

29 November 2022

Property | Real Estate

Sunway (SWB MK)

Buy (Maintained)

Earnings Growth Still Robust; Maintain BUY

Target Price (Return): MYR2.06 (+30%)
 Price (Market Cap): MYR1.58 (USD1,723m)
 ESG score: 3.40 (out of 4)
 Avg Daily Turnover (MYR/USD) 1.61m/0.35m

- **Maintain BUY and MYR2.06 TP, 30% upside with c.3% FY22F yield.** Sunway's 3Q22 results outperformed expectations. Its property investment division continued to see encouraging growth. Although there could be some downside risk to management's MYR2.2bn sales target – given the impact of the interest rate hikes – we think the group's leisure, hospitality and healthcare segments should continue to benefit from the recovery in the domestic leisure and medical-related tourism sectors.
- **3Q22 results.** Among its divisions, the property investment segment saw the strongest growth, mainly due to higher visitor numbers and hotel occupancy rates, a stronger performance from the REIT, and a gain of MYR16.6m arising from the disposal of a property investment asset. The sequentially drop in property development revenue stemmed from slower billings from local projects, while its higher EBIT margin in the previous quarter was attributed to the completion of a local project that boosted profit recognition. Net gearing ratio was relatively unchanged, at 0.49x.
- **Sales momentum delecerated slightly.** New property sales totalled MYR498m vs MYR485m in 2Q22, bringing the 9M22 figure to MYR1.43bn. Projects in Singapore contributed MYR380m. For Malaysia, the key contributors were Belfield (MYR325m), Velocity TWO (MYR162m), d'hill Residences (MYR167m), Serene (MYR139m), and Artessa (MYR96m). Sales for new projects – Jernih Residence in Kajang and Sunway Alishan – which were launched in May and September, seem a little slow – take-up rates (inclusive of bookings) reached only 27% and 19%. Likewise, Artessa is now 53% sold vs 48% in 2Q22. This could be due to the impact of multiple rounds of interest rate hikes this year. Meanwhile, the take-up rate (plus booking) for Belfield Block C, Velocity TWO Tower D and d'hill Residences were at 54%, 49% and 71% (from 44%, 38% and 64% in 2Q22).
- **Potential downside risk to MYR2.2bn sales target.** We understand that management is still hopeful about reaching its MYR2.2bn sales target. However, there could be a potential downside risk. Flynn Park in Singapore (GDV: SGD700m) is now scheduled to be launched only in 2023, and this could be due to the recent tightening of housing loan limits in the city state. Locally, Sunway will not likely roll out anymore new projects in 4Q22, and only focus on selling the existing ongoing ones.
- **Forecast.** In view of the stronger-than-expected earnings, we raise our FY22-24 earnings forecasts by 14-15%. Unbilled sales inched up slightly to MYR4.24bn vs MYR4.14bn in 2Q22, while its outstanding construction orderbook fell to MYR4.05bn, from MYR4.23bn in 2Q22.
- **ESG.** As per our in-house proprietary methodology, our SOP valuation includes a 8% ESG premium applied, as Sunway's ESC score is 4 notches above our country median.

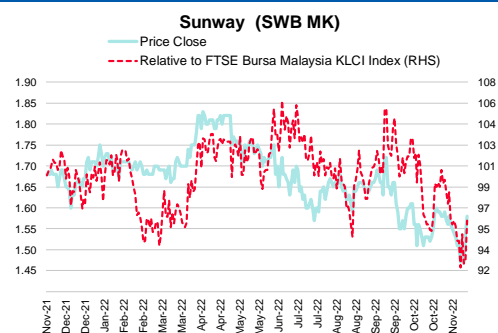
Analyst

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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(8.1)	3.9	(4.8)	(8.7)	(6.0)
Relative	(2.9)	1.0	(4.2)	(5.5)	(3.9)
52-wk Price low/high (MYR)	1.47 – 1.83				



Source: Bloomberg

Forecasts and Valuation	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Total turnover (MYRm)	3,833	3,714	4,611	5,004	5,595
Recurring net profit (MYRm)	461	265	652	692	802
Recurring net profit growth (%)	(33.4)	(42.5)	146.0	6.1	15.9
Recurring EPS (MYR)	0.09	0.05	0.11	0.12	0.13
DPS (MYR)	0.01	0.03	0.05	0.05	0.06
Recurring P/E (x)	17.63	34.95	14.35	13.67	11.91
P/B (x)	0.85	0.77	0.75	0.74	0.72
Dividend Yield (%)	0.7	1.8	2.8	3.2	3.8
Return on average equity (%)	4.0	2.7	5.3	5.5	6.2
Net debt to equity (%)	50.7	44.9	45.9	47.8	48.5

Source: Company data, RHB

Overall ESG Score: 3.40 (out of 4)

E: EXCELLENT

Sunway City is a Green Building Index (GBI) certified township. The company managed to avoid 40,131 tonnes of CO₂e from 2015-2019, and 1% of its electricity is from renewable sources (in 2019). Its main townships also have more than 40% open space, with greenscapes and bluescapes incorporated.

S: EXCELLENT

Sunway has made donations to aid the underserved communities in the B40 group, people with disabilities, youth, women, children and senior citizens. The Good Run in Oct 2019 managed to raise MYR275k to support medical treatment costs for cancer patients of the B40 group.

G: EXCELLENT

56% of board members are independent. Sunway has an in-house investor relations team that is easily accessible, and holds investor meetings, embodying good transparency and disclosure practices.

Financial Exhibits

Asia	Financial summary (MYR)	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Malaysia	Recurring EPS	0.09	0.05	0.11	0.12	0.13
Property	EPS	0.07	0.05	0.11	0.12	0.13
Sunway	DPS	0.01	0.03	0.05	0.05	0.06
SWB MK	BVPS	1.85	2.05	2.10	2.14	2.19
Buy	Return on average equity (%)	4.0	2.7	5.3	5.5	6.2
	Return on average assets (%)	1.6	1.3	2.6	2.6	3.0
Valuation basis						
Our SOP valuation comprises:	Valuation metrics	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
i. A 45% discount applied to its property RNAV;	Recurring P/E (x)	17.63	34.95	14.35	13.67	11.91
ii. 12x P/E for the trading/building materials division;	P/B (x)	0.9	0.8	0.8	0.7	0.7
iii. 18.5x EV/EBITDA for the healthcare division; with	Dividend Yield (%)	0.7	1.8	2.8	3.2	3.8
iv. A 10% holding company discount applied.	EV/EBITDA (x)	47.55	35.52	23.13	21.82	19.33
Key drivers	Income statement (MYRm)	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
i. New property sales;	Total turnover	3,833	3,714	4,611	5,004	5,595
ii. Disposal of investment properties.	Gross profit	804	798	1,280	1,391	1,597
	EBITDA	298	458	725	798	929
	Depreciation and amortisation	(47)	(131)	(93)	(100)	(108)
	Operating profit	251	327	632	698	820
	Net interest	28	55	(52)	(70)	(87)
	Pre-tax profit	509	466	906	961	1,114
	Taxation	(102)	(116)	(181)	(192)	(223)
	Reported net profit	360	294	652	692	802
	Recurring net profit	461	265	652	692	802
Key risks	Cash flow (MYRm)	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Weaker-than-expected market conditions	Change in working capital	(514)	(468)	(343)	(100)	(187)
	Cash flow from operations	(18)	202	423	711	708
	Capex	0	0	(361)	(780)	(667)
	Cash flow from investing activities	(529)	(2,891)	(254)	(604)	(430)
	Dividends paid	(60)	(163)	(267)	(299)	(363)
	Cash flow from financing activities	(1,380)	3,318	(363)	(394)	(457)
	Cash at beginning of period	5,889	2,269	2,817	2,599	2,355
	Net change in cash	(1,926)	628	(193)	(287)	(179)
	Ending balance cash	3,963	2,897	2,623	2,311	2,177
Company Profile	Balance sheet (MYRm)	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Sunway is a well-known developer in the Klang Valley. Its flagship project, Bandar Sunway, is a well-established integrated township. The group has successfully transformed mining land into a matured residential and commercial cluster	Total cash and equivalents	2,269	2,817	2,599	2,355	2,184
	Tangible fixed assets	13,632	16,592	16,860	17,540	18,099
	Intangible assets	351	433	433	433	433
	Total other assets	65	60	249	409	553
	Total assets	21,119	25,087	25,851	26,637	27,679
	Short-term debt	5,132	4,094	4,094	4,094	4,094
	Total long-term debt	2,374	4,622	4,745	4,973	5,163
	Total liabilities	10,788	11,963	12,269	12,586	13,100
	Shareholders' equity	9,535	12,035	12,421	12,813	13,252
	Minority interests	797	1,089	1,161	1,238	1,327
	Total equity	10,332	13,123	13,582	14,051	14,580
	Total liabilities & equity	21,119	25,087	25,851	26,637	27,679
	Key metrics	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
	Revenue growth (%)	(19.8)	(3.1)	24.1	8.5	11.8
	Recurring net profit growth (%)	(33.4)	(42.5)	146.0	6.1	15.9
	Recurrent EPS growth (%)	(36.4)	(49.6)	143.5	5.0	14.7
	Gross margin (%)	21.0	21.5	27.8	27.8	28.5
	Recurring net profit margin (%)	12.0	7.1	14.2	13.8	14.3
	Dividend payout ratio (%)	16.7	55.3	40.9	43.2	45.2

Source: Company data, RHB

Results At A Glance

Figure 1: Quarterly results

FYE Dec (MYR mil)	3Q21	2Q22	3Q22	QoQ (%)	YoY (%)	9M21	9M22	YoY (%)	Comments
Turnover	1,065.0	1,280.4	1,270.5	(0.8)	19.3	3,049.7	3,663.4	20.1	
Prop dev	197.1	286.4	278.1	(2.9)	41.1	441.6	722.7	63.6	Revenue was lower QoQ due to lower progress billings from ongoing local projects in 3Q22.
Prop invt	58.0	149.6	188.6	26.1	225.3	179.0	459.3	156.6	The stronger revenue QoQ was due to higher visitorship and higher occupancy rates, stronger performance from the REIT as well as net gain from disposal of an investment property (Sunway Medical Centre land).
Construction	192.7	316.8	305.1	(3.7)	58.4	732.1	990.6	35.3	The lower revenue was mainly due to slower progress billings for some local projects.
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	
Investment holdings	8.6	1.8	9.2	n.m.	n.m.	10.9	12.8	18.2	
Others	129.9	159.8	185.2	15.8	42.6	264.9	526.5	98.8	
EBIT	83.3	166.3	132.4	(20.4)	58.9	168.9	370.8	119.6	
EBIT Margin (%)	7.8%	13.0%	10.4%			5.5%	10.1%		
Prop dev	43.0	24.7	25.2	2.0	(41.5)	71.7	54.2	(24.4)	EBIT was higher QoQ due to higher progressive profit recognition from Ki Residences in Singapore (a private residential condominium) during the quarter.
Prop invt	(14.0)	53.9	64.0	18.8	(557.1)	(37.6)	132.8	(453.1)	
Construction	16.1	43.9	35.3	(19.5)	119.7	48.1	122.8	155.4	
Trading & Manufacturing	6.9	10.8	14.0	29.4	103.0	30.6	35.7	16.7	
Quarry	2.6	2.4	2.8	15.3	6.6	5.1	10.2	100.9	
Investment holdings	(13.2)	(6.6)	(25.5)	n.m.	93.9	(46.3)	(54.3)	17.4	
Others	10.1	37.2	16.6	(55.4)	63.8	18.5	69.5	276.0	
Exceptional items	0.0	0.0	15.0	n.m.	n.m.	0.0	7.5	n.m.	
Finance cost	9.8	(28.2)	(1.5)	(94.7)	(115.2)	(1.4)	(13.9)	864.1	
Asso & jv	20.7	76.9	92.9	20.8	348.0	67.0	269.0	301.6	The higher associate and JV income in was mainly due to higher progressive profit recognition from Ki Residence.
Other Income	0.0	0.0	0.0	n.m.	n.m.	0.0	0.0	0.0	
Pretax profit	113.8	215.0	223.8	4.1	96.6	280.0	625.9	123.5	
PBT margin (%)	10.7%	16.8%	17.6%			9.2%	17.1%		
Tax	(18.7)	(23.8)	(41.6)	74.8	122.5	(43.4)	(93.3)	115.1	
Tax (%)	16.4%	11.1%	18.6%			15.5%	14.9%		
PAT	95.2	191.2	182.2	(4.7)	91.5	236.6	532.6	125.1	
MI	(14.1)	0.0	(17.5)	-	24.2	(26.6)	(36.5)	37.5	
Net profit	81.1	191.2	164.7	(13.9)	103.1	210.1	496.1	136.1	
Core net profit	81.1	191.2	179.7	(6.0)	121.6	210.1	503.6	139.7	Above expectations.
Net margin (%)	7.6	14.9	14.1						
EPS (sen)	1.4	2.9	2.8			3.6	3.6		
NTA (RM)	1.65	2.10	2.12			1.65	1.65		
DPS (sen)	0.0	2.0	0.0			1.0	1.0		
EBIT margin:									
Prop dev	21.8%	8.6%	9.0%			16.2%	16.2%		
Prop invt	-24.2%	36.0%	34.0%			-21.0%	-21.0%		
Construction	8.3%	13.8%	11.6%			6.6%	6.6%		
Trading & Manufacturing	3.7%	4.1%	7.0%			5.0%	5.0%		
Quarry	3.1%	2.4%	2.6%			2.2%	2.2%		
Investment holdings	n.m.	n.m.	n.m.			n.m.	n.m.		
Others	7.8%	23.3%	9.0%			7.0%	7.0%		

Source: Company data, RHB

Figure 2: RNAV estimate

Developments	Remaining	Remaining	Effective stake	NPV @ 10%	
	Landbank (acre)	GDV (MYR m)			
Selangor/KL					
Sunway Damansara	18.83	1,953.28	60%	196.2	
Sunway South Quay	29.87	2,486.70	100%	347.0	
Sunway Monterez	4.40	38.00	60%	3.0	
Sunway Semenyih	526.10	728.59	70%	58.1	
Sunway Cheras	6.26	241.82	100%	24.4	
Sunway Duta	3.16	120.00	60%	7.3	
Sunway Resort City	7.7	660	100%	104.8	
Sunway Velocity	2.15	1,983.98	85%	205.1	
Sunway Velocity 2	2.41	600.00	60%	25.1	
Sunway Velocity 3	5.50	1,200.00	60%	65.1	
New land in Cochrane	6.59	1,150.00	100%	108.6	
Sunway Tower KL 1	1.88	240.00	100%	21.5	
Sunway Termuning	24.10	265.19	80%	15.8	
Mont Putra, Rawang	163.00	156.00	100%	13.9	
Kelana Jaya	13.96	1,450.00	100%	113.6	
Sunway Belfield	1.65	450.00	100%	35.3	
Jernih Residence, Kajang	2.44	236.00	60%	12.7	
USJ 1	14.80	1,400.00	100%	110.5	
Sunway Avila	0.24	40.00	55%	2.2	
Sunway ARTESSA, Wangsa Maju	3.69	300.00	55%	12.9	
Sunway Damansara Hill, Kota Damansara	9.46	544.00	60%	35.9	
Sunway Alishan, Cheras	3.34	225.00	100%	19.2	
Mutiara Bukit Jalil	11.77	800.00	100%	60.1	
Dengkil (Emerald Tycoon)	77.04	813.90	100%	46.3	
Perak					
Sunway City Ipoh	336.4	928.38	96%	121.9	
Penang					
Sunway Hills	80.70	849.00	100%	73.6	
Sunway Wellesley, Bukit Mertajam	51.47	710.47	100%	73.4	
Paya Terubong	24.92	1,500.00	100%	143.0	
Sunway Tunas, Balik Pulau	9.00	60.00	100%	6.3	
Sunway Betong, Balik Pulau	19.87	110.00	100%	11.5	
S'pore					
Anchorvale Lane, Sengkang (Rivercove EC)	5.19	1,560.00	30%	43.1	
Ki Residences (Clementi)	8.56	3,410.00	30%	103.5	
Canberra Link, Sembawang	4.46	1,643.00	35%	58.2	
Parc Central, Tampines EC	6.16	2,650.50	35%	81.0	
Flynn Park Pasir Panjang	4.79	2,300.00	30%	69.8	
Tanjong Katong	6.06	6,150.00	30%	106.6	
Johor					
Bukit Lenang	49.92	568.40	80%	43.3	
Medini	632.76	10,616.00	60%	511.0	
Pendas	1,079.07	18,000.00	60%	643.8	
China					
Tianjin Phase 3	5.87	688.80	60%	33.5	
TOTAL	3,447.08	76,635.47		3,767.95	
Investment properties	Est. market value	Book value	Equity	Net surplus	
	(MYR m)	(MYR m)	interest	(MYR m)	
Monash University Campus	375.0	375.0	100%	0	
Monash U Residence	465.0	465.0	100%	0	
Sunway Geo Tower	168.0	112.0	100%	56.0	
Sunway Hotel Georgetown	60.0	37.6	100%	22.4	
Sunway Hotel Phnom Penh	17.0	17.0	53%	0	
Sunway Hotel Hanoi	1.0	1.0	100%	0	
Sunway Giza	52.0	52.0	60%	0	
Sunway Velocity Mall	1,805.0	908.5	59%	528.9	
Sunway Velocity Hotel	112.0	112.0	39%	0	
Sunway Citrine Hub	42.0	42.0	60%	0.0	
Sunway Geo Avenue	94.0	47.0	100%	47.0	
Sunway Big Box retail hub	220.0	220.0	100%	0.0	
Sunway Visio Tower	100.0	100.0	100%	0.0	
Sunway V Office	160.0	160.0	100%	0.0	
Subtotal				4,375.26	
Shareholders' equity (ex cons. & healthcare)				9,812.40	
Total				14,187.65	
Discount to Property RNAV				45%	
Discounted Property RNAV				7,803.21	
Other divisions	Market value	Book value	Est. FY22 earnings	PE target	Equity value surplus
	(MYR m)	(MYR m)	(MYR m)	(x)	(MYR m)
40.9% Sunway REIT	2,241.2	1,479.0			762.19
54.4% Sunway Construction	1,357.5	844.1			513.48
Others			60	12	720.00
84% Sunway Healthcare			182.9	18.5	2,841.60
Total					12,640.48
ESOS proceeds					151.21
Warrants conversion @ MYR1.56					1,044.44
Total RNAV					13,836.13
Holding company discount					10%
Discounted RNAV					12,452.52
Share base (mil) incl. warrants & ICPS					6,525.86
Intrinsic value					1.91
ESG premium					8%
TP (MYR)					2.06

Source: Company data, RHB

Recommendation Chart

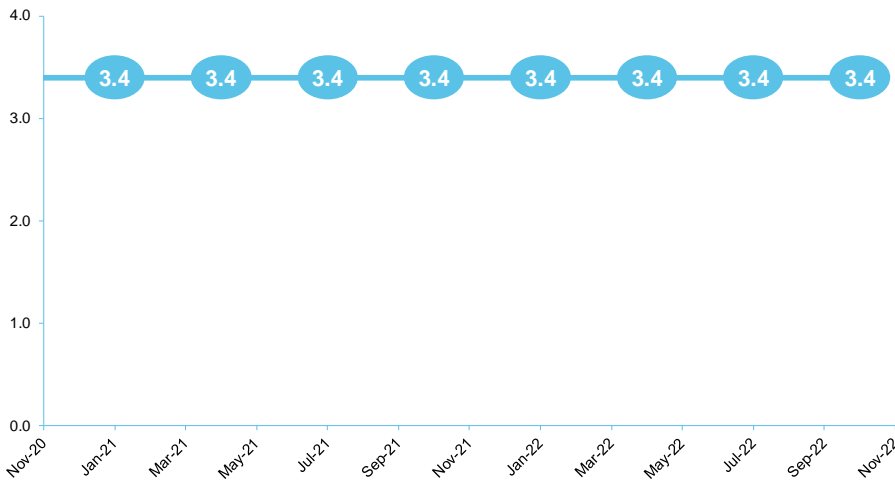


Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2022-08-24	Buy	2.06	1.66
2022-05-26	Buy	2.06	1.74
2021-11-25	Buy	2.06	1.68
2021-08-25	Buy	2.00	1.77
2021-07-13	Buy	2.02	1.71
2021-06-24	Buy	2.09	1.73
2021-05-26	Buy	1.92	1.66
2021-04-19	Buy	1.95	1.64
2021-04-01	Buy	1.94	1.69
2021-03-16	Buy	1.88	1.64
2020-03-23	Buy	1.86	1.41
2020-02-26	Buy	2.00	1.79
2019-11-22	Buy	2.00	1.78
2019-10-29	Buy	1.95	1.70
2019-09-27	Buy	1.95	1.66

Source: RHB, Bloomberg

ESG Rating History



Source: RHB

RHB Guide to Investment Ratings

Buy:	Share price may exceed 10% over the next 12 months
Trading Buy:	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
Neutral:	Share price may fall within the range of +/- 10% over the next 12 months
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Sell:	Share price may fall by more than 10% over the next 12 months
Not Rated:	Stock is not within regular research coverage

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