

HLIB Research

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BUY (Maintain)

Target Price: **RM2.65**

Previously: **RM2.58**

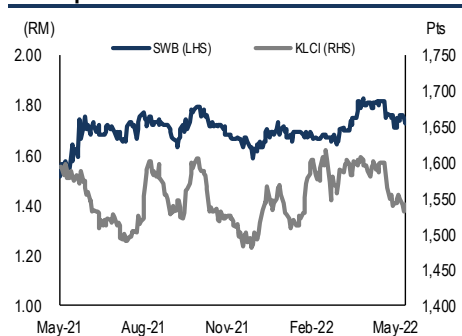
Current Price: **RM1.74**

Capital upside	52.3%
Dividend yield	2.7%
Expected total return	55.0%

Sector coverage: Property

Company description: Sunway is a conglomerate that engages in property development, property investment, construction, leisure and hospitality, education, trading and manufacturing, building materials and healthcare.

Share price



Historical return (%)	1M	3M	12M
Absolute	-3.3	3.6	13.0
Relative	-0.5	7.0	16.9

Stock information

Bloomberg Ticker	SWB MK
Bursa Code	5211
Issued Shares (m)	4,889
Market cap (RM m)	8,507
3-mth avg. volume ('000)	1,877
SC Shariah-compliant	Yes
F4GBM Index member	Yes
ESG rating	★★★

Major shareholders

Sungei Way Corp Sdn Bhd	56.9%
EPF	8.5%

Earnings summary

FYE (Dec)	FY21	FY22f	FY23f
PATMI – core (RM m)	370.3	502.2	567.4
EPS – core (sen)	6.3	8.6	9.7
P/E (x)	27.6	20.3	18.0

Sunway

A good start

Sunway recorded 1Q22 core PATAMI of RM127.6m (-26% QoQ; +194% YoY), which is in line with expectations. The group recorded new property sales of RM447m, representing 20% of its FY22 sales target. Unbilled sales stand at RM3.71bn, representing a strong cover ratio of 5.9x of its FY21 property development revenue. Healthcare continues to show strong performance with 1Q22 reported share of net profit more than doubled on a YoY basis. Maintain forecasts and introduce FY24 forecast. We maintain BUY a higher TP of RM2.65 (from RM2.58) based on SOP-derived valuation as we impute TP upgrades from its subsidiaries. We continue to like Sunway as all its business segments are poised to benefit from the economic recovery and border reopening.

Within expectations. Sunway reported 1Q22 core PATAMI of RM127.6m (-26% QoQ; +194% YoY), which is in line with expectations forming 26.7% and 27% of our and consensus' expectations, respectively. 1Q22 core PATAMI was derived after excluding net EIs of RM12.5m (mainly from net gain from remeasurement of stakes in Sunway Velocity Two and Sunway Artessa amounting to RM14.4m).

Dividend. None (1Q21: none).

QoQ. Revenue declined by -10.6% due to lower contributions from all business segments. Property development had a better performance in preceding quarter due to higher contribution from completion and handover of local project and higher progress billings; while property investment had a better performance in preceding quarter due to the seasonally stronger holiday season. Consequently, core PATAMI declined by -25% in line with revenue decline.

YoY. Revenue increased by +31.5% due to stronger contributions from most business segments except trading and manufacturing and quarry segments. Notably, property development increased by +62.8% due to higher sales and progress billings, while property investment increased by +1.1x as performance in SPLY was impacted by lockdown restrictions from 13 Jan to 4 Mar 2021 resulting in closure of theme park and more stringent social restrictions. Consequently, core earnings rebounded by +1.9x to RM127.6m (from RM43.4m SPLY).

Property development. Sunway recorded new sales of RM447m (+24.2% QoQ; -61.5% YoY), representing 20% of its FY22 sales target. Unbilled sales stand at RM3.71bn (from RM3.49bn in 4Q21), representing a strong cover ratio of 5.9x of its FY21 property development revenue. Despite the interest rate upcycle in Malaysia, the strong GDP growth remains supportive in the local property segment. Outlook in Singapore property market remains positive as it continues to attract high net worth buyers due to its strategic position as a regional financial hub, while China is lowering interest rates, in part targeting at promoting property development, which will augur well for Sunway.

Property investment. Hotel segment should continue to show gradual improvement moving forward following the economic recovery and borders reopening. Sunway Resort, the group's main hotel has commenced operations since May 2022 (previously under refurbishment) and should contribute positively to the group while also benefitting the group's other facilities and segments such as malls and theme park within Sunway City as visitors extend their stay, thus, increasing the average spend per visitor.

Construction. SunCon's latest outstanding orderbook stands at RM4.4bn translating into a decent 2.6x cover. Replenishment progress in FY22 has been relatively challenging with contracts secured so far totalling RM266m (5MFY21: RM462m). We believe this is due to volatility in various costs resulting in delayed awards. Going

forward, SunCon is poised to benefit from MRT3 jobs later this year and could also choose to participate in Indian projects. ICPH, due to commence operations in 2H22 could leverage on strong BTO launches.

Healthcare. Healthcare continues to show strong performance with 1Q22 reported share of net profit of RM28.2m (vs. RM14m SPLY) due to higher number of patients at both SMC and SMCV. The segment should continue to improve in FY22 on account of (i) inflows of medical tourism with borders reopening; (ii) recovering patient footfalls from delayed elective procedures; and (iii) lower Covid-related operating expenses as restrictions ease as the country enters into the endemic phase.

Forecast. Unchanged. We introduce FY24 forecast.

Maintain **BUY** a higher **TP** of **RM2.65** (from RM2.58) based on SOP-derived valuation as we impute TP upgrades from its subsidiaries. The group has multi levers of growth, particularly with its fast expanding crown jewel, healthcare segment. With the economy recovering and borders reopening, the group is ready to pull its levers to propel its business to the next phase of growth as all of its business segments are poised to benefit from it. While the market may value the group as a conglomerate with holding discount, we reckon that there is a rerating opportunity for Sunway when the market fully appreciate the group's integrated business model where each segment is well managed in its own regard while at the same time also complements the overall group's business model resulting in synergistic value larger than the sum-of-parts. Its efforts to expedite the expansion of its healthcare segment with its new strategic partner GIC, will culminate in the separate listing of healthcare unit to help unlock value in the group. Sunway remains our top pick given its well-integrated property, construction and building material operations.

Financial Forecast

All items in (RM m) unless otherwise stated

Balance Sheet

FYE Dec	FY20	FY21	FY22f	FY23f	FY24f
Cash	2,238.4	2,810.3	3,381.1	3,937.0	3,964.9
Placement in funds	100.3	98.8	98.8	98.8	98.8
Receivables	1,451.9	1,123.4	1,881.0	1,890.3	2,015.0
Inventories	606.0	670.5	1,115.1	1,120.6	1,194.5
Others	16,696.5	20,381.4	20,182.7	20,142.4	20,600.6
Assets	21,093.1	25,084.3	26,658.7	27,189.0	27,873.7
Payables	1,467.5	1,401.2	2,506.0	2,518.3	2,684.4
Debt	7,510.6	8,714.6	8,864.6	9,014.6	9,164.6
Others	1,804.5	1,846.2	1,846.2	1,846.2	1,846.2
Liabilities	10,782.6	11,962.0	13,216.7	13,379.1	13,695.2
Shareholder's equity	9,513.2	12,030.4	12,281.8	12,573.1	12,864.4
Minority interest	797.4	1,091.9	1,160.2	1,236.9	1,314.1
Perpetual bond	-	-	-	-	-
Equity	10,310.6	13,122.3	13,442.0	13,809.9	14,178.5

Cash Flow Statement

FYE Dec	FY20	FY21	FY22f	FY23f	FY24f
Profit before taxation	509.9	358.0	706.1	788.2	838.0
D&A	236.5	216.9	129.9	144.1	157.0
Working capital	297.5	(109.9)	247.9	317.6	(264.5)
Taxation	(61.3)	(105.3)	(135.7)	(144.0)	(158.3)
JV and Associates	(39.3)	70.0	(80.7)	(123.8)	(83.3)
Perpetual bond	-	-	-	-	-
Others	(68.6)	549.1	-	-	-
CFO	874.7	978.7	867.6	982.1	488.9
Capex	(957.0)	(580.2)	(300.0)	(300.0)	(300.0)
Others	158.6	(699.4)	-	-	-
CFI	(798.5)	(1,279.6)	(300.0)	(300.0)	(300.0)
Changes in debt	(897.1)	1,239.1	150.0	150.0	150.0
Shares issued	977.8	-	-	-	-
Dividends	(253.6)	(179.8)	(146.7)	(276.2)	(312.1)
Others	(86.8)	(214.4)	-	-	1.0
CFF	(259.7)	845.0	3.3	(126.2)	(161.1)
Net cash flow	(183.5)	544.1	570.9	555.9	27.8
Forex	7.3	5.3	-	-	-
Others	(140.2)	(117.7)	(117.7)	(117.7)	(117.7)
Beginning cash	2,554.7	2,378.6	2,928.0	3,498.9	4,054.7
Ending cash	2,238.4	2,810.3	3,381.2	3,937.0	3,964.9

Income statement

FYE Dec	FY20	FY21	FY22f	FY23f	FY24f
Revenue	3833.3	4529.3	4725.7	4749.0	5062.2
Operating cost	(3345.7)	(4090.3)	(4003.2)	(3982.6)	(4254.6)
EBITDA	487.6	439.0	722.5	766.4	807.5
D&A	(236.8)	(217.1)	(129.9)	(144.1)	(157.0)
Net Interest	28.3	54.9	(27.2)	(22.2)	9.2
JV & Associates	230.8	81.2	140.7	188.1	178.3
Pretax profit	509.9	358.0	706.1	788.2	838.0
Taxation	(102.6)	(116.2)	(135.7)	(144.0)	(158.3)
Minority Interest	(47.6)	(73.7)	(68.2)	(76.7)	(77.2)
Holders of Perpetual	0.0	0.0	0.0	0.0	0.0
Reported PATAMI	357.3	2664.4	502.2	567.4	602.5
Exceptionals	28.3	42.4	0.0	0.0	0.0
Core Earning	385.6	370.3	502.2	567.4	602.5
Basic shares (m)	5866.7	5866.7	5866.7	5866.7	5866.7
Consensus core PATMI			472.6	597.0	628.8
HLIB/ Consensus			106%	95%	96%

Valuation ratios

FYE Dec	FY20	FY21	FY22f	FY23f	FY24f
Net DPS (sen)	1.5	2.5	4.7	5.3	5.6
Yield (%)	0.9	1.4	2.7	3.1	3.2
Core EPS (sen)	6.6	6.3	8.6	9.7	10.3
P/E (x)	26.5	27.6	20.3	18.0	16.9
Market capitalization (m)	10208.1	10208.1	10208.1	10208.1	10208.1
Net cash (m)	(5171.9)	(5805.5)	(5384.7)	(4978.8)	(5101.0)
Net gearing (%)	0.50	0.44	0.40	0.36	0.36
BV / share	1.8	2.2	2.3	2.4	2.4
P/BV (x)	1.0	0.8	0.8	0.7	0.7
ROA (%)	1.8	1.5	1.9	2.1	2.2
ROE (%)	3.7	2.8	3.7	4.1	4.2
Enterprise value	15380.0	16013.6	15592.7	15186.9	15309.0
EV/ EBITDA (x)	31.5	36.5	21.6	19.8	19.0

Figure #1 Quarterly results comparison

FYE Dec (RM m)	1Q21	4Q21	1Q22	QoQ	YoY
Revenue	846.1	1,008.0	1,112.5	-11%	31%
Property Development	97.2	182.6	158.2	-13%	63%
Property Investment	58.7	133.4	121.1	-9%	106%
Construction	321.4	379.6	368.6	-3%	15%
Trading/Manufacturing	224.5	229.9	205.0	-11%	-9%
Quarry	77.2	105.7	76.2	-28%	-1%
Investment Holdings	1.1	31.8	1.9	-94%	73%
Others	66.0	180.8	181.5	0%	175%
EBIT	31.9	270.1	72.1	-73%	126%
Net Interest	17.6	1.2	15.8	>100%	-10%
Share of Associates/JCE	23.6	16.7	99.2	>100%	319%
PBT	73.2	288.0	187.1	-35%	156%
Property Development	20.7	64.4	23.4	-64%	13%
Property Investment	(16.9)	36.8	45.0	22%	-367%
Construction	27.7	91.1	47.8	-47%	73%
Trading/Manufacturing	12.2	9.0	10.3	14%	-16%
Quarry	3.1	4.4	4.9	10%	59%
Healthcare	14.0	31.4	28.2	-10%	>100%
Investment Holdings	21.8	35.1	11.3	-68%	-48%
Others	4.6	15.8	16.2	2%	252%
PAT	56.4	217.3	159.2	-27%	182%
MI	(11.8)	(48.0)	(19.1)	-60%	62%
PATAMI	44.6	143.6	140.1	-2%	214%
EI	(1.2)	27.8	(12.5)	-145%	916%
Core Earnings	43.4	171.4	127.6	-26%	194%
				<i>ppts change</i>	<i>ppts change</i>
EBIT margin	3.8%	21.7%	6.5%	(15.2)	2.7
PBT margin	8.6%	23.2%	16.8%	(6.3)	8.2
PAT margin	5.1%	13.8%	11.5%	(2.3)	6.3

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Figure #2 SOP table

Division	Stake	Value (RM m)	RM/share	Methodology
Construction (SunCon)	54.56%	1,294	0.27	Based on TP of RM 1.84
Sunway REIT	40.88%	2,338	0.48	Based on TP of RM 1.67
Property Development & Investment	100%	4,893	1.00	Discounted RNAV
Healthcare	84%	3,948	0.81	31x EV/EBITDA
Trading/Manufacturing	100%	295	0.06	10X trailing P/E
Quarry	100%	167	0.03	10X trailing P/E
Equity Value (RM)		12,936	2.65	

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BUY	Expected absolute return of +10% or more over the next 12 months.
HOLD	Expected absolute return of -10% to +10% over the next 12 months.
SELL	Expected absolute return of -10% or less over the next 12 months.
UNDER REVIEW	Rating on the stock is temporarily under review which may or may not result in a change from the previous rating.
NOT RATED	Stock is not or no longer within regular coverage.

Sector rating guide

OVERWEIGHT	Sector expected to outperform the market over the next 12 months.
NEUTRAL	Sector expected to perform in-line with the market over the next 12 months.
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