

**HLIB Research**

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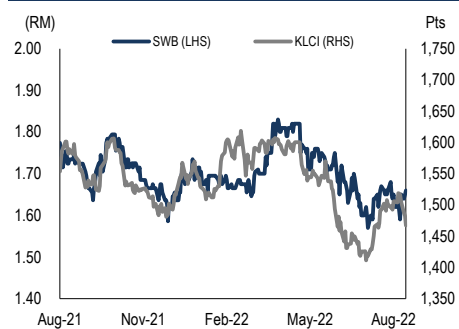
**BUY** (Maintain)

**Target Price: RM2.65**
**Previously: RM2.65**
**Current Price: RM1.66**

Capital upside	59.6%
Dividend yield	2.8%
Expected total return	62.4%

**Sector coverage:** Property

Company description: Sunway is a conglomerate that engages in property development, property investment, construction, leisure and hospitality, education, trading and manufacturing, building materials and healthcare.

**Share price**


Historical return (%)	1M	3M	12M
Absolute	0.6	-4.0	-6.2
Relative	0.7	0.4	0.3

**Stock information**

Bloomberg Ticker	SWB MK
Bursa Code	5211
Issued Shares (m)	4,889
Market cap (RM m)	8,116
3-mth avg. volume ('000)	665
SC Shariah-compliant	Yes
F4GBM Index member	Yes
ESG rating	★★★

**Major shareholders**

Sungei Way Corp Sdn Bhd	14.2%
EPF	8.3%

**Earnings summary**

FYE (Dec)	FY21	FY22f	FY23f
PATMI – core (RM m)	370.3	502.2	567.4
EPS – core (sen)	7.6	10.3	11.6
P/E (x)	21.9	16.2	14.3

# Sunway

## Broad based improvement in most segments

Sunway recorded 1H22 core PATAMI of RM270m, which is within our but above consensus expectations. The group saw broad based improvement across most of its business segments following a recovery in economic activities. Maintain BUY an unchanged TP of RM2.65 based on SOP-derived valuation. We continue to like Sunway as its business segments are poised to benefit from the economic recovery and border reopening. Sunway remains our top pick given its well-integrated property, construction and building material operations.

**Within ours but above consensus.** Sunway reported 2Q22 core PATAMI of RM142.4m (+12% QoQ; +1.2x YoY), bringing 1H22's sum to RM270m (+1.5x). The results were within our (53.8%) but above consensus (57.1%) expectations. 1H22 core PATAMI was arrived at after including payment to ICPS holders of RM25.7m and excluding net EIs of RM13.4m mainly from PPE disposal gain (RM7m), investment disposal gain (RM26.6m) and forex loss (-RM27.3m).

**Dividend.** Declared first interim dividend of 2 sen, ex-date: 14 Sept 2022 (2Q21: 1 sen). 1H22: 2 sen (1H21: 1 sen). The group also declared 1H22 preferential dividend of 2.625 sen, ex-date: 14 Sept 2022.

**QoQ.** Revenue increased by +15% mainly contributed by all business segments except construction. Construction declined by -14% as there were higher recognition of projects nearing completion in the immediate preceding quarter. Core PATAMI increased by a lower magnitude of +12% due to (i) RM25.7m payment to ICPS holder; and (ii) lower recognition from one of Singapore's private condo which has a better margin.

**YoY/YTD.** Revenue increased by +67% YoY and +48% YTD contributed by an improvement in all business segments following the reopening of the economy (vs. MCO3.0 in June SPLY). Consequently, core PATAMI increased by +1.2x YoY and 1.5x YTD.

**Property development.** Sunway recorded new sales of RM407m (+1.8% QoQ; -5.3% YoY), bringing 1H22's sum to RM807m (-48.3% YoY), representing 36.7% of its FY22 sales target. There were no launches in 2Q22, while 1H22 launch is RM281m, representing 14.1% of its full year launch target of RM2bn. Unbilled sales stand at RM3.65bn (-1.6% QoQ from RM3.71bn in 1Q22), representing a strong cover ratio of 5.8x of its FY21 property development revenue.

**Property investment.** The segment continues to see improvement sequentially with PBT +19% QoQ following the recovery in footfall following the country's progression to endemicity. As footfall and tenant sales have returned to pre-pandemic levels for its retail segment, we expect its momentum to remain resilient. Also, the rental rebate is expected to trend lower amidst improvement in tenant sales. Similarly, we foresee hotel segment to continue delivering healthy improvement arising from better occupancy and average room rates. The gradual reopening of Sunway Resort Hotel is also timely to capitalize on the strong appetite for domestic travel and the visitation of foreign tourist as international borders have reopened.

**Construction.** SunCon's latest outstanding orderbook stands at RM4.2bn translating into a decent 2.5x cover. Going forward, SunCon is poised to benefit from: (i) MRT3 jobs, (ii) sizable factory/data centre job and (iii) RM500m worth of in-house jobs. ICPH, due to commence operations in 2H22 could leverage on strong backend loaded BTO launches.

**Healthcare.** Healthcare continues to show strong improvement with 2Q22 reported share of net profit of RM35.3m (+25% QoQ; +28% YoY) due to higher number of patients at both SMC and SMCV. The segment should continue to improve in 2H22 on account of pent-up demand from (i) foreign patients with borders reopening; and (ii) recovering patient footfalls from delayed elective procedures. Its strong pricing power also allows the segment to weather through the current inflationary period.

**Forecast.** Unchanged.

Maintain **BUY** with an unchanged **TP** of **RM2.65** based on SOP-derived valuation. The group has multi levers of growth, particularly with its fast expanding crown jewel, healthcare segment. Its efforts to expedite the expansion of its healthcare segment with its new strategic partner GIC, will culminate in the separate listing of healthcare unit to help unlock value in the group. With the economy recovering and borders reopening, the group is ready to harness the full potential of its business as all of its business segments are expected to benefit from it. Sunway remains our top pick given its well-integrated property, construction and building material operations.

## Financial Forecast

All items in (RM m) unless otherwise stated

### Balance Sheet

FYE Dec	FY20	FY21	FY22f	FY23f	FY24f
Cash	2,238.4	2,810.3	3,381.1	3,937.0	3,964.9
Placement in funds	100.3	98.8	98.8	98.8	98.8
Receivables	1,451.9	1,123.4	1,881.0	1,890.3	2,015.0
Inventories	606.0	670.5	1,115.1	1,120.6	1,194.5
Others	16,696.5	20,381.4	20,182.7	20,142.4	20,600.6
<b>Assets</b>	<b>21,093.1</b>	<b>25,084.3</b>	<b>26,658.7</b>	<b>27,189.0</b>	<b>27,873.7</b>
Payables	1,467.5	1,401.2	2,506.0	2,518.3	2,684.4
Debt	7,510.6	8,714.6	8,864.6	9,014.6	9,164.6
Others	1,804.5	1,846.2	1,846.2	1,846.2	1,846.2
<b>Liabilities</b>	<b>10,782.6</b>	<b>11,962.0</b>	<b>13,216.7</b>	<b>13,379.1</b>	<b>13,695.2</b>
Shareholder's equity	9,513.2	12,030.4	12,281.8	12,573.1	12,864.4
Minority interest	797.4	1,091.9	1,160.2	1,236.9	1,314.1
Perpetual bond	-	-	-	-	-
<b>Equity</b>	<b>10,310.6</b>	<b>13,122.3</b>	<b>13,442.0</b>	<b>13,809.9</b>	<b>14,178.5</b>

### Cash Flow Statement

FYE Dec	FY20	FY21	FY22f	FY23f	FY24f
Profit before taxation	509.9	358.0	706.1	788.2	838.0
D&A	236.5	216.9	129.9	144.1	157.0
Working capital	297.5	(109.9)	247.9	317.6	(264.5)
Taxation	(61.3)	(105.3)	(135.7)	(144.0)	(158.3)
JV and Associates	(39.3)	70.0	(80.7)	(123.8)	(83.3)
Perpetual bond	-	-	-	-	-
Others	(68.6)	549.1	-	-	-
<b>CFO</b>	<b>874.7</b>	<b>978.7</b>	<b>867.6</b>	<b>982.1</b>	<b>488.9</b>
Capex	(957.0)	(580.2)	(300.0)	(300.0)	(300.0)
Others	158.6	(699.4)	-	-	-
<b>CFI</b>	<b>(798.5)</b>	<b>(1,279.6)</b>	<b>(300.0)</b>	<b>(300.0)</b>	<b>(300.0)</b>
Changes in debt	(897.1)	1,239.1	150.0	150.0	150.0
Shares issued	977.8	-	-	-	-
Dividends	(253.6)	(179.8)	(146.7)	(276.2)	(312.1)
Others	(86.8)	(214.4)	-	-	1.0
<b>CFF</b>	<b>(259.7)</b>	<b>845.0</b>	<b>3.3</b>	<b>(126.2)</b>	<b>(161.1)</b>
<b>Net cash flow</b>	<b>(183.5)</b>	<b>544.1</b>	<b>570.9</b>	<b>555.9</b>	<b>27.8</b>
Forex	7.3	5.3	-	-	-
Others	(140.2)	(117.7)	(117.7)	(117.7)	(117.7)
Beginning cash	2,554.7	2,378.6	2,928.0	3,498.9	4,054.7
Ending cash	2,238.4	2,810.3	3,381.2	3,937.0	3,964.9

### Income statement

FYE Dec	FY20	FY21	FY22f	FY23f	FY24f
<b>Revenue</b>	<b>3833.3</b>	<b>4529.3</b>	<b>4725.7</b>	<b>4749.0</b>	<b>5062.2</b>
Operating cost	(3345.7)	(4090.3)	(4003.2)	(3982.6)	(4254.6)
<b>EBITDA</b>	<b>487.6</b>	<b>439.0</b>	<b>722.5</b>	<b>766.4</b>	<b>807.5</b>
D&A	(236.8)	(217.1)	(129.9)	(144.1)	(157.0)
Net Interest	28.3	54.9	(27.2)	(22.2)	9.2
JV & Associates	230.8	81.2	140.7	188.1	178.3
<b>Pretax profit</b>	<b>509.9</b>	<b>358.0</b>	<b>706.1</b>	<b>788.2</b>	<b>838.0</b>
Taxation	(102.6)	(116.2)	(135.7)	(144.0)	(158.3)
Minority Interest	(47.6)	(73.7)	(68.2)	(76.7)	(77.2)
Holders of Perpetual	0.0	0.0	0.0	0.0	0.0
Reported PATAMI	357.3	2664.4	502.2	567.4	602.5
Exceptionals	28.3	42.4	0.0	0.0	0.0
<b>Core Earning</b>	<b>385.6</b>	<b>370.3</b>	<b>502.2</b>	<b>567.4</b>	<b>602.5</b>
Basic shares (m)	4889.1	4889.1	4889.1	4889.1	4889.1
Consensus core PATMI			472.6	597.0	628.8
HLIB/ Consensus			106%	95%	96%

### Valuation ratios

FYE Dec	FY20	FY21	FY22f	FY23f	FY24f
Net DPS (sen)	1.5	2.5	4.7	5.3	5.6
Yield (%)	0.9	1.5	2.8	3.2	3.4
Core EPS (sen)	7.9	7.6	10.3	11.6	12.3
P/E (x)	21.0	21.9	16.2	14.3	13.5
Market capitalization (m)	8115.9	8115.9	8115.9	8115.9	8115.9
Net cash (m)	(5171.9)	(5805.5)	(5384.7)	(4978.8)	(5101.0)
Net gearing (%)	50.2%	44.2%	40.1%	36.1%	36.0%
BV / share	2.1	2.7	2.7	2.8	2.9
P/BV (x)	0.8	0.6	0.6	0.6	0.6
ROA (%)	1.8	1.5	1.9	2.1	2.2
ROE (%)	3.7	2.8	3.7	4.1	4.2
Enterprise value	13287.8	13921.4	13500.5	13094.7	13216.8
EV/ EBITDA (x)	27.3	31.7	18.7	17.1	16.4

**Figure #1** Quarterly results comparison

FYE Dec (RM m)	2Q21	1Q22	2Q22	QoQ	YoY	1H21	1H22	YoY
Revenue	767.3	876.7	1,280.4	15%	67%	1,613.4	2,392.8	48%
Property Development	147.4	158.2	286.4	81%	94%	244.5	444.6	82%
Property Investment	62.3	121.1	149.6	24%	140%	121.0	270.7	>100%
Construction	218.1	368.6	316.8	-14%	45%	539.4	685.5	27%
Trading/Manufacturing	198.9	205.0	264.8	29%	33%	423.4	469.8	11%
Quarry	70.5	76.2	101.1	33%	43%	147.7	177.2	20%
Investment Holdings	1.2	1.9	1.8	-4%	49%	2.3	3.7	61%
Others	69.0	181.5	159.8	-12%	>100%	135.0	341.3	>100%
EBIT	6.5	72.1	166.3	>100%	>100%	38.5	238.4	>100%
Net Interest	22.4	15.8	(28.2)	NM	NM	40.0	(12.4)	NM
Share of Associates/JCE	22.6	99.2	76.9	-22%	>100%	46.2	176.1	>100%
PBT	51.5	187.1	215.0	15%	>100%	124.7	402.1	>100%
Property Development	22.9	23.4	25.7	10%	12%	43.6	49.1	13%
Property Investment	(16.0)	45.0	53.4	19%	NM	(32.9)	98.4	NM
Construction	8.6	47.8	44.4	-7%	>100%	36.3	92.2	>100%
Trading/Manufacturing	10.0	10.3	9.7	-6%	-3%	22.2	20.0	-10%
Quarry	(0.5)	4.9	1.8	-63%	NM	2.5	6.7	>100%
Healthcare	27.5	28.2	35.3	25%	28%	41.5	63.5	53%
Investment Holdings	23.1	11.3	7.3	-36%	-69%	44.9	18.5	-59%
Others	3.5	16.2	37.5	>100%	>100%	8.1	53.6	>100%
PAT	43.7	159.2	191.2	20%	>100%	100.1	350.4	>100%
MI	(0.7)	(19.1)	(22.4)	17%	>100%	(12.5)	(41.4)	>100%
Payment to ICPS holders	(25.7)	-	(25.7)			(25.7)	(25.7)	0%
PATAMI	84.3	140.1	168.9	21%	100%	129.0	309.0	>100%
EI	6.1	(12.5)	(0.8)	-93%	NM	4.9	(13.4)	NM
<b>Core Earnings</b>	64.7	127.6	142.4	12%	>100%	108.1	270.0	>100%
				<i>ppts change</i>	<i>ppts change</i>			<i>ppts change</i>
EBIT margin	0.9%	6.5%	13.0%	6.5	12.1	2%	10%	7.6
PBT margin	6.7%	16.8%	16.8%	(0.0)	10.1	8%	17%	9.1
PAT margin	8.4%	11.5%	11.1%	(0.4)	2.7	7%	11%	4.6

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**Figure #2** SOP table

Division	Stake	Value (RM m)	RM/share	Methodology
Construction (SunCon)	54.56%	1,294	0.27	Based on TP of RM 1.90
Sunway REIT	40.88%	2,338	0.48	Based on TP of RM 1.67
Property Development & Investment	100%	4,893	1.00	Discounted RNAV
Healthcare	84%	3,948	0.81	31x EV/EBITDA
Trading/Manufacturing	100%	295	0.06	10X trailing P/E
Quarry	100%	167	0.03	10X trailing P/E
<b>Equity Value (RM)</b>		12,936	<b>2.65</b>	

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### Stock rating guide

<b>BUY</b>	Expected absolute return of +10% or more over the next 12 months.
<b>HOLD</b>	Expected absolute return of -10% to +10% over the next 12 months.
<b>SELL</b>	Expected absolute return of -10% or less over the next 12 months.
<b>UNDER REVIEW</b>	Rating on the stock is temporarily under review which may or may not result in a change from the previous rating.
<b>NOT RATED</b>	Stock is not or no longer within regular coverage.

### Sector rating guide

<b>OVERWEIGHT</b>	Sector expected to outperform the market over the next 12 months.
<b>NEUTRAL</b>	Sector expected to perform in-line with the market over the next 12 months.
<b>UNDERWEIGHT</b>	Sector expected to underperform the market over the next 12 months.

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