

25 August 2022

# Sunway Berhad

## Recovering from Pandemic Nicely

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SUNWAY's 1HFY22 results met expectations. YTD sales of RM943m is also in line with our RM1.6b full-year assumption. Moving into 2H, we expect SUNWAY's hospitality segment to continue improving and two of its newly built medical centres will commence operations. Maintain our forecasts, SoP-based TP of RM2.05 and OUTPERFORM call.

**Within expectations.** 1HFY22 CNP of RM228.1m came within expectations at 54% and 47% of our full-year forecast and the full-year consensus estimates respectively.

1HFY22 revenue rose 21% from the strong rebound in all of its operating segments against a pandemic stricken period a year ago. Consequently, CNP more than doubled.

**Outlook.** 1HFY22 sales of RM932m is deemed in-line our RM1.6b target (at 58%) but trails company's internal target of RM2.2b (at 48%). We expect 2H sales to come in slightly weaker in anticipation of further rate hikes which would decrease affordability. Current unbilled sales remain healthy at RM4.14b (effective RM3.65b).

Moving forward, SUNWAY's leisure and hospitality segment (as reflected within the property investment segment) still has room for improvement as it gradually reverts to pre-pandemic levels.

For healthcare segment, we are anticipating the strong profitability registered YTD to come off slightly upon the commencement of Sunway Medical Tower D (+200 beds in first phase) and Seberang Jaya (+150 to 200 beds) in the 2H as there would be gestational losses.

**Forecast.** Keep FY22/23F earnings unchanged post results.

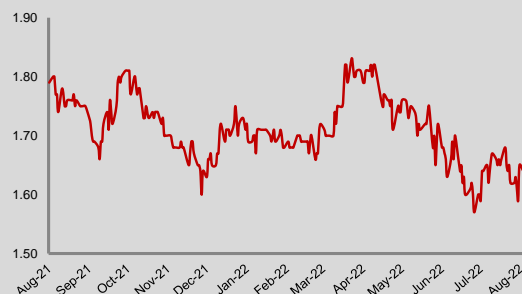
**Maintain SoP-TP of RM2.05** despite rationalising our property developments valuations to 65%-discount to RNAV (in line with peers 60-65%) from PBV and updating TPs for SUNCON and SUNREIT. **We continue to like Sunway for** (i) its healthy pipeline of medical centres located within brownfield townships, (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 TP based on ESG for which it is given a 3-star ESG rating as appraised by us. **Maintain OUTPERFORM.**

**Risks to our call include:** (i) A prolonged downturn in the local property market; (ii) rising mortgage rates hurting affordability; (iii) rising construction cost; and (iv) changes in home ownership policies in local and overseas operations.

# OUTPERFORM ↔

Price : **RM1.66**  
Target Price : **RM2.05** ↔

### Share Price Performance



KLCI	1,467.26
YTD KLCI chg	-6.4%
YTD stock price chg	-3.5%

### Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	SWB MK Equity
Market Cap (RM m)	8,115.9
Shares Outstanding	4,889.1
52-week range (H)	1.85
52-week range (L)	1.56
3-mth avg daily vol:	660,884
Free Float	69%
Beta	0.6

### Major Shareholders

Sungei Way Corp Sdn	14.2%
Employees Provident	8.3%
Aia Bhd	2.3%

### Summary Earnings Table

FYE Dec (RM m)	2021A	2022F	2023F
Turnover	4529	4653	5369
EBIT	523	579	935
PBT	568	632	958
<b>Net Profit</b>	<b>379</b>	<b>475</b>	<b>761</b>
<b>Core PATAMI**</b>	<b>328</b>	<b>424</b>	<b>710</b>
Consensus (NP)	n.a.	484	587
Earnings Revision	n.a.	0%	0%
Core EPS (sen)	6.6	8.6	14.4
Core EPS growth (%)	-10%	29%	68%
*NDPS (sen)	2.5	3	5
NTA per Share (RM)	2.44	2.49	2.59
Price to NTA (x)	0.68	0.67	0.64
PER (x)	25.0	19.3	11.5
Net Gearing ratio (x)	0.49	0.48	0.48
Return on Asset (%)	1.3%	1.7%	2.7%
Return on Equity (%)	2.7%	3.4%	5.6%
Net Div. Yield (%)	1.5%	1.8%	3.0%

\*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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Result Highlight								
FYE Dec (RM m)	2Q22	1Q22	QoQ	2Q21	YoY	1H22	1H21	YoY
Revenue	1,280.4	1,112.5	15%	967.9	32%	2,392.8	1,984.7	21%
Operating Expenses	-1,180.3	-1,075.2	10%	-956.2	23%	-2,255.5	-1,944.4	16%
Other Operating Income	66.2	34.9	90%	24.7	168%	101.1	45.3	123%
<b>Operating Profit</b>	<b>166.3</b>	<b>72.1</b>	131%	<b>36.5</b>	356%	<b>238.4</b>	<b>85.5</b>	179%
Finance Income	32.8	45.5	-28%	45.6	-28%	78.3	84.4	-7%
Finance costs	-61.0	-29.7	106%	-25.7	137%	-90.6	-50.0	81%
Associates	32.8	45.9	-29%	15.9	107%	78.7	32.3	144%
JV	44.1	53.3	-17%	6.7	558%	97.4	13.9	600%
<b>PBT</b>	<b>215.0</b>	<b>187.1</b>	15%	<b>79.0</b>	172%	<b>402.1</b>	<b>166.2</b>	142%
Tax	-23.8	-27.9	-15%	-7.9	202%	-51.7	-24.7	110%
<b>PAT</b>	<b>191.2</b>	<b>159.2</b>	20%	<b>71.1</b>	169%	<b>350.4</b>	<b>141.5</b>	148%
MI	22.4	19.1	17%	0.6	3664%	41.4	12.5	231%
ICPS/Perpetual Sukuk distribution	-25.7	0.0	n.a.	-25.7	0%	-25.7	-25.7	0%
<b>PATAMI</b>	<b>168.9</b>	<b>140.1</b>	21%	<b>70.5</b>	139%	<b>309.0</b>	<b>129.0</b>	140%
Exceptionals	-33.3	-21.9	52%	7.0	-578%	-55.2	6.7	-921%
<b>CNP</b>	<b>109.9</b>	<b>118.2</b>	-7%	<b>51.8</b>	112%	<b>228.1</b>	<b>110.0</b>	107%
DPS	2.0	0.0	n.a.	1.0	100%	2.0	1.0	100%
EBIT margin	13%	6%		4%		10%	4%	
Pretax margin	17%	17%		8%		17%	8%	
NP margin	15%	14%		7%		15%	7%	
CNP margin	9%	11%		5%		10%	6%	
Net gearing (x)	0.68	0.64		0.79		0.68	0.79	
Effective tax	11%	15%		10%		13%	15%	

Source: Company, Kenanga Research

Segmental Breakdown								
External Revenue	2Q22	1Q22	QoQ	2Q21	YoY	1H22	1H21	YoY
Property Development	286.4	158.2	81%	147.4	94%	444.6	244.5	82%
Property Investment	149.6	121.1	24%	62.3	140%	270.7	121.0	124%
Construction	316.8	368.6	-14%	218.1	45%	685.5	539.4	27%
Trading and Manufacturing	264.8	205.0	29%	198.9	33%	469.8	423.4	11%
Quarry	101.1	76.2	33%	70.5	43%	177.2	147.7	20%
Healthcare	0.0	0.0	n.a.	200.6	-100%	0.0	371.2	-100%
Investment Holdings	1.8	1.9	-4%	1.2	49%	3.7	2.3	61%
Others	159.8	181.5	-12%	69.0	132%	341.3	135.0	153%
<b>Total Revenue</b>	<b>1,280.4</b>	<b>1,112.5</b>	15%	<b>967.9</b>	32%	<b>2,392.8</b>	<b>1,984.7</b>	21%
<b>PBT Segmentation</b>								
Property Development	25.7	23.4	10%	22.9	12%	49.1	43.6	13%
Property Investment	53.4	45.0	19%	-16.0	n.a.	98.4	-32.9	n.a.
Construction	44.4	47.8	-7%	8.6	415%	92.2	36.3	154%
Trading and Manufacturing	9.7	10.3	-6%	10.0	-3%	20.0	22.2	-10%
Quarry	1.8	4.9	-63%	-0.5	n.a.	6.7	2.5	165%
Healthcare	35.3	28.2	25%	27.5	28%	63.5	41.5	53%
Investment Holdings	7.3	11.3	-36%	23.1	-69%	18.5	44.9	-59%
Others	37.5	16.2	132%	3.5	976%	53.6	8.1	564%
<b>Total PBT</b>	<b>215.0</b>	<b>187.1</b>	15%	<b>79.0</b>	172%	<b>402.1</b>	<b>166.2</b>	142%
<b>PBT margins</b>								
Property Development	9%	15%		16%		11%	18%	
Property Investment	36%	37%		-26%		36%	-27%	
Construction	14%	13%		4%		13%	7%	
Trading and Manufacturing	4%	5%		5%		4%	5%	
Quarry	2%	6%		-1%		4%	2%	
Healthcare	n.a.	n.a.		14%		n.a.	11%	
Investment Holdings	401%	599%		1907%		502%	1954%	
Others	23%	9%		5%		16%	6%	
<b>Total</b>	<b>17%</b>	<b>17%</b>		<b>8%</b>		<b>17%</b>	<b>8%</b>	

Source: Company, Kenanga Research

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<b>Sum of Parts</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	338.4	P/E of 10x
Quarry	265.4	P/E of 12x
Healthcare	5,187.1	30x EV/EBITDA
Investment Holdings & Others	467.0	P/E of 10x
Net cash / (debt) at holding company level	(870.9)	As at 31 Dec 2021
<b>Aggregate Valuation</b>	<b>10,957</b>	
No of shares (m)	5,292.2	Account for partial dilution of ICPS
<b>RNAV per share (RM)</b>	<b>2.05</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	0.650	0.830	27.69%	1,913.8	Y	10/2022	8.0	8.0	-1.3%	-0.2%	8.1	7.2	0.4	4.9%	4.0	6.2%
IOI PROPERTIES GROUP BHD	OP	0.980	1.60	63.27%	5,396.0	Y	06/2023	13.5	14.3	4.2%	5.9%	7.3	6.9	0.3	4.0%	3.0	3.1%
MAH SING GROUP BHD	MP	0.600	0.600	0.00%	1,456.6	Y	12/2022	6.2	5.8	41.5%	-6.0%	9.7	10.3	0.4	4.9%	3.0	5.0%
MALAYSIAN RESOURCES CORP BHD	MP	0.350	0.375	7.14%	1,563.6	Y	12/2022	1.2	0.5	-56.7%	-56.9%	29.2	70.0	0.3	1.1%	1.0	2.9%
SIME DARBY PROPERTY BHD	OP	0.465	0.550	18.28%	3,162.4	Y	12/2022	3.5	3.7	68.9%	5.9%	13.4	12.6	0.3	2.5%	2.0	2.8%
SP SETIA BHD	UP	0.725	0.580	-20.00%	2,954.7	Y	12/2022	6.6	5.6	64.4%	-14.6%	11.0	12.9	0.2	2.9%	2.0	5.2%
SUNWAY BHD	OP	1.66	2.05	23.49%	8,115.9	Y	12/2022	8.6	14.4	29.3%	67.5%	20.7	12.4	0.8	4.4%	3.0	1.8%
UEM SUNRISE BHD	MP	0.300	0.320	6.67%	1,517.5	Y	12/2022	(0.9)	(0.6)	-139.3%	-165.2%	N.A.	N.A.	0.2	-0.6%	0.0	0.0%
UOA DEVELOPMENT BHD	MP	1.70	1.75	2.94%	4,092.7	Y	12/2022	9.1	10.6	-5.6%	16.2%	12.1	11.3	0.7	3.9%	10.0	7.6%
<b>Simple Average</b>								<b>6.2</b>	<b>6.9</b>	<b>0.6%</b>	<b>-16.4%</b>	<b>13.9</b>	<b>18.0</b>	<b>0.4</b>	<b>3.1%</b>		<b>3.8%</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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Published and printed by:

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