

27 May 2022

Property | Real Estate

Sunway (SWB MK)

Buy (Maintained)

Steady Recovery Post Re-opening Of Economy; Keep BUY

Target Price (Return): MYR2.06 (18.4%)
 Price (Market Cap): MYR1.74 (USD1,935m)
 ESG score: 3.40 (out of 4)
 Avg Daily Turnover (MYR/USD) 3.01m/0.71m

- Maintain BUY and MYR2.06 TP, 18% upside and c.2% yield.** Sunway's 1Q22 results came above expectations. Property sales were decent at MYR447m and Ki Residences in Singapore was the major contributor. Thus far, most business divisions showed successful recovery post re-opening of economy. Given Sunway's diversified business model, we believe the continued improvement in other segments will help to mitigate the potential downside in property development given the prevailing industry-wide issues including labour shortage and disruption in supply chain.
- 1Q22 results.** Almost all business divisions recorded YoY growth except for trading & manufacturing and quarry divisions. Property development and property investment divisions eased QoQ, as we believe the property development segment was affected by slower work progress and softer sales amongst local property projects post the end of the Home Ownership Campaign in Dec 2021, while the property investment division was due to a seasonality factor. Performance for the healthcare segment remained stable with operating profit of MYR35.7m in 1Q22 vs MYR32.9m in 4Q21 (both numbers are based on a 100% stake).
- Ki Residences the major sales contributor.** New property sales achieved MYR447m vs MYR440m in 4Q21. Projects in Singapore were the key contributors, making up 34% of the total sales. Ki Residences is now 90% sold (from 79% in 4Q21), while both Parc Central Tampines and Parc Canberra are already sold out. Locally, response for the recently-launched projects was rather decent. Sunway d'hill Residences in Kota Damansara and Sunway Artesa are now 56% and 43% sold (including bookings), while Sunway Belfield Tower C is 31% booked.
- MYR2.2bn sales target for FY22.** Local projects will likely be the key contributors to property sales this year, as the remaining units in Singapore are insignificant and the next launch is Flynn Park in Pasir Panjang worth MYR676m GDV (by effective stake) in 2H22. Some downside risk to the sales target (particularly for local projects) is possible, if inflationary pressure worsens further in the coming months. The weakening of the MYR may also dampen sentiment to some extent.
- Forecast.** As we were too conservative in our previous estimates, we raise our FY22-23F earnings by 14-15%. Unbilled sales rose to MYR4.18bn vs MYR3.96bn as at 4Q21, while its outstanding construction orderbook fell slightly to MYR4.44bn from MYR4.75bn as at 4Q21.
- ESG.** Our SOP-based TP incorporates an 8% ESG premium given our ESG score of 3.40 for the company, derived using our in-house proprietary methodology.

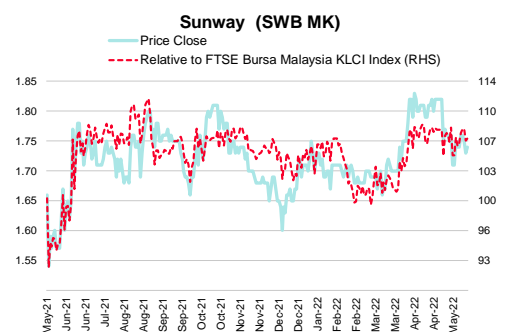
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	1.2	(4.4)	3.6	3.6	4.8
Relative	2.9	(0.9)	6.8	1.7	7.1
52-wk Price low/high (MYR)	1.54 – 1.83				



Source: Bloomberg

Forecasts and Valuation	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Total turnover (MYRm)	3,833	3,714	4,002	4,645	5,156
Recurring net profit (MYRm)	461	265	426	562	620
Recurring net profit growth (%)	(33.4)	(42.5)	60.4	32.0	10.5
Recurring EPS (MYR)	0.09	0.05	0.07	0.09	0.10
DPS (MYR)	0.01	0.03	0.03	0.04	0.04
Recurring P/E (x)	19.41	38.49	24.23	18.54	16.95
P/B (x)	0.94	0.85	0.84	0.82	0.81
Dividend Yield (%)	0.7	1.6	1.7	2.0	2.3
Return on average equity (%)	4.0	2.7	3.5	4.5	4.8
Net debt to equity (%)	50.7	44.9	49.9	50.4	52.2

Source: Company data, RHB

Overall ESG Score: 3.40 (out of 4)

E: EXCELLENT

Sunway City is a Green Building Index (GBI) certified township. The company managed to avoid 40,131 tonnes of CO₂e from 2015-2019, and 1% of its electricity is from renewable sources (in 2019). Its main townships also have more than 40% open space, with greenscapes and bluescapes.

S: EXCELLENT

Sunway has made donations to aid the underserved communities in the B40 group, people with disabilities, youth, women, children and senior citizens. The Good Run in Oct 2019 managed to raise MYR275k to support medical treatment costs for cancer patients of the B40 group.

G: EXCELLENT

56% of board members are independent. Sunway has an in-house investor relations team that is easily accessible, and holds investor meetings, embodying good transparency and disclosure practices.

Financial Exhibits

Asia	Financial summary (MYR)	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Malaysia	Recurring EPS	0.09	0.05	0.07	0.09	0.10
Property	EPS	0.07	0.05	0.07	0.09	0.10
Sunway	DPS	0.01	0.03	0.03	0.04	0.04
SWB MK	BVPS	1.85	2.05	2.07	2.11	2.15
Buy	Return on average equity (%)	4.0	2.7	3.5	4.5	4.8
	Return on average assets (%)	1.6	1.3	1.7	2.2	2.3
Valuation basis	Valuation metrics	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
45% discount to property RNAV, 15x P/E for trading/building material division, 18.5x EV/EBITDA for healthcare division, and 10% holding co discount	Recurring P/E (x)	19.41	38.49	24.23	18.54	16.95
	P/B (x)	0.9	0.8	0.8	0.8	0.8
	Dividend Yield (%)	0.7	1.6	1.7	2.0	2.3
	EV/EBITDA (x)	50.32	37.57	43.66	29.74	28.20
Key drivers	Income statement (MYRm)	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
New property sales, disposal of investment properties	Total turnover	3,833	3,714	4,002	4,645	5,156
	Gross profit	804	798	971	1,223	1,366
	EBITDA	298	458	416	625	682
	Depreciation and amortisation	(47)	(131)	(97)	(105)	(112)
	Operating profit	251	327	319	520	570
	Net interest	28	55	(54)	(72)	(89)
	Pre-tax profit	509	466	591	780	862
	Taxation	(102)	(116)	(118)	(156)	(172)
	Reported net profit	360	294	426	562	620
	Recurring net profit	461	265	426	562	620
Key risks	Cash flow (MYRm)	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Weaker-than-expected market conditions	Change in working capital	(514)	(468)	24	(261)	(152)
	Cash flow from operations	(18)	202	542	411	545
	Capex	0	0	(1,022)	(377)	(739)
	Cash flow from investing activities	(529)	(2,891)	(916)	(202)	(502)
	Dividends paid	(60)	(163)	(178)	(209)	(242)
	Cash flow from financing activities	(1,380)	3,318	(274)	(305)	(336)
	Cash at beginning of period	5,889	2,269	2,817	2,323	2,161
	Net change in cash	(1,926)	628	(647)	(95)	(293)
	Ending balance cash	3,963	2,897	2,169	2,227	1,867
Company Profile	Balance sheet (MYRm)	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
A well-known developer in the Klang Valley. Its flagship project - Bandar Sunway is a well-established integrated township. The company has successfully transformed a mining land to a matured residential and commercial cluster	Total cash and equivalents	2,269	2,817	2,323	2,161	1,893
	Tangible fixed assets	13,632	16,592	17,517	17,789	18,417
	Intangible assets	351	433	433	433	433
	Total other assets	65	60	249	409	553
	Total assets	21,119	25,087	25,515	26,290	27,226
	Short-term debt	5,132	4,094	4,094	4,094	4,094
	Total long-term debt	2,374	4,622	4,923	5,040	5,249
	Total liabilities	10,788	11,963	12,097	12,457	12,945
	Shareholders' equity	9,535	12,035	12,283	12,635	13,013
	Minority interests	797	1,089	1,136	1,198	1,267
	Total equity	10,332	13,123	13,418	13,833	14,281
	Total liabilities & equity	21,119	25,087	25,515	26,290	27,226
	Key metrics	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
	Revenue growth (%)	(19.8)	(3.1)	7.7	16.1	11.0
	Recurring net profit growth (%)	(33.4)	(42.5)	60.4	32.0	10.5
	Recurrent EPS growth (%)	(36.4)	(49.6)	58.8	30.7	9.4
	Gross margin (%)	21.0	21.5	24.3	26.3	26.5
	Recurring net profit margin (%)	12.0	7.1	10.6	12.1	12.0
	Dividend payout ratio (%)	16.7	55.3	41.8	37.3	39.0

Source: Company data, RHB

Results At a Glance

Figure 1: Quarterly results

FYE Dec (MYR mil)	1Q21	4Q21	1Q22	QoQ (%)	YoY (%)	Comments
Turnover	1,016.7	1,243.8	1,112.5	(10.6)	9.4	
Prop dev	97.2	182.6	158.2	(13.4)	62.8	The lower revenue QoQ was due to higher contribution from the completion of a local project, as well as higher billings from ongoing projects in the previous quarter.
Prop invt	58.7	133.4	121.1	(9.2)	106.4	The lower revenue QoQ was due to seasonality factor, as the segment is typically stronger in 4Q.
Construction	321.4	379.6	368.6	(2.9)	14.7	
Trading & Manufacturing	224.5	229.9	205.0	(10.8)	(8.7)	
Quarry	77.2	105.7	76.2	(28.0)	(1.4)	
Investment holdings	1.1	31.8	1.9	n.m.	n.m.	
Others	66.0	180.8	181.5	0.4	174.8	
EBIT	49.1	237.1	72.1	(69.6)	47.0	
EBIT Margin (%)	4.8%	19.1%	6.5%			
Prop dev	13.1	49.6	4.4	(91.2)	(66.5)	
Prop invt	(14.3)	62.1	14.8	(76.2)	(203.6)	4Q21 EBIT included a fair value gain on revaluation of investment properties.
Construction	26.3	83.3	43.5	(47.8)	65.6	The higher EBIT in 4Q21 was boosted by higher profit contribution from some local projects which were nearing completion.
Trading & Manufacturing	13.0	9.7	10.9	12.8	(15.8)	
Quarry	2.6	2.3	5.0	121.3	94.4	
Investment holdings	(13.8)	11.3	(22.2)	n.m.	61.5	
Others	5.0	18.7	15.7	(16.4)	210.6	
Exceptional items	0.0	(29.2)	(7.5)	n.m.	n.m.	
Finance cost	14.5	2.8	15.8	457.1	9.0	
Asso & JV	23.6	16.7	99.2	492.7	319.5	The higher associate and JV income was mainly due to higher progressive profit recognition from Ki Residence.
Other Income	0.0	0.0	0.0	n.m.	n.m.	
Pretax profit	87.2	256.6	187.1	(27.1)	114.6	
PBT margin (%)	8.6%	20.6%	16.8%			
Tax	(16.8)	(73.0)	(27.9)	(61.8)	66.1	
Tax (%)	19.3%	28.5%	14.9%			
PAT	70.4	183.6	159.2	(13.3)	126.2	
MI	(11.9)	(28.7)	(19.1)	(33.6)	60.0	
Net profit	58.5	154.9	140.1	(9.5)	139.7	
Core net profit	58.5	125.7	132.6	5.5	126.9	Above expectations.
Net margin (%)	5.7	10.1	11.9			
EPS (sen)	1.0	2.6	2.4			
NTA (RM)	1.96	2.05	2.08			
DPS (sen)	0.0	1.5	0.0			
EBIT margin:						
Prop dev	13.5%	27.2%	2.8%			
Prop invt	-24.4%	46.6%	12.2%			
Construction	8.2%	22.0%	11.8%			
Trading & Manufacturing	5.8%	4.2%	5.3%			
Quarry	3.3%	2.1%	6.6%			
Investment holdings	n.m.	n.m.	n.m.			
Others	7.6%	10.4%	8.6%			

Source: Company data, RHB

Figure 2: RNAV estimate

Developments	Remaining		Effective stake	NPV @ 9%	
	Landbank (acre)	GDV (MYR m)			
Selangor/KL					
Sunway Damansara	21.70	2,235.30	60%	224.6	
Sunway South Quay	29.90	2,486.70	100%	347.0	
Sunway Monterez	4.40	38.00	60%	3.0	
Sunway Semenyih	526.10	728.59	70%	58.1	
Sunway Cheras	2.90	16.82	100%	1.7	
Sunway Duta	3.16	120.00	60%	7.3	
Sunway Resort City	7.7	660	100%	104.8	
Sunway Velocity	2.20	1,983.98	85%	205.1	
Sunway Velocity 2	5.50	1,360.00	50%	47.4	
New land in Cochrane	6.59	1,150.00	100%	108.6	
Sunway Tower KL 1	1.90	240.00	100%	21.5	
Sunway Termuning	28.90	277.00	80%	16.5	
Sg Long	28.90	277.00	80%	21.3	
Mont Putra, Rawang	163.00	156.00	100%	13.9	
Kelana Jaya	14.00	1,450.00	100%	113.6	
Subang industrial	4.20	52.00	70%	3.8	
Sunway Belfield	4.53	1,100.00	100%	86.2	
Sunway Kajang	5.28	460.00	60%	24.8	
USJ 1	14.80	1,400.00	100%	110.5	
Sunway Avila	2.30	270.00	55%	14.6	
Sunway ARTESSA, Wangsa Maju	3.69	300.00	55%	12.9	
Sunway Damansara Hill, Kota Damansara	9.46	544.00	60%	35.9	
Cheras land	3.34	225.00	100%	19.2	
Mutiara Bukit Jalil	11.80	800.00	100%	60.1	
Dengkil (Emerald Tycoon)	74.50	796.60	100%	45.3	
Perak					
Sunway City Ipoh	336.4	928.40	96%	121.9	
Penang					
Sunway Hills	80.70	849.00	100%	73.6	
Sunway Wellesley, Bukit Mertajam	51.47	710.47	100%	73.4	
Paya Terubong	24.90	1,500.00	100%	143.0	
Sunway Tunas, Balik Pulau	9.00	60.00	100%	6.3	
Sunway Betong, Balik Pulau	19.87	110.00	100%	11.5	
S'pore					
Anchorvale Lane, Sengkang (Rivercove EC)	5.19	1,560.00	30%	43.1	
Ki Residences (Clementi)	8.56	3,410.00	30%	103.5	
Canberra Link, Sembawang	4.46	1,643.00	35%	58.2	
Parc Central, Tampines EC	6.16	2,650.50	35%	81.0	
Flynn Park Pasir Panjang	4.79	2,300.00	30%	69.8	
Tanjong Katong	6.00	6,000.00	30%	104.0	
Johor					
Bukit Lenang	64.79	698.40	80%	53.2	
Medini	632.80	10,616.00	60%	511.0	
Pendas	1,079.07	18,000.00	60%	643.8	
China					
Tianjin Phase 3	6.85	780.00	60%	37.9	
India					
Sunway OPUS Grand India	23.80	702.36	50%	23.1	
Sunway MAK Signature Residence (JV with M.A.K Builders)	14.00	181.22	60%	7.5	
TOTAL	3,470.24	77,422.22		3,873.40	
Investment properties	Est. market value	Book value	Equity	Net surplus	
	(MYR m)	(MYR m)	interest	(MYR m)	
Monash University Campus	302.8	302.8	100%	0	
Monash U Residence	239.0	239.0	100%	0	
Sunway Geo Tower	168.0	111.0	100%	57.0	
Sunway Hotel Georgetown	60.0	37.6	100%	22.4	
Sunway Hotel Phnom Penh	19.0	19.0	53%	0	
Sunway Hotel Hanoi	5.0	5.0	100%	0	
Sunway Giza	50.0	50.0	60%	0	
Sunway Velocity Mall	1,805.0	805.0	59%	590.0	
Sunway Citrine Hub	42.0	42.0	60%	0.0	
Sunway Geo Avenue	94.0	94.0	100%	0.0	
Subtotal				4,542.80	
Shareholders' equity (ex cons. & healthcare)				9,812.40	
Total				14,355.19	
Discount to Property RNAV				45%	
Discounted Property RNAV				7,895.36	
Other divisions	Market value	Book value	Est. FY22 earnings	PE target	Equity value surplus
	(MYR m)	(MYR m)	(MYR m)	(x)	(MYR m)
40.9% Sunway REIT	2,017.1	1,479.0			538.07
54.4% Sunway Construction	1,273.1	844.1			429.07
Others			60	15	900.00
			Est. FY22 EBITDA	EV/EBITDA (x)	Equity value
84% Sunway Healthcare			182.9	18.5	2,841.60
Total					12,604.10
ESOS proceeds					151.21
Warrants conversion @ MYR1.56					1,044.44
Total RNAV					13,799.76
Holding company discount					10%
Discounted RNAV					12,419.78
Share base (mil) incl. warrants & ICPS					6,525.86
Intrinsic value					1.90
ESG premium					8%
TP (MYR)					2.06

Source: RHB

Recommendation Chart

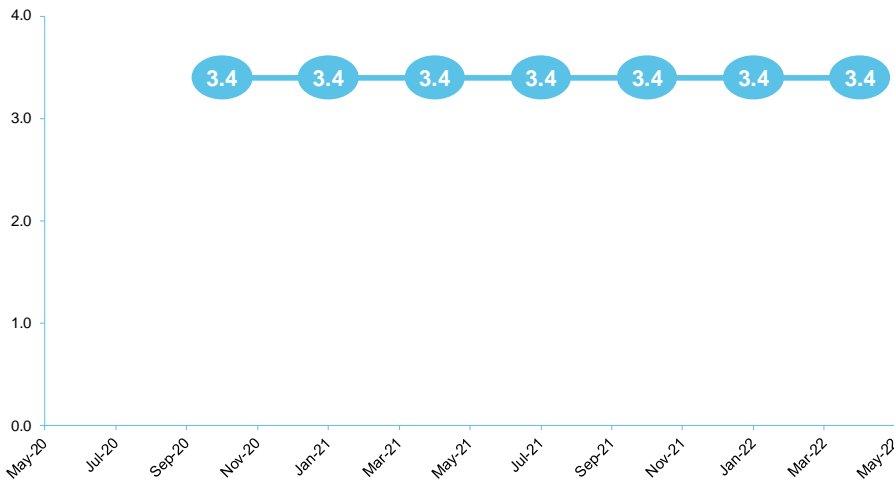


Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2021-11-25	Buy	2.06	1.68
2021-08-25	Buy	2.00	1.77
2021-07-13	Buy	2.02	1.71
2021-06-24	Buy	2.09	1.73
2021-05-26	Buy	1.92	1.66
2021-04-19	Buy	1.95	1.64
2021-04-01	Buy	1.94	1.69
2021-03-16	Buy	1.88	1.64
2020-03-23	Buy	1.86	1.41
2019-11-22	Buy	2.00	1.78
2019-09-27	Buy	1.95	1.66
2019-08-28	Buy	1.85	1.59
2019-07-02	Buy	1.86	1.65

Source: RHB, Bloomberg

ESG Rating History



Source: RHB

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