

### COMPANY RESULTS

## Sunway Bhd (SWB MK)

4Q21: In Line; A Proxy Of Economic Reopening

Sunway saw 4Q21 core earnings improve by 123% qoq on higher contribution across all segments as lockdown measures were eased. Earnings were weaker yoy due to lumpy earnings recognition from Singapore in 2020. 2021's core earnings of RM297m are in line. Earnings recovery is underway given the resilient healthcare division and strong property take-up. Maintain BUY on share price weakness with a target price of RM2.25.

### 4Q21 RESULTS

Year to 31 Dec	4Q21 (RMm)	qoq % chg	yoy % chg	2021 (RMm)	yoy % chg
Revenue	1,243.8	16.8	(2.7)	3714.6	15.8
Property Development	182.6	(7.3)	(0.7)	624.2	26.1
Property Investment	379.6	97.0	(10.6)	1111.7	12.3
Construction	133.4	130.0	215.2	312.3	(6.5)
Pre-tax profit	256.6	125.4	8.8	465.7	(5.0)
- Property Development	64.4	44.2	(71.0)	152.6	(47.7)
- Property Investment	91.1	326.7	133.9	148.8	41.6
- Construction	36.8	n.m.	n.m.	(8.3)	(69.6)
PATAMI (ex-sukuk)	147.1	81.4	(13.2)	263.6	(15.3)
Core net profit (ex-sukuk)	180.8	123.2	(13.5)	297.3	(22.6)
Pre-tax Margins (%)		<u>±ppt</u>	<u>±ppt</u>	<u>%</u>	<u>±ppt</u>
- Property Development	35.2	12.6	(85.6)	24.4	34.5
- Property Investment	24.0	12.9	14.8	13.4	2.8
- Construction	27.6	48.8	n.m.	(2.7)	5.5

Source: Sunway, UOB Kay Hian

### RESULTS

- 2021 results in line.** Sunway reported a core net profit of RM180.8m (-14% yoy, +>100% qoq). Headline net profit of RM147m excluded a RM33.7m net profit from the healthcare division. The sequential growth was lifted by higher contribution across almost all segments with the reopening of the economy, while yoy weakness was due to lumpy earnings recognition from Singapore property projects in 2020. 2021 earnings of RM297.3m is in line with our expectation, accounting for 98% of our full-year forecast.
- Property sales of RM2.6b.** For 2021, Sunway achieved RM2.61b worth of property sales, more than double 2020's RM1.3b. This was mainly contributed by strong sales from local and Singapore projects.

### 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)	21.7	28.1	17.3	13.0	12.5
P/B (x)	0.9	0.7	0.7	0.6	0.6
EV/EBITDA (x)	32.9	27.6	25.5	16.6	14.7
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	-	-	477.0	589.0	n.a.
UOBKH/Consensus (x)	-	-	1.00	1.08	n.a.

Source: Sunway Bhd Bloomberg, UOB Kay Hian

## BUY

(Maintained)

Share Price	RM1.68
Target Price	RM2.25
Upside	+33.9%

### 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):	8,213.6
Market cap (US\$m):	1,955.8
3-mth avg daily t'over (US\$m):	0.4

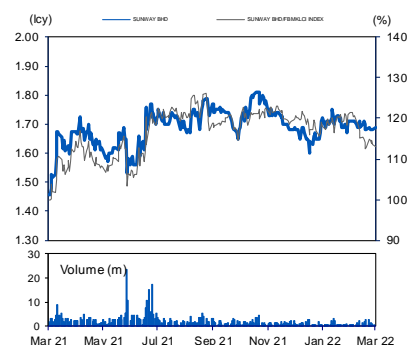
### Price Performance (%)

52-week high/low	RM1.81/RM1.48			
<b>1mth</b>	<b>3mth</b>	<b>6mth</b>	<b>1yr</b>	<b>YTD</b>
(1.2)	0.0	(5.1)	12.8	(2.3)

### 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)

**Chloe Tan Jie Ying**  
 +603-2147 1916  
 chloetan@uobkayhian.com

### STOCK IMPACT

- Property development: RM2.2b sales target; lumpy earnings from 2023 onwards.** Its property development arm reported 4Q21 PBT of RM64.4m (-71% yoy, +44% qoq). Note that its projects launched in 2021 have seen good take-up rates - Parc Central Tampines in Singapore has achieved a 99% take-up rate, while local project Sunway Belfield saw 98% and 93% take-up rates respectively for Phases 1 and 2. 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. Sunway is slated to launch another RM2.3b worth of projects in 2022, and targets to have RM2.2b sales in 2022. Unbilled sales of RM3.96b represents 3.6x 2022 property revenue.
- Healthcare: Remain resilient.** The healthcare arm reported 4Q21 core PAT of RM33.7m (+50% yoy, +15% qoq) – excluding the one-off net gain arising from the divestment of Sunway Healthcare group. This was driven by a higher number of admissions and outpatient treatments, and Sunway Velocity Medical Centre's profit of RM0.5m (vs 3Q21 loss of RM0.6m and 4Q20 loss of 3.9m) We believe its aggressive expansion plan could see five-year (2022-27) earnings CAGR of 20-25%, assuming an average 25% EBITDA margin. This is expected to contribute about 20% of Sunway's 2023 earnings vs 3% in 2020.
- Construction: Strong recovery.** Construction PBT was higher (+>100% yoy and qoq) on the back of improvement in construction margin with the re-calibration of margins for some of its nearly-completed projects. The group has secured RM1.5b worth of new contracts in 2021 (vs RM2b replenishment target) with an outstanding orderbook of RM4.8b.

### EARNINGS REVISION/RISK

- Revise 2022 earnings downward by 7% for housekeeping purposes** (mainly on lower margin from property investment, trading and quarry). We expect Sunway to see an earnings recovery in 2022 on the back of the reopening of the economy, with improvement across all segments. Moreover, strong property sales momentum in Singapore will result in Sunway seeing a 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 (its five-year mean).

### ENVIRONMENTAL, SOCIAL, GOVERNANCE (ESG) UPDATES

<ul style="list-style-type: none"> <li> <b>Environmental</b> <ul style="list-style-type: none"> <li>- 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.</li> <li>- Key targets by 2030 include: a) reducing emission intensity of revenue by 10% (from 2025), b) at least 25% of electricity to be generated from renewable energy sources, c) to divert 40% of landfill waste, d) to reduce overall water intensity from municipal potable water supply by 10% (from 2025), and e) all industrial property and construction sites to be ISO 14001:2015 certified.</li> </ul> </li> <li> <b>Social</b> <ul style="list-style-type: none"> <li>- The group has donated RM1m to the National COVID-19 Fund.</li> </ul> </li> <li> <b>Governance</b> <ul style="list-style-type: none"> <li>- Good company transparency along with an anti-bribery and anti-corruption policy.</li> </ul> </li> </ul>
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### 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
<b>Total SOTP value (A)</b>	<b>13,099</b>	
Share base (m) (B)	4,963	
Warrants proceeds (C)	964	Assume conversion price at RM1.44/share (expiring in Oct 24)
<b>Total SOTP value post warrants proceeds (A+C)</b>	<b>14,063</b>	
Enlarged share base (m)	5,633	
<b>SOTP/share (RM)</b>	<b>2.50</b>	
Discount	10%	
<b>Target price (RM)</b>	<b>2.25</b>	

Source: Sunway, UOB Kay Hian

### EXPANSION PLAN FOR MEDICAL CENTRES

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

\* Full capacity

\*\* Estimates

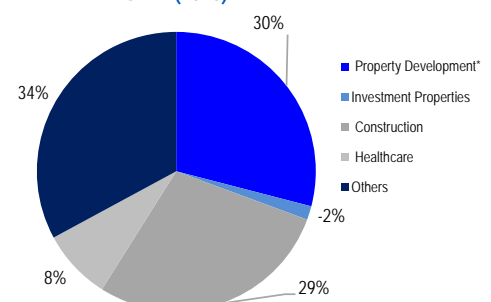
Source: Sunway, UOB Kay Hian

### 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

### PBT BREAKDOWN (2020)



### PROFIT & LOSS

Year to 31 Dec (RMm)	2021	2022F	2023F	2024F
<b>Net turnover</b>	<b>3,714</b>	<b>4,452</b>	<b>5,985</b>	<b>6,307</b>
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)
<b>Pre-tax profit</b>	<b>466</b>	<b>761</b>	<b>1,047</b>	<b>1,081</b>
Tax	(116)	(183)	(262)	(270)
Minorities	(55)	(72)	(121)	(123)
<b>Net profit</b>	<b>264</b>	<b>475</b>	<b>634</b>	<b>656</b>
Net profit (adj.)	292	475	634	656

### 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
<b>Total assets</b>	<b>25,087</b>	<b>25,647</b>	<b>26,930</b>	<b>28,241</b>
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
<b>Total liabilities &amp; equity</b>	<b>25,087</b>	<b>25,647</b>	<b>26,930</b>	<b>28,241</b>

### CASH FLOW

Year to 31 Dec (RMm)	2021	2022F	2023F	2024F
<b>Operating</b>	<b>1,038</b>	<b>467</b>	<b>(333)</b>	<b>1,153</b>
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
<b>Investing</b>	<b>(1,323)</b>	<b>(668)</b>	<b>(1,197)</b>	<b>(1,261)</b>
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
<b>Financing</b>	<b>833</b>	<b>(132)</b>	<b>(261)</b>	<b>(340)</b>
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)
<b>Net cash inflow (outflow)</b>	<b>548</b>	<b>(332)</b>	<b>(1,791)</b>	<b>(448)</b>
<b>Beginning cash &amp; cash equivalent</b>	<b>2,261</b>	<b>2,814</b>	<b>2,482</b>	<b>691</b>
Changes due to forex impact	5	0	0	0
<b>Ending cash &amp; cash equivalent</b>	<b>2,814</b>	<b>2,482</b>	<b>691</b>	<b>243</b>

### KEY METRICS

Year to 31 Dec (%)	2021	2022F	2023F	2024F
<b>Profitability</b>				
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
<b>Growth</b>				
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
<b>Leverage</b>				
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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