

COMPANY RESULTS

Sunway (SWB MK)

2Q22: Within Expectations

Sunway saw 2Q22 core earnings improve by 8% qoq (116% yoy) to RM136m, driven by higher contribution across all segments and improved progress billings amid economic reopening. 1H22 earnings came in within expectation, accounting for 53% of our full-year estimates. Property sales were weak in 1H22 amid lack of project launches due to delay in regulatory approvals. Earnings recovery is underway on resilient healthcare and strong unbilled sales. Maintain BUY. Target price: RM2.25.

2Q22 RESULTS

Year to 31 Dec (RMm)	2Q22	qoq % chg	yoy % chg	1H22	yoy % chg
Revenue	1,280.4	15.1	32.3	2,392.8	20.6
Property Development	286.4	81.0	94.3	444.6	81.8
Construction	316.8	(14.0)	45.3	685.5	27.1
Property Investment	149.6	23.5	140.0	270.7	123.7
Pre-tax profit	215.0	14.9	172.2	402.1	142.0
Property Development	25.7	9.8	12.4	49.1	12.8
Construction	44.4	(7.2)	414.7	92.2	154.0
Property Investment	53.4	18.7	433.6	98.4	399.5
PATAMI (ex-sukuk)	168.9	27.4	169.1	301.4	164.4
Core net profit (ex-sukuk)	135.5	8.4	116.0	260.6	128.6
Pre-tax Margins (%)	%	+ppt	+ppt	%	+ppt
Property Development	9.0	(5.8)	(6.5)	11.0	(6.8)
Construction	14.0	1.0	10.1	13.5	6.7
Property Investment	35.7	(1.5)	61.4	36.4	63.5

Source: Sunway, UOB Kay Hian

RESULTS

- 2Q22 results in line.** Sunway reported a higher core net profit of RM135.5m (+8.4% qoq, +>100% yoy) on the back of stronger revenue of RM1.3b (+15.1% qoq, +32.3% yoy). 1H22 earnings of RM260.6m (+>100% yoy) were within expectations, accounting for around 53% of our and consensus' full-year forecasts. The earnings growth was driven by higher contribution across almost all segments with the reopening of the economy. The strong yoy growth is mainly due to the lower base in 2021 due to the lockdown.
- 1H22 property sales of RM807m.** Effective property sales in 2Q22 stood at RM407m (+2% qoq, -5% yoy), bringing total effective property sales in 1H22 to RM807m (-48% yoy). This is mainly contributed by sales from local and Singapore projects. The weaker sales were due to a lack of launches (ytd: RM281m), while management is maintaining its full-year target of RM2.2b for 2022.

KEY FINANCIALS

Year to 31 Dec (RMm)	2020	2021	2022F	2023F	2024F
Net turnover	3,213	3,714	4,452	5,985	6,307
EBITDA	456	543	589	906	1,023
Operating profit	233	327	477	731	785
Net profit (rep./act.)	311	264	475	634	656
Net profit (adj.)	384	292	475	634	656
EPS (sen)	7.7	6.0	9.7	13.0	13.4
PE (x)	21.4	27.8	17.1	12.8	12.4
P/B (x)	0.9	0.7	0.7	0.6	0.6
EV/EBITDA (x)	32.7	27.4	25.3	16.5	14.6
Dividend yield (%)	0.9	1.5	2.3	3.1	3.2
Net margin (%)	9.7	7.1	10.7	10.6	10.4
Net debt/(cash) to equity (%)	55.4	44.0	45.6	58.2	59.7
Interest cover (x)	8.7	6.0	8.2	(97.1)	(10.2)
ROE (%)	3.5	2.4	3.9	5.0	5.1
Consensus net profit	-	-	484	587	624
UOBKH/Consensus (x)	-	-	0.98	1.08	1.05

Source: Sunway Berhad, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	RM1.65
Target Price	RM2.25
Upside	+35.5%

COMPANY DESCRIPTION

A leading construction company and property developer in Malaysia

STOCK DATA

GICS sector	Industrials
Bloomberg ticker:	SWB MK
Shares issued (m):	4,889.1
Market cap (RMm):	8,115.9
Market cap (US\$m):	1,809.0
3-mth avg daily t'over (US\$m):	0.2

Price Performance (%)

52-week high/low RM1.83/RM1.57

1mth	3mth	6mth	1yr	YTD
1.2	(5.1)	(1.2)	(7.8)	(3.5)

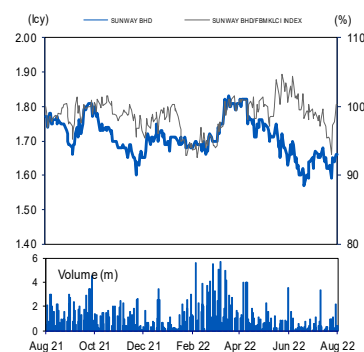
Major Shareholders

	%
Sungei Way Corp Sdn Bhd	51.6
Skim Amanah Saham Bumiputera	5.7
Sharp Ventures Sdn Bhd	4.0

FY22 NAV/Share (RM) 2.53

FY22 Net Debt/Share (RM) 1.15

PRICE CHART



Source: Bloomberg

ANALYST(S)

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STOCK IMPACT

- Property development: Focusing on existing projects...** Its property development arm reported higher 2Q22 PBT of RM25.7m (+10% qoq, +12% qoq). Note that of the projects launched in 2021, Parc Central Tampines in Singapore has been fully taken up, while local project Sunway Belfield also saw 100% and 96% take-up rates respectively for Phases A and B as well as Sunway Velocity TWO that saw 90% take-up rate for its Phase C. However, earnings from the Singapore projects (Parc Canberra and Parc Central Tampines) will only be recognised in 2023 upon project completion amid the adoption of MFRS15. Ytd, the company has only launched Sunway Jernih in Kajang (serviced residence) with a GDV of RM281m in May.
- ... amid lack of launches this year.** We believe Sunway may not be able to reach its launch target of RM2.3b worth of projects this year (40% in Singapore and China) as the local property sector as a whole is facing challenges in securing APDL approvals due to the delays from Ministry of Housing and Local Government (KPKT), which is impacting its planned launches. Sunway is also facing similar difficulties in Singapore, where it saw delays in the land acquisition approvals. The planned launches in China will be deferred to next year as well given the weak market condition in the country. Hence, in order to hit its sales target of RM2.2b this year, Sunway will need to achieve it through its existing projects. This will be supported by its strong unbilled sales of RM4.14b (4x 2022 property revenue).
- Healthcare: Prime beneficiary of international border reopening.** The healthcare arm reported stronger 2Q22 core PAT of RM35.3m (+25% qoq, +28% qoq). This is mainly due to the higher number of admissions and outpatient treatments at Sunway Medical Centres. We expect more elective surgeries/operations to be carried out post-lockdown, while the reopening of international borders will benefit the group as medical tourists accounted for around 10% of its patients pre-COVID-19.
- Construction: Positive momentum so far.** Construction PAT came in >100% yoy higher mainly due to the low-base effect, with higher productivity level and improved construction billings given the absence of COVID-19-related lockdowns this year. 1H22 PBT margin also increased 7ppt yoy due to the recalibration of margins for some of the nearly-completed projects. The group has replenished RM563m worth of new contracts in 1H22 (vs RM2b target) with an outstanding orderbook of RM4.42 and tender book of RM17.4b. Sunway is among the frontrunners for the civil packages of MRT3 given its strong execution track record, coupled with its strong balance sheet that can help to meet the PFI requirement.

EARNINGS REVISION/RISK

- Earnings outlook.** We expect Sunway to continue seeing earnings recovery in 2022 amid border reopening that will see the resumption of international medical tourism. Strong property sales in Singapore will result in strong earnings growth in 2023.

VALUATION/RECOMMENDATION

- Maintain BUY with an unchanged target price of RM2.25**, based on a 10% discount to our SOTP-based valuation of RM2.50/share (post dilution of warrants). Our target price implies a 2022F PE of 23x and 2022F P/B of 0.9x (five-year mean).

ENVIRONMENTAL, SOCIAL, GOVERNANCE (ESG) UPDATES

<ul style="list-style-type: none"> Environmental <ul style="list-style-type: none"> - In 2020, 3% of electricity was generated by solar panels, equivalent to powering up 604 homes for one year. The group also diverted 4% of waste from landfill. Social <ul style="list-style-type: none"> - The group has donated RM1m to the National COVID-19 Fund. Governance <ul style="list-style-type: none"> - Good company transparency along with an anti-bribery and anti-corruption policy.
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SOTP-BASED VALUATION

	(RMm)	Remarks
Property development	3,843	20% discount to property RNAV
REIT (40.9% stake)	2,171	Valuation based on target price of RM1.55, based on DDM
Construction (54.4% stake)	1,101	Valuation based on target price of RM1.50, 16x 2022F PE
Quarry & building materials	290	8x PE 2022F quarry profits
Trading	388	8x PE 2022F trading profits
Investment Properties	1,497	
Healthcare	3,930	84% stake of RM4.67b
Less: Holding co (debt)/ cash	-121	Based on hold.co 2020's net debt plus RM0.75b stake sales proceeds
Total SOTP value (A)	13,099	
Share base (m) (B)	4,963	
Warrants proceeds (C)	964	Assume conversion price at RM1.44/share (expiring in Oct 24)
Total SOTP value post warrants proceeds (A+C)	14,063	
Enlarged share base (m)	5,633	
SOTP/share (RM)	2.50	
Discount	10%	
Target price (RM)	2.25	

Source: Sunway, UOB Kay Hian

EXPANSION PLAN FOR MEDICAL CENTRES

State	Location	Total beds	Exp. completion
Existing Medical Centre			
Kuala Lumpur	Sunway City - (Tower A,B,C)	616	Completed
	Velocity	240*	Completed
Expansion plan			
Kuala Lumpur	Sunway City - (Tower D,E,F)	465	Q222
	Velocity (Phase 2)	110	Q323
Selangor	Damansara	336	Q323
Penang	Seberang Jaya	333	2022
	Paya Terubong	120**	Planning stage
Perak	Ipoh	260	Q124
Kelantan	Kota Bharu	200	Q325
Johor	Iskandar	200**	Planning stage
Total		2,880	

*Full capacity

**Estimates

Source: Sunway, UOB Kay Hian

KEY ASSUMPTIONS

(RMm)	2022F	2023F	2024F
Property sales target	2,000	1,610	1,400
Construction orderbook replenishment	2,000	2,000	1,500
Healthcare profits	34	76	131

Source: Sunway, UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (RMm)	2021	2022F	2023F	2024F
Net turnover	3,714	4,452	5,985	6,307
EBITDA	543	589	906	1,023
Deprec. & amort.	216	112	175	238
EBIT	327	477	731	785
Associate contributions	84	225	323	373
Net interest income/(expense)	55	59	(8)	(77)
Pre-tax profit	466	761	1,047	1,081
Tax	(116)	(183)	(262)	(270)
Minorities	(55)	(72)	(121)	(123)
Net profit	264	475	634	656
Net profit (adj.)	292	475	634	656

CASH FLOW

Year to 31 Dec (RMm)	2021	2022F	2023F	2024F
Operating	1,038	467	(333)	1,153
Pre-tax profit	466	761	1,047	1,081
Tax	(111)	(183)	(262)	(270)
Deprec. & amort.	216	112	175	238
Associates	(84)	(225)	(323)	(373)
Working capital changes	179	61	(977)	401
Non-cash items	372	(59)	8	77
Investing	(1,323)	(668)	(1,197)	(1,261)
Capex (growth)	(1,196)	(668)	(1,197)	(1,261)
Investments	0	0	0	0
Proceeds from sale of assets	0	0	0	0
Others	(127)	0	0	0
Financing	833	(132)	(261)	(340)
Dividend payments	(358)	(190)	(253)	(263)
Issue of shares	0	0	0	0
Proceeds from borrowings	1,384	0	0	0
Others/interest paid	(194)	59	(8)	(77)
Net cash inflow (outflow)	548	(332)	(1,791)	(448)
Beginning cash & cash equivalent	2,261	2,814	2,482	691
Changes due to forex impact	5	0	0	0
Ending cash & cash equivalent	2,814	2,482	691	243

BALANCE SHEET

Year to 31 Dec (RMm)	2021	2022F	2023F	2024F
Fixed assets	5,120	5,676	6,698	7,721
Other LT assets	11,965	12,190	12,513	12,887
Cash/ST investment	2,814	2,482	691	243
Other current assets	5,188	5,300	7,028	7,390
Total assets	25,087	25,647	26,930	28,241
ST debt	4,093	4,093	4,093	4,093
Other current liabilities	2,613	2,785	3,536	4,299
LT debt	4,022	4,022	4,022	4,022
Other LT liabilities	1,236	1,236	1,236	1,236
Shareholders' equity	12,035	12,351	12,762	13,187
Minority interest	1,089	1,161	1,282	1,405
Total liabilities & equity	25,087	25,647	26,930	28,241

KEY METRICS

Year to 31 Dec (%)	2021	2022F	2023F	2024F
Profitability				
EBITDA margin	14.6	13.2	15.1	16.2
Pre-tax margin	12.5	17.1	17.5	17.1
Net margin	7.1	10.7	10.6	10.4
ROA	1.1	1.9	2.4	2.4
ROE	2.4	3.9	5.0	5.1
Growth				
Turnover	15.6	19.9	34.4	5.4
EBITDA	19.0	8.5	53.8	12.9
Pre-tax profit	(5.0)	63.4	37.6	3.2
Net profit	(15.3)	80.3	33.3	3.6
Net profit (adj.)	(24.0)	62.9	33.3	3.6
EPS	(22.9)	62.9	33.3	3.6
Leverage				
Debt to total capital	38.2	37.5	36.6	35.7
Debt to equity	67.4	65.7	63.6	61.5
Net debt/(cash) to equity	44.0	45.6	58.2	59.7
Interest cover (x)	6.0	8.2	(97.1)	(10.2)

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