

HLIB Research

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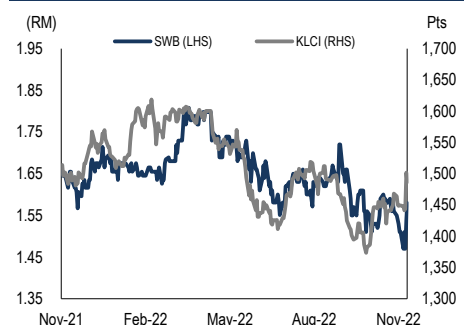
BUY (Maintain)

Target Price: RM2.65
Previously: RM2.65
Current Price: RM1.58

Capital upside	67.7%
Dividend yield	3.0%
Expected total return	70.7%

Sector coverage: Property

Company description: Sunway is a conglomerate that engages in property development, property investment, construction, leisure and hospitality, education, trading and manufacturing, building materials and healthcare.

Share price


Historical return (%)	1M	3M	12M
Absolute	-4.8	-6.5	-4.8
Relative	0.0	-5.0	3.1

Stock information

Bloomberg Ticker	SWB MK
Bursa Code	5211
Issued Shares (m)	4,889
Market cap (RM m)	7,578
3-mth avg. volume ('000)	539
SC Shariah-compliant	Yes
F4GBM Index member	Yes
ESG rating	★★★★

Major shareholders

Sungei Way Corp Sdn Bhd	14.2%
EPF	8.3%

Earnings summary

FYE (Dec)	FY21	FY22f	FY23f
PATMI – core (RM m)	370.3	517.4	606.2
EPS – core (sen)	7.6	10.6	12.4
P/E (x)	20.9	14.9	12.7

Sunway

Solid quarter lifted by healthcare & hospitality

Sunway recorded 9M22 core PATAMI of RM388.6m (+95.3% YoY), which was above our and consensus' expectations. The positive deviation was due to stronger than expected contributions from healthcare and property investment segments. We increase our forecast for FY22/FY23/FY24f by +3%/+6.8%/+4.2% to account for higher contribution from healthcare and hospitality segments. Maintain BUY an unchanged TP of RM2.65 based on SOP-derived valuation. Sunway remains our top pick given its synergistic business model and well-integrated property, construction and building material operations.

Above expectations. Sunway reported 3Q22 core PATAMI of RM147.5m (+29.9% QoQ; +62.4% YoY), bringing 9M22's sum to RM388.6m (+95.3% YoY). The results were within our (77.4%) and consensus (78.5%) expectations. The positive deviation was due to stronger than expected contributions from healthcare and property investment segments. 9M22 core PATAMI was arrived at after including payment to ICPS holders of RM25.7m and excluding net EIs of RM59.5m mainly from PPE disposal gain (RM30.1m), disposal gain on investment (RM26.6m) and re-measurement gain of Sunway Velocity Two and Sunway Artesa (RM14.4m).

Dividend. None (3Q21: none). 9M22: 2 sen (9M21: 1 sen).

QoQ. Revenue was flat at -0.8% as improvement in property investment (+26.1%) was offset by trading and manufacturing (-24.9%), construction (-3.7%) and property development (-2.9%). The improvement in property investment segment came from its leisure and hospitality segment which saw higher visitations and occupancy rates. Trading and manufacturing was lower due to lower sales volume in domestic market. Despite flattish top line, core PATAMI increased by +29.9% due to higher share of profit from associates (+20.8%) mainly from SunREIT and healthcare segments.

YoY/YTD. Revenue increased by +48.3% YoY and +48.3% YTD contributed by an improvement in all business segments following the reopening of the economy (vs. lockdown restrictions from Jun-Sep SPLY) and borders reopening since Apr 2022. Consequently, core PATAMI increased by +62.4% YoY and +95.3% YTD.

Property development. In 3Q22, Sunway recorded new sales of RM413m (+1.8% QoQ; -5.3% YoY), bringing 9M22's sum to RM1.22bn (-41.3% YoY), representing 55.5% of its FY22 sales target. The group launched Sunway Alishan Residence, Cheras with GDV of RM261m in 3Q22, bringing 9M22 launches to RM542m, which make up 27.1% of its initial launch target of RM2bn. The launches of its Singapore project Flynn Park (GDV: RM676m) and China project Sunway Gardens (GDV: RM276m) are likely to be deferred to 2023 due to delays in completion of land acquisition in Singapore and the weak property market in China. Unbilled sales as at 3Q22 stood at RM3.73bn (+2.2% QoQ), representing a strong cover ratio of 6.0x of its FY21 property development revenue. 58.3% of its unbilled sales came from its Singapore projects. The 2 EC condominiums in Singapore (Parc Canberra and Parc Central Tampines) are expected to be completed in FY23 and contribute substantially (c.RM150-160m net profit) to the group upon recognition.

Property investment. Property investment continues to record sequential improvement driven by (i) contribution from the opening of Sunway Carnival Mall's new wing under SunREIT; (ii) increase in rooms for sale from Sunway Resort Hotel under SunREIT; and (iii) hotel segment as occupancy rate improve from recovery in tourist arrivals. As at 30 Sep, Sunway Resort has opened 230 (out of 460) rooms, with the remaining expected to be opened by end-FY22. The segment should continue to improve riding on (i) improving tourist arrivals; (ii) improving medical tourism; and (iii) the opening of the remaining Sunway Resort room inventory.

Construction. SunCon's latest outstanding orderbook stands at RM4.0bn (2.3x cover). SunCon's 49% owned ICPH precast plant in SG is undergoing commissioning process and is expected to be operational by Dec-22. We expect the plant to ramp up and start contributing positively by early-2023. Under the new administration post-election, the rollout of MRT3 hangs in the balance. At the moment we do not think the project will be shelved as external economic uncertainties next year could result in more domestic pump priming. To recap, SunCon submitted bids for CMC301 and CMC302 holding majority stakes in both JVs.

Healthcare. Healthcare continues to show strong improvement with 3Q22 reported share of net profit of RM41.4m (+17.4% QoQ; +40.6% YoY), bringing 9M22's sum to RM105m (+48% YoY) due to higher number of patients at both SMC SC and SMCV. The group recently opened its 3rd hospital in Seberang Jaya, Penang in Nov 2022. The first phase will have 200 beds with 40 specialists, which will eventually expand to bring total capacity to c.333 beds. SMC SC is undergoing an expansion, with Tower D, E and F opening by phases starting from 1Q23. The expansion will boost its capacity and capture the spill over demand from its existing facilities in Tower A – C which is operating at close to maximum capacity. We expect the segment to improve further benefitting from medical tourism following borders reopening.

Quarry and building materials. The group's quarry and building material segments may see an uptick in revenue in 4Q22 benefitting from the increase in road repairs pre-election.

Forecast. We increase our forecast for FY22/FY23/FY24f by +3%/+6.8%/+4.2% to account for higher contribution from healthcare and hospitality segments.

Maintain **BUY** with an unchanged **TP** of **RM2.65** based on SOP-derived valuation. The group has multi levers of growth, particularly with its fast expanding crown jewel, healthcare segment. We believe the stock will be re-rated in due time as the healthcare segment increasingly draw investor's focus with earnings from this segment filters through and as the group progresses closer to the value unlocking exercise of its healthcare through IPO (to be completed by 31 Jan 2028 or earlier). With the economy recovering and borders reopening, the group is ready to harness the full potential of its business as all of its business segments are expected to benefit from it. Sunway remains our top pick given its synergistic business model and well-integrated property, construction and building material operations.

Financial Forecast

All items in (RM m) unless otherwise stated

Balance Sheet

FYE Dec	FY20	FY21	FY22f	FY23f	FY24f
Cash	2,238.4	2,810.3	3,282.2	3,727.5	3,668.8
Placement in funds	100.3	98.8	98.8	98.8	98.8
Receivables	1,451.9	1,123.4	1,880.2	1,890.3	2,015.0
Inventories	606.0	670.5	1,114.6	1,120.6	1,194.5
Others	16,696.5	20,381.4	20,310.7	20,427.3	20,993.1
Assets	21,093.1	25,084.3	26,686.5	27,264.4	27,970.1
Payables	1,467.5	1,401.2	2,504.9	2,518.3	2,684.4
Debt	7,510.6	8,714.6	8,864.6	9,014.6	9,164.6
Others	1,804.5	1,846.2	1,846.2	1,846.2	1,846.2
Liabilities	10,782.6	11,962.0	13,215.6	13,379.1	13,695.2
Shareholder's equity	9,513.2	12,030.4	12,297.0	12,618.7	12,914.0
Minority interest	797.4	1,091.9	1,173.8	1,266.7	1,361.0
Perpetual bond	-	-	-	-	-
Equity	10,310.6	13,122.3	13,470.8	13,885.3	14,275.0

Cash Flow Statement

FYE Dec	FY20	FY21	FY22f	FY23f	FY24f
Profit before taxation	509.9	358.0	690.0	796.6	836.9
D&A	236.5	216.9	129.9	144.1	157.0
Working capital	297.5	(109.9)	248.1	317.4	(264.5)
Taxation	(61.3)	(105.3)	(90.7)	(97.5)	(114.8)
JV and Associates	(39.3)	70.0	(208.7)	(280.7)	(190.9)
Perpetual bond	-	-	-	-	-
Others	(68.6)	549.1	-	-	-
CFO	874.7	978.7	768.6	879.8	423.7
Capex	(957.0)	(580.2)	(300.0)	(300.0)	(300.0)
Others	158.6	(699.4)	-	-	-
CFI	(798.5)	(1,279.6)	(300.0)	(300.0)	(300.0)
Changes in debt	(897.1)	1,239.1	150.0	150.0	150.0
Shares issued	977.8	-	-	-	-
Dividends	(253.6)	(179.8)	(146.7)	(284.6)	(333.4)
Others	(86.8)	(214.4)	-	-	1.0
CFF	(259.7)	845.0	3.3	(134.6)	(182.4)
Net cash flow	(183.5)	544.1	472.0	445.3	(58.7)
Forex	7.3	5.3	-	-	-
Others	(140.2)	(117.7)	(117.7)	(117.7)	(117.7)
Beginning cash	2,554.7	2,378.6	2,928.0	3,399.9	3,845.2
Ending cash	2,238.4	2,810.3	3,282.2	3,727.5	3,668.8

Income statement

FYE Dec	FY20	FY21	FY22f	FY23f	FY24f
Revenue	3833.3	4529.3	4723.6	4749.0	5062.2
Operating cost	(3345.7)	(4090.3)	(4188.5)	(4172.9)	(4424.3)
EBITDA	487.6	439.0	535.1	576.0	637.9
D&A	(236.8)	(217.1)	(129.9)	(144.1)	(157.0)
Net Interest	28.3	54.9	(27.2)	(25.7)	(2.4)
JV & Associates	230.8	81.2	312.0	390.3	358.4
Pretax profit	509.9	358.0	690.0	796.6	836.9
Taxation	(102.6)	(116.2)	(90.7)	(97.5)	(114.8)
Minority Interest	(47.6)	(73.7)	(81.9)	(92.9)	(94.4)
Holders of Perpetual	0.0	0.0	0.0	0.0	0.0
Reported PATAMI	357.3	2664.4	517.4	606.2	627.7
Exceptionals	28.3	42.4	0.0	0.0	0.0
Core Earning	385.6	370.3	517.4	606.2	627.7
Basic shares (m)	4889.1	4889.1	4889.1	4889.1	4889.1
Consensus core PATMI			494.8	594.4	634.4
HLIB/ Consensus			105%	102%	99%

Valuation ratios

FYE Dec	FY20	FY21	FY22f	FY23f	FY24f
Net DPS (sen)	1.5	2.5	4.9	5.7	5.9
Yield (%)	0.9	1.6	3.1	3.6	3.7
Core EPS (sen)	7.9	7.6	10.6	12.4	12.8
P/E (x)	20.0	20.9	14.9	12.7	12.3
Market capitalization (m)	7724.7	7724.7	7724.7	7724.7	7724.7
Net cash (m)	(5171.9)	(5805.5)	(5483.6)	(5188.3)	(5397.0)
Net gearing (%)	50.2%	44.2%	40.7%	37.4%	37.8%
BV / share	2.1	2.7	2.8	2.8	2.9
P/BV (x)	0.7	0.6	0.6	0.6	0.5
ROA (%)	1.8	1.5	1.9	2.2	2.2
ROE (%)	3.7	2.8	3.8	4.4	4.4
Enterprise value	12896.6	13530.3	13208.3	12913.1	13121.7
EV/ EBITDA (x)	26.4	30.8	24.7	22.4	20.6

Figure #1 Quarterly results comparison

FYE Dec (RM m)	3Q21	2Q22	3Q22	QoQ	YoY	9M21	9M22	YoY
Revenue	856.9	1,044.6	1,270.5	-1%	48%	2,470.3	3,663.4	48%
Property Development	197.1	286.4	278.1	-3%	41%	441.6	722.7	64%
Property Investment	58.0	149.6	188.6	26%	>100%	179.0	459.3	>100%
Construction	192.7	316.8	305.1	-4%	58%	732.1	990.6	35%
Trading/Manufacturing	186.4	264.8	198.8	-25%	7%	609.9	668.7	10%
Quarry	84.3	101.1	105.6	4%	25%	232.0	282.8	22%
Investment Holdings	8.6	1.8	9.2	>100%	7%	10.9	12.8	18%
Others	129.9	159.8	185.2	16%	43%	264.9	526.5	99%
EBIT	51.5	166.3	132.4	-20%	>100%	90.0	370.8	>100%
Net Interest	12.1	(28.2)	(1.5)	-95%	-112%	52.1	(13.9)	NM
Share of Associates/JCE	20.7	76.9	92.9	21%	>100%	67.0	269.0	>100%
PBT	84.4	215.0	223.8	4%	>100%	209.1	625.9	>100%
Property Development	44.6	25.7	35.8	39%	-20%	88.2	84.9	-4%
Property Investment	(12.3)	53.4	85.7	60%	NM	(45.2)	184.1	NM
Construction	21.4	44.4	35.6	-20%	67%	57.7	127.8	>100%
Trading/Manufacturing	6.7	9.7	12.4	28%	86%	28.8	32.4	12%
Quarry	2.5	1.8	1.9	4%	-24%	5.0	8.6	71%
Healthcare	29.5	35.3	41.4	17%	41%	71.0	105.0	48%
Investment Holdings	10.6	7.3	(6.1)	NM	NM	55.5	12.4	-78%
Others	11.0	37.5	17.1	-54%	56%	19.0	70.7	>100%
PAT	65.8	191.2	182.2	-5%	>100%	165.9	532.6	>100%
MI	(14.1)	(22.4)	(17.5)	-22%	24%	(26.6)	(58.9)	>100%
Payment to ICPS holders	-	(25.7)	-			(25.7)	(25.7)	
PATAMI	81.1	168.9	164.7	-2%	>100%	210.1	473.7	>100%
EI	(9.7)	29.7	17.3	-42%	NM	(14.6)	59.5	NM
Core Earnings	90.8	113.5	147.5	30%	62%	198.9	388.6	95%
				<i>ppts change</i>	<i>ppts change</i>			<i>ppts change</i>
EBIT margin	6.0%	13.0%	10.4%	(2.6)	4.4	4%	10%	6.5
PBT margin	9.8%	16.8%	17.6%	0.8	7.8	8%	17%	8.6
PAT margin	10.6%	8.9%	11.6%	2.7	1.0	8%	11%	2.6

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Figure #2 SOP table

Division	Stake	Value (RM m)	RM/share	Methodology
Construction (SunCon)	54.56%	1,294	0.27	Based on TP of RM 1.90
Sunway REIT	40.88%	2,338	0.48	Based on TP of RM 1.67
Property Development & Investment	100%	4,869	1.00	Discounted RNAV
Healthcare	84%	3,948	0.81	31x EV/EBITDA
Trading/Manufacturing	100%	295	0.06	10X trailing P/E
Quarry	100%	167	0.03	10X trailing P/E
Equity Value (RM)		12,911	2.65	

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Stock rating guide

BUY	Expected absolute return of +10% or more over the next 12 months.
HOLD	Expected absolute return of -10% to +10% over the next 12 months.
SELL	Expected absolute return of -10% or less over the next 12 months.
UNDER REVIEW	Rating on the stock is temporarily under review which may or may not result in a change from the previous rating.
NOT RATED	Stock is not or no longer within regular coverage.

Sector rating guide

OVERWEIGHT	Sector expected to outperform the market over the next 12 months.
NEUTRAL	Sector expected to perform in-line with the market over the next 12 months.
UNDERWEIGHT	Sector expected to underperform the market over the next 12 months.

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