

# Sunway (SWB MK)

## 2Q22: In line

### Profit in line but sales fell short

Sunway's 2Q22 core net profit of MYR136m (+92% YoY, +2.2% QoQ) was within our expectation but above consensus. 6M22 property sales of MYR932m were however below expectations, at just 42% of Sunway's FY22 sales goal of MYR2.2b (-15% YoY). We maintain our FY22-24 earnings forecasts. Our TP is unchanged at MYR1.63 (on 0.8x FY23E PBV). HOLD. Our preferred picks for the sector are ECW MK (BUY, CP: MYR0.65, TP: MYR0.81) and SDPR MK (BUY, CP: MYR0.465, TP: MYR0.54).

### Earnings on track

Excluding one-off disposal gains of MYR33m (including MYR27m disposal gain from a new start-up investments), Sunway's 2Q22 core net profit was MYR135.5m. This lifted 1H22 core net profit to MYR268.1m (+1.1x YoY), accounting for 50%/56% of MIBG/consensus full-year estimates. The YoY improvement in 6M22 net profit was driven by stronger operating performance from all businesses especially its property investment, leisure and healthcare divisions. Elsewhere, net gearing inched up to 0.5x end-June 22, from 0.46x as at end-Mar 22.

### Maintain FY22 sales goal

Sunway has locked-in MYR932m in property sales in 6M22 or just 42% of its FY22 sales goal of MYR2.2b (-15% YoY). Of the MYR932m sales, 30% were derived from its JV projects in Singapore and 65% from Klang Valley. Effective unbilled sales were MYR3.65b as at end-June 22 (2.5x FY23E property revenue). Elsewhere, 55%-owned Sunway Construction Group (SCGB MK; HOLD; CP: MYR1.56, TP: MYR1.58 TP) has secured MYR563m worth of jobs in 6M22, increasing its outstanding orderbook to MYR4.2b as at end-June 22.

### Maintain earnings forecasts

We maintain our earnings forecasts. With the easing of Covid-19 containment measures and reopening of international borders, Sunway expects its property investment, leisure and healthcare divisions to perform well on improving domestic tourism and higher tourist arrivals. Sunway currently trades at 0.8x/0.6x PBV/PRNAV.

FYE Dec (MYR m)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	3,209	3,714	5,946	6,600	7,096
EBITDA	233	327	652	748	826
Core net profit	421	369	540	612	635
Core FDEPS (sen)	8.5	6.2	9.1	10.3	10.7
Core FDEPS growth(%)	(34.9)	(26.6)	46.2	13.3	3.8
Net DPS (sen)	1.5	2.5	2.8	3.1	3.2
Core FD P/E (x)	19.0	27.6	18.2	16.1	15.5
P/BV (x)	0.8	0.8	0.8	0.8	0.7
Net dividend yield (%)	0.9	1.5	1.7	1.9	2.0
ROAE (%)	4.0	24.7	4.4	4.9	4.9
ROAA (%)	2.0	1.6	2.1	2.2	2.2
EV/EBITDA (x)	60.4	52.2	25.0	24.0	22.6
Net gearing (%) (incl perps)	51.1	45.0	40.6	51.5	55.3
Consensus net profit	-	-	475	567	628
MKE vs. Consensus (%)	-	-	13.7	7.9	1.2

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# HOLD

Share Price	MYR 1.66
12m Price Target	MYR 1.63 (-2%)
Previous Price Target	MYR 1.63

### Company Description

Sunway Bhd is involved in property development, investment properties and construction businesses

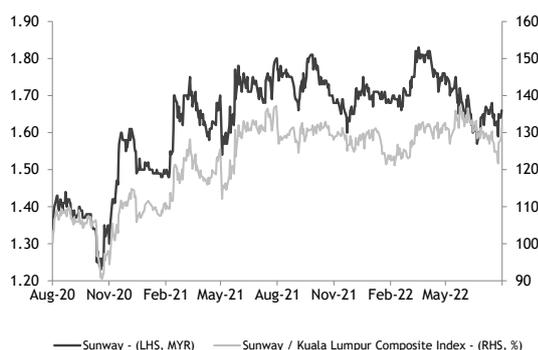
### Statistics

52w high/low (MYR)	1.83/1.57
3m avg turnover (USDm)	0.2
Free float (%)	26.8
Issued shares (m)	4,934
Market capitalisation	MYR8.2B USD1.8B

### Major shareholders:

Active Equity Sdn. Bhd.	60.1%
Employees Provident Fund	8.3%
AIA Bhd.	2.7%

### Price Performance



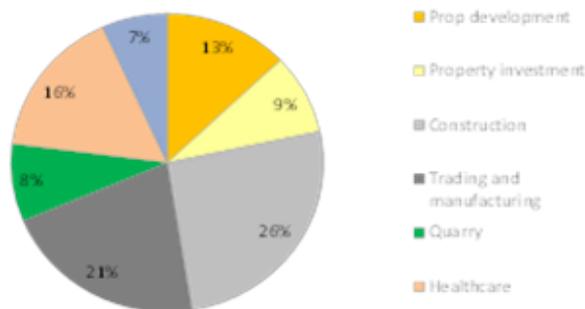
	-1M	-3M	-12M
Absolute (%)	1	(5)	(8)
Relative to index (%)	0	(2)	(3)

Source: FactSet

## Value Proposition

- A conglomerate with core business in property development and businesses in other sectors comprising property investment, construction, building materials, leisure and healthcare.
- Property development landbank is located throughout Malaysia. Sunway also has property projects in Singapore (in partnership with Hoi Hup), India and China.
- Sunway also owns a 41% stake in SunREIT (SREIT MK, HOLD, TP: MYR1.46) and 55% in SCG (SCGB MK, HOLD, TP: MYR1.58).

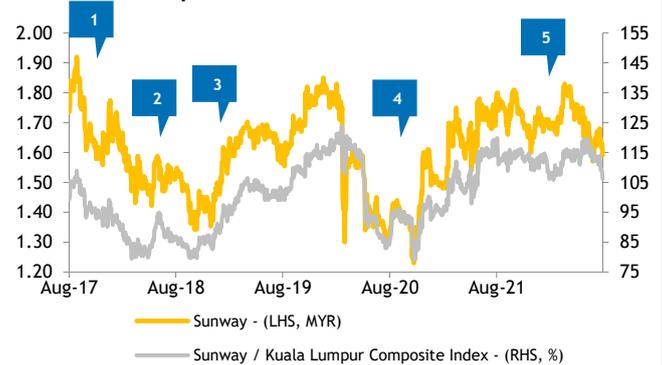
### PBT breakdown by busine



Source: Company

## Price Drivers

### Historical share price trend



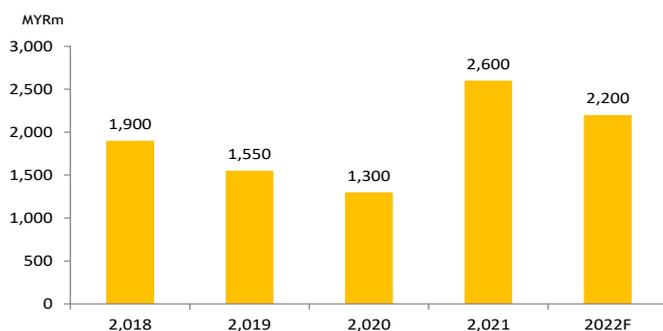
Source: Company, Maybank IBG Research

1. June 2017: Proposed bonus issue of new shares and free warrants. Also announced plans to list healthcare business by 2022.
2. 1H18: Weak sentiment on property stocks pre-GE14.
3. 2H18: Weak sentiment on property stocks pre Budget 2019.
4. 2020: Proposed fund raising via the issuance of ICPS
5. 2021: Stake sale in healthcare business to GIC (source: Bursa Malaysia).

## Financial Metrics

- Effective unbilled sales (property) stood at MYR3.65b (or 2.5x our FY23F property revenue) as at end-June 2022.
- Sunway targets to achieve MYR2.2b in property sales in 2022.

### Sunway's effective sales trend (actual and target) (MYRm)



Source: Company

## Swing Factors

### Upside

- RNAV-accretive land acquisitions.
- Higher-than-expected job wins at its construction business under SCG.

### Downside

- Slow-than-expected property sales and longer-than-expected downturn in the property sector.
- Country/currency risks as Sunway has property projects in Singapore and China.

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Fig. 1: Results summary table - Sunway

FY Dec (MYRm)	Quarterly					Cumulative		
	2Q22	2Q21	%YoY	1Q22	%QoQ	6M22	6M21	%YoY
<b>Revenue</b>	<b>1,280.4</b>	<b>767.3</b>	<b>66.9</b>	<b>1,112.5</b>	<b>15.1</b>	<b>2,392.8</b>	<b>1,613.4</b>	<b>48.3</b>
- Property dev	286.4	147.4	94.3	158.2	81.0	444.6	244.5	81.8
- Property inv	149.6	62.3	>+100	121.1	23.5	270.7	121.0	>+100
- Construction	316.8	218.1	45.3	368.6	-14.0	685.5	539.4	27.1
- Trading	264.8	198.9	33.1	205.0	29.1	469.8	423.4	11.0
- Quarry	101.1	70.5	43.4	76.2	32.7	177.2	147.7	20.0
- Others	161.6	70.2	>+100	183.4	-11.8	345.0	137.3	>+100
<b>PBIT</b>	<b>170.0</b>	<b>7.3</b>	<b>&gt;+100</b>	<b>74.3</b>	<b>&gt;+100</b>	<b>244.4</b>	<b>40.1</b>	<b>&gt;+100</b>
Finance costs	-28.2	22.4	>-100	15.8	>-100	-12.4	40.0	>-100
Other income	76.9	22.6	>+100	99.2	-22.4	176.1	46.2	>+100
<b>Pretax profit</b>	<b>215.0</b>	<b>51.5</b>	<b>&gt;+100</b>	<b>187.1</b>	<b>14.9</b>	<b>402.1</b>	<b>124.7</b>	<b>&gt;+100</b>
- Property dev	25.7	22.9	12.4	23.4	9.8	49.1	43.6	12.8
- Property inv	53.4	-16.0	>+100	45.0	18.7	98.4	-32.9	>+100
- Construction	44.4	8.6	>+100	47.8	-7.2	92.2	36.3	>+100
- Trading	9.7	10.0	-2.6	10.3	-5.9	20.0	22.2	-9.9
- Quarry	1.8	-0.5	>+100	4.9	-62.7	6.7	2.5	>+100
- Healthcare	35.3	0.0	NM	28.2	25.0	63.5	0.0	NM
- Others	44.7	26.6	68.0	27.4	63.0	72.1	53.0	36.0
<b>Pretax profit ex-EI</b>	<b>181.7</b>	<b>51.5</b>	<b>&gt;+100</b>	<b>179.6</b>	<b>1.2</b>	<b>361.3</b>	<b>124.7</b>	<b>&gt;+100</b>
Taxation	-23.8	-7.8	>-100	-27.9	NM	-51.7	-24.6	>-100
Minority interest*	-22.4	-0.6	>-100	-19.1	-17.2	-41.4	-12.5	>-100
<b>Net profit</b>	<b>168.9</b>	<b>70.5</b>	<b>&gt;+100</b>	<b>140.1</b>	<b>20.5</b>	<b>309.0</b>	<b>129.0</b>	<b>&gt;+100</b>
<b>Net profit ex-EI</b>	<b>135.5</b>	<b>70.5</b>	<b>92.2</b>	<b>132.6</b>	<b>2.2</b>	<b>268.1</b>	<b>129.0</b>	<b>&gt;+100</b>
Exceptional item (pretax)	-33.3	0.0	NM	-7.5	NM	-40.8	0.0	NM
	<b>2Q22</b>	<b>2Q21</b>	<b>+/- ppt</b>	<b>1Q22</b>	<b>+/- ppt</b>	<b>6M22</b>	<b>6M21</b>	<b>+/- ppt</b>
Pretax margin (%)	16.8	6.7	10.1	16.8	0.0	16.5	7.7	8.8
- Property dev	9.0	15.5	-6.5	14.8	-5.8	11.0	17.8	-6.8
- Property inv	35.7	-25.7	61.4	37.2	-1.5	36.4	-27.2	63.5
- Construction	14.0	4.0	10.1	13.0	1.0	13.5	6.7	6.7
- Trading	3.7	5.0	-1.3	5.0	-1.4	4.3	5.2	-1.0
- Quarry	1.8	-0.8	2.6	6.4	-4.6	3.8	1.7	2.1
- Others	27.7	37.9	-10.3	15.0	12.7	20.9	38.6	-17.7
Tax rate (%)	-11.1	-15.2	4.1	-15.5	4.5	-13.1	-19.7	6.6

Source: Company, Maybank IBG Research

Fig.2: Our RNAV estimate

	Stake	Acres	MV (MYR m)	BV (MYR m)	Surplus (MYR m)
<b>1. Landbank - MARKET VALUE</b>					
Sunway Semenyih	70%	526.1	572.9	128.0	311.5
Suncity Ipoh	96%	336.4	58.6	58.7	(0.1)
Sunway Integrated Resort	100%	7.7	4.8	8.3	(3.5)
Sunway Tower KL 1	100%	1.9	122.8	28.3	94.5
Sunway JB, Bukit Lenang	80%	49.9	54.3	134.5	(64.1)
Sg Long Balakong	80%	111	140.2	21.8	94.8
Mont Putra Rawang	100%	163	49.7	35.1	14.6
Sunway Iskandar - Pendas, freehold	60%	1079	1175.1	596.6	347.1
<b>Sub-total (1)</b>					<b>794.8</b>
<b>2. Active developments - WACC (10.5-13.1%)</b>					
	<b>Stake</b>				<b>(MYR m)</b>
South Quay	100%				303.5
Sunway Cheras	100%				1.4
Bangi	100%				2.2
Casa Kiara III	80%				15.4
Sunway Velocity	85%				123.7
Penang projects	100%				20.0
Wonderland Business Park, Australia	31%				0.5
Mount Sophia	30%				5.4
Sunway Iskandar -leasehold (Medini)	51%				299.2
Kelana Jaya	100%				95.1
Industrial projects at Kelana Jaya and Subang	100%				10.0
Sunway Velocity extension	50%				82.8
Belfield	100%				106.4
Kajang	100%				36.4
Subang	100%				68.9
Wangsamaju	55%				15.8
PKNS Kota Damansara	60%				31.0
Pasir Panjang	30%				35.4
Tanjong Katong	30%				93.7
<b>Sub-total (2):</b>					<b>1,346.8</b>
<b>3. Investment properties - MARKET VALUE</b>					
	<b>Stake</b>		<b>MV</b>	<b>BV</b>	<b>Surplus</b>
			<b>(MYR m)</b>	<b>(MYR m)</b>	<b>(MYR m)</b>
Sunway Velocity Mall	59%		1,600	1,172	252.3
<b>Sub-total (3)</b>					<b>252.3</b>

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	Surplus (MYR m)
<b>4. Other businesses or assets</b>	
Valuation for SunREIT on Maybank IB's MYR1.45 TP	131.8
Valuation for SCG based on Maybank IB's MYR1.58 TP	961.4
Healthcare (30x 2022 PER)	2,390.2
Building material (10x 2022 PER)	154.1
Trading (10x 2022 PER)	308.2
<b>Sub-total (4)</b>	<b>3,945.7</b>
<b>Grand total = (1) + (2) + (3) + (4)</b>	<b>6,339.6</b>
Shareholders' funds (MYR m) - Dec 2021	12,034.8
Proceeds from warrants (MYR1.56 exercise price; expiring in Oct 2024)	1,044.4
<b>RNAV (MYR m)</b>	<b>19,418.8</b>
Number of shares (m)	4,934.0
Number of warrants (m)	669.5
ICPS	977.8
<b>FD RNAV/share (MYR)</b>	<b>2.95</b>

Source: Maybank IBG Research

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Key Metrics</b>					
P/E (reported) (x)	20.8	3.7	18.0	15.9	15.3
Core P/E (x)	19.0	27.3	18.0	15.9	15.3
Core FD P/E (x)	19.0	27.6	18.2	16.1	15.5
P/BV (x)	0.8	0.8	0.8	0.8	0.7
P/NTA (x)	0.8	0.8	0.7	0.7	0.7
Net dividend yield (%)	0.9	1.5	1.7	1.9	2.0
FCF yield (%)	nm	0.9	6.5	nm	nm
EV/EBITDA (x)	60.4	52.2	25.0	24.0	22.6
EV/EBIT (x)	60.4	52.2	26.5	25.4	24.0

**INCOME STATEMENT (MYR m)**

Revenue	3,208.8	3,714.2	5,945.5	6,600.4	7,095.8
EBITDA	232.7	327.1	652.1	748.3	826.1
Depreciation	0.0	0.0	(37.9)	(42.0)	(46.3)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	232.7	327.1	614.2	706.3	779.8
Net interest income / (exp)	26.6	54.9	(152.8)	(185.9)	(205.9)
Associates & JV	230.8	83.7	254.4	274.9	236.8
Exceptionals	64.4	(18.4)	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	490.1	465.7	715.8	795.3	810.7
Income tax	(102.6)	(116.2)	(100.2)	(111.3)	(113.5)
Minorities	(47.6)	(74.6)	(75.5)	(71.8)	(62.0)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	357.3	2,665.4	540.1	612.1	635.2
Core net profit	421.0	369.3	540.1	612.1	635.2

**BALANCE SHEET (MYR m)**

Cash & Short Term Investments	2,238.4	2,814.0	3,252.4	1,598.5	1,850.0
Accounts receivable	2,433.2	2,483.8	3,976.0	4,414.0	4,745.3
Inventory	2,074.7	2,423.0	3,878.7	4,305.9	4,629.1
Reinsurance assets	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	2,620.7	1,262.8	1,400.6	1,542.7	1,688.9
Intangible assets	350.7	432.8	432.8	432.8	432.8
Investment in Associates & JVs	4,350.0	8,897.1	7,270.2	8,729.6	9,400.2
Other assets	7,025.4	6,773.4	6,674.6	6,674.6	6,674.6
<b>Total assets</b>	<b>21,093.1</b>	<b>25,086.9</b>	<b>26,885.3</b>	<b>27,698.1</b>	<b>29,420.9</b>
ST interest bearing debt	5,261.1	4,093.8	4,093.8	4,093.8	5,093.8
Accounts payable	2,453.1	2,470.6	3,954.9	4,390.6	4,720.1
Insurance contract liabilities	0.0	0.0	0.0	0.0	0.0
LT interest bearing debt	2,250.7	4,621.7	4,621.7	4,621.7	4,621.7
Other liabilities	818.0	777.0	765.0	765.0	765.0
<b>Total Liabilities</b>	<b>10,782.6</b>	<b>11,963.4</b>	<b>13,435.1</b>	<b>13,870.8</b>	<b>15,200.3</b>
Shareholders Equity	9,513.2	12,034.8	12,361.5	12,738.6	13,132.0
Minority Interest	797.4	1,088.7	1,088.7	1,088.7	1,088.7
<b>Total shareholder equity</b>	<b>10,310.6</b>	<b>13,123.5</b>	<b>13,450.2</b>	<b>13,827.3</b>	<b>14,220.6</b>
<b>Total liabilities and equity</b>	<b>21,093.1</b>	<b>25,086.9</b>	<b>26,885.3</b>	<b>27,698.1</b>	<b>29,420.9</b>

**CASH FLOW (MYR m)**

Pretax profit	490.1	465.7	715.8	795.3	810.7
Depreciation & amortisation	0.0	0.0	37.9	42.0	46.3
Adj net interest (income)/exp	167.6	124.8	(152.8)	(185.9)	(205.9)
Change in working capital	117.3	178.5	1,082.2	(1,034.0)	(104.7)
Cash taxes paid	(61.3)	(104.1)	(100.2)	(111.3)	(113.5)
Other operating cash flow	155.3	(2,015.0)	0.0	0.0	0.0
Cash flow from operations	886.5	1,038.4	1,582.8	(494.0)	432.9
Capex	(957.0)	(946.5)	(946.5)	(946.5)	(946.5)
Free cash flow	(70.5)	91.9	636.3	(1,440.5)	(513.6)
Dividends paid	(253.6)	(179.8)	(198.0)	(213.4)	(235.0)
Equity raised / (purchased)	179.0	0.2	0.0	0.0	0.0
Change in Debt	(786.8)	1,203.7	0.0	0.0	1,000.0
Other invest/financing cash flow	(183.7)	(656.4)	0.0	0.0	0.0
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	(1,115.6)	459.7	438.3	(1,653.8)	251.5

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Key Ratios</b>					
<b>Growth ratios (%)</b>					
Revenue growth	(32.9)	15.8	60.1	11.0	7.5
EBITDA growth	(59.2)	40.6	99.4	14.8	10.4
EBIT growth	(59.2)	40.6	87.8	15.0	10.4
Pretax growth	(43.4)	(5.0)	53.7	11.1	1.9
Reported net profit growth	(49.6)	646.1	(79.7)	13.3	3.8
Core net profit growth	(33.7)	(12.3)	46.2	13.3	3.8
<b>Profitability ratios (%)</b>					
EBITDA margin	7.3	8.8	11.0	11.3	11.6
EBIT margin	7.3	8.8	10.3	10.7	11.0
Pretax profit margin	15.3	12.5	12.0	12.0	11.4
Payout ratio	20.8	5.5	30.0	30.0	30.0
<b>DuPont analysis</b>					
Net profit margin (%)	11.1	71.8	9.1	9.3	9.0
Revenue/Assets (x)	0.2	0.1	0.2	0.2	0.2
Assets/Equity (x)	2.2	2.1	2.2	2.2	2.2
ROAE (%)	4.0	24.7	4.4	4.9	4.9
ROAA (%)	2.0	1.6	2.1	2.2	2.2
<b>Leverage &amp; Expense Analysis</b>					
Asset/Liability (x)	2.0	2.1	2.0	2.0	1.9
Net gearing (%) (incl perps)	51.1	45.0	40.6	51.5	55.3
Net gearing (%) (excl. perps)	51.1	45.0	40.6	51.5	55.3
Net interest cover (x)	na	na	4.0	3.8	3.8
Debt/EBITDA (x)	nm	nm	13.4	11.6	11.8
Capex/revenue (%)	29.8	25.5	15.9	14.3	13.3
Net debt/ (net cash)	5,273.4	5,901.5	5,463.1	7,117.0	7,865.5

Source: Company; Maybank IBG Research

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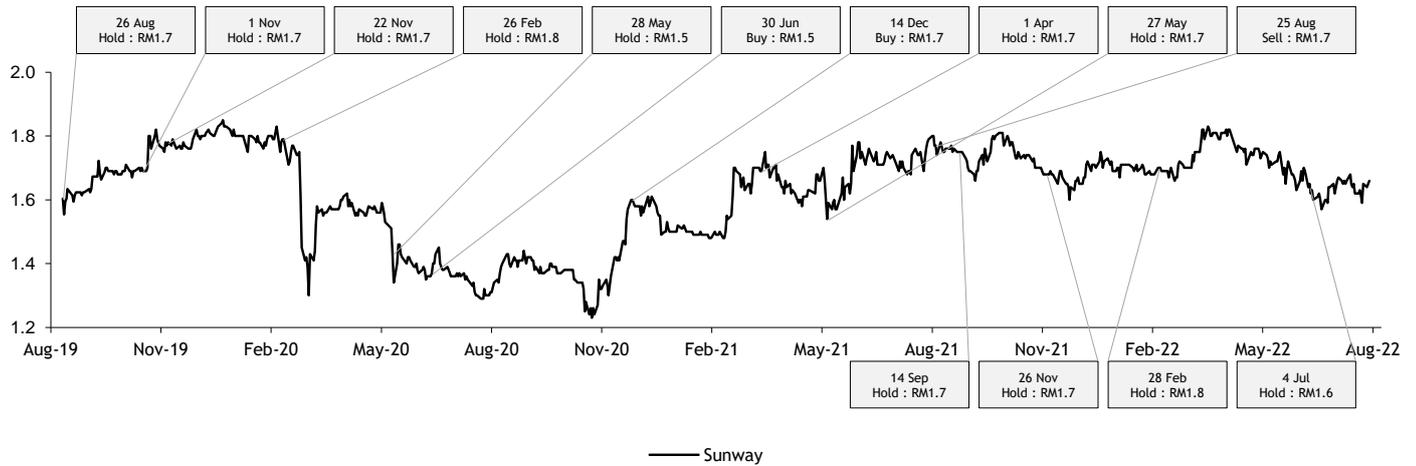
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