

27 May 2022

Sunway Berhad

1QFY22 Within Expectation

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1QFY22 CNP of RM118m is within market expectations. Sales of RM447m is in line with our RM1.6b target at 25% but trails management's RM2.2b target at 20%. Nonetheless, note that as of 1QFY22, SUNWAY has yet to launch any of their RM2.3b planned launches for the year. Current unbilled sales stood at RM4.18b. Keep FY22/23E earnings estimates. Consequently, maintain OP on an unchanged SoP-TP of RM2.05.

Within expectations. 1QFY22 CNP of RM118.2m came within ours/consensus at 28%/25% respectively. No dividends were declared as expected.

Sales also inline. 1QFY22 sales of RM447m was in-line with our RM1.6b target (at 25%) but trails management's target of RM2.2b (at 20%). **We are more conservative vs. management** due to: (i) fresh cooling measures in Singapore imposed in Dec-2021, (ii) absence of HOC incentives in Malaysia, (iii) further hikes in interest rates which would erode affordability, and (v) tougher sales climate in China due to the recent debt crisis and lockdowns in which Sunway has RM276m planned launches in Tianjin this year. That said, as of March-22, Sunway has yet to launch any properties out of their FY22 planned launches of RM2.3b. Current unbilled sales of RM4.18b (effective RM3.71b) provide c.4x revenue cover.

Highlights. QoQ, 1QFY22 CNP of RM118m was down 6% mainly because (i) previous quarters construction and property PBT was much stronger arising from upward recalibration of margins for projects reaching completion, and (ii) reduced PBT from Healthcare segment (-10%) arising from the reduction of stake due to 16% stake sale to GIC.

YoY, 1QFY22 CNP leapt 103% mainly because all business segments recorded stronger PBT from the economic reopening (with exception to its trading and manufacturing).

Observations. Sunway's leisure and hospitality segment (as reflected in its property investment segment's operating profit of RM14.8m in 1QFY22) still has room to improve in the subsequent quarters as the economy gradually resumes into normalcy. We note that pre-pandemic average OP (before JVA) for its property investment segment is at RM56.7m.

For healthcare, despite being in the first quarter where the number of patients are lower (seasonally) coupled with the fact that we are no longer in peak Covid season (whereby there were more Covid inpatients during that time), 1QFY22 PBT (at 100% stake level) actually continue to grow QoQ (+6%) and YoY (+137%) recording an all-time high. Nonetheless, we are anticipating this strong quarterly profitability to come off slightly upon the commencement of Sunway Medical Tower D (+200 beds in first phase) and Seberang Jaya (+150 to 200 beds) in the coming quarter as there would be gestational losses.

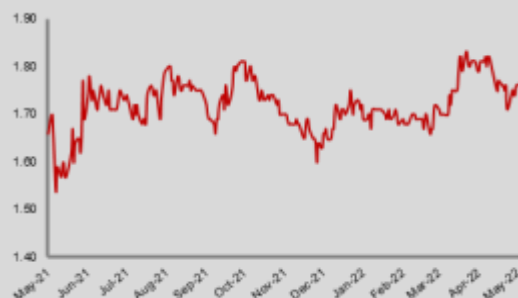
Keep FY22/23E earnings unchanged post results.

Maintain OP with an unchanged SoP-TP of RM2.05. With its leisure and hospitality segment badly affected during this pandemic, we believe Sunway would be a good proxy for a recovery this year in line with the opening of border.

OUTPERFORM ↔

Price : RM1.74
Target Price : RM2.05 ↔

Share Price Performance



KLCI 1,541.15
YTD KLCI chg -1.7%
YTD stock price chg 1.2%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	SWB MK Equity
Market Cap (RM m)	8,507.0
Shares Outstanding	4,889.1
52-week range (H)	1.85
52-week range (L)	1.53
3-mth avg daily vol:	1,889,872
Free Float	26%
Beta	0.6

Major Shareholders

Sunway Holdings Sdn	56.9%
Sungei Way Corp Sdn	8.5%
Employees Provident	3.2%

Summary Earnings Table

FYE Dec (RM m)	2021A	2022E	2023E
Turnover	4529	4653	5369
EBIT	523	579	935
PBT	568	632	958
Net Profit	379	475	761
Core PATAMI**	328	424	710
Consensus (NP)	n.a.	472.6	597.0
Earnings Revision	n.a.	0%	0%
Core EPS (sen)	6.6	8.6	14.4
Core EPS growth (%)	-10%	29%	68%
*NDPS (sen)	2.5	3	5
NTA per Share (RM)	2.44	2.49	2.59
Price to NTA (x)	0.71	0.70	0.67
PER (x)	26.2	20.3	12.1
Net Gearing ratio (x)	0.49	0.48	0.48
Return on Asset (%)	1.3%	1.7%	2.7%
Return on Equity (%)	2.7%	3.4%	5.6%
Net Div. Yield (%)	1.4%	1.7%	2.9%

*Only cash dividend is reflected.

**Note, we deduct ICPS payments of RM51m/annum (bi-annual payment in 2Q and 4Q) to derive our core estimates while Sunway treat it as a normal dividend and hence makes no deduction to its bottom-line within their earnings announcement.

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Result Highlight								
FYE Dec (RM m)	1Q22	4Q21	QoQ	1Q21	YoY	1Q22	1Q21	YoY
Revenue	1,112.5	1,479.6	-25%	1,016.7	9%	1,112.5	1,016.7	9%
Operating Expenses	-1,075.2	-1,135.0	-5%	-988.2	9%	-1,075.2	-988.2	9%
Other Operating Income	34.9	128.2	-73%	20.5	70%	34.9	20.5	70%
Operating Profit	72.1	270.1	-73%	49.1	47%	72.1	49.1	47%
Finance Income	45.5	42.0	8%	38.8	17%	45.5	38.8	17%
Finance costs	-29.7	-40.9	-27%	-24.3	22%	-29.7	-24.3	22%
Associates	45.9	8.6	434%	16.4	179%	45.9	16.4	179%
JV	53.3	8.1	554%	7.2	639%	53.3	7.2	639%
PBT	187.1	288.0	-35%	87.2	115%	187.1	87.2	115%
Tax	-27.9	-70.8	-61%	-16.8	66%	-27.9	-16.8	66%
PAT	159.2	217.3	-27%	70.4	126%	159.2	70.4	126%
MI	19.1	48.0	-60%	11.9	60%	19.1	11.9	60%
ICPS/Perpetual Sukuk distribution	0.0	-25.7	n.a.	0.0	n.a.	0.0	0.0	n.a.
PATAMI	140.1	169.2	-17%	58.5	140%	140.1	58.5	140%
Exceptionals	-21.9	-18.2	20%	-0.2	9180%	-21.9	-0.2	9180%
CNP	118.2	125.4	-6%	58.2	103%	118.2	58.2	103%
DPS	0.0	1.5	-100%	0.0	n.a.	0.0	0.0	n.a.
EBIT margin	6%	18%		5%		6%	5%	
Pretax margin	17%	19%		9%		17%	9%	
NP margin	14%	15%		7%		14%	7%	
CNP margin	11%	8%		6%		11%	6%	
Net gearing (x)	0.64	0.62		0.75		0.64	0.75	
Effective tax	15%	25%		19%		15%	19%	

Source: Company, Kenanga Research

Segmental Breakdown								
	1Q22	4Q21	QoQ	1Q21	YoY	1Q22	1Q21	YoY
External Revenue								
Property Development	158.2	182.6	-13%	97.2	63%	158.2	97.2	63%
Property Investment	121.1	133.4	-9%	58.7	106%	121.1	58.7	106%
Construction	368.6	379.6	-3%	321.4	15%	368.6	321.4	15%
Trading and Manufacturing	205.0	229.9	-11%	224.5	-9%	205.0	224.5	-9%
Quarry	76.2	105.7	-28%	77.2	-1%	76.2	77.2	-1%
Healthcare	0.0	235.8	-100%	170.6	-100%	0.0	170.6	-100%
Investment Holdings	1.9	31.8	-94%	1.1	73%	1.9	1.1	73%
Others	181.5	180.8	0%	66.0	175%	181.5	66.0	175%
Total Revenue	1,112.5	1,479.6	-25%	1,016.7	9%	1,112.5	1,016.7	9%
PBT Segmentation								
Property Development	23.4	64.4	-64%	20.7	13%	23.4	20.7	13%
Property Investment	45.0	36.8	22%	-16.9	n.a.	45.0	-16.9	n.a.
Construction	47.8	91.1	-47%	27.7	73%	47.8	27.7	73%
Trading and Manufacturing	10.3	9.0	14%	12.2	-16%	10.3	12.2	-16%
Quarry	4.9	4.4	10%	3.1	59%	4.9	3.1	59%
Healthcare	28.2	31.4	-10%	14.0	102%	28.2	14.0	102%
Investment Holdings	11.3	35.1	-68%	21.8	-48%	11.3	21.8	-48%
Others	16.2	15.8	2%	4.6	252%	16.2	4.6	252%
Total PBT	187.1	288.0	-35%	87.2	115%	187.1	87.2	115%
PBT margins								
Property Development	15%	35%		21%		15%	21%	
Property Investment	37%	28%		-29%		37%	-29%	
Construction	13%	24%		9%		13%	9%	
Trading and Manufacturing	5%	4%		5%		5%	5%	
Quarry	6%	4%		4%		6%	4%	
Healthcare	n.a.	13%		8%		n.a.	8%	
Investment Holdings	599%	110%		2006%		599%	2006%	
Others	9%	9%		7%		9%	7%	
Total	17%	19%		9%		17%	9%	

Source: Company, Kenanga Research

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Sum of Parts		
Segment	Value (RM m)	Valuation basis
Property Development	2,012.4	P/BV of 0.77x (-1.5 SD below mean)
Property Investment (backed by 40.9%-owned Sunway REIT)	2,526.4	Kenanga's TP of RM1.40 for SREIT + NBV of investment prop ex-SREIT
Construction (via 54.4%-owned Sunway Construction)	1,066.2	Kenanga's TP of RM1.52 for SunCon
Trading & Manufacturing	338.4	P/E of 10x on FY22 earnings
Quarry	265.4	P/E of 12x on FY22 earnings
Healthcare	5,187.1	30x on FY22 EV/EBITDA
Investment Holdings & Others	467.0	P/E of 10x on FY22 earnings
Net cash / (debt) at holding company level	(870.9)	As at 31 Dec 2021
Aggregate Valuation	10,992.0	
No of shares (m)	5,292.2	Account for partial dilution of ICPS
RNAV per share (RM)	2.05	

Source: Company, Kenanga Research

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Peer Comparison

Name	Last Price (RM)	Market Cap (RM'm)	Shariah Compliant	Current FYE	PER (x) - Core Earnings			PBV (x)		ROE (%)	Net Div Yld (%)	Target Price	Rating
					Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.		
<u>STOCKS UNDER COVERAGE</u>													
ECO WORLD DEVELOPMENT GROUP	0.725	2,134.7	Y	10/2022	9.1	9.1	8.1	0.5	0.4	4.9%	5.5%	0.850	MP
IOI PROPERTIES GROUP BHD	0.995	5,478.6	Y	06/2022	8.7	8.6	7.7	0.3	0.3	3.4%	2.8%	1.65	OP
MAH SING GROUP BHD	0.655	1,590.1	Y	12/2022	14.9	12.5	11.3	0.5	0.5	4.3%	4.6%	0.650	MP
MALAYSIAN RESOURCES CORP BHD	0.350	1,563.6	Y	12/2022	N.A.	159.1	N.A.	0.3	0.3	0.2%	2.9%	0.345	MP
SIME DARBY PROPERTY BHD	0.520	3,536.4	Y	12/2022	25.2	15.0	14.1	0.4	0.4	2.5%	2.5%	0.725	OP
SP SETIA BHD	0.790	3,213.8	Y	12/2022	19.8	12.0	14.1	0.3	0.3	2.9%	4.8%	0.900	UP
SUNWAY BHD	1.74	8,507.0	Y	12/2022	28.1	21.7	13.0	0.9	0.9	4.4%	1.7%	2.05	OP
UEM SUNRISE BHD	0.335	1,694.6	Y	12/2022	N.A.	N.A.	N.A.	0.2	0.2	-0.6%	0.0%	0.400	OP
UOA DEVELOPMENT BHD	1.87	4,350.5	Y	12/2022	12.5	13.4	12.5	0.7	0.7	3.9%	7.0%	1.76	MP
Simple Average					16.9	31.4	11.5	0.4	0.4	2.9%	3.5%		

Source: Bloomberg, Kenanga Research

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Stock Ratings are defined as follows:**Stock Recommendations**

OUTPERFORM	: A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM	: A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM	: A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT	: A particular sector's Expected Total Return is MORE than 10%
NEUTRAL	: A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT	: A particular sector's Expected Total Return is LESS than -5%

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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Published and printed by:

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