8)	4.7	8.8	13.3
EBITDA	(40.6)	1.5	38.9	20.9
Pre-tax profit	(40.9)	(11.7)	72.3	28.3
Net profit	(49.0)	(16.4)	76.5	22.6
Net profit (adj.)	(34.4)	(27.7)	76.5	22.6
EPS	(35.0)	(26.6)	76.5	22.6
Leverage				
Debt to total capital	42.1	41.8	41.2	40.4
Debt to equity	78.7	78.1	76.6	74.7
Net debt/(cash) to equity	55.3	55.9	57.9	59.8
Interest cover (x)	8.8	62.1	(46.9)	(17.8)

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