



Company report

SUNWAY

(SWB MK EQUITY, SWAY.KL)

22 Nov 2021

Acquires Thiam Siew Avenue land, S'pore for S\$815mil

BUY

(Maintained)

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03-20362300

Rationale for report: Company update

| | |
|------------------|---------------|
| Price | RM1.70 |
| Fair Value | RM2.21 |
| 52-week High/Low | RM1.82/RM1.30 |

Key Changes

| | |
|------------|---|
| Fair value | ↕ |
| EPS | ↔ |

| YE to Dec | FY20 | FY21F | FY22F | FY23F |
|-------------------------------|---------|---------|---------|---------|
| Revenue (RM mil) | 3,833.3 | 4,728.9 | 6,636.9 | 7,114.6 |
| Core net profit (RM mil) | 338.4 | 381.0 | 519.3 | 591.9 |
| FD Core EPS (sen) | 6.9 | 7.7 | 10.5 | 12.0 |
| FD Core EPS growth (%) | (51.1) | 12.6 | 36.3 | 14.0 |
| Consensus Net Profit (RM mil) | - | 292.1 | 472.0 | 581.8 |
| DPS (sen) | 1.5 | 1.5 | 2.9 | 4.9 |
| PE (x) | 24.8 | 22.0 | 16.2 | 14.2 |
| EV/EBITDA (x) | 44.6 | 35.2 | 24.5 | 21.9 |
| Div yield (%) | 0.9 | 0.9 | 1.7 | 2.9 |
| ROE (%) | 4.0 | 3.9 | 5.2 | 5.7 |
| Net Gearing (%) | 51.2 | 46.9 | 57.3 | 58.1 |

Stock and Financial Data

| | |
|------------------------------|-----------------------------------------------------------------|
| Shares Outstanding (million) | 4,934.7 |
| Market Cap (RM mil) | 8,389.0 |
| Book Value (RM/share) | 1.93 |
| P/BV (x) | 0.9 |
| ROE (%) | 4.0 |
| Net Gearing (%) | 51.2 |
| Major Shareholders | SUNGEI WAY CORP SDN (21.7%) EPF (8.5%) NORGES BANK (1.4%) |
| Free Float | 68.4 |
| Avg Daily Value (RM mil) | 2.7 |

| Price performance | 3mth | 6mth | 12mth |
|-------------------|-------|------|-------|
| Absolute (%) | (4.5) | 1.2 | 28.8 |
| Relative (%) | (5.2) | 4.8 | 33.7 |



Investment Highlights

- We maintain BUY recommendation on Sunway with a higher SOP-based fair value (FV) of RM2.21/share (from RM2.19/share previously). We raise our SOP is by 1% on the acquisition of 22 plots of residential freehold land in Singapore by Sunway's 30%-owned joint venture (JV). Our FV also reflects a 3% premium from our 4-star ESG rating (Exhibits 3 & 4).
- Sunway Developments Pte Ltd's (30%) JV with Hoi Hup Realty Pte Ltd (70%) won another bid to acquire a 6-acre freehold residential land located at Thiam Siew Avenue, Tanjong Katong, Singapore for S\$815mil (RM2.5bil).
- Based on a plot ratio of 2.8, the acquisition price and further development charge of S\$284mil translate to a fair S\$1,488 psf vs. our channel checks indicating Tanjong Katong land being offered at S\$1,450–S\$1,500 psf currently.
- The proposed deal carries an indicative gross development value (GDV) of S\$2bil (RM6.1bil), which implies a reasonable land cost-to-GDV ratio of 55%. This translates to a slightly lower potential profit margin compared to Hoi Hup-Sunway JV's recently acquired freehold residential Flynn Park in Singapore for S\$371mil at a cost-to-GDV ratio of 53%.
- Sunway plans to redevelop the site into a luxury private residential condominium, leveraging the popular and mature neighbourhood with attractive amenities nearby which include the Dakota and Paya Lebar MRT stations as well as education institutions within walking distance. It is also well connected to tourism attractions at Marina Bay which is just a 15-minute drive away.
- We are mildly positive on this latest acquisition which will further enhance the earnings visibility of Sunway's property developments in Singapore. Following the deal, Sunway's Singapore-based projects now make up 77% of the group's remaining GDV for international projects, which account for 14% of the group's total development value of RM60.5bil. Based on the investment cost of S\$140mil (RM431mil), the group's FY21F net gearing level is expected to increase from 47% to 51%.
- We maintain our forecasts for now pending a target launch in the first quarter 2023 with contribution expected to kick in from 2024 onwards.
- We believe the long-term outlook for Sunway remains positive premised on its: (i) strong unbilled sales of RM3.6bil (6x FY21F property development revenue); and (ii) expansion plan for its healthcare business which could increase bed capacity by 82% in FY23F.

EXHIBIT 1: THIAM SIEW AVENUE LAND



Source: AmlInvestment Bank Bhd, Company

EXHIBIT 2: LOCATION MAP



Source: AmlInvestment Bank Bhd, Company

EXHIBIT 3: SOP VALUATION

| DEVELOPMENT PROPERTIES | Outstanding GDV (RMmil) | NPV @7% (RMmil) | Stake | Segment | Value (RMmil) | % of SOP |
|-----------------------------------|----------------------------|--------------------|--------|------------------------------------------------------------|------------------|----------|
| Selangor/KL | | | | Property (40% discount to RNAV) | 2,175.9 | 18.9% |
| Sunway Damansara | 2,235.3 | 127.8 | 60.0% | Investment properties | 1,583.4 | 13.8% |
| Sunway South Quay | 2,486.7 | 274.0 | 100.0% | Sunway Construction (54.4% stake @ AmInvestment Valuation) | 1,188.6 | 10.3% |
| Sunway Monterez | 38.0 | 2.5 | 60.0% | Sunway REIT (40.9% stake @ AmInvestment Valuation) | 2,296.1 | 20.0% |
| Sunway Semenyih | 728.6 | 56.2 | 70.0% | Healthcare (84% stake @30x FY22 earnings) | 3,937.4 | 34.2% |
| Sunway Cheras | 16.8 | 1.9 | 100.0% | Quarry & building materials (6x FY22 earnings) | 139.7 | 1.2% |
| Sunway Duta | 120.0 | 7.3 | 60.0% | Trading & manufacturing (6x FY22 earnings) | 184.2 | 1.6% |
| Sunway Resort City | 660.1 | 66.7 | 100.0% | | | |
| Sunway Velocity | 1,984.0 | 170.3 | 85.0% | Total SOP | 11,505.3 | |
| Sunway Velocity TWO | 1,360.0 | 68.7 | 50.0% | Net cash/(debt) @ Company level | 737.0 | |
| Sunway Tower KL 1 | 240.0 | 24.2 | 100.0% | Proceeds from ICPS & conversion | 977.8 | |
| Sunway Termuring | 277.0 | 22.4 | 80.0% | Proceeds from stake sale in healthcare | 750.0 | |
| Mont Putra, Rawang | 156.0 | 15.8 | 100.0% | Fair value | 13,970.1 | |
| Kelana Jaya | 1,450.0 | 146.4 | 100.0% | | | |
| Jalan Belfield | 1,100.0 | 111.1 | 100.0% | Enlarged share base (mil shares) | 6,516.6 | |
| Lot One, Kajang | 460.0 | 46.5 | 100.0% | Fair value/share (RM) | 2.14 | |
| USJ 1, Subang Jaya | 1,400.0 | 141.4 | 100.0% | (+) 3% premium for 4-star ESG rating | 0.06 | |
| Subang 2 | 52.0 | 3.7 | 70.0% | Fair value/share (RM)+ ESG Premium | 2.21 | |
| Wangsa Maju-1 | 270.0 | 15.0 | 55.0% | | | |
| Dengkil (Emerald Tycoon) | 796.6 | 80.4 | 100.0% | | | |
| Bukit Jalil (Sterling Paradise) | 800.0 | 107.8 | 100.0% | | | |
| Wangsa Maju-2 | 300.0 | 59.3 | 55.0% | | | |
| Taman Mutiara, Cheras | 225.0 | 39.2 | 100.0% | | | |
| Jalan Cochrane | 1,150.0 | 126.7 | 100.0% | | | |
| Perak | | | | | | |
| Sunway City Ipoh | 928.4 | 85.4 | 96.0% | | | |
| Penang | | | | | | |
| Sunway Hills | 849.0 | 80.9 | 100.0% | | | |
| Sunway Wellesley, Bukit Mertajam | 710.5 | 67.7 | 100.0% | | | |
| Paya Terubong | 1,500.0 | 142.9 | 100.0% | | | |
| Sunway Tunas, Balik Pulau | 60.0 | 5.7 | 100.0% | | | |
| Sunway Betong, Balik Pulau | 110.0 | 10.5 | 100.0% | | | |
| Johor | | | | | | |
| Bukit Lenang | 698.4 | 36.3 | 80.0% | | | |
| Medini | 10,616.0 | 413.6 | 60.0% | | | |
| Pendas | 18,000.0 | 701.4 | 60.0% | | | |
| Singapore | | | | | | |
| Flynn Park, Pasir Panjang | 2,300.0 | 75.6 | 30.0% | | | |
| Thiam Siam Avenue, Tanjong Katong | 6,146.0 | 202.0 | 30.0% | | | |
| China | | | | | | |
| Tianjin Eco-City | 765.3 | 52.5 | 60.0% | | | |
| India | | | | | | |
| Sunway OPUS Grand India | 702.4 | 33.5 | 50.0% | | | |
| Sunway MAK Signature Residence | 181.2 | 10.4 | 60.0% | | | |
| Unbilled sales | | 252.0 | | | | |
| Subtotal | | 3,885.6 | | | | |

Source: AmInvestment Bank Bhd

EXHIBIT 4: 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 Bhd

EXHIBIT 5: PB BAND CHART

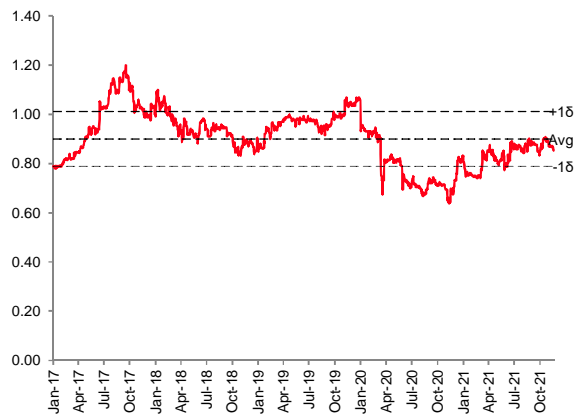


EXHIBIT 6: PE BAND CHART



EXHIBIT 7: FINANCIAL DATA

| Income Statement (RMmil, YE 31 Dec) | FY19 | FY20 | FY21F | FY22F | FY23F |
|-----------------------------------------|------------------|-----------------|------------------|------------------|-----------------|
| Revenue | 4,780.3 | 3,833.3 | 4,728.9 | 6,636.9 | 7,114.6 |
| EBITDA | 801.1 | 297.9 | 400.9 | 582.0 | 664.1 |
| Depreciation/Amortisation | (235.1) | (47.1) | (58.1) | (81.5) | (87.3) |
| Operating income (EBIT) | 565.9 | 250.8 | 342.8 | 500.5 | 576.7 |
| Other income & associates | 261.2 | 230.0 | 168.3 | 181.5 | 195.9 |
| Net interest | 87.8 | 28.5 | 51.9 | 72.9 | 78.2 |
| Exceptional items | - | - | - | - | - |
| Pretax profit | 915.0 | 509.3 | 563.0 | 754.9 | 850.7 |
| Taxation | (78.4) | (102.0) | (94.8) | (113.2) | (127.6) |
| Minorities/pref dividends | (69.3) | (47.7) | (87.2) | (122.4) | (131.2) |
| Net profit | 767.3 | 359.6 | 381.0 | 519.3 | 591.9 |
| Core net profit | 691.5 | 338.4 | 381.0 | 519.3 | 591.9 |
| Balance Sheet (RMmil, YE 31 Dec) | FY19 | FY20 | FY21F | FY22F | FY23F |
| Fixed assets | 2,749.0 | 2,611.4 | 3,221.4 | 4,521.3 | 4,846.7 |
| 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 | 14,858.4 | 16,158.2 | 16,483.6 |
| Cash & equivalent | 5,888.9 | 2,348.9 | 1,466.4 | 2,671.6 | 2,970.6 |
| Stock | 2,102.1 | 2,101.5 | 1,979.3 | 3,183.4 | 3,618.4 |
| Trade debtors | 1,638.4 | 2,440.6 | 1,554.7 | 2,182.0 | 3,069.3 |
| Other current assets | 1,533.8 | 180.1 | 373.9 | 452.3 | 471.9 |
| Total current assets | 11,163.1 | 7,071.1 | 5,374.3 | 8,489.3 | 10,130.3 |
| Trade creditors | 1,344.3 | 2,456.9 | 2,191.2 | 3,524.3 | 3,505.1 |
| Short-term borrowings | 8,024.9 | 5,132.5 | 5,081.2 | 5,705.1 | 6,115.7 |
| Other current liabilities | 1,509.0 | 239.3 | (1,975.2) | (1,004.3) | (58.5) |
| Total current liabilities | 10,878.2 | 7,828.8 | 5,297.2 | 8,225.1 | 9,562.4 |
| Long-term borrowings | 2,310.8 | 2,101.6 | 2,101.6 | 2,817.2 | 2,996.4 |
| 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 | 3,674.5 | 3,853.7 |
| Shareholders' funds | 8,392.9 | 9,534.6 | 9,843.2 | 10,217.7 | 10,568.2 |
| Minority interests | 1,781.4 | 797.2 | 2,133.4 | 2,530.2 | 2,629.6 |
| BV/share (RM) | 1.70 | 1.93 | 1.99 | 2.07 | 2.14 |
| Cash Flow (RMmil, YE 31 Dec) | FY19 | FY20 | FY21F | FY22F | FY23F |
| Pretax profit | 915.0 | 509.3 | 563.0 | 754.9 | 850.7 |
| Depreciation/Amortisation | 235.1 | 47.1 | 58.1 | 81.5 | 87.3 |
| Net change in working capital | (1,220.0) | 1,042.6 | (834.8) | (187.1) | (303.7) |
| Others | 995.2 | (771.2) | 335.2 | 2,124.4 | 522.2 |
| Cash flow from operations | 925.3 | 827.7 | 121.6 | 2,773.7 | 1,156.6 |
| Capital expenditure | 335.9 | (527.2) | (610.1) | (1,299.8) | (325.4) |
| Net investments & sale of fixed assets | - | - | - | - | - |
| Others | (1,260.1) | (357.6) | (200.0) | - | - |
| Cash flow from investing | (924.2) | (884.8) | (810.1) | (1,299.8) | (325.4) |
| Debt raised/(repaid) | 667.1 | (141.2) | (831.2) | (134.4) | (290.8) |
| Equity raised/(repaid) | - | - | - | - | - |
| Dividends paid | (242.9) | (220.6) | (72.4) | (144.8) | (241.4) |
| Others | 234.0 | 183.4 | - | - | - |
| Cash flow from financing | 658.3 | (178.3) | (903.6) | (279.2) | (532.2) |
| Net cash flow | 659.4 | (235.4) | (1,592.1) | 1,194.6 | 299.0 |
| Net cash/(debt) b/f | 2,507.8 | 3,170.6 | 2,952.5 | 1,360.4 | 2,555.0 |
| Net cash/(debt) c/f | 3,170.6 | 2,952.5 | 1,360.4 | 2,555.0 | 2,854.0 |
| Key Ratios (YE 31 Dec) | FY19 | FY20 | FY21F | FY22F | FY23F |
| Revenue growth (%) | (11.6) | (19.8) | 23.4 | 40.3 | 7.2 |
| EBITDA growth (%) | 8.6 | (62.8) | 34.6 | 45.2 | 14.1 |
| Pretax margin (%) | 19.1 | 13.3 | 11.9 | 11.4 | 12.0 |
| Net profit margin (%) | 16.1 | 9.4 | 8.1 | 7.8 | 8.3 |
| 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 | 19.0 | 27.9 | 40.8 |
| Debtors turnover (days) | 125 | 232 | 120 | 120 | 157 |
| Stock turnover (days) | 151 | 200 | 157 | 142 | 174 |
| Creditors turnover (days) | 102 | 181 | 179 | 157 | 180 |

Source: Company, AmInvestment Bank Bhd estimates

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