



AmInvestment Bank

Company report

SUNWAY

(SWB MK EQUITY, SWAY.KL)

29 Nov 2022

Stronger property development and investment earnings in 3QFY22

BUY

(Maintained)

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Rationale for report: Company results

Price	RM1.58
Fair Value	RM2.29
52-week High/Low	RM1.85/RM1.45

Key Changes

Fair value	↔
EPS	↔

YE to Dec	FY21	FY22F	FY23F	FY24F
Revenue (RM mil)	4,572.0	3,930.1	4,067.9	4,267.5
Core net profit (RM mil)	390.9	572.8	612.5	717.1
FD Core EPS (sen)	7.9	11.6	12.4	14.5
FD Core EPS growth (%)	16.3	46.5	6.9	17.1
Consensus Net Profit (RM mil)	-	494.8	594.4	634.4
DPS (sen)	2.4	2.9	4.9	7.1
PE (x)	19.9	13.6	12.7	10.9
EV/EBITDA (x)	28.8	20.9	19.1	18.0
Div yield (%)	1.5	1.9	3.1	4.5
ROE (%)	24.7	5.3	6.3	7.3
Net Gearing (%)	44.8	57.3	58.1	58.7

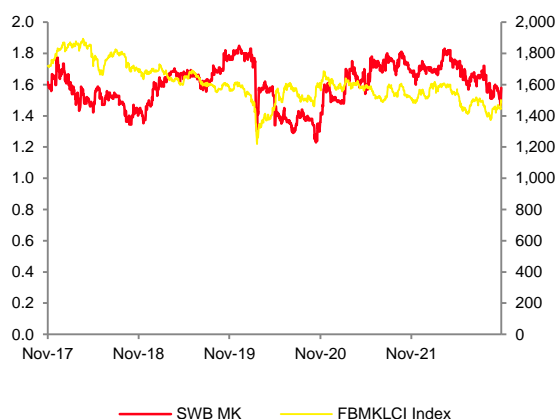
Stock and Financial Data

Shares Outstanding (million)	4,934.0
Market Cap (RMmil)	7,795.7
Book Value (RM/share)	2.44
P/BV (x)	0.6
ROE (%)	24.7
Net Gearing (%)	44.8

*before conversion of ICPS and warrants

Major Shareholders	Sungei Way (56.9%) EPF (8.3%) AIA (2.3%)
Free Float	32.5
Avg Daily Value (RMmil)	1.7

Price performance	3mth	6mth	12mth
Absolute (%)	(4.8)	(9.7)	(6.0)
Relative (%)	(3.9)	(6.1)	(4.3)



Investment Highlights

- We maintain BUY on Sunway with an unchanged fair value (FV) of RM2.29/share based on SOP valuation. Our FV also reflects a 3% premium for our 4-star ESG rating (Exhibits 4 & 5).
- Sunway's 9MFY22 core net profit (CNP) of RM414mil came in within our expectation but above consensus, making up 72% of our FY22F earnings and 84% of consensus estimate. Hence, we make no changes to our forecasts.
- Its 9MFY22 results were commendable as the revenue of all business segments improved significantly.
- In 9MFY22, Sunway's property development revenue rose by 64% YoY. This was driven by higher sales and progress billings from completed progress works on ongoing local projects and recognition of revenue from 2 joint-venture companies which became subsidiaries in 1QFY22. However, the segment's PBT slid 4% YoY due to provisions for higher construction costs, coupled with higher upfront expenses incurred on future launches.
- Sunway's new sales in 9MFY22 dropped 34% YoY to RM1.4bil, attaining 65% of its FY22F sales target of RM2.2bil. The lower YoY property sales were attributed to slower 9MFY22 launches of RM542mil, which were only 24% of its FY22 target launches of RM2.3bil.
- We understand from management that the planned launches in Singapore and China will be deferred to FY23 due to delays in completion of land acquisitions in Singapore and weaker property market sentiments in China. Hence, we are cautiously optimistic on the prospect of new sales in view of the launch scale-backs.
- 9MFY22 property investment's earnings swung to the black, driven by higher revenue growth of 2.6x YoY as a result of increased visitors to its theme parks and improved hotel occupancy rates following the reopening of the economy and less stringent SOPs.
- Higher progress billings from local construction projects drove up 9MFY22 construction revenue by 35% YoY and its pretax profit by 2.2x YoY.
- The strong recovery in hospital activities with a higher number of patients treated at Sunway Medical Centre and Sunway Medical Centre Velocity boosted property investment's 9MFY22 share of net profit by 48% YoY to RM105mil.

- On a QoQ comparison, property development and property investment posted stronger PBT in 3QFY22, while the PBT for construction and other segment declined.
- In 3QFY22, property development registered a 39% QoQ growth in PBT despite a 3% QoQ decline in revenue due to higher progressive profit recognition from one of its private condominium projects in Singapore. Meanwhile, both the revenue and PBT of its property investments were boosted by improved performance of the leisure/hospitality segment and continued strong performance of its 41%-owned Sunway REIT.
- Meanwhile, construction segment's 3QFY22 PBT was 20% lower QoQ, mainly due to lower progress billings for local projects. The PBT of 'other' segment fell 27% QoQ due to the non-repeat of a one-off gain on disposal (RM27mil) of one of its new start-up investments in 2QFY22.
- We believe the long-term outlook for Sunway remains bright premised on its:
 - (i) strong unbilled sales of RM4.2bil (4.2x FY22F property development revenue);
 - (ii) a robust outstanding order book of RM4bil (2.2x FY22F construction revenue); and
 - (iii) expansion plans for its healthcare business (which could increase the capacity by 82% in FY23F).

EXHIBIT 1: EARNINGS SUMMARY

YE to Dec (RM mil)	3QFY21	2QFY22	3QFY22	QoQ %	YoY %	9MFY21	9MFY22	YTD %
Revenue	856.9	1,280.4	1,270.5	(0.8)	48.3	2,470.3	3,663.4	48.3
Operating costs	(769.7)	(1,151.3)	(1,151.7)	0.0	49.6	(2,270.9)	(3,347.7)	47.4
EBITDA	87.3	129.0	118.8	(7.9)	36.1	199.4	315.6	58.3
Other income	18.8	70.0	42.5	(39.3)	>100	51.5	149.6	>100
Depreciation	(54.5)	(32.8)	(28.9)	(11.7)	(46.9)	(160.9)	(94.5)	(41.3)
Net finance income	12.1	(28.2)	(1.5)	(94.7)	(>100)	52.1	(13.9)	(>100)
JV/Associate contributions	20.7	76.9	92.9	20.8	>100	67.0	269.0	>100
Profit before tax	84.4	215.1	223.7	4.1	>100	209.1	625.9	>100
Taxation	(18.6)	(23.8)	(41.6)	74.8	>100	(43.2)	(93.3)	>100
MI	(14.3)	(22.4)	(17.5)	(21.9)	22.0	(26.6)	(58.9)	>100
Profit after tax	51.5	168.9	164.7	(2.5)	>100	139.3	473.7	>100
Profit from discontinued operations	29.3	0.0	0.0	n/m	n/m	70.8	0.0	n/m
Exceptional item	9.7	(11.0)	(46.4)	>100	(>100)	14.8	(59.5)	(>100)
Core PATMI	90.6	157.9	118.3	(25.1)	30.6	224.8	414.3	84.2
EPS (sen)	1.8	3.2	2.4	(25.1)	30.6	3.1	8.4	>100
EBIT margin (%)	10.2	10.1	9.3			8.1	8.6	
Effective tax rate (%)	22.0	11.1	18.6			20.6	14.9	
Core PATMI margin (%)	10.6	12.3	9.3			9.1	11.3	

Source: AmlInvestment Bank Bhd

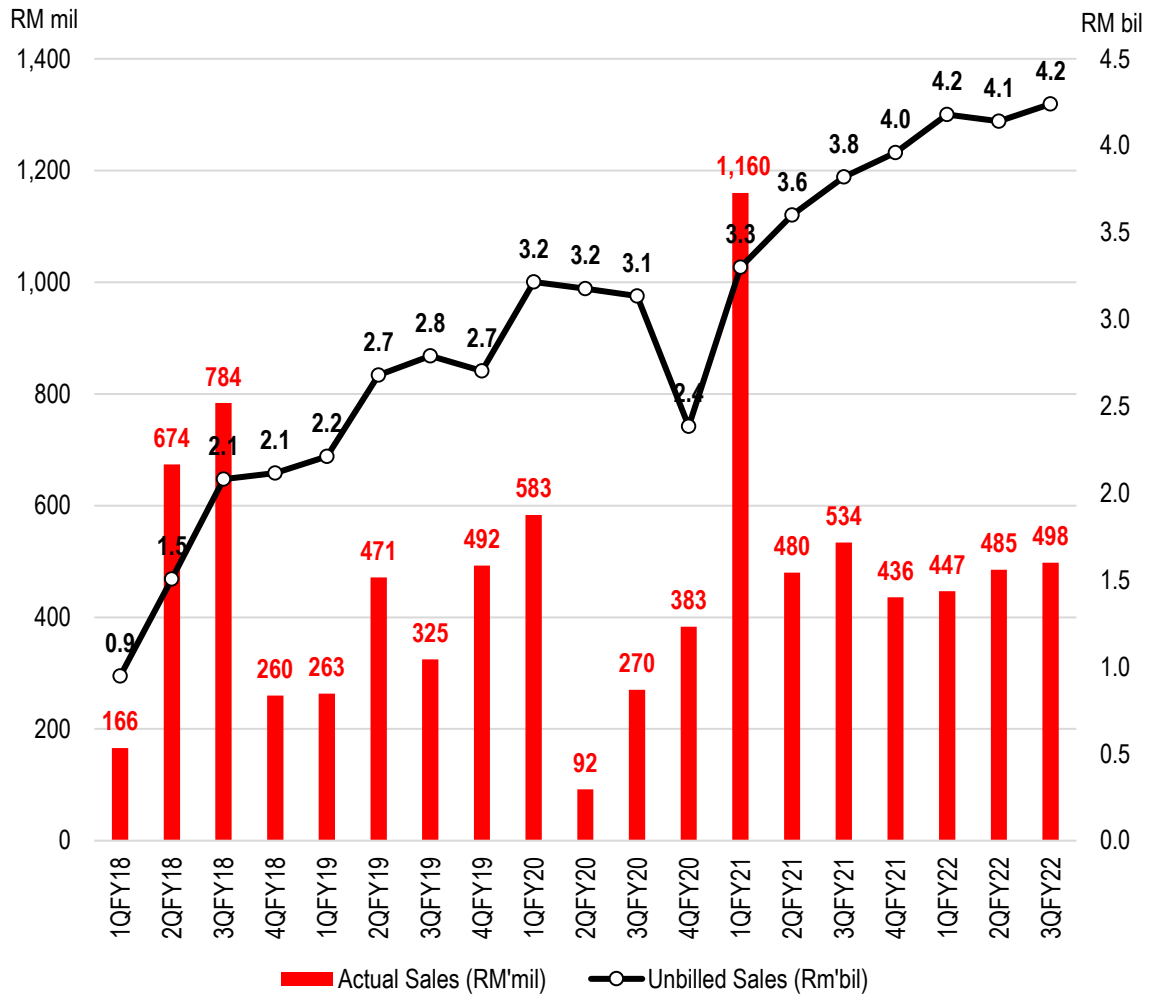
EXHIBIT 2: SEGMENTAL BREAKDOWN

YE to Dec (RM mil)	3QFY21	2QFY22	3QFY22	QoQ %	YoY %	9MFY21	9MFY22	YTD %
Property development	197.1	286.4	278.1	(2.9)	41.1	441.6	722.7	63.6
Property investment	58.0	149.6	188.6	26.1	>100	179.0	459.3	>100
Construction	192.7	316.8	305.1	(3.7)	58.4	732.1	990.6	35.3
Others*	409.2	527.5	498.7	(5.5)	21.9	1,117.6	1,490.8	33.4
Revenue	856.9	1,280.4	1,270.5	(0.8)	48.3	2,470.3	3,663.4	48.3
Property development	44.6	25.7	35.8	39.2	(19.8)	88.2	84.9	(3.7)
Property investment	(12.3)	53.4	85.7	60.4	>100	(45.2)	184.1	>100
Construction	21.4	44.4	35.6	(19.8)	66.8	57.7	127.8	>100
Others*	30.7	91.5	66.7	(27.2)	>100	108.4	229.0	>100
PBT/(LBT)	84.4	215.1	223.7	4.0	>100	209.1	625.9	>100
Pretax margin (%)								
Property development	22.6	9.0	12.9			20.0	11.7	
Property investment	(21.2)	35.7	45.4			(25.2)	40.1	
Construction	11.1	14.0	11.7			7.9	12.9	
Others*	7.5	17.4	13.4			9.7	15.4	

*Including building materials, community pharmacy business, healthcare and other segments

Source: AmlInvestment Bank Bhd

EXHIBIT 3: ACTUAL SALES AND UNBILLED SALES



Source: AmlInvestment Bank Bhd

EXHIBIT 4: RNAV CALCULATIONS

DEVELOPMENT PROPERTIES	Outstanding GDV (RMmil)	NPV @8% (RMmil)	Stake (%)
Selangor/KL			
Sunway Damansara	1,953.3	98.4	60
Sunway South Quay	2,486.7	248.0	100
Sunway Monterez	38.0	2.3	60
Sunway Semenyih	728.6	51.0	70
Sunway Cheras	241.8	24.2	100
Sunway Duta	120.0	6.5	60
Sunway Resort City	660.1	59.6	100
Sunway Velocity	1,984.0	152.2	85
Sunway Velocity TWO	600.0	32.5	60
Sunway Velocity 3	1,200.0	64.4	60
Sunway Tower KL 1	240.0	21.7	100
Sunway Termuning	265.2	19.1	80
Mont Putra, Rawang	156.0	14.1	100
Kelana Jaya	1,450.0	130.8	100
Jalan Belfield	450.0	40.6	100
Lot One, Kajang	236.0	21.3	100
USJ 1, Subang Jaya	1,400.0	126.3	100
Wangsa Maju-1	40.0	2.0	55
Bukit Jalil (Sterling Paradise)	800.0	101.1	100
Dengkil (Emerald Tycoon)	813.2	73.4	100
Jalan Cochrane	1,150.0	118.3	100
Perak			
Sunway City Ipoh	928.4	75.7	96
Penang			
Sunway Hills	849.0	71.5	100
Sunway Wellesley, Bukit Mertajam	710.5	59.8	100
Paya Terubong	1,500.0	126.0	100
Sunway Tunas, Balik Pulau	60.0	5.0	100
Sunway Betong, Balik Pulau	110.0	9.3	100
Johor			
Bukit Lenang	568.4	24.1	80
Medini	10,616.0	338.1	60
Pendas	18,000.0	573.2	60
Singapore			
Flynn Park, Pasir Panjang	2,300.0	68.8	30
Thiam Siam Avenue, Tanjong Katong	6,150.0	183.9	30
China			
Tianjin Eco-City	688.8	43.0	60
Unbilled sales		1,045.0	
Subtotal		4,031.0	
Property (40% discount to RNAV)		2,418.6	18.8
Investment properties		2,125.5	16.5
Sunway Construction (54.4% stake @ AmInvestment Valuation)		1,192.1	9.3
Sunway REIT (40.9% stake @ AmInvestment Valuation)		2,422.7	19.5
Healthcare (84% stake @30x FY23 earnings)		4,147.3	32.3
Quarry & building materials (6x FY23 earnings)		141.0	1.1
Trading & manufacturing (6x FY23 earnings)		312.0	2.4
Total SOP		12,759.2	
NAV @ Property development		1,648.8	
Fair value		14,408.0	
Enlarged share base (mil shares)		6,516.6	
Fair value/share (RM)		2.22	
(+) 3% premium for 4-star ESG rating		0.07	
Fair value/share (RM)+ ESG Premium		2.29	

Source: AmInvestment Bank Bhd

EXHIBIT 5: ESG RATING

Overall	★	★	★	★	
Eco-landscaping	★	★	★		
Progress of digitalization	★	★	★		
Employee welfare	★	★	★	★	
Corporate social responsibility	★	★	★	★	★
Strategic direction	★	★	★	★	
Gender diversity	★	★			
Earnings sustainability	★	★	★	★	
Accessibility & transparency	★	★	★		

We accord a discount/premium of -6%, -3%, 0%, +3% and +6% on fundamental fair value based on the overall ESG rating as appraised by us, from 1-star to 5-star

Source: AmlInvestment Bank Bhd

EXHIBIT 6: PB BAND CHART

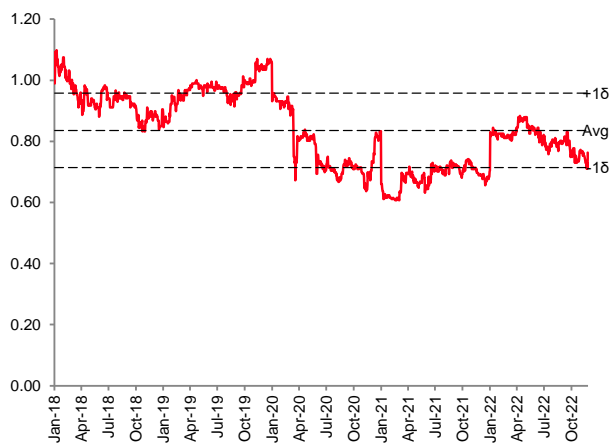


EXHIBIT 7: PE BAND CHART

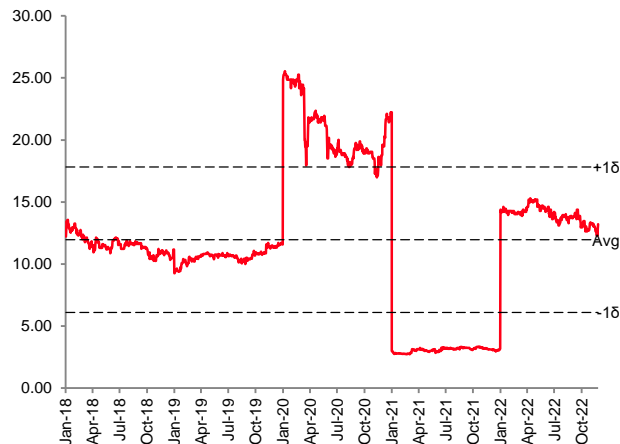


EXHIBIT 8: FINANCIAL DATA

Income Statement (RMmil, YE 31 Dec)	FY20	FY21	FY22F	FY23F	FY24F
Revenue	3,208.8	4,572.0	3,930.1	4,067.9	4,267.5
EBITDA	297.1	457.7	653.1	728.8	793.3
Depreciation/Amortisation	(47.1)	(130.6)	(81.5)	(87.3)	(91.6)
Operating income (EBIT)	250.0	327.1	571.6	641.4	701.7
Other income & associates	230.8	83.7	181.5	195.9	299.6
Net interest	26.6	54.9	72.9	78.2	82.0
Exceptional items	-	2,390.6	-	-	-
Pretax profit	507.5	2,856.3	826.0	915.5	1,083.3
Taxation	(102.6)	(116.2)	(113.2)	(127.6)	(162.5)
Minorities/pref dividends	(47.6)	(74.6)	(122.4)	(131.2)	(137.7)
Net profit	357.3	2,665.4	590.4	656.6	783.1
Core net profit	336.1	390.9	572.8	612.5	717.1
Balance Sheet (RMmil, YE 31 Dec)	FY20	FY21	FY22F	FY23F	FY24F
Fixed assets	2,611.4	1,262.8	1,772.3	1,899.8	1,993.1
Intangible assets	350.8	432.8	350.8	350.8	350.8
Other long-term assets	11,086.2	15,389.1	15,926.0	16,015.9	16,106.6
Total non-current assets	14,048.3	17,084.7	18,049.1	18,266.5	18,450.5
Cash & equivalent	2,348.9	2,814.0	2,671.6	2,970.6	3,086.9
Stock	2,101.5	2,423.0	3,183.4	3,145.0	3,152.6
Trade debtors	2,440.6	2,483.8	2,182.0	1,922.9	1,607.8
Other current assets	180.1	281.3	452.3	346.7	354.9
Total current assets	7,071.1	8,002.2	8,489.3	8,385.3	8,202.2
Trade creditors	2,456.9	2,470.6	2,446.3	2,470.8	2,480.5
Short-term borrowings	5,132.5	4,093.8	5,713.9	6,115.1	6,413.4
Other current liabilities	239.3	141.2	64.9	1,014.3	73.0
Total current liabilities	7,828.8	6,705.6	8,225.1	9,600.3	8,966.8
Long-term borrowings	2,101.6	4,114.2	2,817.2	2,996.4	3,127.4
Other long-term liabilities	857.3	1,143.7	857.3	857.3	857.3
Total long-term liabilities	2,958.8	5,257.9	3,674.5	3,853.7	3,984.7
Shareholders' funds	9,534.6	12,034.8	10,217.7	10,568.2	10,999.0
Minority interests	797.2	1,088.7	2,530.2	2,629.6	2,702.2
BV/share (RM)	1.93	2.44	2.07	2.14	2.23
Cash Flow (RMmil, YE 31 Dec)	FY20	FY21	FY22F	FY23F	FY24F
Pretax profit	507.5	2,856.3	826.0	915.5	1,083.3
Depreciation/Amortisation	47.1	130.6	81.5	87.3	91.6
Net change in working capital	1,042.6	(2,054.3)	1,032.4	1,479.2	(450.3)
Others	(769.4)	105.8	(795.3)	(1,398.6)	307.0
Cash flow from operations	827.7	1,038.4	1,144.7	1,083.4	1,031.6
Capital expenditure	(527.2)	(722.6)	(509.5)	(127.6)	(93.2)
Net investments & sale of fixed assets	-	-	-	-	-
Others	(357.6)	(600.2)	(266.0)	(89.9)	(90.8)
Cash flow from investing	(884.8)	(1,322.9)	(775.5)	(217.4)	(184.0)
Debt raised/(repaid)	(141.2)	1,292.0	(465.6)	(281.5)	(312.9)
Equity raised/(repaid)	-	-	(0.2)	-	-
Dividends paid	(220.6)	(152.0)	(144.8)	(241.4)	(352.4)
Others	183.4	(307.5)	(17.6)	(44.2)	(66.0)
Cash flow from financing	(178.3)	832.5	(628.2)	(567.0)	(731.3)
Net cash flow	(235.4)	548.0	(259.1)	299.0	116.3
Net cash/(debt) b/f	3,170.6	2,952.5	2,814.0	2,555.0	2,854.0
Net cash/(debt) c/f	2,952.5	3,505.7	2,555.0	2,854.0	2,970.3
Key Ratios (YE 31 Dec)	FY20	FY21	FY22F	FY23F	FY24F
Revenue growth (%)	(32.9)	42.5	(14.0)	3.5	4.9
EBITDA growth (%)	(62.9)	54.1	42.7	11.6	8.9
Pretax margin (%)	15.8	62.5	21.0	22.5	25.4
Net profit margin (%)	11.1	58.3	15.0	16.1	18.4
Interest cover (x)	nm	nm	nm	nm	nm
Effective tax rate (%)	20.2	4.1	13.7	13.9	15.0
Dividend payout (%)	20.3	4.5	24.5	36.8	45.0
Debtors turnover (days)	278	198	203	173	138
Stock turnover (days)	239	181	260	284	269
Creditors turnover (days)	216	197	228	221	212

Source: Company, AmlInvestment Bank Bhd estimates

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