

Sunway Bhd

Results on Track

TP: RM2.27 (+30.4%)

Last Traded: RM1.74

BUY (ESG: ★★★★★)

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Review

- Excluding the share of valuation gain pursuant to Sunway REIT's acquisition of an investment property, Sunway's reported core net profit of RM132.6mn in IQFY22. Results came in within our expectations but ahead of consensus, accounting for 25% and 28% of our and consensus' full-year forecasts, respectively.
- YoY:** IQ22 revenue grew by 32% to RM1.1bn due to increased contributions from all business segments. In comparison to the previous year, the core net profit grew 127% RM132.6mn, mostly due to the turnaround in the property investment segment and the higher number of patients treated which strengthened the performance of the healthcare segment.
- QoQ:** Sunway's IQ22 core net profit fell 5% QoQ to RM132.6mn on the back of 11% declined in revenue.
- Sunway's IQ22 property sales declined 61% YoY but increased 3% QoQ to RM447mn. Ki Residences, a private condominium project in Singapore, is a major contributor to IQ22 sales (34% of IQ22 sales), with a 90% take-rate as of the end of March, up from 79% a quarter earlier.

Impact

- No change to our FY22-24 earnings forecasts.

Outlook

- This year, Sunway aims to generate new sales of RM2.2bn. Given that IQ22 sales, which were completely derived from ongoing projects, accounted for 20% of the group's sales target, we believe the target is attainable. The group has planned new projects totalling RM2.3bn for the upcoming quarters – see **Figure I**. Of the RM2.3bn new launches, 59% of the total launches are comprised of projects in Malaysia followed by 29% from Singapore and balance 12% from China.
- The group's unbilled sales of RM4.2bn and outstanding construction order book of RM2.3bn (external jobs only) should provide earnings visibility for the next 2-3 years.
- The improvement in the property investment and health care businesses helped the Sunway's financial performance in IQ22. This was mostly due to the relaxation of COVID-19 containment measures and pent-up demand. While there are risks to the recovery, such as increased inflationary expectations as a result of supply chain interruptions and geopolitical tensions, management is aggressively addressing these risks.

Valuation

- Factoring in the new TPs for SunCon and Sunway REIT, we arrive at a new TP of RM2.27 (RM2.24 previously), based on SOP valuation – see **Figure I**. Reiterate BUY.

Share Information

Bloomberg Code	SWB MK
Stock Code	5211
Listing	Main Market
Share Cap (mn)	4,889.1
Market Cap (RMmn)	8,507.0
52-wk Hi/Lo (RM)	1.85/1.53
12-mth Avg Daily Vol ('000 shrs)	1,976.8
Estimated Free Float (%)	25.5
Beta	0.3
Major Shareholders (%)	
	Sungei Way Corp (56.9)
	EPF (8.5)

Forecast Revision

	FY22	FY23
Forecast Revision (%)	0.0	0.0
Net profit (RMmn)	523.1	563.6
Consensus	472.6	597.0
TA's / Consensus (%)	110.7	94.4
Previous Rating	Buy (Maintained)	

Financial Indicators

	FY22	FY23
Net gearing (%)	44.5	42.8
CFPS (sen)	10.5	5.0
P/CFPS (x)	16.6	35.0
ROE (%)	4.3	4.5
ROA (%)	2.1	2.3
NTA/Share (RM)	2.0	2.1
Price/NTA (x)	0.9	0.8

Scorecard

	% of FY	
vs TA	25.0	Within
vs Consensus	28.0	Above

Share Performance (%)

Price Change	SWB	FBM KLCI
1 mth	(4.4)	(3.5)
3 mth	3.6	(3.2)
6 mth	3.6	1.9
12 mth	4.8	(2.3)

(12-Mth) Share Price relative to the FBMKLCI



SOP Valuation Table

	Stake	Value (RM mn)	RM/share	Valuation Methodology
Property Dev & Inv	100.0%	3,345.9	0.68	14x CY23 Earnings
SunCon	54.6%	1,080.1	0.22	TP of RM1.53
Sunway REIT	40.9%	2,325.2	0.48	TP of RM1.66
Healthcare	84.0%	3,937.5	0.81	Pegged to Effective Equity Value Based on GIC's Offer
Trading & Manufacturing	100.0%	320.6	0.07	10x CY23 Earnings
Quarry	100.0%	66.5	0.01	10x CY23 Earnings
Total		11,075.8	2.27	

Source: TA Research

Figure I: 2022 Indicative Launches

Development	Location	Type	GDV (RM mn)
Jernih Residence	Kajang, Selangor	Serviced Apartments & Retail	281
Sunway Bukit Jalil	Bukit Jalil, KL	Serviced Apartments	275
Sunway Alishan	Cheras, KL	Condominium & Superlinks	261
Project L5 (to be named)	Sunway Iskandar Puteri, Johor	Landed Linked Homes	213
Sunway Lenang Heights	Taman Molek, Johor Bahru	Semi Ds and Bungalows	93
Sunway City Ipoh	Sunway City Ipoh, Perak	Townhouses	75
Sunway Wellesley	Bukit Mertajam, Penang	Townhouses	120
Sunway Dora	Bayan Baru, Penang	Condominium	71
Flynn Park	Pasir Panjang, Singapore	Private Condominiums	676
Sunway Gardens	Tianjin, China	Condominium	276
Total Launches in 2022			2,341

Source: Sunway, TA Research

Earnings Summary (RM mn)

YE Dec 31 (RM'mn)	2020	2021	2022F	2023F	2024F
Revenue	3,208.8	3,714.2	4,674.8	4,927.1	5,004.5
EBITDA	376.5	457.7	590.4	608.2	584.3
EBITDA margin (%)	11.7	12.3	12.6	12.3	11.7
Pretax profit	494.8	465.7	680.7	745.1	770.5
Reported Net profit	340.3	323.6	523.1	563.6	602.5
Net profit -adj	362.0	350.1	523.1	563.6	602.5
EPS (sen)	7.3	5.5	8.9	9.6	10.3
EPS - adj (sen)	7.3	6.0	8.9	9.6	10.3
EPS Growth (Core) (%)	49.6	(18.2)	49.4	7.7	6.9
PER (x)	23.9	29.2	19.5	18.1	16.9
GDPS (sen)	1.5	2.5	3.0	3.5	3.5
Div Yield (%)	0.9	1.4	1.7	2.0	2.0
ROE (%)	4.0	3.2	4.3	4.5	4.7

^ Restated

Note: Following the partial divestment, Sunway Healthcare is presented as discontinued operations in FY20 & FY21. For FY22 onwards, Sunway will recognise its share of the profit or loss in Sunway Healthcare (84% stake on a fully converted basis) under the equity method of accounting.

IQ22 Results Analysis (RM mn)

YE 31 Dec (RM'mn)	IQ21[^]	4Q21[^]	IQ22	QoQ (%)	YoY (%)	
Continuing Operations						
Revenue	846.1	1,243.8	1,112.5	(10.6)	31.5	
<i>Property Development</i>	97.2	182.6	158.2	(13.4)	62.8	
<i>Property Investment</i>	58.7	133.4	121.1	(9.2)	106.4	
<i>Construction</i>	321.4	379.6	368.6	(2.9)	14.7	
<i>Trading & Manufacturing</i>	224.5	229.9	205.0	(10.8)	(8.7)	
<i>Quarry</i>	77.2	105.7	76.2	(28.0)	(1.4)	
<i>Others</i>	67.1	212.6	183.4	(13.7)	173.1	
Operating profits	31.9	237.1	72.1	(69.6)	125.8	
Finance income	36.1	37.8	45.5	20.3	26.0	
Finance costs	(18.5)	(34.9)	(29.7)	(15.1)	60.7	
Associates	16.4	8.6	45.9	434.4	179.4	
JV	7.2	8.1	53.3	554.1	639.0	
EI	0.0	29.2	7.5	(74.3)	nm	
PBT	73.2	256.6	187.1	(27.1)	155.6	
Core PBT	73.2	227.4	179.6	(21.0)	145.4	
<i>Property Development</i>	20.7	64.4	23.4	(63.6)	13.2	
<i>Property Investment</i>	(16.9)	7.6	37.5	392.9	(322.4)	
<i>Construction</i>	27.7	91.1	47.8	(47.5)	72.8	
<i>Trading & Manufacturing</i>	12.2	9.0	10.3	14.0	(15.8)	
<i>Quarry</i>	3.1	4.4	4.9	10.4	58.7	
<i>Healthcare*</i>	0.0	0.0	28.2	nm	nm	
<i>Others</i>	26.4	50.9	27.4	(46.2)	3.9	
Tax	(16.8)	(73.0)	(27.9)	(61.8)	66.4	
MI	(11.8)	(28.7)	(19.1)	(33.6)	62.1	
Net profit from continuing operations	44.6	154.9	140.1	(9.5)	213.8	
Core net profit from continuing operations (a)	44.6	125.7	132.6	5.5	197.0	
Discontinued Operations						
Profit from discontinued operations, net of tax	14.0	33.7	0.0	nm	nm	
Net gain arising from partial divestment of Sunway Healthcare	0.0	2,286.1	0.0	nm	nm	
MI	(0.2)	(19.3)	0.0	nm	nm	
Profits from discontinued operations	13.8	2,300.5	0.0	nm	nm	
Core net profit from discontinued operations (b)	13.8	14.4	0.0	nm	nm	
Core net profit (a + b)	58.5	140.1	132.6	(5.3)	126.9	
Reported EPS	(sen)	0.8	41.9	2.4	(94.3)	210.4
Adj EPS	(sen)	1.0	2.4	2.2	(6.6)	121.6
DPS	(sen)	0	1.5	0.0	nm	0.0
Core PBT margin	(%)	8.6	18.3	16.1	(2.1)	7.5
<i>Property Development</i>	(%)	21.3	35.2	14.8	(20.4)	(6.5)
<i>Property Investment</i>	(%)	(28.8)	5.7	31.0	25.3	59.7
<i>Construction</i>	(%)	8.6	24.0	13.0	(11.0)	4.4
<i>Trading & Manufacturing</i>	(%)	5.4	3.9	5.0	1.1	(0.4)
<i>Quarry</i>	(%)	4.0	4.2	6.4	2.2	2.4
<i>Others</i>	(%)	39.3	24.0	15.0	(9.0)	(24.4)
Core net margin	(%)	6.9	11.3	11.9	0.7	5.0
Effective tax rate	(%)	(22.9)	(28.5)	(14.9)	13.6	8.0

[^]Restated

* healthcare's contribution from Continuing Operations is based on the Group's share of its net profit.

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Stock Recommendation Guideline

- BUY** : Total return within the next 12 months exceeds required rate of return by 5%-point.
HOLD : Total return within the next 12 months exceeds required rate of return by between 0-5%-point.
SELL : Total return is lower than the required rate of return.
Not Rated: The company is not under coverage. The report is for information only.

Total Return is defined as expected share price appreciation plus gross dividend over the next 12 months. Gross dividend is excluded from total return if dividend discount model valuation is used to avoid double counting.

Required Rate of Return of 7% is defined as the yield for one-year Malaysian government treasury plus assumed equity risk premium.

ESG Scoring & Guideline

	Environmental	Social	Governance	Average
Scoring	★★★★★	★★★★★	★★★★★	★★★★★
Remark	The group implements a comprehensive programme aiming to reduce to GHG emission, water & waste with relevant targets and deadlines. It implemented a Zero Single Plastic Use Policy in its property division's assets, venues, and events	The group provides a conducive work environment. Promoting diversity and equal opportunity, 58% of its non-executive workforce is women. The company has strict regulations concerning health and safety, collaborating with suppliers and subcontractors to enforce them.	Sunway upholds high standards of corporate governance and transparency to safeguard shareholders' interests. It has an in-house investor relations team that is easily contactable.	

- ★★★★★ (≥80%) : Displayed market leading capabilities in integrating ESG factors in all aspects of operations, management and future directions.
 ★★★★ (60-79%) : Above adequate integration of ESG factors into most aspects of operations, management and future directions.
 ★★★ (40-59%) : Adequate integration of ESG factors into operations, management and future directions.
 ★★ (20-39%) : Have some integration of ESG factors in operations and management but are insufficient.
 ★ (<20%) : Minimal or no integration of ESG factors in operations and management.

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As of Friday, May 27, 2022, the analyst, Thiam Chiann Wen, who prepared this report, has interest in the following securities covered in this report:
 (a) nil

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