

29 November 2022

# Sunway Berhad

## Recovery Momentum to Continue

By Lum Joe Shen | [lumjs@kenanga.com.my](mailto:lumjs@kenanga.com.my)

**SUNWAY's 9MFY22 results beat our forecast (on stronger healthcare and property investment contributions) but met market expectations. YTD sales of RM1.4b also came in above our RM1.6b full-year assumption. We expect the recovery momentum to continue across the board (other than property development due to rising interest rates). We raise our FY22-23F net profit forecasts by 18-2%, lift TP by 5% to RM2.15 (from RM2.05) and maintain our OUTPERFORM call.**

**Above our forecast but within consensus.** 9MFY22 core net profit of RM370m beat our expectation at 87% of our full-year forecast but met market expectations at 75% of the full-year consensus estimate. The variance against our forecast came largely from better-than-expected showing from healthcare segment (due to a higher number of patients) and property investment (on the back of strong recovery of its hospitality and leisure segment and its 41%-owned SUNREIT).

9MFY22 revenue rose 20% from the strong rebound in all its business segments against a pandemic-stricken period a year ago. Consequently, 9MFY22 core net profit rose 83%. Among all its business segments, its property investment division (which houses the leisure and hospitality segment) saw the biggest improvement by registering operating profit of RM184m versus a loss a year ago thanks to the re-opening of borders.

**Outlook.** 9MFY22 sales of RM1.4b also came above our RM1.6b target (company target of RM2.2b) thanks to strong contributions from its Klang Valley (Sunway Belfield, Velocity Two, d'Hill) and Singapore developments. Consequently, we raise our full-year sales assumption to RM1.9b. Nonetheless, we remain cautious over the prospects for its property development segment in view of the global rising interest rates and Singapore's cooling measures that were imposed twice over the past year (in Dec 2021 and Sept 2022). Current unbilled sales remain healthy at RM4.14b.

Moving forward, we believe SUNWAY's leisure and hospitality segment (as reflected in the property investment segment) still has room for improvement as it is still performing below pre-Covid levels.

Its healthcare segment continued to register record-quarterly earnings from the higher patient count at Sunway Medical KL and Velocity. We expect such trend to continue into 4QFY22 on seasonality to boost FY22 to another record high. Nonetheless, the record profits will likely come off in FY23 upon the commencement of Sunway Seberang Jaya (+150 to 200 beds) in Nov 2022 and Sunway Medical Tower D (+200 beds in first phase) in 1QFY23 as there would be gestational losses.

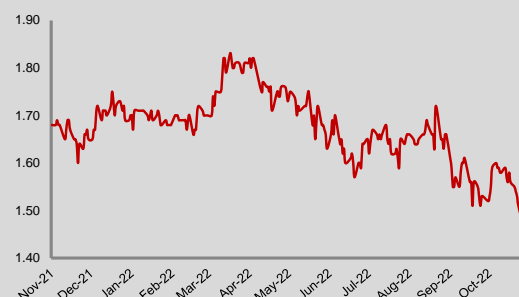
**Forecasts.** We raise our FY22-23F earnings forecasts by 18-2% to reflect a higher property sales assumption of RM1.9b and stronger contributions from property investment and healthcare segments. Consequently, SoP-TP is raised by 5% to RM2.15 (from RM2.05) anchored by 65% discount to RNAV for its property segment, in line with peers under our coverage.

We continue to like SUNWAY for: (i) its healthy pipeline of medical centres located within brownfield townships, (ii) quick turnaround model for its property development arm, and (iii) a diversified range of investment assets which provides stable earnings base. There is no adjustment to our TP based on ESG given a 3-star rating as appraised by us (see Page 5). Maintain **OUTPERFORM**.

## OUTPERFORM ↔

Price : **RM1.58**  
Target Price : **RM2.15** ↑

### Share Price Performance



KLCI 1,486.54  
YTD KLCI chg -5.2%  
YTD stock price chg -8.1%

### Stock Information

|                      |               |
|----------------------|---------------|
| Shariah Compliant    | Yes           |
| Bloomberg Ticker     | SWB MK Equity |
| Market Cap (RM m)    | 7,724.7       |
| Shares Outstanding   | 4,889.1       |
| 52-week range (H)    | 1.85          |
| 52-week range (L)    | 1.45          |
| 3-mth avg daily vol: | 1,122,602     |
| Free Float           | 68%           |
| Beta                 | 0.7           |

### Major Shareholders

|                          |       |
|--------------------------|-------|
| Sungei Way Corp Sdn Bhd  | 14.2% |
| Employees Provident Fund | 8.3%  |
| Cheah Fook Ling          | 2.4%  |

### Summary Earnings Table

| FYE Dec (RM m)        | 2021A      | 2022F      | 2023F      |
|-----------------------|------------|------------|------------|
| Turnover              | 4529       | 4900       | 4971       |
| EBIT                  | 523        | 789        | 1026       |
| PBT                   | 568        | 761        | 987        |
| <b>Net Profit</b>     | <b>379</b> | <b>550</b> | <b>773</b> |
| <b>Core PATAMI**</b>  | <b>328</b> | <b>499</b> | <b>721</b> |
| Consensus (NP)        | n.a.       | 495        | 594        |
| Earnings Revision     | n.a.       | +18%       | +2%        |
| Core EPS (sen)        | 6.6        | 10.1       | 14.6       |
| Core EPS growth (%)   | -10%       | 52%        | 45%        |
| *NDPS (sen)           | 2.5        | 3          | 5          |
| NTA per Share (RM)    | 2.44       | 2.51       | 2.61       |
| Price to NTA (x)      | 0.65       | 0.63       | 0.61       |
| PER (x)               | 23.8       | 15.6       | 10.8       |
| Net Gearing ratio (x) | 0.49       | 0.47       | 0.46       |
| Return on Asset (%)   | 1.3        | 2.0        | 2.8        |
| Return on Equity (%)  | 2.7        | 4.0        | 5.6        |
| Net Div. Yield (%)    | 1.6        | 1.9        | 3.2        |

\*Only cash dividend is reflected.

\*\*Note, we deduct ICPS payments of RM51m/annum (bi-annual payment in 2Q and 4Q) to derive our core estimates while Sunway treat it as a normal dividend and hence makes no deduction to its bottom-line within their earnings announcement.



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**Risks to our call include:** (i) a prolonged slowdown in the local property market, (ii) rising mortgage rates and construction cost hurting affordability, and (iii) changes in home ownership policies locally and overseas.

| <b>Result Highlight</b>           |                |                |             |                |             |                |                |             |
|-----------------------------------|----------------|----------------|-------------|----------------|-------------|----------------|----------------|-------------|
| FYE Dec (RM m)                    | 3Q22           | 2Q22           | QoQ         | 3Q21           | YoY         | 9M22           | 9M21           | YoY         |
| <b>Revenue</b>                    | <b>1,270.5</b> | <b>1,280.4</b> | <b>-1%</b>  | <b>1,065.0</b> | <b>19%</b>  | <b>3,663.4</b> | <b>3,049.7</b> | <b>20%</b>  |
| Operating Expenses                | -1,177.6       | -1,180.3       | 0%          | -1,007.4       | 17%         | -3,433.1       | -2,951.8       | 16%         |
| Other Operating Income            | 39.4           | 66.2           | -40%        | 25.7           | 53%         | 140.5          | 71.0           | 98%         |
| <b>Operating Profit</b>           | <b>132.4</b>   | <b>166.3</b>   | <b>-20%</b> | <b>83.3</b>    | <b>59%</b>  | <b>370.8</b>   | <b>168.9</b>   | <b>120%</b> |
| Finance Income                    | 47.8           | 32.8           | 46%         | 43.7           | 9%          | 126.1          | 128.1          | -2%         |
| Finance costs                     | -49.3          | -61.0          | -19%        | -34.0          | 45%         | -139.9         | -84.0          | 67%         |
| Associates                        | 37.4           | 32.8           | 14%         | 21.8           | 72%         | 116.2          | 54.1           | 115%        |
| JV                                | 55.5           | 44.1           | 26%         | -1.0           | n.a.        | 152.8          | 12.9           | 1086%       |
| <b>PBT</b>                        | <b>223.8</b>   | <b>215.0</b>   | <b>4%</b>   | <b>113.8</b>   | <b>97%</b>  | <b>625.9</b>   | <b>280.0</b>   | <b>124%</b> |
| Tax                               | -41.6          | -23.8          | 75%         | -18.7          | 123%        | -93.3          | -43.4          | 115%        |
| <b>PAT</b>                        | <b>182.2</b>   | <b>191.2</b>   | <b>-5%</b>  | <b>95.2</b>    | <b>91%</b>  | <b>532.6</b>   | <b>236.6</b>   | <b>125%</b> |
| MI                                | 17.5           | 22.4           | -22%        | 14.1           | 24%         | 58.9           | 26.6           | 122%        |
| ICPS/Perpetual Sukuk distribution | 0.0            | -25.7          | n.a.        | 0.0            | n.a.        | -25.7          | -25.7          | 0%          |
| <b>PATAMI</b>                     | <b>164.7</b>   | <b>168.9</b>   | <b>-2%</b>  | <b>81.1</b>    | <b>103%</b> | <b>473.7</b>   | <b>210.1</b>   | <b>126%</b> |
| Exceptionals                      | -23.1          | -33.3          | -31%        | 11.2           | -306%       | -78.3          | 17.9           | -537%       |
| <b>CNP</b>                        | <b>141.7</b>   | <b>109.9</b>   | <b>29%</b>  | <b>92.3</b>    | <b>54%</b>  | <b>369.7</b>   | <b>202.3</b>   | <b>83%</b>  |
| DPS                               | 0.0            | 2.0            | -100%       | 0.0            | n.a.        | 2.0            | 1.0            | 100%        |
| EBIT margin                       | 10%            | 13%            |             | 8%             |             | 10%            | 6%             |             |
| Pretax margin                     | 18%            | 17%            |             | 11%            |             | 17%            | 9%             |             |
| NP margin                         | 14%            | 15%            |             | 9%             |             | 15%            | 8%             |             |
| CNP margin                        | 11%            | 9%             |             | 9%             |             | 10%            | 7%             |             |
| Net gearing (x)                   | 0.67           | 0.68           |             | 0.78           |             | 0.67           | 0.78           |             |
| Effective tax                     | 19%            | 11%            |             | 16%            |             | 15%            | 15%            |             |

Source: Company, Kenanga Research

| <b>Segmental Breakdown</b> |                |                |            |                |            |                |                |             |
|----------------------------|----------------|----------------|------------|----------------|------------|----------------|----------------|-------------|
| External Revenue           | 3Q22           | 2Q22           | QoQ        | 3Q21           | YoY        | 9M22           | 9M21           | YoY         |
| Property Development       | 278.1          | 286.4          | -3%        | 197.1          | 41%        | 722.7          | 441.6          | 64%         |
| Property Investment        | 188.6          | 149.6          | 26%        | 58.0           | 225%       | 459.3          | 179.0          | 157%        |
| Construction               | 305.1          | 316.8          | -4%        | 192.7          | 58%        | 990.6          | 732.1          | 35%         |
| Trading and Manufacturing  | 198.8          | 264.8          | -25%       | 186.4          | 7%         | 668.7          | 609.9          | 10%         |
| Quarry                     | 105.6          | 101.1          | 4%         | 84.3           | 25%        | 282.8          | 232.0          | 22%         |
| Healthcare                 | 0.0            | 0.0            | n.a.       | 208.1          | -100%      | 0.0            | 579.3          | -100%       |
| Investment Holdings        | 9.2            | 1.8            | 406%       | 8.6            | 7%         | 12.8           | 10.9           | 18%         |
| Others                     | 185.2          | 159.8          | 16%        | 129.9          | 43%        | 526.5          | 264.9          | 99%         |
| <b>Total Revenue</b>       | <b>1,270.5</b> | <b>1,280.4</b> | <b>-1%</b> | <b>1,065.0</b> | <b>19%</b> | <b>3,663.4</b> | <b>3,049.7</b> | <b>20%</b>  |
| <b>PBT Segmentation</b>    |                |                |            |                |            |                |                |             |
| Property Development       | 35.8           | 25.7           | 39%        | 44.6           | -20%       | 84.9           | 88.2           | -4%         |
| Property Investment        | 85.7           | 53.4           | 60%        | -12.3          | n.a.       | 184.1          | -45.2          | n.a.        |
| Construction               | 35.6           | 44.4           | -20%       | 21.4           | 67%        | 127.8          | 57.7           | 122%        |
| Trading and Manufacturing  | 12.4           | 9.7            | 28%        | 6.7            | 86%        | 32.4           | 28.8           | 12%         |
| Quarry                     | 1.9            | 1.8            | 4%         | 2.5            | -24%       | 8.6            | 5.0            | 71%         |
| Healthcare                 | 41.4           | 35.3           | 17%        | 29.5           | 41%        | 105.0          | 71.0           | 48%         |
| Investment Holdings        | -6.1           | 7.3            | -184%      | 10.6           | -158%      | 12.4           | 55.5           | -78%        |
| Others                     | 17.1           | 37.5           | -54%       | 11.0           | 56%        | 70.7           | 19.0           | 271%        |
| <b>Total PBT</b>           | <b>223.8</b>   | <b>215.0</b>   | <b>4%</b>  | <b>113.8</b>   | <b>97%</b> | <b>625.9</b>   | <b>280.0</b>   | <b>124%</b> |
| <b>PBT margins</b>         |                |                |            |                |            |                |                |             |
| Property Development       | 13%            | 9%             |            | 23%            |            | 12%            | 20%            |             |
| Property Investment        | 45%            | 36%            |            | -21%           |            | 40%            | -25%           |             |
| Construction               | 12%            | 14%            |            | 11%            |            | 13%            | 8%             |             |
| Trading and Manufacturing  | 6%             | 4%             |            | 4%             |            | 5%             | 5%             |             |
| Quarry                     | 2%             | 2%             |            | 3%             |            | 3%             | 2%             |             |
| Healthcare                 | n.a.           | n.a.           |            | 14%            |            | n.a.           | 12%            |             |
| Investment Holdings        | -67%           | 401%           |            | 123%           |            | 97%            | 511%           |             |
| Others                     | 9%             | 23%            |            | 8%             |            | 13%            | 7%             |             |
| <b>Total</b>               | <b>18%</b>     | <b>17%</b>     |            | <b>11%</b>     |            | <b>17%</b>     | <b>9%</b>      |             |

Source: Company, Kenanga Research

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| <b>SOP Valuation</b>                                    |                     |  |
|---|---------------------|--|
| <b>Segment</b>  | <b>Value (RM m)</b> | <b>Valuation basis</b>   |
| Property Development                                    | 1,740.6             | 65% discount to RNAV   |
| Property Investment (backed by 40.9%-owned Sunway REIT) | 2,707.0             | Kenanga's TP of RM1.60 for SREIT + NBV of investment prop ex-SREIT |
| Construction (via 54.4%-owned Sunway Construction)      | 1,122.3             | Kenanga's TP of RM1.60 for SunCon                                  |
| Trading & Manufacturing                                 | 315.0               | P/E of 10x   |
| Quarry  | 89.0                | P/E of 12x   |
| Healthcare  | 6,191.9             | 30x EV/EBITDA  |
| Investment Holdings & Others                            | 147.0               | P/E of 10x   |
| Net cash / (debt) at holding company level              | (870.9)             | As at 31 Dec 2021  |
| <b>Aggregate Valuation</b>                              | <b>11,441.9</b>     |  |
| No of shares (m)  | 5,292.2             | Account for partial dilution of ICPS                               |
| <b>RNAV per share (RM)</b>                              | <b>2.15</b>         |  |

Source: Company, Kenanga Research

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## Peer Comparison

| Name                         | Rating | Last Price (RM) | Target Price (RM) | Upside (%) | Market Cap (RM'm) | Shariah Compliant | Current FYE | Core EPS (sen) |            | Core Earnings Growth |             | PER (x) - Core Earnings |             | PBV (x) 1-Yr. Fwd. | ROE (%) 1-Yr. Fwd. | Net Div. (sen) 1-Yr. Fwd. | Net Div. Yld. (%) 1-Yr. Fwd. |
|------------------------------|--------|-----------------|-------------------|------------|-------------------|-------------------|-------------|----------------|------------|----------------------|-------------|-------------------------|-------------|--------------------|--------------------|---------------------------|------------------------------|
|                              |        |                 |                   |            |                   |                   |             | 1-Yr. Fwd.     | 2-Yr. Fwd. | 1-Yr. Fwd.           | 2-Yr. Fwd.  | 1-Yr. Fwd.              | 2-Yr. Fwd.  |                    |                    |                           |                              |
| ECO WORLD DEVELOPMENT GROUP  | OP     | 0.625           | 0.830             | 32.80%     | 1,840.2           | Y                 | 10/2022     | 8.0            | 8.0        | -1.3%                | -0.2%       | 7.8                     | 6.9         | 0.4                | 4.9%               | 5.0                       | 8.0%                         |
| IOI PROPERTIES GROUP BHD     | OP     | 1.04            | 1.60              | 53.85%     | 5,726.4           | Y                 | 06/2023     | 13.5           | 14.3       | 4.2%                 | 5.9%        | 7.7                     | 7.3         | 0.3                | 4.0%               | 3.0                       | 2.9%                         |
| MAH SING GROUP BHD           | MP     | 0.505           | 0.600             | 18.81%     | 1,226.0           | Y                 | 12/2022     | 6.2            | 5.8        | 41.5%                | -6.0%       | 8.2                     | 8.7         | 0.4                | 4.9%               | 3.0                       | 5.9%                         |
| MALAYSIAN RESOURCES CORP BHD | MP     | 0.320           | 0.340             | 6.25%      | 1,429.6           | Y                 | 12/2022     | 0.6            | 0.5        | -75.8%               | -23.2%      | 53.3                    | 64.0        | 0.3                | 0.6%               | 1.0                       | 3.1%                         |
| SIME DARBY PROPERTY BHD      | OP     | 0.475           | 0.550             | 15.79%     | 3,230.4           | Y                 | 12/2022     | 3.5            | 3.8        | 68.9%                | 9.8%        | 13.7                    | 12.5        | 0.3                | 2.5%               | 2.0                       | 2.7%                         |
| SP SETIA BHD                 | UP     | 0.630           | 0.380             | -39.68%    | 2,582.9           | Y                 | 12/2022     | 4.2            | 4.4        | 4.9%                 | 5.8%        | 15.0                    | 14.3        | 0.2                | 2.2%               | 1.3                       | 6.0%                         |
| SUNWAY BHD                   | OP     | 1.58            | 2.15              | 36.08%     | 7,724.7           | Y                 | 12/2022     | 10.1           | 14.7       | 52.1%                | 44.5%       | 15.6                    | 10.8        | 0.8                | 5.7%               | 3.0                       | 1.9%                         |
| UOA DEVELOPMENT BHD          | MP     | 1.58            | 1.75              | 10.76%     | 3,803.8           | Y                 | 12/2022     | 9.1            | 10.6       | -5.6%                | 16.2%       | 11.3                    | 10.5        | 0.6                | 3.9%               | 10.0                      | 8.2%                         |
| <b>Simple Average</b>        |        |                 |                   |            |                   |                   |             | <b>6.9</b>     | <b>7.8</b> | <b>11.1%</b>         | <b>6.6%</b> | <b>16.6</b>             | <b>16.9</b> | <b>0.4</b>         | <b>3.6%</b>        |                           | <b>4.9%</b>                  |

Source: Kenanga Research

**Stock ESG Ratings:**

|                       | Criterion                         | Rating |   |     |
|-----------------------|-----------------------------------|--------|---|-----|
| <b>GENERAL</b>        | Earnings Sustainability & Quality | ★      | ★ | ★   |
|                       | Corporate Social Responsibility   | ★      | ★ | ★   |
|                       | Management/Workforce Diversity    | ★      | ★ | ★   |
|                       | Accessibility & Transparency      | ★      | ★ | ★   |
|                       | Corruption-Free Pledge            | ★      | ★ | ★   |
|                       | Carbon-Neutral Initiatives        | ★      | ★ | ★   |
| <b>SPECIFIC</b>       | Digital Transformation            | ★      | ★ | ★ ☆ |
|                       | Adoption of Green Financing       | ★      | ★ | ★ ☆ |
|                       | Waste Management                  | ★      | ★ | ★ ☆ |
|                       | Flora and Fauna Preservation      | ★      | ★ | ★   |
|                       | Green Building Planning           | ★      | ★ | ★ ☆ |
| Supply Chain Auditing | ★                                 | ★      | ★ |     |
| <b>OVERALL</b>        |                                   | ★      | ★ | ★   |

☆ denotes half-star  
 ★ -10% discount to TP  
 ★★ -5% discount to TP  
 ★★★ TP unchanged  
 ★★★★ +5% premium to TP  
 ★★★★★ +10% premium to TP

**Stock Ratings are defined as follows:**

**Stock Recommendations**

OUTPERFORM : A particular stock’s Expected Total Return is MORE than 10%  
 MARKET PERFORM : A particular stock’s Expected Total Return is WITHIN the range of -5% to 10%  
 UNDERPERFORM : A particular stock’s Expected Total Return is LESS than -5%

**Sector Recommendations\*\*\***

OVERWEIGHT : A particular sector’s Expected Total Return is MORE than 10%  
 NEUTRAL : A particular sector’s Expected Total Return is WITHIN the range of -5% to 10%  
 UNDERWEIGHT : A particular sector’s Expected Total Return is LESS than -5%

**\*\*\*Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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**KENANGA INVESTMENT BANK BERHAD (15678-H)**  
 Level 17, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia  
 Telephone: (603) 2172 0880 Website: [www.kenanga.com.my](http://www.kenanga.com.my) E-mail: [research@kenanga.com.my](mailto:research@kenanga.com.my)

