

Sunway (SWB MK)

PDC calls off JDA with Sunway?

A “no” from PDC on BKIP2?

PDC’s decision to terminate the collaboration agreement with Sunway’s 70%-owned subsidiary, Umech Land, if true, could result in a loss of MYR45.2m (6% of our FY23E net profit forecast in a worst-case scenario). It may also impact Sunway’s reputation. We maintain our earnings forecasts and MYR1.92 TP (based on 0.8x FY24E P/B) pending further details. Reiterate HOLD. Our BUY picks for the property sector are SPSB MK (TP: MYR1.20, CP: MYR0.94) and SDPR (TP: MYR0.75, CP: MYR0.66).

Terminating collaboration?

According to *theedgemaalaysia*, Penang Development Corp (PDC) has decided to terminate its Joint Development Agreement (JDA) with Umech Land for the development of Batu Kawan Industrial Park 2 (BKIP2; 559 acres; MYR3.5b in GDV). Under the JDA, PDC which was to provide the land, was entitled to a land value of MYR646m (MYR26.5psf), payable over four years, while Umech Land, as the developer, would undertake the development at its own cost. With the contract’s termination, PDC is to next issue a request for proposal (RFP) to seek a new collaboration for the development of BKIP2.

No termination letter yet

Sunway has not received a formal letter of termination of the JDA from PDC, according to its announcement to the stock exchange. Sunway may submit a tender for the BKIP2 development when PDC advertises a RFP. To date, Sunway’s share of total incurred cost on the land deal is MYR45.2m.

Potential loss from the termination of BKIP2

In our view, there is a possibility that Sunway may not be able to recoup all the costs incurred in relation to the land deal. Assuming a potential loss of MYR45.2m (worst-case scenario, unlikely in our view), our FY23E net profit forecast has a 6.2% downside potential.

FYE Dec (MYR m)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue	3,717	5,195	6,883	7,702	7,454
EBITDA	328	583	1,005	1,077	1,134
Core net profit	368	638	731	783	839
Core FDEPS (sen)	6.2	10.7	12.3	13.2	14.1
Core FDEPS growth(%)	(26.8)	73.2	14.7	7.0	7.2
Net DPS (sen)	2.5	5.5	5.0	5.3	5.7
Core FD P/E (x)	27.7	15.1	15.4	14.4	13.4
P/BV (x)	0.8	0.8	0.9	0.8	0.8
Net dividend yield (%)	1.5	3.4	2.6	2.8	3.0
ROAE (%)	24.7	5.5	5.7	5.9	6.1
ROAA (%)	1.6	2.5	2.7	2.8	3.0
EV/EBITDA (x)	52.1	30.2	18.8	18.1	17.7
Net gearing (%) (incl perps)	45.0	52.3	47.8	50.4	53.2
Consensus net profit	-	-	664	778	808
MIBG vs. Consensus (%)	-	-	10.1	0.6	3.8

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HOLD

Share Price	MYR 1.90
12m Price Target	MYR 1.92 (+1%)
Previous Price Target	MYR 1.92

Company Description

Sunway Bhd is involved in property development, investment properties and construction businesses

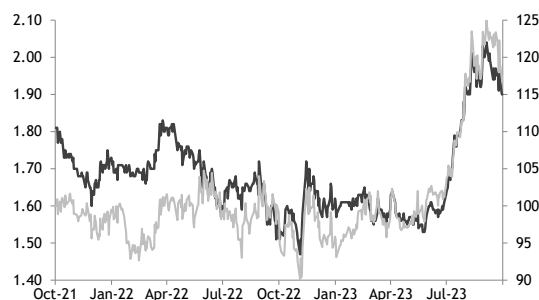
Statistics

52w high/low (MYR)	2.04/1.47
3m avg turnover (USDm)	3.5
Free float (%)	21.6
Issued shares (m)	5,000
Market capitalisation	MYR9.5B
	USD2.0B

Major shareholders:

Active Equity Sdn. Bhd.	64.4%
Employees Provident Fund	7.7%
CHEAH FOOK LING	2.6%

Price Performance



— Sunway - (LHS, MYR) — Sunway / Kuala Lumpur Composite Index - (RHS, %)

	-1M	-3M	-12M
Absolute (%)	(6)	17	23
Relative to index (%)	(5)	14	18

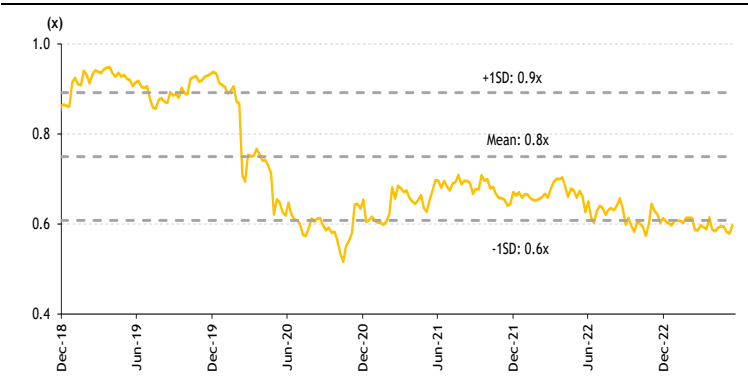
Source: FactSet

Figure 1: Location of BKIP2 in Penang mainland



Source: Company

Fig 2: Sunway's 1-year forward PBV (2018-2023)



Source: Bloomberg, Company data, Maybank IBG Research

Upside and downside risks

There are several risk factors to our earnings estimates and TP for Sunway: 1) slower-than-expected property sales and longer-than-expected downturn in the property sector; 2) delay in obtaining necessary approvals for its projects; 3) slower progress billings in construction works; 4) higher raw material costs; and 5) labour shortage that hit its construction and hotel operations.

FYE 31 Dec	FY21A	FY22A	FY23E	FY24E	FY25E
Key Metrics					
P/E (reported) (x)	3.7	14.5	15.2	14.2	13.3
Core P/E (x)	27.4	14.9	15.2	14.2	13.3
Core FD P/E (x)	27.7	15.1	15.4	14.4	13.4
P/BV (x)	0.8	0.8	0.9	0.8	0.8
P/NTA (x)	0.8	0.7	0.8	0.8	0.8
Net dividend yield (%)	1.5	3.4	2.6	2.8	3.0
FCF yield (%)	3.9	nm	6.8	nm	nm
EV/EBITDA (x)	52.1	30.2	18.8	18.1	17.7
EV/EBIT (x)	52.1	30.2	19.5	18.8	18.5

INCOME STATEMENT (MYR m)

Revenue	3,717.3	5,195.0	6,883.1	7,701.7	7,453.5
EBITDA	327.8	583.4	1,004.7	1,077.2	1,134.1
Depreciation	0.0	0.0	(37.9)	(42.1)	(46.3)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	327.8	583.4	966.8	1,035.2	1,087.8
Net interest income / (exp)	54.9	(14.5)	(179.5)	(191.0)	(204.0)
Associates & JV	81.2	350.8	274.6	291.7	333.8
Exceptionals	0.0	0.0	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	463.9	919.8	1,061.9	1,135.8	1,217.6
Income tax	(116.2)	(167.0)	(254.9)	(272.6)	(292.2)
Minorities	(73.7)	(76.1)	(75.7)	(80.5)	(86.3)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	2,664.4	676.7	731.4	782.7	839.0
Core net profit	368.3	637.8	731.4	782.7	839.0

BALANCE SHEET (MYR m)

Cash & Short Term Investments	2,810.3	1,957.3	2,344.9	1,768.0	1,119.7
Accounts receivable	2,484.8	1,957.9	2,594.1	2,902.6	2,809.1
Inventory	2,422.4	3,279.6	3,400.3	4,337.4	5,266.0
Reinsurance assets	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	1,262.3	1,264.0	1,401.9	1,544.0	1,690.3
Intangible assets	376.2	378.1	378.1	378.1	378.1
Investment in Associates & JVs	8,901.7	9,343.5	9,343.5	9,343.5	9,343.5
Other assets	6,826.8	7,877.9	7,877.9	7,877.9	7,877.9
Total assets	25,084.3	26,058.4	27,340.8	28,151.5	28,484.6
ST interest bearing debt	4,093.6	4,918.7	4,918.7	4,918.7	4,918.7
Accounts payable	2,469.3	2,490.8	3,300.2	3,692.6	3,573.7
Insurance contract liabilities	0.0	0.0	0.0	0.0	0.0
LT interest bearing debt	4,621.9	4,137.5	4,137.5	4,137.5	4,137.5
Other liabilities	777.0	949.0	949.0	949.0	949.0
Total Liabilities	11,962.0	12,496.3	13,305.7	13,698.2	13,579.2
Shareholders Equity	12,030.4	12,529.1	13,002.2	13,420.4	13,872.5
Minority Interest	1,091.9	1,032.9	1,032.9	1,032.9	1,032.9
Total shareholder equity	13,122.3	13,562.0	14,035.1	14,453.3	14,905.4
Total liabilities and equity	25,084.3	26,058.4	27,340.8	28,151.5	28,484.6

CASH FLOW (MYR m)

Pretax profit	463.9	919.8	1,061.9	1,135.8	1,217.6
Depreciation & amortisation	0.0	0.0	37.9	42.1	46.3
Adj net interest (income)/exp	132.9	202.2	(179.5)	(191.0)	(204.0)
Change in working capital	107.4	(443.2)	583.7	(459.8)	(564.0)
Cash taxes paid	(105.3)	(170.6)	(254.9)	(272.6)	(292.2)
Other operating cash flow	(2,008.5)	(113.3)	0.0	0.0	0.0
Cash flow from operations	978.7	394.9	1,249.2	254.4	203.6
Capex	(580.2)	(487.5)	(487.5)	(487.5)	(487.5)
Free cash flow	398.5	(92.6)	761.6	(233.1)	(283.9)
Dividends paid	(152.0)	(222.5)	(374.0)	(343.9)	(364.4)
Equity raised / (purchased)	0.2	1.0	0.0	0.0	0.0
Change in Debt	1,203.7	340.7	0.0	0.0	0.0
Other invest/financing cash flow	(993.1)	(891.2)	0.0	0.0	0.0
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	457.4	(864.5)	387.6	(577.0)	(648.3)

FYE 31 Dec	FY21A	FY22A	FY23E	FY24E	FY25E
Key Ratios					
Growth ratios (%)					
Revenue growth	15.8	39.8	32.5	11.9	(3.2)
EBITDA growth	40.9	78.0	72.2	7.2	5.3
EBIT growth	40.9	78.0	65.7	7.1	5.1
Pretax growth	(5.4)	98.3	15.5	7.0	7.2
Reported net profit growth	645.8	(74.6)	8.1	7.0	7.2
Core net profit growth	(12.5)	73.1	14.7	7.0	7.2
Profitability ratios (%)					
EBITDA margin	8.8	11.2	14.6	14.0	15.2
EBIT margin	8.8	11.2	14.0	13.4	14.6
Pretax profit margin	12.5	17.7	15.4	14.7	16.3
Payout ratio	5.5	47.7	40.0	40.0	40.0
DuPont analysis					
Net profit margin (%)	71.7	13.0	10.6	10.2	11.3
Revenue/Assets (x)	0.1	0.2	0.3	0.3	0.3
Assets/Equity (x)	2.1	2.1	2.1	2.1	2.1
ROAE (%)	24.7	5.5	5.7	5.9	6.1
ROAA (%)	1.6	2.5	2.7	2.8	3.0
Leverage & Expense Analysis					
Asset/Liability (x)	2.1	2.1	2.1	2.1	2.1
Net gearing (%) (incl perps)	45.0	52.3	47.8	50.4	53.2
Net gearing (%) (excl. perps)	45.0	52.3	47.8	50.4	53.2
Net interest cover (x)	na	40.3	5.4	5.4	5.3
Debt/EBITDA (x)	nm	15.5	9.0	8.4	8.0
Capex/revenue (%)	15.6	9.4	7.1	6.3	6.5
Net debt/ (net cash)	5,905.2	7,098.9	6,711.3	7,288.2	7,936.5

Source: Company; Maybank IBG Research

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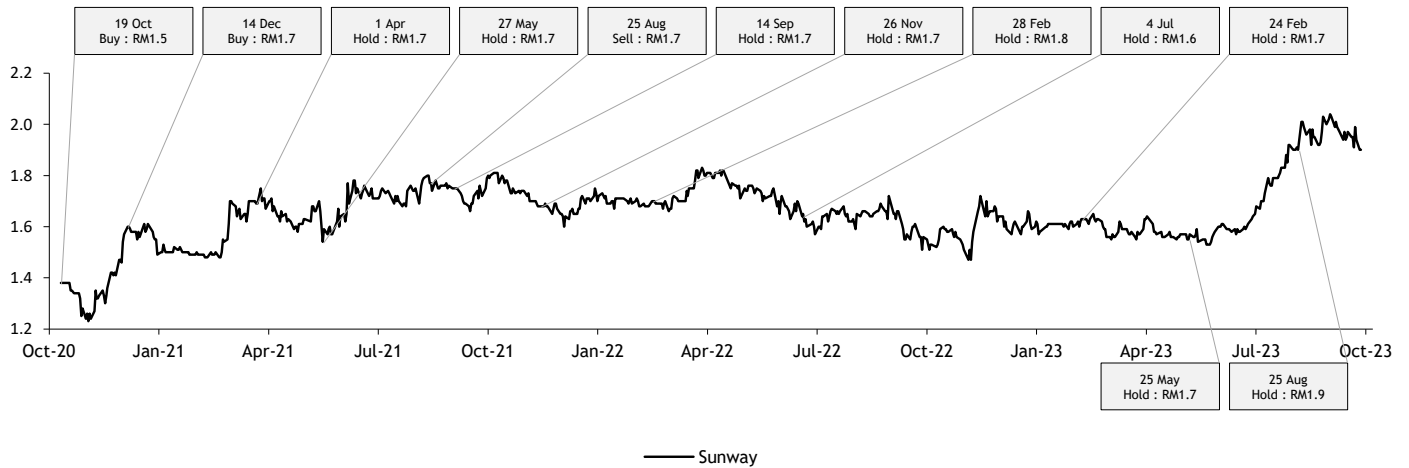
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