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26 May 2022

Malaysia Property

Reuters SWAY.KL
Bloomberg SWB MK

Priced on 26 May 2022
KLSE Comp @ 1,541.2

12M hi/lo RM1.83/1.54

12M price target RM2.05
±% potential +18%

Shares in issue 4,873.7m
Free float (est.) 31.0%

Market cap US\$1.9bn

3M ADV US\$0.8m

Foreign s'holding 10.0%

Major shareholders

Jeffrey Cheah Fook Ling 63.0%
EPF 9.3%

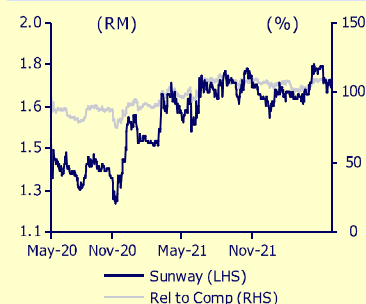
Blended ESG Score (%)*

Overall 82.7
Country average 71.0
GEM sector average 68.6

*Click to visit company page on cls.com for details

Stock performance (%)

	1M	3M	12M
Absolute	(3.9)	3.6	4.8
Relative	(0.8)	7.0	7.3
Abs (US\$)	(5.4)	(1.0)	(1.2)



Source: Bloomberg

Slowly but surely

Recovery to a pre-pandemic state to take time

Sunway's 1Q22 earnings were within ours and consensus expectations. While Malaysia has finally "reopened", we believe it will take time for Sunway's Hospitality and Leisure operations to normalise at pre-Covid levels. Nonetheless, near-term earnings would be supported by stronger contributions from its property development projects in Singapore. Hospital occupancy has improved further to 65% (from 60% QoQ) for both its hospitals. We reiterate Outperform with target price at RM2.05.

- Sunway's 1Q22 core earnings of RM128m (+150% YoY, +12.3% QoQ) were within ours and consensus expectations at 29% and 27% respectively.
- We think this is in-line as: i) this quarter had a stronger recognition of finance income from its investment holdings division which tends to fluctuate over time; and ii) expectations of weakened Trading operations due to lockdowns in China.
- 1Q22 property sales were at RM447m, forming 20% of the RM2.2bn full-year target.
- The company has yet to quantify the impact of potential margin compressions from the high construction cost environment. While we expect higher costs to arise for its upcoming launches, it should still be palatable for the company given the integrated nature of the business.
- On the RM2.3bn planned launches for the year, the final amount launched will be dependent on the market environment (bulk planned to take place in 2H22).
- Hospital occupancy is close to 65% for both Sunway Medical Centre and Sunway Medical Centre Velocity.
- Retail footfall is at pre-Covid levels, while Office occupancy remains stable.
- Property investment operations continue to be affected by lower than optimal occupancy in its Hospitality and Leisure operations despite borders reopening which are dependent on the inflow volume of foreign tourists.
- Trading and Manufacturing operations are taking a hit from lockdowns in China.
- Despite the negatives in some of its other segments, Sunway's FY22/23 earnings would be driven by strong contributions from its Property Development segment, particularly from Singapore.
- Unbilled sales are at RM4.18bn (with RM2.2bn from Singapore), representing a strong cover ratio of 3.7x (ex-Singapore).
- Maintain forecasts and Outperform rating with a target price of RM2.05.

Financials

Year to 31 December	20A	21A	22CL	23CL	24CL
Revenue (RMm)	3,829	4,529	5,357	5,964	5,438
Net profit (RMm)	388	319	442	755	666
EPS (sen)	8.0	6.6	9.1	15.5	13.7
CL/consensus (10) (EPS%)	-	-	101	150	117
EPS growth (% YoY)	(39.0)	(17.6)	38.4	70.9	(11.8)
PE (x)	21.9	26.6	19.2	11.2	12.7
Dividend yield (%)	0.9	1.2	1.3	2.2	2.0
FCF yield (%)	3.6	3.7	7.6	5.8	1.8
PB (x)	1.1	0.9	0.8	0.8	0.8
ROE (%)	4.6	3.3	3.9	6.4	5.4
Net debt/equity (%)	51.0	45.0	39.7	35.2	34.3

Source: www.cls.com

Figure 1

Earnings summary					
	1Q22	1Q21	YoY	4Q21	QoQ
Revenue	1112.5	1016.7	9.4%	1479.6	(24.8%)
EBIT	72.1	49.1	47.0%	270.1	(73.3%)
Net Interest	15.8	14.5	9.0%	1.2	1241.4%
Share of Associates/JCE	99.2	23.6	319.5%	16.7	492.7%
PBT	187.1	87.2	114.6%	288.0	(35.0%)
Tax	(27.9)	(16.8)	66.1%	(70.8)	(60.6%)
PAT	159.2	70.4	126.2%	217.3	(26.7%)
MI	(18.2)	(11.9)	52.4%	(48.0)	(62.2%)
PATAMI	133.4	50.6	163.8%	162.1	(17.7%)
EI	(5.3)	0.7	(918.9%)	(48.0)	(88.9%)
Core Earnings	128.1	51.2	150.1%	114.1	12.3%
EBIT margin	6.5%	4.8%	1.7%	18.3%	(11.8%)
PBT margin	16.8%	8.6%	8.2%	19.5%	(2.7%)
PAT margin	11.5%	5.0%	6.5%	7.7%	3.8%

Source: CLSA, Company

Figure 2

Fair value			
Division	Value (RM m)	RM/share	Methodology
Construction (SunCon)	1,269	0.26	54.56% stake based on SunCon TP of RM1.80
Sunway REIT (SunREIT)	1,960	0.40	40.88% stake based on SunREIT TP of RM1.50
Property Development	2,214	0.45	Discounted RNAV
Property Investment	2,228	0.46	Book Value
Healthcare	3,938	0.81	Divestment valuation (to GIC)
Trading & Manufacturing	269	0.06	10X forward P/E
Quarry	108	0.02	10X forward P/E
	11,986	2.46	
Holding Company Net Cash/(Debt)	(871)	(0.18)	
	11,115	2.28	
10% Holding Company Discount	(1,111)	(0.23)	
Fair Value (RM)	10,003	2.05	

Source: CLSA, Company

Valuation details

Our target price is based on a 10% discount to an SOTP-derived value to reflect the various company's businesses. Sunway Construction and Sunway Real Estate Investment are valued at the effective stake of the implied market cap derived from our target price. Property development is derived from a 70% discount to RNAV/share. The property investment division is valued at book value. The healthcare segment is valued at its post-money valuation based on its stake sale to Singapore sovereign wealth fund GIC, while the quarry, trading, and manufacturing segments are valued at 10x 23CL PE.

Investment risks

Key risks are a longer-than-expected recovery in the Johor property market (large exposure to the Johor landbank) and a prolonged movement control order with the ongoing Covid-19 pandemic, which could hinder leisure and hospitality assets.

Valuation details - Sunway Construction Group Bhd SCGB MK

Our target price is derived from 15.2x 23CL earnings, one standard deviation above the 10-year mean PE for the KL Construction index. We accord an above-sector average PE, given the company's flow of internal jobs and strong balance sheet.

Investment risks - Sunway Construction Group Bhd SCGB MK

The main concern is construction risk. Specific risks include lower-than-expected margins (below 5-8%) or if the amount of projects secured falls below our expectation, either due to an inability to secure projects or project rollout delays. Higher-than-expected steel price increases could cut into margins as SunCon hedges steel needs for a future six-month period. On the precast segment, another risk is margin recovery timing, currently in the doldrums due to competition. Prolonged Covid-19 could also reduce operating efficiency.

Valuation details - Sunway Real Estate Investment SREIT MK

We use a DDM valuation approach to value Sunway Reit, consistent with how we value other Reits. Our cost of equity is 7.7%, using a risk-free rate of 3%, market risk premium of 7.9%, and beta of 0.6x. We assume terminal growth of 1%, which is below the 3% growth of its rental escalations and is a risk due to Covid-19.

Investment risks - Sunway Real Estate Investment SREIT MK

High gearing represents the biggest risk for Sunway Reit; while funding via perpetual securities is available to take on opportunistic acquisitions, the drawdown from this facility dilutes the interest of investors, given preferential treatment and higher funding cost. Upside risk to the stock would arise if funding costs are lower. However, in view of Covid-19 and the movement control order, risk to retail operations is relatively high, while the hotel segment, although severely affected, is protected by minimum guaranteed rental rates, mostly up to CY22.



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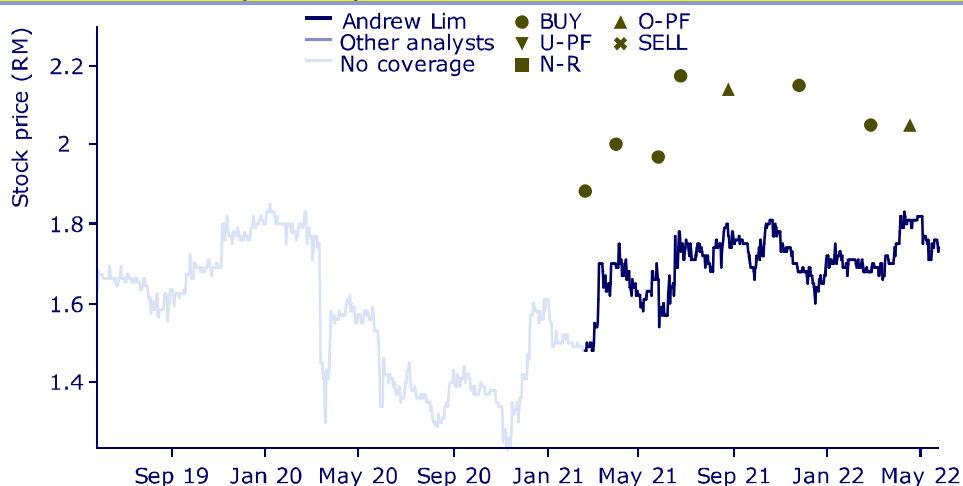
- Sunway (SWB MK - RM1.74 - OUTPERFORM)
- SunCon (SCGB MK - RM1.57 - BUY)
- Sunway Reit (SREIT MK - RM1.56 - O-PF)

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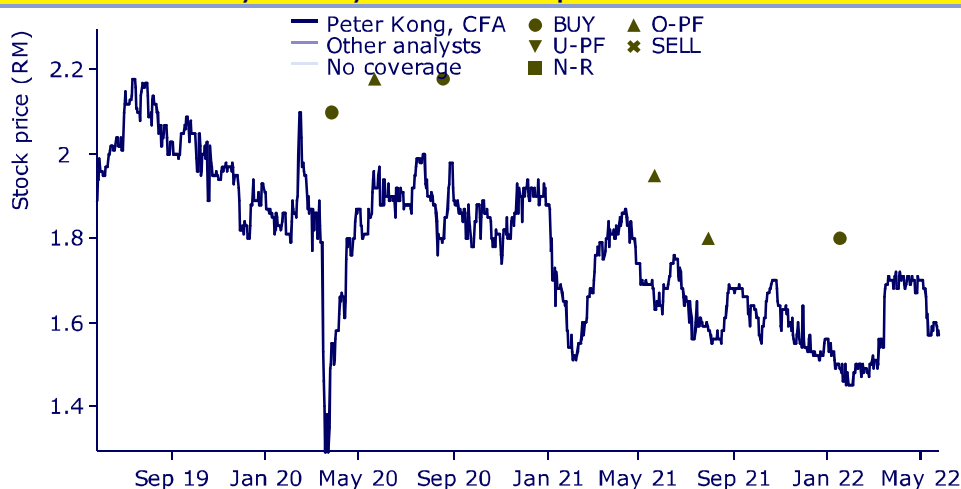
Recommendation history of Sunway Bhd SWB MK



Date	Rec	Target	Date	Rec	Target
18 Apr 2022	O-PF	2.05	24 Jun 2021	BUY	2.17
26 Feb 2022	BUY	2.05	26 May 2021	BUY	1.97
25 Nov 2021	BUY	2.15	01 Apr 2021	BUY	2.00
25 Aug 2021	O-PF	2.14	20 Feb 2021	BUY	1.88

Source: CLSA

Recommendation history of Sunway Construction Group Bhd SCGB MK



Date	Rec	Target	Date	Rec	Target
17 Jan 2022	BUY	1.80	19 Aug 2020	BUY	2.18
30 Jul 2021	O-PF	1.80	22 May 2020	O-PF	2.18
21 May 2021	O-PF	1.95	27 Mar 2020	BUY	2.10

Source: CLSA

Recommendation history of Sunway Real Estate Investment SREIT MK



Date	Rec	Target	Date	Rec	Target
31 Jan 2022	O-PF	1.50	14 Feb 2020	U-PF	1.90
10 Nov 2021	U-PF	1.50	05 Nov 2019	U-PF	1.75
11 May 2021	U-PF	1.40	09 Aug 2019	SELL	1.75
04 Aug 2020	U-PF	1.50	10 Jun 2019	SELL	1.70
20 May 2020	U-PF	1.55			

Source: CLSA

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