

Sunway Bhd

Property Investment Segment Rebounded Strongly

TP: RM1.84 (+16.5%)

Last Traded: RM1.58

Buy (ESG: ★★★★★)

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Review

- Sunway reported a core net profit of RM423.0mn in 9MFY22 after excluding 1) the share of valuation gains pursuant to Sunway REIT's acquisition of an investment property of RM7.5mn, 2) the gain on disposal of RM26.6mn of one new start-up investment and 3) gain on disposal of a property investment asset of RM16.6mn.
- Results came in above expectations, accounting for 81% and 85% of our and consensus' full-year forecasts, respectively. The positive variance was largely due to stronger-than-expected performance in the property investment segment and higher-than-expected contribution from its associates and JVs.
- **YoY:** 9M22 revenue grew by 48% YoY to RM3.7bn, primarily due to increased contributions from all businesses. Likewise, the period's core net profit increased by 31% YoY to RM423mn, with stronger profit contributions from all business divisions except the property development segment (PBT -3.7% YoY). Specifically, property investment segment PBT returned to the black, as a result of the reopening and normalisation of the local economy, which enabled the leisure and hospitality industries to resume full operations.
- **QoQ:** Although revenue declined by 1% to RM1.3bn, Sunway's 3Q22 core net profit climbed 4% QoQ to RM148.1mn. This was largely due to lower finance costs and higher contributions from associates and JVs.
- Sunway's 3Q22 property sales declined 7% YoY but grew 4% QoQ to RM502mn, bringing 9M22 sales to RM1.43bn (-34% YoY). Ki Residences, a private condominium project in Singapore, is a major contributor to 9M22 sales (27% of 9M22 sales), with a 97% take-rate as of the end of Sep-22, up from 79% as of the end of Dec-21. 9M22 property sales accounted for 63% of Sunway's sales target and our sales assumptions of RM2.2bn.

Impact

- We raise our FY22-24 earnings by 9-11% to reflect the stronger earnings contribution from its property investment segment, associates, and JVs.

Outlook

- This year, the group has launched two new projects: Jernih Residence in Kajang (GDV: RM281mn) in May-22 and Sunway Alishan Residences in Cheras (GDV: RM261mn) in September-22, with respective take-up rates of 27% and 19%. With the group's current projects, management is still convinced that the sales target of RM2.2bn can be attained.
- The group's unbilled sales of RM4.2bn and outstanding construction order book of RM2.1bn (external jobs only) should provide earnings visibility for the next 2-3 years.
- We believe the strengthening outlook for the domestic economy augurs

Share Information

Bloomberg Code	SWB MK
Stock Code	5211
Listing	Main Market
Share Cap (mn)	4,889.1
Market Cap (RMmn)	7,724.7
52-wk Hi/Lo (RM)	1.85/1.45
12-mth Avg Daily Vol ('000 shrs)	1,133.4
Estimated Free Float (%)	25.5
Beta	0.5
Major Shareholders (%)	
	Sungei Way Corp (56.9)
	EPF (8.3)

Forecast Revision

	FY22	FY23
Forecast Revision (%)	8.5	10.0
Net profit (RMmn)	567.5	620.0
Consensus	494.8	594.4
TA's / Consensus (%)	114.7	104.3
Previous Rating	Buy (Maintained)	
Consensus Target Price (RM)	2.02	

Financial Indicators

	FY22	FY23
Net gearing (%)	44.0	41.0
CFPS (sen)	11.2	7.7
P/CFPS (x)	14.1	20.4
ROE (%)	4.6	4.9
ROA (%)	2.2	2.4
NTA/Share (RM)	2.1	2.1
Price/NTA (x)	0.8	0.7

Scorecard

	% of FY	
vs TA	81.0	Above
vs Consensus	85.0	Above

Share Performance (%)

Price Change	SWB	FBM KLCI
1 mth	3.9	2.9
3 mth	(4.8)	(0.6)
6 mth	(8.7)	(3.2)
12 mth	(6.0)	(2.0)

(12-Mth) Share Price relative to the FBMKLCI



Source: Bloomberg

well for Sunway going forward. In particular, Sunway's leisure, hotel, and healthcare segments are expected to benefit from the improvement of the inbound leisure tourism and medical tourism sectors as international travel continues to normalise. However, its property development division may be negatively impacted by Bank Negara's recent hike in interest rates, but the ongoing economic recovery may cushion this impact.

Valuation

- Factoring in the earnings revision as well as the new TP for Sunway REIT, we arrive at a new TP of RM1.84 (RM1.81 previously), based on SOP valuation. Maintain Buy.

SOP Valuation Table

	Stake	Value (RM mn)	RM/share	Valuation Methodology
Property Dev & Inv	100.0%	3,223.6	0.55	12x CY23 Earnings
SunCon	54.6%	1,108.3	0.19	TP of RM1.57
Sunway REIT	40.9%	2,143.1	0.37	TP of RM1.53
Healthcare	84.0%	3,937.5	0.67	Pegged to Effective Equity Value Based on GIC's Offer
Trading & Manufacturing	100.0%	320.6	0.05	10x CY23 Earnings
Quarry	100.0%	66.5	0.01	10x CY23 Earnings
Total		10,799.6	1.84	

Source: TA Research

Earnings Summary (RM mn)

YE Dec 31 (RM'mn)	2020	2021	2022F	2023F	2024F
Revenue	3,208.8	3,714.2	4,831.0	5,098.9	5,184.9
EBITDA	376.5	457.7	623.2	647.7	627.6
EBITDA margin (%)	11.7	12.3	12.9	12.7	12.1
Pretax profit	494.8	465.7	733.6	812.3	851.2
Reported Net profit	340.3	323.6	567.5	620.0	670.4
Net profit -adj	362.0	350.1	567.5	620.0	670.4
EPS (sen)	7.3	5.5	9.7	10.6	11.4
EPS - adj (sen)	7.3	6.0	9.7	10.6	11.4
EPS Growth (Core) (%)	49.6	(18.2)	62.1	9.3	8.1
PER (x)	21.7	26.5	16.3	15.0	13.8
GDPS (sen)	1.5	2.5	3.0	3.5	3.5
Div Yield (%)	0.9	1.6	1.9	2.2	2.2
ROE (%)	4.0	3.2	4.6	4.9	5.1

^ Restated

Note: Following the partial divestment, Sunway Healthcare is presented as discontinued operations in FY20 & FY21. For FY22 onwards, Sunway will recognise its share of the profit or loss in Sunway Healthcare (84% stake on a fully converted basis) under the equity method of accounting.

3Q22 Results Analysis (RM mn)

YE 31 Dec (RM'mn)	3Q21 [^]	2Q22	3Q22	QoQ (%)	YoY (%)	9MFY21 [^]	9MFY22	YoY(%)	
Continuing Operations									
Revenue	856.9	1,280.4	1,270.5	(0.8)	48.3	2,470.3	3,663.4	48.3	
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	225.3	179.0	459.3	156.6	
Construction	192.7	316.8	305.1	(3.7)	58.4	732.1	990.6	35.3	
Trading & Manufacturing	186.4	264.8	198.8	(24.9)	6.6	609.9	668.7	9.6	
Quarry	84.3	101.1	105.6	4.5	25.2	232.0	282.8	21.9	
Others	138.4	161.6	194.3	20.2	40.4	275.7	539.3	95.6	
Operating profits	51.5	166.3	132.4	(20.4)	156.8	90.0	370.8	311.9	
Finance income	40.7	32.8	47.8	45.8	17.5	119.5	126.1	5.5	
Finance costs	(28.6)	(61.0)	(49.3)	(19.1)	72.6	(67.4)	(139.9)	107.7	
Associates	21.8	32.8	37.4	14.1	72.0	54.1	116.2	114.8	
JV	(1.0)	44.1	55.5	25.7	(5,479.0)	12.9	152.8	1,086.2	
EI	0.0	26.6	16.6	(37.6)	nm	0.0	50.7	nm	
PBT	84.4	215.0	223.8	4.1	165.2	209.1	625.9	199.4	
Core PBT	84.4	215.0	223.8	4.1	165.2	209.1	618.4	195.8	
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	(797.4)	(45.2)	176.6	nm	
Construction	21.4	44.4	35.6	(19.8)	66.8	57.7	127.8	121.7	
Trading & Manufacturing	6.7	9.7	12.4	27.8	86.0	28.8	32.4	12.2	
Quarry	2.5	1.8	1.9	4.4	(23.7)	5.0	8.6	71.5	
Healthcare*	0.0	35.3	41.4	17.4	nm	0.0	105.0	nm	
Others	21.6	44.7	11.0	(75.5)	(49.1)	74.6	83.1	11.4	
Tax	(18.6)	(23.8)	(41.6)	74.8	123.9	(43.2)	(93.3)	116.1	
MI	(14.1)	(22.4)	(17.5)	(21.9)	24.2	(26.3)	(58.9)	123.8	
Net profit from continuing operations	51.8	168.9	164.7	(2.5)	218.2	139.6	473.7	239.4	
Core net profit from continuing operations (a)	51.8	142.3	148.1	4.1	186.2	252.0	423.0	67.9	
Discontinued Operations									
Profit from discontinued operations, net of tax	29.3	0.0	(35.8)	nm	nm	70.8	(35.8)	nm	
Net gain arising from partial divestment of Sunway Healthcare	0.0	0.0	0.0	nm	nm	0.0	0.0	nm	
MI	(0.0)	0.0	0.0	nm	nm	(0.3)	0.0	nm	
Profits from discontinued operations	29.3	0.0	0.0	nm	nm	70.5	0.0	nm	
Core net profit from discontinued operations (b)	29.3	0.0	0.0	nm	nm	70.5	0.0	nm	
Core net profit (a + b)	81.1	142.3	148.1	4.1	82.6	322.5	423.0	31.2	
Reported EPS	(sen)	1.4	2.8	2.8	(0.7)	102.9	3.6	8.0	123.1
Adj EPS	(sen)	1.4	2.4	2.5	4.1	82.6	5.5	7.2	30.1
DPS	(sen)	0.0	2.0	0.0	nm	100.0	1.0	2.0	100.0
Core PBT margin	(%)	9.8	16.8	17.6	0.8	7.8	8.5	16.9	8.4
Property Development	(%)	22.6	9.0	12.9	3.9	(9.8)	20.0	11.7	(8.2)
Property Investment	(%)	(21.2)	35.7	45.4	9.7	66.6	(25.2)	38.5	63.7
Construction	(%)	11.1	14.0	11.7	(2.3)	0.6	7.9	12.9	5.0
Trading & Manufacturing	(%)	3.6	3.7	6.2	2.6	2.7	4.7	4.8	0.1
Quarry	(%)	2.9	1.8	1.8	(0.0)	(1.1)	2.1	3.0	0.9
Others	(%)	15.6	27.7	5.6	(22.0)	(9.9)	27.0	15.4	(11.6)
Core net margin	(%)	9.5	11.1	11.7	0.5	2.2	13.1	11.5	(1.5)
Effective tax rate	(%)	(22.0)	(11.1)	(18.6)	(7.5)	3.4	(20.6)	(14.9)	5.7

[^]Restated

* healthcare's contribution from Continuing Operations is based on the Group's share of its net profit.

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Stock Recommendation Guideline

- BUY** : Total return within the next 12 months exceeds required rate of return by 5%-point.
HOLD : Total return within the next 12 months exceeds required rate of return by between 0-5%-point.
SELL : Total return is lower than the required rate of return.
Not Rated: The company is not under coverage. The report is for information only.

Total Return is defined as expected share price appreciation plus gross dividend over the next 12 months. Gross dividend is excluded from total return if dividend discount model valuation is used to avoid double counting.

Required Rate of Return of 7% is defined as the yield for one-year Malaysian government treasury plus assumed equity risk premium.

ESG Scoring & Guideline

	Environmental	Social	Governance	Average
Scoring	★★★★★	★★★★★	★★★★★	★★★★★
Remark	The group implements a comprehensive programme aiming to reduce to GHG emission, water & waste with relevant targets and deadlines. It implemented a Zero Single Plastic Use Policy in its property division's assets, venues, and events	The group provides a conducive work environment. Promoting diversity and equal opportunity, 58% of its non-executive workforce are women. The company has strict regulations concerning health and safety, collaborating with suppliers and subcontractors to enforce them.	Sunway upholds high standards of corporate governance and transparency to safeguard shareholders' interests. It has an in-house investor relations team that is easily contactable.	

- ★★★★★ (≥80%) : Displayed market leading capabilities in integrating ESG factors in all aspects of operations, management and future directions.
 ★★★★ (60-79%) : Above adequate integration of ESG factors into most aspects of operations, management and future directions.
 ★★★ (40-59%) : Adequate integration of ESG factors into operations, management and future directions.
 ★★ (20-39%) : Have some integration of ESG factors in operations and management but are insufficient.
 ★ (<20%) : Minimal or no integration of ESG factors in operations and management.

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As of Tuesday, November 29, 2022, the analyst, Thiam Chiann Wen, who prepared this report, has interest in the following securities covered in this report:
 (a) nil

Kaladher Govindan – Head of Research

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