



AmInvestment Bank

Company report

SUNWAY

(SWB MK EQUITY, SWAY.KL)

25 Aug 2022

FY22F launches likely to be scaled back

BUY

(Maintained)

Khoo Zing Sheng

khoo.zing-sheng@ambankgroup.com

03-2070 2444

Rationale for report: Company results

Price	RM1.66
Fair Value	RM2.29
52-week High/Low	RM1.85/RM1.56

Key Changes

Fair value	↑
EPS	↑

YE to Dec	FY21	FY22F	FY23F	FY24F
Revenue (RM mil)	4,572.0	3,930.1	4,067.9	4,267.5
Core net profit (RM mil)	390.9	572.8	612.5	717.1
FD Core EPS (sen)	7.9	11.6	12.4	14.5
FD Core EPS growth (%)	16.3	46.5	6.9	17.1
Consensus Net Profit (RM mil)	-	484.0	587.5	623.6
DPS (sen)	2.4	2.9	4.9	7.1
PE (x)	21.0	14.3	13.4	11.4
EV/EBITDA (x)	29.7	21.5	19.7	18.5
Div yield (%)	1.5	1.8	2.9	4.3
ROE (%)	24.7	5.3	6.3	7.3
Net Gearing (%)	44.8	57.3	58.1	58.7

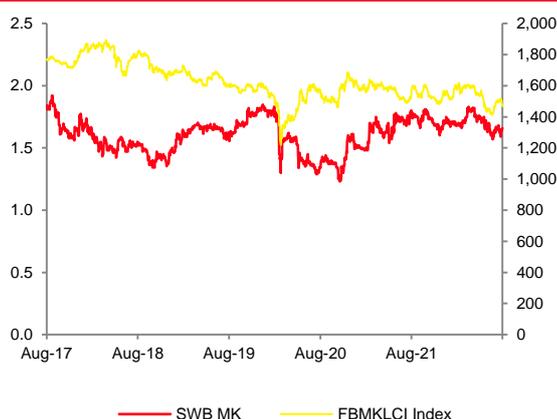
Stock and Financial Data

Shares Outstanding (million)*	4,934.0
Market Cap (RM mil)	8,190.4
Book Value (RM/share)	2.44
P/BV (x)	0.7
ROE (%)	24.7
Net Gearing (%)	44.8

* before conversion of ICPS and warrants

Major Shareholders	SUNGEI WAY CORP SDN (56.9%)
	EPF (8.3%)
	AIA (2.3%)
Free Float	32.5
Avg Daily Value (RM mil)	1.1

Price performance	3mth	6mth	12mth
Absolute (%)	(5.1)	(1.2)	(7.8)
Relative (%)	(1.0)	6.0	(2.4)



Investment Highlights

- We maintain BUY on Sunway with a higher fair value (FV) of RM2.29/share from RM2.27 previously, based on a revised SOP valuation after pegging a higher value on its 40.9%-owned Sunway REIT due to better-than-expected recovery in tenants' sales at its retail properties. Our FV also reflects a 3% premium for our 4-star ESG rating (Exhibits 4 & 5).
- Sunway's 1HFY22 core net profit (CNP) of RM296mil beat expectations, making up 57% of our FY22F earnings and 61% of consensus estimate. We raise our FY22F/FY23F/FY24F CNP by 10%/3%/2% to reflect higher rental income from Sunway REIT's retail properties and stronger earnings contribution from its property investment segment.
- In 1HFY22, its property development revenue rose 82% YoY. This was driven by higher sales and progress billings from completed progress works on ongoing local projects and recognition of revenue from 2 joint-venture companies which were converted into subsidiaries in 1QFY22. However, the segment's PBT climbed only by 13% YoY due to provisions for higher construction costs, coupled with higher upfront costs incurred on future launches.
- Year to date, Sunway new sales dropped 43% YoY to RM932mil, attaining 42% of its FY22F sales target of RM2.2bil. New sales were contributed largely by local projects (69%), particularly Sunway Belfield (23%) and d'hill (13%) while the remaining came from projects in Singapore (30%) and China (1%) (Exhibit 3).
- The lower YoY property sales were attributed to slower 1HFY22 launches of RM281mil vs. 1HFY21's RM1.7bil, which were only 12% of its FY22 targeted launch of RM2.3bil. Jernih Residence is the only property launched in 1HFY22, which achieved a take-up rate of 22% (including bookings) as of 30 June 2022.
- We understand from management that the planned launches in both Singapore and China will be deferred to FY23 in view of the delays in the completion of land acquisition in Singapore and weaker property market sentiments in China. However, Sunway remains confident of achieving its FY22F sales target of RM2.2bil from existing projects and upcoming launches.
- Meanwhile, the group's unbilled sales expanded 15% YoY to RM4.1bil, representing a cover ratio of 4.1x of FY22F property development revenue. Projects in Singapore are the largest contributor at RM2.1bil (52% of group's total unbilled sales).

- 1HFY22 property investment segment's earnings swung to the black, driven by higher revenue growth of 2.2x YoY as a result of increased visitorship to its theme parks and improved hotel occupancy rates following the reopening of the economy and less stringent SOPs.
- Higher progress billings from local construction projects drove up 1HFY22 construction revenue by 27% YoY and its pretax profit by 2.5x YoY.
- Following the partial divestment of its stake in its healthcare arm Sunway Healthcare Group (SHG), SHG is now classified as a joint venture (from a subsidiary previously). With effect from 1 January 2022, the share of profit or loss in SHG will be recognised under the equity method of accounting.
- The strong recovery in hospital activities with a higher number of patients treated at both Sunway Medical Centre and Sunway Medical Centre Velocity boosted the segment's 1HFY22 share of net profit by 53% YoY to RM64mil.
- All in, the results were commendable given that 1HFY22 revenue of all business segments improved significantly.
- On a QoQ comparison, all segments posted stronger 2QFY22 PBT, except for construction which was mainly due to lower progress billings for some local projects.
- We believe the long-term outlook for Sunway remains bright premised on its:
 - (i) strong unbilled sales of RM4.1bil (4.1x FY22F property development revenue);
 - (ii) a robust outstanding order book of RM4.2bil (2.3x FY22F construction revenue); and
 - (iii) expansion plan in its healthcare business (which could increase capacity by 82% in FY23F).

EXHIBIT 1: EARNINGS SUMMARY

YE to Dec (RM mil)	2QFY21	1QFY22	2QFY22	QoQ %	YoY %	1HFY21	1HFY22	YTD %
Revenue	767.3	1,112.5	1,280.4	15.1	66.9	1,613.4	2,392.8	48.3
Operating costs	(726.3)	(1,044.6)	(1,151.3)	10.2	58.5	(1,501.3)	(2,196.0)	46.3
EBITDA	41.0	67.9	129.0	90.1	>100	112.1	196.9	75.5
Other income	18.2	37.1	70.0	88.9	>100	32.7	107.1	>100
Depreciation	(52.6)	(32.8)	(32.8)	(0.0)	(37.8)	(106.4)	(65.5)	(38.4)
Net finance income	22.4	15.8	(28.2)	(>100)	(>100)	40.0	(12.4)	(>100)
JV/Associate contributions	22.6	99.2	76.9	(22.4)	>100	46.2	176.1	>100
Profit before tax	51.5	187.1	215.0	14.9	>100	124.7	402.1	>100
Taxation	(7.8)	(27.9)	(23.8)	(14.7)	>100	(24.6)	(51.7)	>100
MI	(0.6)	(19.1)	(22.4)	17.2	>100	(12.3)	(41.4)	>100
Profit after tax	43.1	140.1	168.9	20.5	>100	87.8	309.0	>100
Profit from discontinued operations	27.4	0.0	0.0	(>100)	(>100)	41.2	0.0	(>100)
Exceptional item	6.1	(2.0)	(11.0)	>100	(>100)	5.0	(13.0)	(>100)
Core PATMI	76.5	138.1	157.9	14.3	>100	133.7	296.0	>100
EPS (sen)	1.6	2.8	3.2	14.3	>100	2.7	6.0	>100
EBITDA margin (%)	5.3	6.1	10.1			7.0	8.2	
Effective tax rate (%)	15.2	14.9	11.1			19.7	12.9	
Core PATMI margin (%)	10.0	12.4	12.3			8.3	12.4	

Source: AmlInvestment Bank Bhd

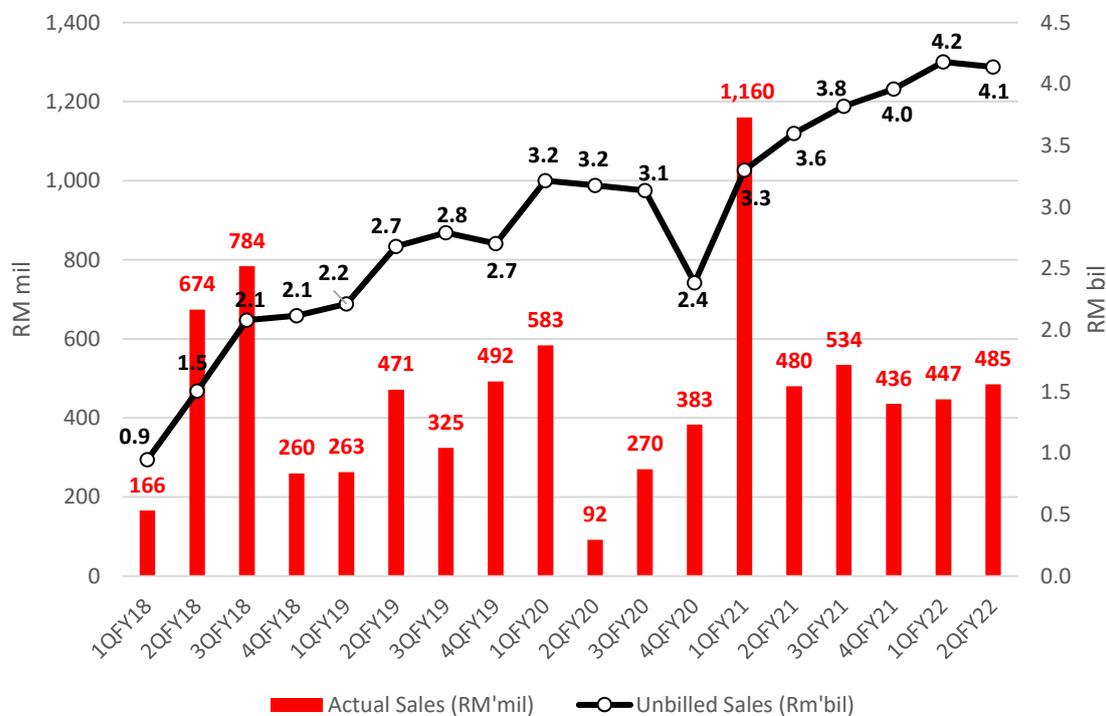
EXHIBIT 2: SEGMENTAL BREAKDOWN

FY31 Dec (RM mil)	2QFY21	1QFY22	2QFY22	QoQ %	YoY %	1HFY21	1HFY22	YTD %
Property development	147.4	158.2	286.4	81.0	94.3	244.5	444.6	81.8
Property investment	62.3	121.1	149.6	23.5	>100	121.0	270.7	>100
Construction	218.1	368.6	316.8	(14.0)	45.3	539.4	685.5	27.1
Others*	339.5	464.6	527.5	13.5	55.4	708.4	992.1	40.0
Revenue	767.3	1,112.5	1,280.4	15.1	66.9	1,613.4	2,392.8	48.3
Property development	22.9	23.4	25.7	9.8	12.4	43.6	49.1	12.8
Property investment	(16.0)	45.0	53.4	18.7	>100	(32.9)	98.4	>100
Construction	8.6	47.8	44.4	(7.2)	>100	36.3	92.2	>100
Others*	36.0	70.8	91.5	29.2	>100	77.7	162.3	>100
PBT/(LBT)	51.5	187.1	215.0	14.9	>100	124.7	402.1	>100
Pretax margin (%)								
Property development	15.5	14.8	9.0			17.8	11.0	
Property investment	(25.7)	37.2	35.7			(27.2)	36.4	
Construction	4.0	13.0	14.0			6.7	13.5	
Others*	10.6	15.2	17.3			11.0	16.4	

*Including building materials, community pharmacy business and other segments

Source: AmlInvestment Bank Bhd

EXHIBIT 3: ACTUAL SALES AND UNBILLED SALES



Source: AmlInvestment Bank Bhd

EXHIBIT 4: RNAV CALCULATIONS

DEVELOPMENT PROPERTIES	Outstanding GDV (RMmil)	NPV @8% (RMmil)	Stake
Selangor/KL			
Sunway Damansara	1,953.3	98.4	60.0
Sunway South Quay	2,486.7	248.0	100.0
Sunway Monterez	38.0	2.3	60.0
Sunway Semenyih	728.6	51.0	70.0
Sunway Cheras	241.8	24.2	100.0
Sunway Duta	120.0	6.5	60.0
Sunway Resort City	660.1	59.6	100.0
Sunway Velocity	1,984.0	152.2	85.0
Sunway Velocity TWO	600.0	32.5	60.0
Sunway Velocity 3	1,200.0	64.4	60.0
Sunway Tower KL 1	240.0	21.7	100.0
Sunway Termuning	265.2	19.1	80.0
Mont Putra, Rawang	156.0	14.1	100.0
Kelana Jaya	1,450.0	130.8	100.0
Jalan Belfield	450.0	40.6	100.0
Lot One, Kajang	236.0	21.3	100.0
USJ 1, Subang Jaya	1,400.0	126.3	100.0
Wangsa Maju-1	40.0	2.0	55.0
Bukit Jalil (Sterling Paradise)	800.0	101.1	100.0
Dengkil (Emerald Tycoon)	813.2	73.4	100.0
Jalan Cochrane	1,150.0	118.3	100.0
Perak			
Sunway City Ipoh	928.4	75.7	96.0
Penang			
Sunway Hills	849.0	71.5	100.0
Sunway Wellesley, Bukit Mertajam	710.5	59.8	100.0
Paya Terubong	1,500.0	126.0	100.0
Sunway Tunas, Balik Pulau	60.0	5.0	100.0
Sunway Betong, Balik Pulau	110.0	9.3	100.0
Johor			
Bukit Lenang	568.4	24.1	80.0
Medini	10,616.0	338.1	60.0
Pendas	18,000.0	573.2	60.0
Singapore			
Flynn Park, Pasir Panjang	2,300.0	68.8	30.0
Thiam Siam Avenue, Tanjong Katong	6,150.0	183.9	30.0
China			
Tianjin Eco-City	688.8	43.0	60.0
Unbilled sales		1,045.0	
Subtotal		4,031.0	
Property (40% discount to RNAV)		2,418.6	
Investment properties		2,125.5	
Sunway Construction (54.4% stake @ AmlInvestment Valuation)		1,192.1	
Sunway REIT (40.9% stake @ AmlInvestment Valuation)		2,506.7	
Healthcare (84% stake @30x FY23 earnings)		4,147.3	
Quarry & building materials (6x FY23 earnings)		141.0	
Trading & manufacturing (6x FY23 earnings)		312.0	
Total SOP		12,843.2	
NAV @ Property development		1,648.8	
Fair value		14,492.1	
Enlarged share base (mil shares)		6,516.6	
Fair value/share (RM)		2.22	
(+) 3% premium for 4-star ESG rating		0.07	
Fair value/share (RM)+ ESG Premium		2.29	

Source: AmlInvestment Bank Bhd

EXHIBIT 5: ESG RATING

Overall	★	★	★	★	
Eco-landscaping	★	★	★		
Progress of digitalization	★	★	★		
Employee welfare	★	★	★	★	
Corporate social responsibility	★	★	★	★	★
Strategic direction	★	★	★	★	
Gender diversity	★	★			
Earnings sustainability	★	★	★	★	
Accessibility & transparency	★	★	★		

We accord a discount/premium of -6%, -3%, 0%, +3% and +6% on fundamental fair value based on the overall ESG rating as appraised by us, from 1-star to 5-star

Source: AmlInvestment Bank

EXHIBIT 6: PB BAND CHART



EXHIBIT 7: PE BAND CHART

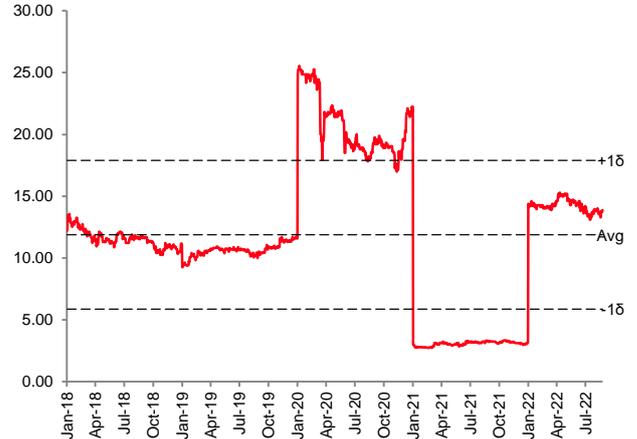


EXHIBIT 8: FINANCIAL DATA

Income Statement (RMmil, YE 31 Dec)	FY20	FY21	FY22F	FY23F	FY24F
Revenue	3,208.8	4,572.0	3,930.1	4,067.9	4,267.5
EBITDA	297.1	457.7	653.1	728.8	793.3
Depreciation/Amortisation	(47.1)	(130.6)	(81.5)	(87.3)	(91.6)
Operating income (EBIT)	250.0	327.1	571.6	641.4	701.7
Other income & associates	230.8	83.7	181.5	195.9	299.6
Net interest	26.6	54.9	72.9	78.2	82.0
Exceptional items	-	2,390.6	-	-	-
Pretax profit	507.5	2,856.3	826.0	915.5	1,083.3
Taxation	(102.6)	(116.2)	(113.2)	(127.6)	(162.5)
Minorities/pref dividends	(47.6)	(74.6)	(122.4)	(131.2)	(137.7)
Net profit	357.3	2,665.4	590.4	656.6	783.1
Core net profit	336.1	390.9	572.8	612.5	717.1
Balance Sheet (RMmil, YE 31 Dec)	FY20	FY21	FY22F	FY23F	FY24F
Fixed assets	2,611.4	1,262.8	4,521.3	4,846.7	5,084.5
Intangible assets	350.8	432.8	350.8	350.8	350.8
Other long-term assets	11,086.2	15,389.1	11,286.2	11,286.2	11,286.2
Total non-current assets	14,048.3	17,084.7	16,158.2	16,483.6	16,721.5
Cash & equivalent	2,348.9	2,814.0	2,671.6	2,970.6	3,086.9
Stock	2,101.5	2,423.0	3,183.4	1,572.5	1,433.0
Trade debtors	2,440.6	2,483.8	2,182.0	1,922.9	1,607.8
Other current assets	180.1	281.3	452.3	346.7	354.9
Total current assets	7,071.1	8,002.2	8,489.3	6,812.8	6,482.6
Trade creditors	2,456.9	2,470.6	3,524.3	1,523.3	1,850.8
Short-term borrowings	5,132.5	4,093.8	5,705.1	6,115.7	6,415.9
Other current liabilities	239.3	141.2	(1,004.3)	(1,394.1)	(2,748.5)
Total current liabilities	7,828.8	6,705.6	8,225.1	6,244.9	5,518.2
Long-term borrowings	2,101.6	4,114.2	2,817.2	2,996.4	3,127.4
Other long-term liabilities	857.3	1,143.7	857.3	857.3	857.3
Total long-term liabilities	2,958.8	5,257.9	3,674.5	3,853.7	3,984.7
Shareholders' funds	9,534.6	12,034.8	10,217.7	10,568.2	10,999.0
Minority interests	797.2	1,088.7	2,530.2	2,629.6	2,702.2
BV/share (RM)	1.93	2.44	2.07	2.14	2.23
Cash Flow (RMmil, YE 31 Dec)	FY20	FY21	FY22F	FY23F	FY24F
Pretax profit	507.5	2,856.3	826.0	915.5	1,083.3
Depreciation/Amortisation	47.1	130.6	81.5	87.3	91.6
Net change in working capital	1,042.6	(2,054.3)	1,032.4	(303.7)	(396.5)
Others	(769.4)	105.8	(2,694.9)	501.6	308.9
Cash flow from operations	827.7	1,038.4	(755.0)	1,200.8	1,087.3
Capital expenditure	(527.2)	(722.6)	(3,258.5)	(325.4)	(237.8)
Net investments & sale of fixed assets	-	-	-	-	-
Others	(357.6)	(600.2)	4,373.9	-	-
Cash flow from investing	(884.8)	(1,322.9)	1,115.3	(325.4)	(237.8)
Debt raised/(repaid)	(141.2)	1,292.0	(456.8)	(290.8)	(314.8)
Equity raised/(repaid)	-	-	(0.2)	-	-
Dividends paid	(220.6)	(152.0)	(144.8)	(241.4)	(352.4)
Others	183.4	(307.5)	(17.6)	(44.2)	(66.0)
Cash flow from financing	(178.3)	832.5	(619.4)	(576.4)	(733.2)
Net cash flow	(235.4)	548.0	(259.1)	299.0	116.3
Net cash/(debt) b/f	3,170.6	2,952.5	2,814.0	2,555.0	2,854.0
Net cash/(debt) c/f	2,952.5	3,505.7	2,555.0	2,854.0	2,970.3
Key Ratios (YE 31 Dec)	FY20	FY21	FY22F	FY23F	FY24F
Revenue growth (%)	(32.9)	42.5	(14.0)	3.5	4.9
EBITDA growth (%)	(62.9)	54.1	42.7	11.6	8.9
Pretax margin (%)	15.8	62.5	21.0	22.5	25.4
Net profit margin (%)	11.1	58.3	15.0	16.1	18.4
Interest cover (x)	nm	nm	nm	nm	nm
Effective tax rate (%)	20.2	4.1	13.7	13.9	15.0
Dividend payout (%)	20.3	4.5	24.5	36.8	45.0
Debtors turnover (days)	278	198	203	173	138
Stock turnover (days)	239	181	260	213	129
Creditors turnover (days)	216	197	278	226	144

Source: Company, AmlInvestment Bank Bhd estimates

DISCLOSURE AND DISCLAIMER

This report is prepared for information purposes only and it is issued by AmInvestment Bank Berhad (“AmInvestment”) without regard to your individual financial circumstances and objectives. Nothing in this report shall constitute an offer to sell, warranty, representation, recommendation, legal, accounting or tax advice, solicitation or expression of views to influence any one to buy or sell any real estate, securities, stocks, foreign exchange, futures or investment products. AmInvestment recommends that you evaluate a particular investment or strategy based on your individual circumstances and objectives and/or seek financial, legal or other advice on the appropriateness of the particular investment or strategy.

The information in this report was obtained or derived from sources that AmInvestment believes are reliable and correct at the time of issue. While all reasonable care has been taken to ensure that the stated facts are accurate and views are fair and reasonable, AmInvestment has not independently verified the information and does not warrant or represent that they are accurate, adequate, complete or up-to-date and they should not be relied upon as such. All information included in this report constitute AmInvestment’s views as of this date and are subject to change without notice. Notwithstanding that, AmInvestment has no obligation to update its opinion or information in this report. Facts and views presented in this report may not reflect the views of or information known to other business units of AmInvestment’s affiliates and/or related corporations (collectively, “AmBank Group”).

This report is prepared for the clients of AmBank Group and it cannot be altered, copied, reproduced, distributed or republished for any purpose without AmInvestment’s prior written consent. AmInvestment, AmBank Group and its respective directors, officers, employees and agents (“Relevant Person”) accept no liability whatsoever for any direct, indirect or consequential losses, loss of profits and/or damages arising from the use or reliance of this report and/or further communications given in relation to this report. Any such responsibility is hereby expressly disclaimed.

AmInvestment is not acting as your advisor and does not owe you any fiduciary duties in connection with this report. The Relevant Person may provide services to any company and affiliates of such companies in or related to the securities or products and/or may trade or otherwise effect transactions for their own account or the accounts of their customers which may give rise to real or potential conflicts of interest.

This report is not directed to or intended for distribution or publication outside Malaysia. If you are outside Malaysia, you should have regard to the laws of the jurisdiction in which you are located.

If any provision of this disclosure and disclaimer is held to be invalid in whole or in part, such provision will be deemed not to form part of this disclosure and disclaimer. The validity and enforceability of the remainder of this disclosure and disclaimer will not be affected.