

### COMPANY RESULTS

## Sunway (SWB MK)

1Q22: In Line; Earnings Recovery Underway

Sunway grew 1Q22 core earnings by 144% yoy on improved progress billings and higher contribution across all segments. Sequential weakness was a seasonality. 1Q22 earnings accounted for 26% of our full-year estimates – in line. Property sales were seasonally weak in 1Q amid lack of project launches, while the group targets another RM2.3b in launches (40% overseas) in 2022. Earnings recovery is underway on resilient healthcare and strong property unbilled sales. Maintain BUY. Target price: RM2.25.

### 1Q22 RESULTS

Year to 31 Dec (RMm)	1Q22 (RMm)	4Q21 (RMm)	1Q21 (RMm)	qoq % chg	yoy % chg
Revenue	1,112.5	1243.8	1016.7	(10.6)	9.4
Property Development	158.2	182.6	97.2	(13.4)	62.8
Property Investment	368.6	379.6	321.4	(2.9)	14.7
Construction	121.1	133.4	58.7	(9.2)	106.4
Pre-tax profit	187.1	256.6	87.2	(27.1)	114.6
- Property Development	23.4	64.4	20.7	(63.6)	13.2
- Property Investment	47.8	91.1	27.7	(47.5)	72.8
- Construction	45.0	36.8	(16.9)	22.3	(367.1)
PATAMI (ex-sukuk)	132.5	147.1	51.2	(9.9)	158.6
Core net profit (ex-sukuk)	125.0	180.8	51.2	(30.8)	144.0
Pre-tax Margins (%)	(%)	(%)	(%)	+ppt	+ppt
- Property Development	14.8	35.2	21.3	(20.4)	n.m.
- Property Investment	13.0	24.0	8.6	(11.0)	3.8
- Construction	37.2	27.6	(28.7)	9.6	224.6

Source: Sunway, UOB Kay Hian

### RESULTS

- 1Q22 results in line.** Sunway grew 1Q22 core net profit by 144% yoy to RM125m (excluding RM7.5m remeasurement gain and RM7.6m distribution to sukuk holder), on the back of the economy reopening which led to stronger performance across all segments, improved progress billings from property and construction, and improved margins. The sequential weakness (-31% qoq) was a seasonality trend. 1Q22 results account for 26% of our and consensus' full-year estimates – in line.
- Property sales of RM440m.** Property sales in 1Q22 stood at RM440m (1Q21: RM1.16b), representing 18% of full-year targets. The weaker sales were due to a lack of launches, while management is maintaining its full-year target of RM2.2b for 2022.

### KEY FINANCIALS

Year to 31 Dec (RMm)	2020	2021	2022F	2023F	2024F
Net turnover	3,213	3,714	4,452	5,985	6,307
EBITDA	456	543	589	906	1,023
Operating profit	233	327	477	731	785
Net profit (rep./act.)	311	264	475	634	656
Net profit (adj.)	384	292	475	634	656
EPS (sen)	7.7	6.0	9.7	13.0	13.4
PE (x)	22.5	29.1	17.9	13.4	13.0
P/B (x)	0.9	0.7	0.7	0.7	0.6
EV/EBITDA (x)	33.5	28.2	26.0	16.9	15.0
Dividend yield (%)	0.9	1.4	2.2	3.0	3.1
Net margin (%)	9.7	7.1	10.7	10.6	10.4
Net debt/(cash) to equity (%)	55.4	44.0	45.6	58.2	59.7
Interest cover (x)	8.7	6.0	8.2	(97.1)	(10.2)
ROE (%)	3.5	2.4	3.9	5.0	5.1
Consensus net profit	-	-	473	597	629
UOBKH/Consensus (x)	-	-	1.01	1.06	1.04

Source: Sunway Berhad, Bloomberg, UOB Kay Hian

## BUY

(Maintained)

Share Price	RM1.74
Target Price	RM2.25
Upside	+29.3%

### COMPANY DESCRIPTION

A leading construction company and property developer in Malaysia.

### STOCK DATA

GICS sector	Industrials
Bloomberg ticker:	SWB MK
Shares issued (m):	4,889.1
Market cap (RMm):	8,507.0
Market cap (US\$m):	1,934.7
3-mth avg daily t'over (US\$m):	0.7

### Price Performance (%)

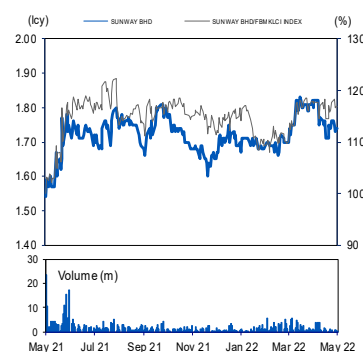
52-week high/low	RM1.83/RM1.54			
<b>1mth</b>	<b>3mth</b>	<b>6mth</b>	<b>1yr</b>	<b>YTD</b>
(4.4)	3.6	3.6	4.8	1.2

### Major Shareholders

Sungei Way Corp Sdn Bhd	51.6
Skim Amanah Saham Bumiputera	5.7
Sharp Ventures Sdn Bhd	4.0

FY22 NAV/Share (RM)	2.53
FY22 Net Debt/Share (RM)	1.15

### PRICE CHART



Source: Bloomberg

### ANALYST(S)

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### STOCK IMPACT

- Property development: Lumpy earnings from 2023 onwards.** Its property development arm reported 1Q22 PBT of RM23.4m (+13% yoy, -64% qoq). Note that of its projects launched in 2021, Parc Central Tampines in Singapore has been fully taken up, while local project Sunway Belfield saw 99% and 95% take-up rates respectively for Phases A and B. However, earnings from the Singapore projects (Parc Canberra and Parc Central Tampines) will only be recognised in 2023 upon project completion amid the adoption of MFRS15. Sunway is slated to launch another RM2.3b worth of projects in 2022 (40% in Singapore and China), and targets to have RM2.2b sales in 2022. Unbilled sales of RM4.18b represent around 4x 2022 property revenue.
- Healthcare: Benefiting from the reopening of international borders.** The healthcare arm reported 1Q22 core PAT of RM28.2m (+102% yoy, -16% qoq). Yoy growth was driven by a higher number of admissions and outpatient treatments. We expect more elective surgeries/operations to be carried out post-lockdown, while the reopening of international borders will benefit the group as medical tourists accounted for around 10% of its patients pre-COVID-19.
- Construction: Strong recovery.** Construction PBT came in 73% yoy higher on the back of improved progress billings and higher contribution from India projects that had higher productivity level. The 48% qoq decline was a seasonality. The group has replenished RM256m worth of new contracts in 1Q22 (vs RM2b target) with an outstanding orderbook of RM4.4b and tender book of RM2.4b.

### EARNINGS REVISION/RISK

- None.**
- Earnings outlook.** We expect Sunway to continue seeing earnings recovery in 2022 on the back of the reopening of the economy activities, especially the reopening of borders that will see the resumption of international medical tourism. Moreover, strong property sales momentum in Singapore will result in Sunway seeing strong earnings growth in 2023.

### VALUATION/RECOMMENDATION

- Maintain BUY with an unchanged target price of RM2.25**, based on a 10% discount to our SOTP-based valuation of RM2.50/share (post dilution of warrants). Our target price implies a 2022F PE of 23x and 2022F P/B of 0.9x (its five-year mean).

### ENVIRONMENTAL, SOCIAL, GOVERNANCE (ESG) UPDATES

<ul style="list-style-type: none"> <li> <b>Environmental</b> <ul style="list-style-type: none"> <li>- In 2020, 3% of electricity was generated by solar panels, equivalent to powering up 604 homes for one year. The group also diverted 4% of waste from landfill.</li> <li>- Key targets by 2030 include: a) reducing emission intensity of revenue by 10% (from 2025), b) at least 25% of electricity to be generated from renewable energy sources, c) to divert 40% of landfill waste, d) to reduce overall water intensity from municipal potable water supply by 10% (from 2025), and e) all industrial property and construction sites to be ISO 14001:2015 certified.</li> </ul> </li> <li> <b>Social</b> <ul style="list-style-type: none"> <li>- The group has donated RM1m to the National COVID-19 Fund.</li> </ul> </li> <li> <b>Governance</b> <ul style="list-style-type: none"> <li>- Good company transparency along with an anti-bribery and anti-corruption policy.</li> </ul> </li> </ul>
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### SOTP BASED VALUATION

	(RMm)	Remarks
Property development REIT (40.9% stake)	3,843	20% discount to property RNAV
Construction (54.4% stake)	1,101	Valuation based on target price of RM1.55, based on DDM
Quarry & building materials	290	Valuation based on target price of RM1.50, 16x 2022F PE
Trading	388	8x PE 2022F quarry profits
Investment Properties	1,497	
Healthcare	3,930	84% stake of RM4.67b
Less: Holding co (debt)/cash	-121	Based on hold.co 2020's net debt plus RM0.75b stake sales proceeds
<b>Total SOTP value (A)</b>	<b>13,099</b>	
Share base (m) (B)	4,963	
Warrants proceeds (C)	964	Assume conversion price at RM1.44/share (expiring in Oct 24)
<b>Total SOTP value post warrants proceeds (A+C)</b>	<b>14,063</b>	
Enlarged share base (m)	5,633	
<b>SOTP/share (RM)</b>	<b>2.50</b>	
Discount	10%	
<b>Target price (RM)</b>	<b>2.25</b>	

Source: Sunway, UOB Kay Hian

### EXPANSION PLAN FOR MEDICAL CENTRES

State	Location	Total beds	Exp. completion
<b>Existing Medical Centre</b>			
Kuala Lumpur	Sunway City - (Tower A,B,C)	616	Completed
	Velocity	240*	Completed
<b>Expansion plan</b>			
Kuala Lumpur	Sunway City - (Tower D,E,F)	465	Q222
	Velocity (Phase 2)	110	Q323
Selangor	Damansara	336	Q323
Penang	Seberang Jaya	333	2022
	Paya Terubong	120**	Planning stage
Perak	Ipoh	260	Q124
Kelantan	Kota Bharu	200	Q325
Johor	Iskandar	200**	Planning stage
<b>Total</b>		<b>2,880</b>	

\*Full capacity

\*\*Estimates

Source: Sunway, UOB Kay Hian

### KEY ASSUMPTIONS

(RMm)	2022F	2023F	2024F
Property sales target	2,000	1,610	1,400
Construction orderbook replenishment	2,000	2,000	1,500
Healthcare profits	34	76	131

Source: Sunway, UOB Kay Hian

### PROFIT & LOSS

Year to 31 Dec (RMm)	2021	2022F	2023F	2024F
Net turnover	3,714	4,452	5,985	6,307
EBITDA	543	589	906	1,023
Deprec. & amort.	216	112	175	238
EBIT	327	477	731	785
Associate contributions	84	225	323	373
Net interest income/(expense)	55	59	(8)	(77)
<b>Pre-tax profit</b>	<b>466</b>	<b>761</b>	<b>1,047</b>	<b>1,081</b>
Tax	(116)	(183)	(262)	(270)
Minorities	(55)	(72)	(121)	(123)
<b>Net profit</b>	<b>264</b>	<b>475</b>	<b>634</b>	<b>656</b>
Net profit (adj.)	292	475	634	656

### CASH FLOW

Year to 31 Dec (RMm)	2021	2022F	2023F	2024F
<b>Operating</b>	<b>1,038</b>	<b>467</b>	<b>(333)</b>	<b>1,153</b>
Pre-tax profit	466	761	1,047	1,081
Tax	(111)	(183)	(262)	(270)
Deprec. & amort.	216	112	175	238
Associates	(84)	(225)	(323)	(373)
Working capital changes	179	61	(977)	401
Non-cash items	372	(59)	8	77
<b>Investing</b>	<b>(1,323)</b>	<b>(668)</b>	<b>(1,197)</b>	<b>(1,261)</b>
Capex (growth)	(1,196)	(668)	(1,197)	(1,261)
Investments	0	0	0	0
Proceeds from sale of assets	0	0	0	0
Others	(127)	0	0	0
<b>Financing</b>	<b>833</b>	<b>(132)</b>	<b>(261)</b>	<b>(340)</b>
Dividend payments	(358)	(190)	(253)	(263)
Issue of shares	0	0	0	0
Proceeds from borrowings	1,384	0	0	0
Others/interest paid	(194)	59	(8)	(77)
<b>Net cash inflow (outflow)</b>	<b>548</b>	<b>(332)</b>	<b>(1,791)</b>	<b>(448)</b>
Beginning cash & cash equivalent	2,261	2,814	2,482	691
Changes due to forex impact	5	0	0	0
<b>Ending cash &amp; cash equivalent</b>	<b>2,814</b>	<b>2,482</b>	<b>691</b>	<b>243</b>

### BALANCE SHEET

Year to 31 Dec (RMm)	2021	2022F	2023F	2024F
Fixed assets	5,120	5,676	6,698	7,721
Other LT assets	11,965	12,190	12,513	12,887
Cash/ST investment	2,814	2,482	691	243
Other current assets	5,188	5,300	7,028	7,390
<b>Total assets</b>	<b>25,087</b>	<b>25,647</b>	<b>26,930</b>	<b>28,241</b>
ST debt	4,093	4,093	4,093	4,093
Other current liabilities	2,613	2,785	3,536	4,299
LT debt	4,022	4,022	4,022	4,022
Other LT liabilities	1,236	1,236	1,236	1,236
Shareholders' equity	12,035	12,351	12,762	13,187
Minority interest	1,089	1,161	1,282	1,405
<b>Total liabilities &amp; equity</b>	<b>25,087</b>	<b>25,647</b>	<b>26,930</b>	<b>28,241</b>

### KEY METRICS

Year to 31 Dec (%)	2021	2022F	2023F	2024F
<b>Profitability</b>				
EBITDA margin	14.6	13.2	15.1	16.2
Pre-tax margin	12.5	17.1	17.5	17.1
Net margin	7.1	10.7	10.6	10.4
ROA	1.1	1.9	2.4	2.4
ROE	2.4	3.9	5.0	5.1
<b>Growth</b>				
Turnover	15.6	19.9	34.4	5.4
EBITDA	19.0	8.5	53.8	12.9
Pre-tax profit	(5.0)	63.4	37.6	3.2
Net profit	(15.3)	80.3	33.3	3.6
Net profit (adj.)	(24.0)	62.9	33.3	3.6
EPS	(22.9)	62.9	33.3	3.6
<b>Leverage</b>				
Debt to total capital	38.2	37.5	36.6	35.7
Debt to equity	67.4	65.7	63.6	61.5
Net debt/(cash) to equity	44.0	45.6	58.2	59.7
Interest cover (x)	6.0	8.2	(97.1)	(10.2)

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