

Sunway (SWB MK)

Earnings on track

Profit in line but sales fell short

Sunway's 3Q22 core net profit of MYR147m (+82% YoY, +9% QoQ) was within our expectation but above consensus. 9M22 property sales of MYR1.43b however fell short, at just 65% of its FY22 sales target of MYR2.2b (-15% YoY). We revise our FY22-24 earnings forecasts by -3% to +2%. Our TP is unchanged at MYR1.63 (on an unchanged 0.8x FY23E PBV). Maintain HOLD.

Better QoQ performance in most business divisions

Excluding MYR23.1m disposal gains, Sunway's 3Q22 core net profit of MYR147m brought 9M22 core net earnings to MYR401m (+91% YoY), accounting for 76.5%/80% of MIBG/consensus full-year estimates. The QoQ improvement in 3Q22 earnings was due to better operating performance from all businesses except from Construction, which experienced slower work progress and lower profit margins. Net gearing improved slightly to 0.49x as at Sep 2022 (from 0.5x in end-June 2022).

Keeping its MYR2.2b property sales target

Of the MYR1.43b sales secured YTD as at Sep 2022, 27% were derived from its JV projects in Singapore and 65% from Klang Valley. Effective unbilled sales were MYR3.73b as at Sep 2022 (2.6x FY23E property revenue). Elsewhere, 55%-owned Sunway Construction Group (SCGB MK; HOLD; CP: MYR1.59, TP: MYR1.53) has secured MYR882m worth of jobs in 9M22, increasing its outstanding orderbook to MYR4b as at Sep 2022.

Earnings adjustments

We revise FY22 and FY24 earnings forecasts by -3% and +2%, respectively, to factor in the change in SCGB's earnings forecasts while keeping our FY23 earnings forecast largely unchanged. While Sunway's property development business may be hit by higher interest rates, the impact should be cushioned by better performance from the other businesses such as property investment, leisure and healthcare divisions post the reopening of international borders.

| FYE Dec (MYR m) | FY20A | FY21A | FY22E | FY23E | FY24E |
|------------------------------|--------|--------|-------|-------|-------|
| Revenue | 3,209 | 3,714 | 5,566 | 6,600 | 7,396 |
| EBITDA | 233 | 327 | 630 | 748 | 841 |
| Core net profit | 421 | 369 | 524 | 616 | 646 |
| Core FDEPS (sen) | 8.5 | 6.2 | 8.8 | 10.4 | 10.9 |
| Core FDEPS growth(%) | (34.9) | (26.6) | 41.8 | 17.6 | 4.9 |
| Net DPS (sen) | 1.5 | 2.5 | 2.7 | 3.2 | 3.3 |
| Core FD P/E (x) | 19.0 | 27.6 | 17.9 | 15.2 | 14.5 |
| P/BV (x) | 0.8 | 0.8 | 0.8 | 0.7 | 0.7 |
| Net dividend yield (%) | 0.9 | 1.5 | 1.7 | 2.0 | 2.1 |
| ROAE (%) | 4.0 | 24.7 | 4.3 | 4.9 | 5.0 |
| ROAA (%) | 2.0 | 1.6 | 2.0 | 2.3 | 2.3 |
| EV/EBITDA (x) | 60.4 | 52.2 | 25.6 | 23.0 | 21.4 |
| Net gearing (%) (incl perps) | 51.1 | 45.0 | 42.7 | 49.8 | 53.9 |
| Consensus net profit | - | - | 508 | 603 | 646 |
| MKE vs. Consensus (%) | - | - | 3.1 | 2.2 | 0.1 |

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HOLD

| | |
|-----------------------|----------------|
| Share Price | MYR 1.58 |
| 12m Price Target | MYR 1.63 (+3%) |
| Previous Price Target | MYR 1.63 |

Company Description

Sunway Bhd is involved in property development, investment properties and construction businesses

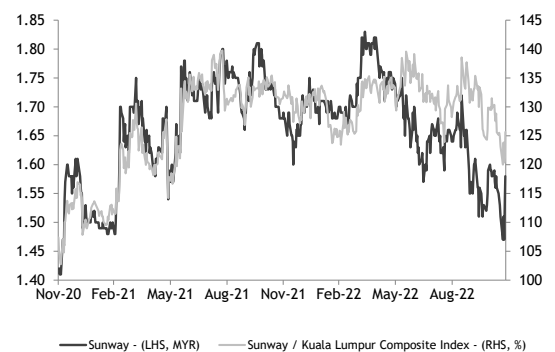
Statistics

| | |
|------------------------|-----------|
| 52w high/low (MYR) | 1.83/1.47 |
| 3m avg turnover (USDm) | 0.4 |
| Free float (%) | 26.9 |
| Issued shares (m) | 4,934 |
| Market capitalisation | MYR7.8B |
| | USD1.7B |

Major shareholders:

| | |
|--------------------------|-------|
| Active Equity Sdn. Bhd. | 60.1% |
| Employees Provident Fund | 8.2% |
| AIA Bhd. | 2.7% |

Price Performance



| | -1M | -3M | -12M |
|-----------------------|-----|-----|------|
| Absolute (%) | 4 | (5) | (6) |
| Relative to index (%) | 1 | (4) | (4) |

Source: FactSet

Fig. 1: Results summary table - Sunway

| FY Dec (MYRm) | 3Q22 | 3Q21 | %YoY | 2Q22 | %QoQ | 9M22 | 9M21 | %YoY |
|----------------------|----------------|--------------|-----------------|----------------|----------------|----------------|----------------|--------------|
| Revenue | 1,270.5 | 856.9 | 48.3 | 1,280.4 | -0.8 | 3,663.4 | 2,470.3 | 48.3 |
| - Property dev | 278.1 | 197.1 | 41.1 | 286.4 | -2.9 | 722.7 | 441.6 | 63.6 |
| - Property inv | 188.6 | 58.0 | >+100 | 149.6 | 26.1 | 459.3 | 179.0 | >+100 |
| - Construction | 305.1 | 192.7 | 58.4 | 316.8 | -3.7 | 990.6 | 732.1 | 35.3 |
| - Trading | 198.8 | 186.4 | 6.6 | 264.8 | -24.9 | 668.7 | 609.9 | 9.6 |
| - Quarry | 105.6 | 84.3 | 25.2 | 101.1 | 4.5 | 282.8 | 232.0 | 21.9 |
| - Others | 194.3 | 138.4 | 40.4 | 161.6 | 20.2 | 539.3 | 275.7 | 95.6 |
| PBIT | 135.4 | 51.5 | >+100 | 170.0 | -20.4 | 379.8 | 91.7 | 314.4 |
| Finance costs | -1.5 | 12.1 | >-100 | -28.2 | 94.7 | -13.9 | 52.1 | >-100 |
| Other income | 92.9 | 20.7 | >+100 | 76.9 | 20.8 | 269.0 | 67.0 | >+100 |
| Pretax profit | 223.8 | 84.4 | >+100 | 215.0 | 4.1 | 625.9 | 209.1 | 199.4 |
| - Property dev | 35.8 | 44.6 | -19.8 | 25.7 | 39.2 | 84.9 | 88.2 | -3.7 |
| - Property inv | 85.7 | -12.3 | >+100 | 53.4 | 60.4 | 184.1 | -45.1 | >+100 |
| - Construction | 35.6 | 21.4 | 66.8 | 44.4 | -19.8 | 127.8 | 57.7 | >+100 |
| - Trading | 12.4 | 6.7 | 86.0 | 9.7 | 27.8 | 32.4 | 28.8 | 12.2 |
| - Quarry | 1.9 | 2.5 | -23.7 | 1.8 | 4.4 | 8.6 | 5.0 | 71.5 |
| - Healthcare | 41.4 | 29.3 | 41.3 | 35.3 | 17.4 | 105.0 | 29.3 | >+100 |
| - Others | 11.0 | 21.5 | -49.0 | 44.7 | -75.5 | 83.1 | 74.6 | 11.5 |
| Taxation | -41.6 | -18.6 | -100 | -23.8 | -74.8 | -93.3 | -43.2 | >-100 |
| Minority interest | -17.5 | -14.1 | -24.2 | -22.4 | 21.9 | -58.9 | -26.6 | >-100 |
| Net profit | 164.7 | 81.1 | >+100 | 168.9 | -2.5 | 473.7 | 210.1 | >+100 |
| Core net profit | 147.2 | 81.1 | 81.5 | 135.5 | 8.6 | 400.9 | 210.1 | 90.9 |
| | | | +/- ppt | | +/- ppt | | | |
| Pretax margin (%) | 17.6 | 9.8 | 7.8 | 16.8 | 0.8 | 14.9 | 8.5 | 6.5 |
| - Property dev | 12.9 | 22.6 | -9.8 | 9.0 | 3.9 | 11.7 | 20.0 | -8.2 |
| - Property inv | 45.4 | -21.2 | 66.6 | 35.7 | 9.7 | 40.1 | -25.2 | 65.3 |
| - Construction | 11.7 | 11.1 | 0.6 | 14.0 | -2.3 | 12.9 | 7.9 | 5.0 |
| - Trading | 6.2 | 3.6 | 2.7 | 3.7 | 2.6 | 4.8 | 4.7 | 0.1 |
| - Quarry | 1.8 | 2.9 | -1.1 | 1.8 | 0.0 | 3.0 | 2.1 | 0.9 |
| - Others | 5.6 | 15.6 | -9.9 | 27.7 | -22.0 | 15.4 | 27.0 | -11.6 |
| Tax rate (%) | -20.7 | -22.0 | 1.3 | -13.1 | -7.6 | -17.0 | -20.6 | 3.6 |

Source: Maybank IBG Research

Upside and downside risks

1) Slower-than-expected property sales and longer-than-expected downturn in the property sector; 2) delay in obtaining necessary approvals for its projects; 3) slower progress billings in construction works; 4) higher raw material costs; and 5) labour shortage that hit its construction and hotel units.

Fig 2: Our RNAV estimate

| | Stake | Acres | MV (MYR m) | BV (MYR m) | Surplus (MYR m) |
|---|--------------|-------|----------------|----------------|--------------------|
| 1. Landbank - MARKET VALUE | | | | | |
| Sunway Semenyih | 70% | 526.1 | 572.9 | 128.0 | 311.5 |
| Suncity Ipoh | 96% | 336.4 | 58.6 | 58.7 | (0.1) |
| Sunway Integrated Resort | 100% | 7.7 | 4.8 | 8.3 | (3.5) |
| Sunway Tower KL 1 | 100% | 1.9 | 122.8 | 28.3 | 94.5 |
| Sunway JB, Bukit Lenang | 80% | 49.9 | 54.3 | 134.5 | (64.1) |
| Sg Long Balakong | 80% | 111 | 140.2 | 21.8 | 94.8 |
| Mont Putra Rawang | 100% | 163 | 49.7 | 35.1 | 14.6 |
| Sunway Iskandar - Pendas, freehold | 60% | 1079 | 1175.1 | 596.6 | 347.1 |
| Sub-total (1) | | | | | 794.8 |
| 2. Active developments - WACC (10.5-13.1%) | | | | | |
| | Stake | | | | (MYR m) |
| South Quay | 100% | | | | 303.5 |
| Sunway Cheras | 100% | | | | 1.4 |
| Bangi | 100% | | | | 2.2 |
| Casa Kiara III | 80% | | | | 15.4 |
| Sunway Velocity | 85% | | | | 123.7 |
| Penang projects | 100% | | | | 20.0 |
| Wonderland Business Park, Australia | 31% | | | | 0.5 |
| Mount Sophia | 30% | | | | 5.4 |
| Sunway Iskandar -leasehold (Medini) | 51% | | | | 299.2 |
| Kelana Jaya | 100% | | | | 95.1 |
| Industrial projects at Kelana Jaya and Subang | 100% | | | | 10.0 |
| Sunway Velocity extension | 50% | | | | 82.8 |
| Belfield | 100% | | | | 106.4 |
| Kajang | 100% | | | | 36.4 |
| Subang | 100% | | | | 68.9 |
| Wangsamaju | 55% | | | | 15.8 |
| PKNS Kota Damansara | 60% | | | | 31.0 |
| Pasir Panjang | 30% | | | | 35.4 |
| Tanjong Katong | 30% | | | | 93.7 |
| Sub-total (2): | | | | | 1,346.8 |
| 3. Investment properties - MARKET VALUE | | | | | |
| | Stake | | MV | BV | Surplus |
| | | | (MYR m) | (MYR m) | (MYR m) |
| Sunway Velocity Mall | 59% | | 1,600 | 1,172 | 252.3 |
| Sub-total (3) | | | | | 252.3 |

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| | Surplus (MYR m) |
|---|--------------------|
| 4. Other businesses or assets | |
| Valuation for SunREIT on Maybank IB's MYR1.45 TP | 131.8 |
| Valuation for SCG based on Maybank IB's MYR1.58 TP | 961.4 |
| Healthcare (30x 2022 PER) | 2,390.2 |
| Building material (10x 2022 PER) | 154.1 |
| Trading (10x 2022 PER) | 308.2 |
| Sub-total (4) | 3,945.7 |
| | |
| Grand total = (1) + (2) + (3) + (4) | 6,339.6 |
| Shareholders' funds (MYR m) - Dec 2021 | 12,034.8 |
| Proceeds from warrants (MYR1.56 exercise price; expiring in Oct 2024) | 1,044.4 |
| | |
| RNAV (MYR m) | 19,418.8 |
| | |
| Number of shares (m) | 4,934.0 |
| Number of warrants (m) | 669.5 |
| ICPS | 977.8 |
| | |
| FD RNAV/share (MYR) | 2.95 |

Source: Maybank IBG Research

| FYE 31 Dec | FY20A | FY21A | FY22E | FY23E | FY24E |
|------------------------|-------|-------|-------|-------|-------|
| Key Metrics | | | | | |
| P/E (reported) (x) | 20.8 | 3.7 | 17.7 | 15.0 | 14.3 |
| Core P/E (x) | 19.0 | 27.3 | 17.7 | 15.0 | 14.3 |
| Core FD P/E (x) | 19.0 | 27.6 | 17.9 | 15.2 | 14.5 |
| P/BV (x) | 0.8 | 0.8 | 0.8 | 0.7 | 0.7 |
| P/NTA (x) | 0.8 | 0.8 | 0.7 | 0.7 | 0.7 |
| Net dividend yield (%) | 0.9 | 1.5 | 1.7 | 2.0 | 2.1 |
| FCF yield (%) | nm | 0.9 | 3.9 | nm | nm |
| EV/EBITDA (x) | 60.4 | 52.2 | 25.6 | 23.0 | 21.4 |
| EV/EBIT (x) | 60.4 | 52.2 | 27.2 | 24.4 | 22.7 |

INCOME STATEMENT (MYR m)

| | | | | | |
|-----------------------------|---------|---------|---------|---------|---------|
| Revenue | 3,208.8 | 3,714.2 | 5,565.5 | 6,600.4 | 7,395.8 |
| EBITDA | 232.7 | 327.1 | 629.9 | 748.3 | 841.1 |
| Depreciation | 0.0 | 0.0 | (37.9) | (42.0) | (46.3) |
| Amortisation | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| EBIT | 232.7 | 327.1 | 592.0 | 706.3 | 794.8 |
| Net interest income / (exp) | 26.6 | 54.9 | (158.4) | (181.2) | (201.9) |
| Associates & JV | 230.8 | 83.7 | 254.4 | 274.9 | 236.8 |
| Exceptionals | 64.4 | (18.4) | 0.0 | 0.0 | 0.0 |
| Other pretax income | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Pretax profit | 490.1 | 465.7 | 688.0 | 799.9 | 829.7 |
| Income tax | (102.6) | (116.2) | (96.3) | (112.0) | (116.2) |
| Minorities | (47.6) | (74.6) | (67.8) | (71.8) | (67.2) |
| Discontinued operations | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Reported net profit | 357.3 | 2,665.4 | 523.9 | 616.1 | 646.4 |
| Core net profit | 421.0 | 369.3 | 523.9 | 616.1 | 646.4 |

BALANCE SHEET (MYR m)

| | | | | | |
|-------------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Cash & Short Term Investments | 2,238.4 | 2,814.0 | 2,973.7 | 1,831.9 | 2,050.0 |
| Accounts receivable | 2,433.2 | 2,483.8 | 3,721.9 | 4,414.0 | 4,945.9 |
| Inventory | 2,074.7 | 2,423.0 | 3,630.8 | 4,305.9 | 4,824.8 |
| Reinsurance assets | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Property, Plant & Equip (net) | 2,620.7 | 1,262.8 | 1,400.6 | 1,542.7 | 1,688.9 |
| Intangible assets | 350.7 | 432.8 | 432.8 | 432.8 | 432.8 |
| Investment in Associates & JVs | 4,350.0 | 8,897.1 | 7,786.8 | 8,487.7 | 9,002.7 |
| Other assets | 7,025.4 | 6,773.4 | 6,674.6 | 6,674.6 | 6,674.6 |
| Total assets | 21,093.1 | 25,086.9 | 26,621.2 | 27,689.6 | 29,619.8 |
| ST interest bearing debt | 5,261.1 | 4,093.8 | 4,093.8 | 4,093.8 | 5,093.8 |
| Accounts payable | 2,453.1 | 2,470.6 | 3,702.1 | 4,390.6 | 4,919.6 |
| Insurance contract liabilities | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| LT interest bearing debt | 2,250.7 | 4,621.7 | 4,621.7 | 4,621.7 | 4,621.7 |
| Other liabilities | 818.0 | 777.0 | 765.0 | 765.0 | 765.0 |
| Total Liabilities | 10,782.6 | 11,963.4 | 13,182.3 | 13,870.8 | 15,399.8 |
| Shareholders Equity | 9,513.2 | 12,034.8 | 12,350.2 | 12,730.1 | 13,131.2 |
| Minority Interest | 797.4 | 1,088.7 | 1,088.7 | 1,088.7 | 1,088.7 |
| Total shareholder equity | 10,310.6 | 13,123.5 | 13,438.9 | 13,818.8 | 14,219.9 |
| Total liabilities and equity | 21,093.1 | 25,086.9 | 26,621.2 | 27,689.6 | 29,619.8 |

CASH FLOW (MYR m)

| | | | | | |
|----------------------------------|------------------|--------------|--------------|------------------|--------------|
| Pretax profit | 490.1 | 465.7 | 688.0 | 799.9 | 829.7 |
| Depreciation & amortisation | 0.0 | 0.0 | 37.9 | 42.0 | 46.3 |
| Adj net interest (income)/exp | 167.6 | 124.8 | (158.4) | (181.2) | (201.9) |
| Change in working capital | 117.3 | 178.5 | 833.0 | (535.5) | (157.1) |
| Cash taxes paid | (61.3) | (104.1) | (96.3) | (112.0) | (116.2) |
| Other operating cash flow | 155.3 | (2,015.0) | 0.0 | 0.0 | 0.0 |
| Cash flow from operations | 886.5 | 1,038.4 | 1,304.1 | 13.2 | 400.8 |
| Capex | (957.0) | (946.5) | (946.5) | (946.5) | (946.5) |
| Free cash flow | (70.5) | 91.9 | 357.6 | (933.3) | (545.7) |
| Dividends paid | (253.6) | (179.8) | (198.0) | (208.5) | (236.2) |
| Equity raised / (purchased) | 179.0 | 0.2 | 0.0 | 0.0 | 0.0 |
| Change in Debt | (786.8) | 1,203.7 | 0.0 | 0.0 | 1,000.0 |
| Other invest/financing cash flow | (183.7) | (656.4) | 0.0 | 0.0 | 0.0 |
| Effect of exch rate changes | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Net cash flow | (1,115.6) | 459.7 | 159.6 | (1,141.8) | 218.1 |

| FYE 31 Dec | FY20A | FY21A | FY22E | FY23E | FY24E |
|--|---------|---------|---------|---------|---------|
| Key Ratios | | | | | |
| Growth ratios (%) | | | | | |
| Revenue growth | (32.9) | 15.8 | 49.8 | 18.6 | 12.1 |
| EBITDA growth | (59.2) | 40.6 | 92.6 | 18.8 | 12.4 |
| EBIT growth | (59.2) | 40.6 | 81.0 | 19.3 | 12.5 |
| Pretax growth | (43.4) | (5.0) | 47.7 | 16.3 | 3.7 |
| Reported net profit growth | (49.6) | 646.1 | (80.3) | 17.6 | 4.9 |
| Core net profit growth | (33.7) | (12.3) | 41.8 | 17.6 | 4.9 |
| Profitability ratios (%) | | | | | |
| EBITDA margin | 7.3 | 8.8 | 11.3 | 11.3 | 11.4 |
| EBIT margin | 7.3 | 8.8 | 10.6 | 10.7 | 10.7 |
| Pretax profit margin | 15.3 | 12.5 | 12.4 | 12.1 | 11.2 |
| Payout ratio | 20.8 | 5.5 | 30.0 | 30.0 | 30.0 |
| DuPont analysis | | | | | |
| Net profit margin (%) | 11.1 | 71.8 | 9.4 | 9.3 | 8.7 |
| Revenue/Assets (x) | 0.2 | 0.1 | 0.2 | 0.2 | 0.2 |
| Assets/Equity (x) | 2.2 | 2.1 | 2.2 | 2.2 | 2.3 |
| ROAE (%) | 4.0 | 24.7 | 4.3 | 4.9 | 5.0 |
| ROAA (%) | 2.0 | 1.6 | 2.0 | 2.3 | 2.3 |
| Leverage & Expense Analysis | | | | | |
| Asset/Liability (x) | 2.0 | 2.1 | 2.0 | 2.0 | 1.9 |
| Net gearing (%) (incl perps) | 51.1 | 45.0 | 42.7 | 49.8 | 53.9 |
| Net gearing (%) (excl. perps) | 51.1 | 45.0 | 42.7 | 49.8 | 53.9 |
| Net interest cover (x) | na | na | 3.7 | 3.9 | 3.9 |
| Debt/EBITDA (x) | nm | nm | 13.8 | 11.6 | 11.6 |
| Capex/revenue (%) | 29.8 | 25.5 | 17.0 | 14.3 | 12.8 |
| Net debt/ (net cash) | 5,273.4 | 5,901.5 | 5,741.8 | 6,883.6 | 7,665.5 |

Source: Company; Maybank IBG Research

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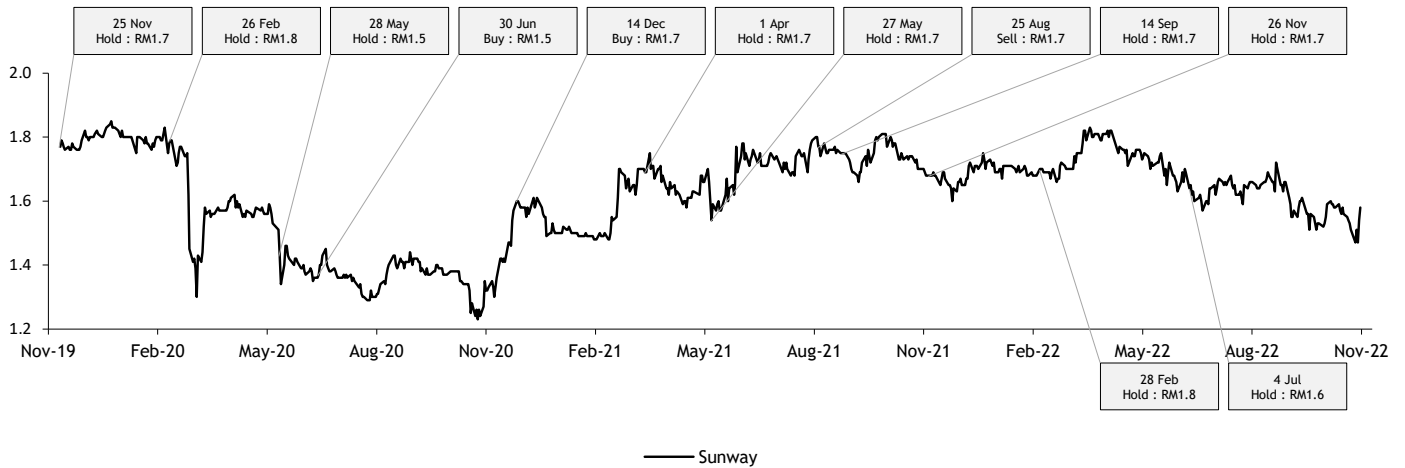
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