

SUNWAY

(SWB MK EQUITY, SWAY.KL)

1 Apr 2021

FY20 dragged by property investment segment

BUY

(Maintained)

Company report

AmInvestment Bank

www.amequities.com.my

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Rationale for report: Company results

Price	RM1.70
Fair Value	RM2.03
52-week High/Low	RM1.74/RM1.22

Key Changes

Fair value	↑
EPS	↑

YE to Jun	FY20	FY21F	FY22F	FY23F
Revenue (RM mil)	3,833.3	5,503.5	6,691.7	7,089.2
Core net profit (RM mil)	338.4	646.0	731.3	787.7
FD Core EPS (sen)	6.9	13.2	14.9	16.1
FD Core EPS growth (%)	(51.1)	90.9	13.2	7.7
Consensus Net Profit (RM mil)	362.5	512.5	575.7	n/a
DPS (sen)	1.5	6.5	7.4	8.0
PE (x)	24.6	12.9	11.4	10.6
EV/EBITDA (x)	44.4	24.9	23.6	21.8
Div yield (%)	0.9	3.8	4.3	4.7
ROE (%)	4.0	6.7	7.3	7.6
Net Gearing (%)	51.2	46.8	58.5	58.1

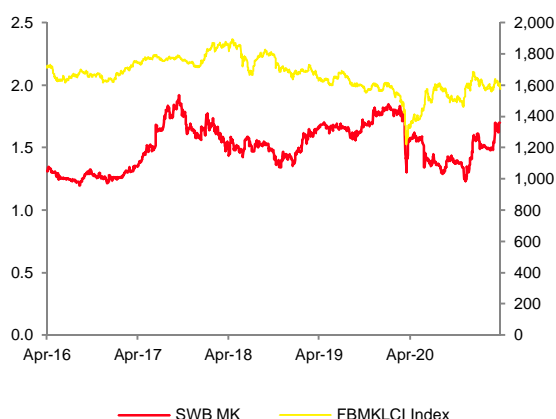
Stock and Financial Data

Shares Outstanding (million)	4,903.7
Market Cap (RM mil)	8,336.3
Book Value (RM/share)	1.94
P/BV (x)	0.9
ROE (%)	4.0
Net Gearing (%)	51.2

Major Shareholders	SUNGEI WAY CORP SDN (0.5%) EPF (0.1%) TAN SRI DATO' SERI DRTAN SRI DATO SERI DR JEFFREY CHEAH FOOK LING (0.0%)
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Free Float	0.4
Avg Daily Value (RM mil)	4.0

Price performance	3mth	6mth	12mth
Absolute (%)	5.6	24.1	9.7
Relative (%)	9.2	18.7	(5.8)



Investment Highlights

- We maintain BUY on Sunway with a higher fair value of RM2.03/share (vs. RM1.93/share previously) based on SOP valuations, which also reflects a 3% premium for our 4-star ESG rating (Exhibits 5 & 6). We raise our FY21–22F net profit by 18%–16% to RM646mil and RM731mil respectively to reflect the recovery in all segments while introducing FY23F net earnings with a growth of 8% to RM788mil.
- Sunway's FY20 core net profit (CNP) of RM338.4mil (excluding impairment for inventories, PPE and other one-off items of RM21.2mil) came in 14% above our forecast but 16% below consensus estimates. The variance against our forecast stems from better-than-expected contributions from both the property development and construction divisions. Its FY20 CNP plunged 51% YoY mainly dragged by property investment, the only loss-making division, as businesses halted during the movement control order (MCO). The group's FY20 dividend of 1.50 sen/share (-84% YoY), translates to a payout ratio of 22%.
- For FY20, the property development division posted revenue and PBT of RM495mil (-9% YoY) and RM297mil (+21% YoY) respectively. The higher PBT was due to profit recognition from Singapore and China development projects and proceeds on land disposal amounting to RM7.7mil. Sunway reported FY20 new sales of RM1.3bil (vs. RM1.6bil YoY) while unbilled sales stood at RM2.4bil as of 31 Dec 2020 (vs. RM2.7bil YoY). For FY21, the group has set a sales target of RM1.6bil and lined up launches with a combined GDV of RM2.8bil (vs. RM1.9bil YoY).
- The property investment division registered revenue of RM334mil (-58% YoY) and LBT of RM31mil (vs. PBT of RM336mil YoY) as there were lower visitor arrivals and shorter operational days, particularly in leisure and hospitality and hence badly hit the overall segment's performance.
- The construction division recorded revenue and PBT of RM990mil (-22% YoY) and RM105mil (-35% YoY). The drag came from its 2QFY20 as construction activities were halted during the MCO while fixed overheads continued to incur.
- The healthcare division reported revenue and PBT of RM620mil (+6% YoY) and RM17mil (-72% YoY) on the sharp declines of admissions and outpatient treatments during 1H20. However, improved 2H20 patient rates contributed higher revenue.
- We believe the outlook for Sunway remains positive premised on its: (i) stronger unbilled sales of RM2.4bil; (ii) a robust outstanding order book of RM5.1bil; and (iii) expansion plan in its healthcare business. The stock offers a 19% upside from its last traded price.

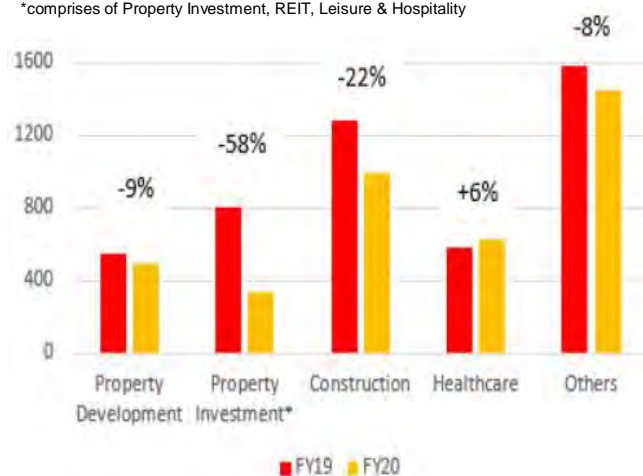
EXHIBIT 1: EARNINGS SUMMARY

YE to Dec (RM mil)	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20	QoQ %	YoY %	FY19	FY20	YTD %
Revenue	1,353.0	971.4	556.6	1,027.2	1,278.0	24.4%	-5.5%	4,780.3	3,833.3	-19.8%
Operating costs	(1,185.2)	(867.8)	(488.8)	(836.1)	(1,342.7)	60.6%	13.3%	(3,979.2)	(3,535.4)	-11.2%
EBITDA	167.8	103.6	67.8	191.1	(64.7)	-133.9%	-138.6%	801.1	297.9	-62.8%
Depreciation	(61.1)	(60.9)	(59.9)	(56.0)	129.7	-331.7%	-312.4%	(235.1)	(47.1)	-80.0%
Finance costs	65.1	26.5	2.8	5.8	(6.6)	-212.5%	-110.1%	87.8	28.5	-67.6%
Associate contributions	89.3	38.6	(0.6)	30.4	161.6	431.4%	80.9%	261.2	230.0	-12.0%
Profit before tax	261.2	107.8	10.1	171.3	220.0	28.4%	-15.8%	915.0	509.3	-44.3%
Taxation	(41.5)	(17.5)	(14.7)	(25.0)	(44.8)	78.9%	8.0%	(78.4)	(102.0)	30.0%
MI	(18.8)	(12.0)	(2.1)	(13.5)	(20.1)	48.8%	6.9%	(69.3)	(47.7)	-31.2%
PATMI	200.9	78.3	(6.7)	132.8	155.2	16.8%	-22.8%	767.3	359.6	-53.1%
Core PATMI	253.1	66.4	(4.3)	80.3	196.0	144.3%	-22.5%	691.5	338.4	-51.1%
EPS (sen)	5.2	1.4	(0.1)	1.6	4.0	144.3%	-22.5%	14.1	6.9	-51.1%
EBITDA margin (%)	12.4%	10.7%	12.2%	18.6%	-5.1%			16.8%	7.8%	
Effective tax rate (%)	15.9%	16.2%	145.5%	14.6%	20.3%			8.6%	20.0%	
PATMI margin (%)	14.9%	8.1%	-1.2%	12.9%	12.1%			16.1%	9.4%	

Source: AmInvestment Bank

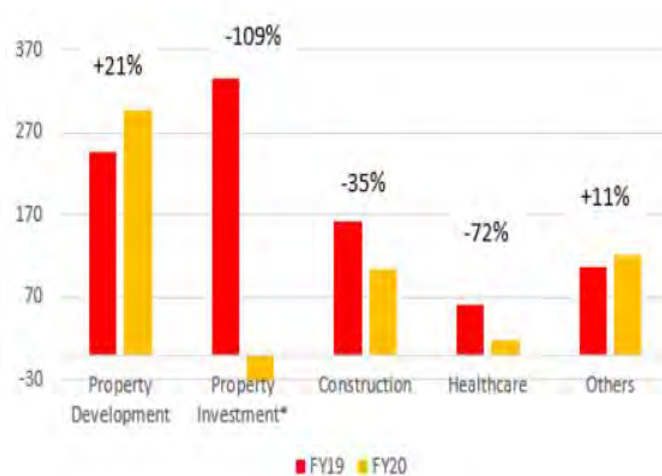
EXHIBIT 2: REVENUE COMPARISON (YOY)

*comprises of Property Investment, REIT, Leisure & Hospitality



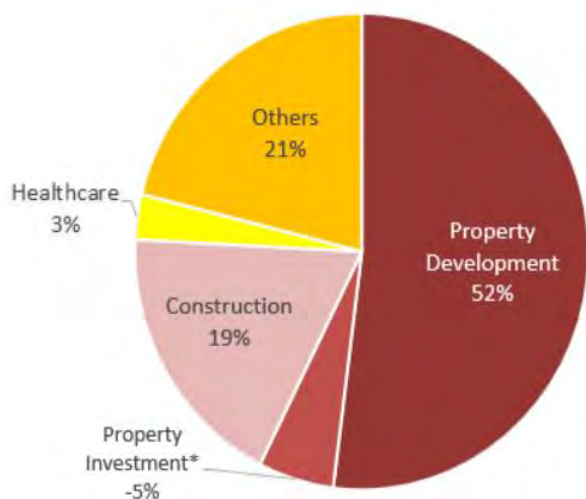
Source: AmInvestment Bank, Company

EXHIBIT 3: PBT COMPARISON (YOY)



Source: AmInvestment Bank, Company

EXHIBIT 4: SEGMENTAL BREAKDOWN (PBT)



Source: AmInvestment Bank, Company

EXHIBIT 5: SOP VALUATIONS

DEVELOPMENT PROPERTIES	Outstanding GDV (RMmil)	NPV @7% (RMmil)	Stake	Segment	Value (RMmil)	% of SOP
Selangor/KL				Property (40% discount to RNAV)	2,202.8	19.8%
Sunway Damansara	2,235.3	126.7	60.0%	Investment properties	1,870.5	16.8%
Sunway South Quay	2,486.7	272.3	100.0%	Sunway Construction (54.4% stake @ AmInvestment Valuation)	1,083.1	9.7%
Sunway Montez	38.0	2.5	60.0%	Sunway REIT (40.9% stake @ AmInvestment Valuation)	2,296.1	20.6%
Sunway Semenyih	728.6	55.8	70.0%	Healthcare (25x FY22 earnings)	3,306.0	29.7%
Sunway Cheras	16.8	1.8	100.0%	Quarry & building materials (6x FY22 earnings)	156.8	1.4%
Sunway Duta	120.0	7.2	60.0%	Trading & manufacturing (6x FY22 earnings)	216.5	1.9%
Sunway Resort City	660.1	66.1	100.0%			
Sunway Velocity	1,984.0	169.0	85.0%	Total SOP	11,131.8	
Sunway Velocity TWO	1,360.0	68.1	50.0%	Net cash/(debt) @ Company level	737.0	
Sunway Tower KL 1	240.0	24.0	100.0%	Proceeds from ICPS & conversion	977.8	
Sunway Temuning	277.0	22.2	80.0%	Fair value	12,846.6	
Mont Putra, Rawang	156.0	15.6	100.0%			
Kelana Jaya	1,450.0	145.3	100.0%	Enlarged share base (mil shares)	6,516.6	
Jalan Belfield	1,100.0	110.2	100.0%	Fair value/share (RM)	1.97	
Lot One, Kajang	460.0	46.1	100.0%	(+) 3% premium for 4-star ESG rating	0.06	
USJ 1, Subang Jaya	1,400.0	140.3	100.0%	Fair value/share (RM)+ ESG Premium	2.03	
Subang 2	52.0	3.6	70.0%			
Wangsa Maju-1	270.0	14.9	55.0%			
Dengkil (Emerald Tycoon)	796.6	79.8	100.0%			
Bukit Jalil (Sterling Paradise)	800.0	107.4	100.0%			
Wangsa Maju-2	300.0	59.1	55.0%			
Taman Mutiara, Cheras	225.0	39.0	100.0%			
Perak						
Sunway City Ipoh	928.4	84.7	96.0%			
Penang						
Sunway Hills	849.0	80.2	100.0%			
Sunway Wellesley, Bukit Mertajam	710.5	67.1	100.0%			
Paya Terubong	1,500.0	141.7	100.0%			
Sunway Tunas, Balik Pulau	60.0	5.7	100.0%			
Sunway Betong, Balik Pulau	110.0	10.4	100.0%			
Johor						
Bukit Lenang	698.4	35.8	80.0%			
Medini	10,616.0	408.0	60.0%			
Pendas	18,000.0	691.8	60.0%			
Singapore						
Brookvale Park	3,000.0	87.8	30.0%			
Canberra Link, Sembawang	1,500.0	51.2	35.0%			
Tampines Ave 10	2,400.0	81.9	35.0%			
China						
Tianjin Eco-City	765.3	52.2	60.0%			
India						
Sunway OPUS Grand India	702.4	33.2	50.0%			
Sunway MAK Signature Residence	181.2	10.3	60.0%			
Unbilled sales		252.0				
Subtotal		3,671.3				

Source: AmInvestment Bank

EXHIBIT 6: ESG RATING

Overall	★	★	★	★	
Eco-landscaping	★	★	★		
Progress of digitalization	★	★	★		
Employee welfare	★	★	★	★	
Corporate social responsibility	★	★	★	★	
Strategic direction	★	★	★	★	
Gender diversity	★	★			
Earnings sustainability	★	★	★	★	
Accessibility & transparency	★	★	★	★	

We accord a discount/premium of -6%, -3%, 0%, +3% and +6% on fundamental fair value based on the overall ESG rating as appraised by us, from 1-star to 5-star

Source: AmInvestment Bank

EXHIBIT 7: PB BAND CHART

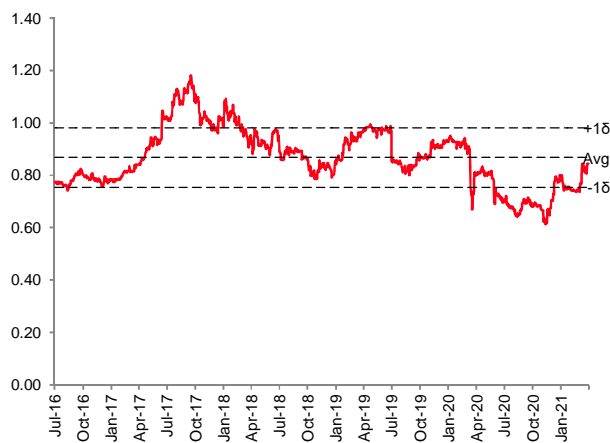


EXHIBIT 8: PE BAND CHART



EXHIBIT 9: FINANCIAL DATA

Income Statement (RMmil, YE 30 Jun)	FY19	FY20	FY21F	FY22F	FY23F
Revenue	4,780.3	3,833.3	5,503.5	6,691.7	7,089.2
EBITDA	801.1	297.9	519.2	607.8	664.6
Depreciation/Amortisation	(235.1)	(47.1)	(67.6)	(82.2)	(87.0)
Operating income (EBIT)	565.9	250.8	451.6	525.6	577.5
Other income & associates	261.2	230.0	372.4	389.4	407.0
Net interest	87.8	28.5	57.7	70.2	74.3
Exceptional items	-	-	-	-	-
Pretax profit	915.0	509.3	881.7	985.2	1,058.9
Taxation	(78.4)	(102.0)	(148.5)	(147.8)	(158.8)
Minorities/pref dividends	(69.3)	(47.7)	(87.2)	(106.1)	(112.4)
Net profit	767.3	359.6	646.0	731.3	787.7
Core net profit	691.5	338.4	646.0	731.3	787.7
Balance Sheet (RMmil, YE 30 Jun)	FY19	FY20	FY21F	FY22F	FY23F
Fixed assets	2,749.0	2,611.4	3,749.2	4,558.5	4,829.4
Intangible assets	331.6	350.8	350.8	350.8	350.8
Other long-term assets	9,309.3	11,086.2	11,286.2	11,286.2	11,286.2
Total non-current assets	12,390.0	14,048.3	15,386.1	16,195.5	16,466.3
Cash & equivalent	5,888.9	2,348.9	2,571.5	2,674.5	2,986.2
Stock	2,102.1	2,101.5	2,273.2	3,197.6	3,603.6
Trade debtors	1,638.4	2,440.6	1,809.4	2,200.0	3,058.3
Other current assets	1,533.8	180.1	406.3	455.1	471.4
Total current assets	11,163.1	7,071.1	7,060.4	8,527.2	10,119.6
Trade creditors	1,344.3	2,456.9	2,516.6	3,540.0	3,490.8
Short-term borrowings	8,024.9	5,132.5	5,081.2	6,178.1	6,545.2
Other current liabilities	1,509.0	239.3	(266.7)	(1,110.2)	(172.3)
Total current liabilities	10,878.2	7,828.8	7,331.1	8,607.9	9,863.6
Long-term borrowings	2,310.8	2,101.6	2,101.6	2,484.5	2,612.6
Other long-term liabilities	189.9	857.3	857.3	857.3	857.3
Total long-term liabilities	2,500.7	2,958.8	2,958.8	3,341.8	3,469.9
Shareholders' funds	8,392.9	9,534.6	9,862.1	10,231.4	10,628.1
Minority interests	1,781.4	797.2	2,294.5	2,541.6	2,624.3
BV/share (RM)	1.71	1.94	2.01	2.09	2.17
Cash Flow (RMmil, YE 30 Jun)	FY19	FY20	FY21F	FY22F	FY23F
Pretax profit	915.0	509.3	881.7	985.2	1,058.9
Depreciation/Amortisation	235.1	47.1	67.6	82.2	87.0
Net change in working capital	(1,220.0)	1,042.6	(487.0)	(189.9)	(336.7)
Others	995.2	(771.2)	433.2	1,763.3	347.8
Cash flow from operations	925.3	827.7	895.5	2,640.7	1,157.1
Capital expenditure	335.9	(527.2)	(1,137.8)	(809.4)	(270.8)
Net investments & sale of fixed assets	-	-	-	-	-
Others	(1,260.1)	(357.6)	(200.0)	-	-
Cash flow from investing	(924.2)	(884.8)	(1,337.8)	(809.4)	(270.8)
Debt raised/(repaid)	667.1	(141.2)	273.9	(1,377.0)	(183.5)
Equity raised/(repaid)	-	-	-	-	-
Dividends paid	(242.9)	(220.6)	(318.6)	(362.0)	(391.0)
Others	234.0	183.4	-	-	-
Cash flow from financing	658.3	(178.3)	(44.6)	(1,739.0)	(574.5)
Net cash flow	659.4	(235.4)	(487.0)	92.3	311.7
Net cash/(debt) b/f	2,507.8	3,170.6	2,952.5	2,465.5	2,557.8
Net cash/(debt) c/f	3,170.6	2,952.5	2,465.5	2,557.8	2,869.6
Key Ratios (YE 30 Jun)	FY19	FY20	FY21F	FY22F	FY23F
Revenue growth (%)	(11.6)	(19.8)	43.6	21.6	5.9
EBITDA growth (%)	8.6	(62.8)	74.3	17.1	9.3
Pretax margin (%)	19.1	13.3	16.0	14.7	14.9
Net profit margin (%)	16.1	9.4	11.7	10.9	11.1
Interest cover (x)	nm	nm	nm	nm	nm
Effective tax rate (%)	8.6	20.0	16.8	15.0	15.0
Dividend payout (%)	57.3	20.1	49.3	49.5	49.6
Debtors turnover (days)	125	232	120	120	157
Stock turnover (days)	151	200	145	149	175
Creditors turnover (days)	102	181	165	165	181

Source: Company, AmlInvestment Bank Bhd estimates

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