



AmInvestment Bank

Company report

SUNWAY

(SWB MK EQUITY, SWAY.KL)

27 May 2022

Encouraging 1QFY22 revenue and earnings

BUY

(Maintained)

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03-20362299

Rationale for report: Company results

Price	RM1.74
Fair Value	RM2.27
52-week High/Low	RM1.85/RM1.53

Key Changes

Fair value	↔
EPS	↔

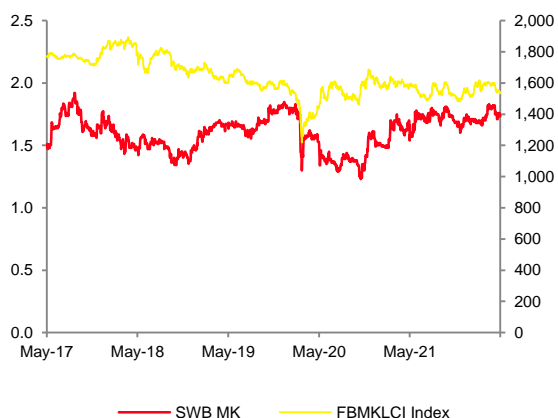
YE to Dec	FY21	FY22F	FY23F	FY24F
Revenue (RM mil)	4,572.0	3,431.7	3,567.3	3,761.3
Core net profit (RM mil)	390.9	519.3	591.9	699.8
FD Core EPS (sen)	8.0	10.6	12.1	14.3
FD Core EPS growth (%)	16.3	32.8	14.0	18.2
Consensus Net Profit (RM mil)	-	472.6	597.0	628.8
DPS (sen)	1.5	3.0	4.9	7.1
PE (x)	21.8	16.4	14.4	12.2
EV/EBITDA (x)	30.4	23.9	20.7	19.4
Div yield (%)	0.9	1.8	2.9	4.2
ROE (%)	24.7	4.8	6.1	7.1
Net Gearing (%)	44.8	57.3	58.1	59.2

Stock and Financial Data

Shares Outstanding (million)	4,889.1
Market Cap (RM mil)	8,507.0
Book Value (RM/share)	2.46
P/BV (x)	0.7
ROE (%)	24.7
Net Gearing (%)	44.8

Major Shareholders	SUNGEI WAY CORP SDN (56.9%) EPF (8.4%) ACTIVE EQUITY SDN BHD (3.2%)
Free Float	31.5
Avg Daily Value (RM mil)	3.3

Price performance	3mth	6mth	12mth
Absolute (%)	3.6	3.6	4.8
Relative (%)	7.0	1.6	7.3



Investment Highlights

- We maintain BUY on Sunway with an unchanged fair value of RM2.27/share based on SOP valuations, which also reflects a 3% premium for our 4-star ESG rating (Exhibits 4 & 5).
- Sunway's 1QFY22 core net profit (CNP) of RM138mil came in within expectations, making up 27% of our FY22F earnings and 29% of consensus estimate. Thus, we make no changes to our forecast.
- In 1QFY22, the group's property development segment's revenue rose 63% YoY. This was driven by higher sales and progress billings from the completion of progress works on ongoing local projects and full revenue recognition from 2 joint-venture companies which were converted into subsidiaries in the current quarter. However, the segment's PBT inched up by only 13% YoY due to provisions of higher construction costs, coupled with higher upfront costs incurred on future launches.
- Year to date, Sunway has secured new sales of RM447mil (-61% YoY), attaining 20% of its FY22F sales target of RM2.2bil. New sales were contributed largely by local projects (65%), particularly Sunway Belfield (19%) and Serene (18%) while the remaining came from projects in Singapore (34%) and China (1%) (Exhibit 3).
- Meanwhile, the group's unbilled sales expanded 27% YoY to RM4.2bil, which represented a cover ratio of 4x of FY22F property development revenue. Projects in Singapore are the largest contributor with unbilled sales of RM2.2bil (53% of group).
- 1QFY22 property investment segment returned to the black with PBT driven by higher revenue growth of 2x YoY as a result of higher visitorship to its theme parks and increased hotel occupancy rates following the reopening of the economy and less stringent SOPs.
- Higher progress billings from local construction projects drove up 1QFY22 construction revenue by 15% YoY and its pretax profit by 73% YoY.
- Following the partial divestment of its healthcare arm, Sunway Healthcare Group (SHG), SHG is now reclassified as a joint venture (from a subsidiary previously). With effect from 1 January 2022, the share of the profit or loss in SHG will be recognised under the equity method of accounting.

- The strong recovery in hospital activities with a higher number of patients treated at both Sunway Medical Centre and Sunway Medical Centre Velocity boosted the segment's 1QFY22 share of net profit by 2x YoY to RM28mil.
- All in, the results were commendable given that all of business segments' 1QFY22 revenues have improved significantly.
- On a QoQ comparison, all segments posted weaker 1QFY22 PBT, except for property investment which mainly benefited from the recognition of fair value gains on revaluation on investment properties (RM41mil), offset by share of fair value loss from the revaluation of Sunway REIT properties (RM23mil).
- We believe the long-term outlook for Sunway remains positive premised on its:
 - (i) strong unbilled sales of RM4.2bil (4x FY22F property development revenue);
 - (ii) a robust outstanding order book of RM4.4bil (2.4x FY22F construction revenue); and
 - (iii) expansion plan in its healthcare business (which could increase capacity by 82% in FY23F).

EXHIBIT 1: EARNINGS SUMMARY

YE to Dec (RM mil)	1QFY21	4QFY21	1QFY22	QoQ %	YoY %	3MFY21	3MFY22	YTD %
Revenue	846.1	1,243.8	1,112.5	(10.6)	31.5	846.1	1,112.5	31.5
Operating costs	(775.0)	(1,101.9)	(1,044.6)	(5.2)	34.8	(775.0)	(1,044.6)	34.8
EBITDA	71.2	141.9	67.9	(52.2)	(4.7)	71.2	67.9	(4.7)
Other income	14.5	128.2	37.1	(71.1)	>100	14.5	37.1	>100
Depreciation	(53.8)	(33.1)	(32.8)	(1.0)	(39.0)	(53.8)	(32.8)	(39.0)
Net finance income	17.6	2.8	15.8	>100	(10.3)	17.6	15.8	(10.3)
Associate contributions	23.6	16.7	99.2	>100	>100	23.6	99.2	>100
Profit before tax	73.2	256.6	187.1	(27.1)	>100	73.2	187.1	>100
Taxation	(16.8)	(73.0)	(27.9)	(61.8)	66.4	(16.8)	(27.9)	66.4
MI	(11.9)	(28.7)	(19.1)	(33.6)	60.0	(11.9)	(19.1)	60.0
Profit after tax	44.5	154.9	140.1	(9.5)	>100	44.5	140.1	>100
Profit from discontinued operations	14.0	0.0	0.0	n/m	n/m	14.0	0.0	n/m
Exceptional item	(1.1)	0.0	(2.0)	(>100)	85.6	(1.1)	(2.0)	85.6
Core PATMI	57.4	154.9	138.1	(10.8)	>100	57.4	138.1	>100
EPS (sen)	1.2	3.2	2.8	(10.8)	140.7	1.2	2.8	140.7
EBIT margin (%)	8.4	11.4	6.1			8.4	6.1	
Effective tax rate (%)	22.9	28.5	14.9			22.9	14.9	
Core PATMI margin (%)	6.8	12.5	12.4			6.8	12.4	

Source: AmlInvestment Bank Bhd

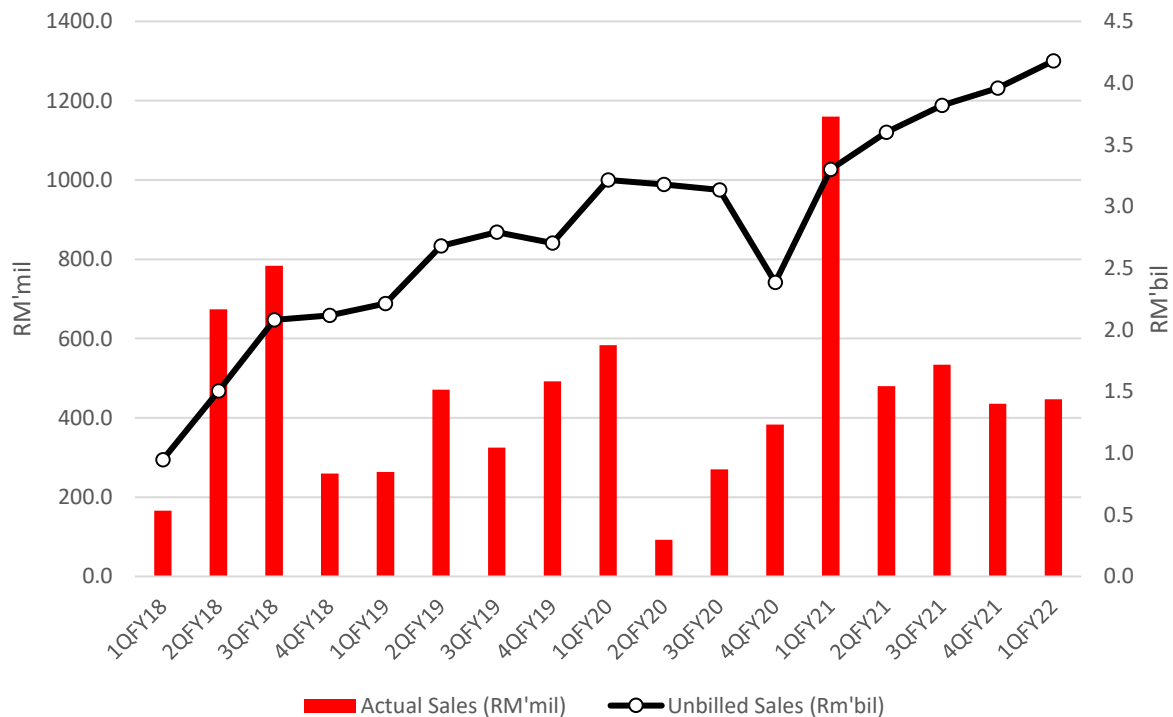
EXHIBIT 2: SEGMENTAL BREAKDOWN

FY31 Dec (RM mil)	1QFY21	4QFY21	1QFY22	QoQ %	YoY %	3MFY21	3MFY22	YTD %
Property development	97.2	182.6	158.2	(13.4)	62.8	97.2	158.2	62.8
Property investment	58.7	133.4	121.1	(9.2)	>100	58.7	121.1	>100
Construction	321.4	379.6	368.6	(2.9)	14.7	321.4	368.6	14.7
Others*	368.9	784.0	464.6	(40.7)	25.9	368.9	464.6	25.9
Revenue	846.1	1,479.6	1,112.5	(24.8)	31.5	846.1	1,112.5	31.5
Property development	20.7	64.4	23.4	(63.6)	13.2	20.7	23.4	13.2
Property investment	(16.9)	36.8	45.0	22.3	>100	(16.9)	45.0	>100
Construction	27.7	91.1	47.8	(47.5)	72.8	27.7	47.8	72.8
Others*	41.7	95.8	70.8	(26.1)	69.9	41.7	70.8	69.9
PBT/(LBT)	73.2	288.1	187.1	(35.1)	>100	73.2	187.1	>100
Pretax margin (%)								
Property development	21.3	35.2	14.8			21.3	14.8	
Property investment	(28.7)	27.6	37.2			(28.7)	37.2	
Construction	8.6	24.0	13.0			8.6	13.0	
Others*	11.3	12.2	15.2			11.3	15.2	

*Including building materials, community pharmacy business and other segments

Source: AmlInvestment Bank Bhd

EXHIBIT 3: ACTUAL SALES AND UNBILLED SALES



Source: AmlInvestment Bank Bhd

EXHIBIT 4: RNAV CALCULATIONS

DEVELOPMENT PROPERTIES	Outstanding GDV (RMmil)	NPV @8% (RMmil)	Stake (%)
Selangor/KL			
Sunway Damansara	1,953.3	98.4	60.0
Sunway South Quay	2,486.7	248.0	100.0
Sunway Monterez	38.0	2.3	60.0
Sunway Semenyih	728.6	51.0	70.0
Sunway Cheras	241.8	24.2	100.0
Sunway Duta	120.0	6.5	60.0
Sunway Resort City	660.1	59.6	100.0
Sunway Velocity	1,984.0	152.2	85.0
Sunway Velocity 2	600.0	32.5	60.0
Sunway Velocity 3	1,200.0	64.4	60.0
Sunway Tower KL 1	240.0	21.7	100.0
Sunway Termuning	265.2	19.1	80.0
Mont Putra, Rawang	156.0	14.1	100.0
Kelana Jaya	1,450.0	130.8	100.0
Jalan Belfield	450.0	40.6	100.0
Lot One, Kajang	460.0	41.5	100.0
USJ 1, Subang Jaya	1,400.0	126.3	100.0
Wangsa Maju-1	40.0	2.0	55.0
Bukit Jalil (Sterling Paradise)	800.0	101.1	100.0
Dengkil (Emerald Tycoon)	813.2	73.4	100.0
Jalan Cochrane	1,150.0	118.3	100.0
Perak			
Sunway City Ipoh	928.4	75.7	96.0
Penang			
Sunway Hills	849.0	71.5	100.0
Sunway Wellesley, Bukit Mertajam	710.5	59.8	100.0
Paya Terubong	1,500.0	126.0	100.0
Sunway Tunas, Balik Pulau	60.0	5.0	100.0
Sunway Betong, Balik Pulau	110.0	9.3	100.0
Johor			
Bukit Lenang	568.4	24.1	80.0
Medini	10,616.0	338.1	60.0
Pendas	18,000.0	573.2	60.0
Singapore			
Flynn Park, Pasir Panjang	2,300.0	68.8	30.0
Thiam Siam Avenue, Tanjong Katong	6,150.0	183.9	30.0
China			
Tianjin Eco-City	780.0	48.7	60.0
Unbilled sales		1,045.0	
Subtotal		4,056.9	
Property (40% discount to RNAV)		2,515.3	
Investment properties		2,183.6	
Sunway Construction (54.4% stake @ AmlInvestment Valuation)		1,192.1	
Sunway REIT (40.9% stake @ AmlInvestment Valuation)		2,464.7	
Healthcare (84% stake @30x FY23 earnings)		4,208.1	
Quarry & building materials (6x FY23 earnings)		152.8	
Trading & manufacturing (6x FY23 earnings)		186.0	
Total SOP		12,902.6	
NAV @ Property development		1,428.9	
Fair value		14,331.5	
Enlarged share base (mil shares)		6,516.6	
Fair value/share (RM)		2.20	
(+) 3% premium for 4-star ESG rating		0.07	
Fair value/share (RM)+ ESG Premium		2.27	

Source: AmlInvestment Bank Bhd

EXHIBIT 5: 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: AmlInvestment Bank

EXHIBIT 6: PB BAND CHART

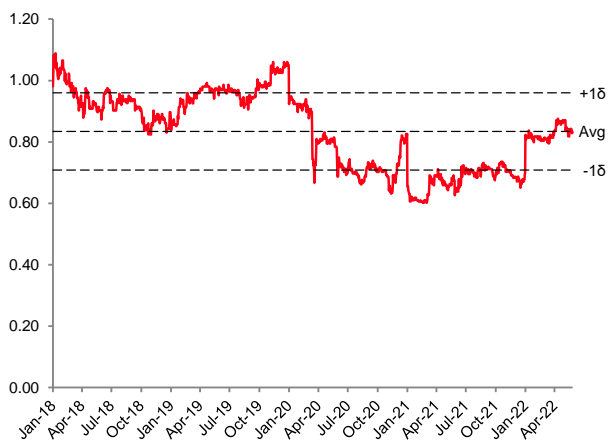


EXHIBIT 7: PE BAND CHART

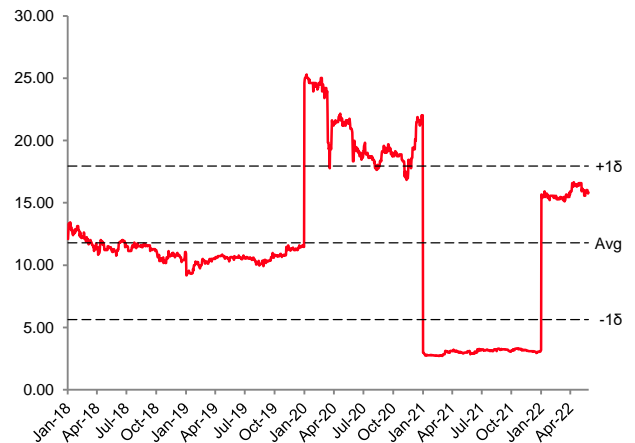


EXHIBIT 8: FINANCIAL DATA

Income Statement (RMmil, YE 31 Dec)	FY20	FY21	FY22F	FY23F	FY24F
Revenue	3,208.8	4,572.0	3,431.7	3,567.3	3,761.3
EBITDA	297.1	457.7	599.6	708.2	773.8
Depreciation/Amortisation	(47.1)	(130.6)	(81.5)	(87.3)	(92.1)
Operating income (EBIT)	250.0	327.1	518.1	620.9	681.7
Other income & associates	230.8	83.7	181.5	195.9	299.6
Net interest	26.6	54.9	72.9	78.2	82.4
Exceptional items	-	2,390.6	-	-	-
Pretax profit	507.5	2,856.3	772.5	894.9	1,063.7
Taxation	(102.6)	(116.2)	(113.2)	(127.6)	(159.6)
Minorities/pref dividends	(47.6)	(74.6)	(122.4)	(131.2)	(138.4)
Net profit	357.3	2,665.4	536.9	636.1	765.8
Core net profit	336.1	390.9	519.3	591.9	699.8
Balance Sheet (RMmil, YE 31 Dec)	FY20	FY21	FY22F	FY23F	FY24F
Fixed assets	2,611.4	1,262.8	4,521.3	4,846.7	5,110.3
Intangible assets	350.8	432.8	350.8	350.8	350.8
Other long-term assets	11,086.2	15,389.1	11,286.2	11,286.2	11,286.2
Total non-current assets	14,048.3	17,084.7	16,158.2	16,483.6	16,747.3
Cash & equivalent	2,348.9	2,814.0	2,671.6	2,970.6	3,083.5
Stock	2,101.5	2,423.0	3,183.4	1,256.9	1,226.3
Trade debtors	2,440.6	2,483.8	2,182.0	1,686.3	1,417.1
Other current assets	180.1	281.3	452.3	326.1	334.1
Total current assets	7,071.1	8,002.2	8,489.3	6,240.0	6,061.0
Trade creditors	2,456.9	2,470.6	3,524.3	1,217.5	1,583.8
Short-term borrowings	5,132.5	4,093.8	5,705.1	6,115.7	6,448.4
Other current liabilities	239.3	141.2	(1,004.3)	(1,661.2)	(2,919.4)
Total current liabilities	7,828.8	6,705.6	8,225.1	5,672.1	5,112.8
Long-term borrowings	2,101.6	4,114.2	2,817.2	2,996.4	3,141.6
Other long-term liabilities	857.3	1,143.7	857.3	857.3	857.3
Total long-term liabilities	2,958.8	5,257.9	3,674.5	3,853.7	3,998.9
Shareholders' funds	9,534.6	12,034.8	10,217.7	10,568.2	10,986.5
Minority interests	797.2	1,088.7	2,530.2	2,629.6	2,710.1
BV/share (RM)	1.95	2.46	2.09	2.16	2.25
Cash Flow (RMmil, YE 31 Dec)	FY20	FY21	FY22F	FY23F	FY24F
Pretax profit	507.5	2,856.3	772.5	894.9	1,063.7
Depreciation/Amortisation	47.1	130.6	81.5	87.3	92.1
Net change in working capital	1,042.6	(2,054.3)	1,032.4	(303.7)	(380.3)
Others	(769.4)	105.8	(2,641.4)	522.2	379.5
Cash flow from operations	827.7	1,038.4	(755.0)	1,200.8	1,155.1
Capital expenditure	(527.2)	(722.6)	(3,258.5)	(325.4)	(263.6)
Net investments & sale of fixed assets	-	-	-	-	-
Others	(357.6)	(600.2)	4,373.9	-	-
Cash flow from investing	(884.8)	(1,322.9)	1,115.3	(325.4)	(263.6)
Debt raised/(repaid)	(141.2)	1,292.0	(456.8)	(290.8)	(364.9)
Equity raised/(repaid)	-	-	(0.2)	-	-
Dividends paid	(220.6)	(152.0)	(144.8)	(241.4)	(347.5)
Others	183.4	(307.5)	(17.6)	(44.2)	(66.0)
Cash flow from financing	(178.3)	832.5	(619.4)	(576.4)	(778.5)
Net cash flow	(235.4)	548.0	(259.1)	299.0	112.9
Net cash/(debt) b/f	3,170.6	2,952.5	2,814.0	2,555.0	2,854.0
Net cash/(debt) c/f	2,952.5	3,505.7	2,555.0	2,854.0	2,966.9
Key Ratios (YE 31 Dec)	FY20	FY21	FY22F	FY23F	FY24F
Revenue growth (%)	(32.9)	42.5	(24.9)	4.0	5.4
EBITDA growth (%)	(62.9)	54.1	31.0	18.1	9.3
Pretax margin (%)	15.8	62.5	22.5	25.1	28.3
Net profit margin (%)	11.1	58.3	15.6	17.8	20.4
Interest cover (x)	nm	nm	nm	nm	nm
Effective tax rate (%)	20.2	4.1	14.7	14.3	15.0
Dividend payout (%)	20.3	2.7	27.0	37.9	45.4
Debtors turnover (days)	278	198	232	173	138
Stock turnover (days)	239	181	298	227	120
Creditors turnover (days)	216	197	319	243	136

Source: Company, AmlInvestment Bank Bhd estimates

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