

"1Q22 results within expectations"

Share price performance



	1M	3M	12M
Absolute (%)	-4.4	3.6	4.8
Rel KLCI (%)	-1.0	7.0	7.3

	BUY	HOLD	SELL
Consensus	9	3	-

Stock Data

Sector	Property
Issued shares (m)	4,889.1
Mkt cap (RMm)/(US\$m)	8,507.0/1,933.7
Avg daily vol - 6mth (m)	1.4
52-wk range (RM)	1.53-1.85
Est free float	25.5%
Stock Beta	0.56
Net cash/(debt) (RMm)	(5,901.5)
ROE (2022E)	3.5%
Derivatives	No
Shariah Compliant	Yes
FTSE4Good Constituent	Yes
FBM EMAS (Top 200)	Top 25%
ESG Rank	
ESG Risk Rating	13.6 (-6.6 yoy)

Key Shareholders

Sungei Way Corp Sdn.	56.9%
EPF	8.5%
Active Equity Sdn.	3.2%
AIA Bhd	2.8%

Source: Bloomberg, Affin Hwang, Bursa Malaysia, ESG Risk Rating Powered by Sustainalytics

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Sunway Berhad (SWB MK)

BUY (maintain)

Up/Downside: +28.7%

Price Target: RM2.24

Previous Target (Rating): RM2.28 (BUY)

Sustained earnings recovery

- Sunway's 1Q22 results were within market and our expectations. Core net profit jumped 185% yoy to RM124m in 1Q22, mainly driven by higher property development, construction and quarry earnings
- The sustained yoy earnings recovery was driven by the strong operating performance due to the easing of Covid-19 containment measures and strong pent-up demand for properties
- We maintain our earnings forecasts. Sunway remains a top sector BUY with lower 12-month TP of RM2.24, based on a 20% discount to RNAV

Within expectations

Core net profit of RM124m (-31% qoq and +185% yoy) in 1Q22 comprised 26% of full-year consensus and our forecasts of RM473-482m. Revenue (excluding healthcare division) grew 31% yoy to RM1.1bn in 1Q22, mainly driven by higher revenue for all divisions except its quarry and trading segments. The healthcare division was reclassified as a joint venture following the partial disposal of its stake to GIC. Similarly, PBT surged 156% yoy to RM187m in 1Q22, mainly due to higher property development (+13% yoy), construction (+73% yoy) and quarry (+59% yoy) earnings. Revenue and PBT declined 11% qoq and 27% qoq in 1Q22 respectively as the first quarter is seasonally a weak quarter compared to the fourth quarter.

Robust sales and new construction contract wins

Sunway achieved RM447m sales in 1Q22, down 61% yoy from RM1.16bn in 1Q21, mainly due to lower sales in Singapore. With more aggressive launches expected in 2H22, we believe Sunway is on track to achieve its target sales of RM2.2bn in 2022. Unbilled sales of RM3.3bn are set to support revenue growth over the next 2-3 years. SunCon secured RM266m in new contracts in 1Q22 to replenish its remaining order book to RM4.4bn.

Reaffirming our BUY call

We like Sunway as a key beneficiary of the re-opening of key economic sectors and the re-opening of borders will drive a stronger recovery in its leisure and hospitality and healthcare businesses. We cut our RNAV/share estimate to RM2.80 from RM2.85 previously to reflect net debt at the company level as at 31 December 2021, partly offset by the positive impact of rolling forward the valuation base year to 2023E for our DCF valuation. Based on the same 20% discount to RNAV, we trim our TP to RM2.24 from RM2.28 previously. We reaffirm our BUY call. Downside risks: lower-than-expected property sales; implementation delays of infrastructure projects.

Earnings & Valuation Summary

FYE 31 Dec	2020	2021	2022E	2023E	2024E
Revenue (RMm)	3,208.8	3,714.2	3,894.4	4,154.1	4,218.5
EBITDA (RMm)	499.0	582.8	534.7	767.5	812.8
Pretax profit (RMm)	490.1	465.7	673.0	747.1	797.5
Net profit (RMm)	340.3	294.4	482.5	532.1	572.1
EPS (sen)	6.9	6.0	9.9	10.9	11.7
PER (x)	25.4	28.9	17.6	16.0	14.9
Core net profit (RMm)	382.8	398.5	482.5	532.1	572.1
Core EPS (sen)	7.7	8.2	9.9	10.9	11.7
Core EPS growth (%)	(40.9)	5.7	21.1	10.3	7.5
Core PER (x)	22.6	21.3	17.6	16.0	14.9
Net DPS (sen)	1.5	4.5	5.0	5.5	5.5
Dividend Yield (%)	0.9	2.6	2.9	3.2	3.2
EV/EBITDA	27.9	24.7	26.7	18.9	17.8

Chg in EPS (%)

Affin/Consensus (x)

1.0

0.9

0.9

Source: Company, Affin Hwang forecasts

Fig 1: Results comparison

FYE 31 Dec (RMm)	1Q21	4Q21	1Q22	QoQ % chg	YoY % chg	Comment
Revenue	846	1,244	1,112	(11)	31	Higher property development (+63% yoy), property investment (+106% yoy) and construction (+15% yoy) revenue.
Op costs	(759)	(948)	(1,024)	8	35	Higher labour and building material costs.
EBITDA	88	296	88	(70)	1	
<i>EBITDA margin (%)</i>	<i>10.4</i>	<i>23.8</i>	<i>8.0</i>	<i>(15.8ppt)</i>	<i>(2.4ppt)</i>	
Deprn and amort	(54)	(33)	(33)	(1)	(39)	
EBIT	34	263	56	(79)	65	
<i>EBIT margin (%)</i>	<i>4.0</i>	<i>21.1</i>	<i>5.0</i>	<i>(16.1ppt)</i>	<i>1.0ppt</i>	
Interest income	39	38	45	20	17	
Interest expense	(24)	(35)	(30)	(15)	22	
Associates	24	17	99	493	319	Fair-value gain boosted associate Sunway REIT earnings
Forex gain (losses)	1	4	1	(84)	(48)	Unrealised forex gain on US\$ debt.
Exceptional items	(0)	(30)	16	(152)	NA	
Pretax profit	73	257	187	(27)	156	PBT contraction qoq is mainly due to seasonal factors. Strong yoy growth as pandemic movement restrictions were lifted.
Tax	(17)	(73)	(28)	(62)	66	
<i>Tax rate (%)</i>	<i>22.9</i>	<i>28.5</i>	<i>14.9</i>	<i>(13.6ppt)</i>	<i>(8.0ppt)</i>	
Minority interests	(12)	(29)	(19)	(34)	62	
Net profit	45	155	140	(10)	214	Within expectations.
EPS (sen)	0.8	2.6	2.4	(9)	210	
Core net profit	43	180	124	(31)	185	Within expectations. Exclude exceptional items.

Source: Affin Hwang, Company

Fig 2: Segmental revenue breakdown

FYE 31 Dec (RMm)	1Q21	4Q21	1Q22	QoQ % chg	YoY % chg
Ppty dev	97.2	182.6	158.2	(13.4)	62.8
Ppty inv	58.7	133.4	121.1	(9.2)	106.4
Construction	321.4	379.6	368.6	(2.9)	14.7
Trading	224.5	229.9	205.0	(10.8)	(8.7)
Quarry	77.2	105.7	76.2	(28.0)	(1.4)
Other	67.1	212.6	183.4	(13.7)	173.1
Total	846.1	1,243.8	1,112.5	(10.6)	31.5

Source: Affin Hwang, Company

Fig 3: Segmental PBT breakdown

FYE 31 Dec (RMm)	1Q21	4Q21	1Q22	QoQ % chg	YoY % chg
Ppty dev	20.7	64.4	23.4	(63.6)	13.2
Ppty inv	(16.9)	36.8	45.0	22.3	(366.9)
Construction	27.7	91.1	47.8	(47.5)	72.8
Trading	12.2	9.0	10.3	14.0	(15.8)
Quarry	3.1	4.4	4.9	10.4	58.7
Other	26.4	50.9	55.7	9.3	110.8
Total	73.2	256.6	187.1	(27.1)	155.6

Source: Affin Hwang, Company

Fig 4: Segmental PBT margin

FYE 31 Dec (%)	1Q21	4Q21	1Q22	QoQ ppt	YoY ppt
Ppty dev	21.3	35.2	14.8	(20.4)	(6.5)
Ppty inv	NA	27.6	37.2	9.6	NA
Construction	8.6	24.0	13.0	(11.0)	4.4
Trading	5.4	3.9	5.0	1.1	(0.4)
Quarry	4.0	4.2	6.4	2.2	2.4
Others	39.3	24.0	30.4	6.4	(9.0)
Total	8.6	20.6	16.8	(3.8)	8.2

Source: Affin Hwang, Company

Fig 5: RNAV and target price

RNAV by business segments	PER (X)	RNAV (RMm)
Property development		2,537
Property development JV		3,114
Property investment		4,496
Construction	16	1,536
Building materials	14	700
Quarry	14	420
Healthcare	94	4,688
Total		17,491
Co. net cash/(debt)		115.5
RNAV		17,606
Number of shares		4,889
RNAV/share (RM)		3.60
Fully-diluted no. of shares		6,536
Fully-diluted RNAV/share (RM)		2.85
Target price @ 20% discount to RNAV (RM)		2.28

Source: Affin Hwang estimates and forecasts

Important Disclosures and Disclaimer

Equity Rating Structure and Definitions

BUY	Total return is expected to exceed +10% over a 12-month period
HOLD	Total return is expected to be between -5% and +10% over a 12-month period
SELL	Total return is expected to be below -5% over a 12-month period
NOT RATED	Affin Hwang Investment Bank Berhad does not provide research coverage or rating for this company. Report is intended as information only and not as a recommendation

The total expected return is defined as the percentage upside/downside to our target price plus the net dividend yield over the next 12 months.

OVERWEIGHT	Industry, as defined by the analyst's coverage universe, is expected to outperform the KLCI benchmark over the next 12 months
NEUTRAL	Industry, as defined by the analyst's coverage universe, is expected to perform inline with the KLCI benchmark over the next 12 months
UNDERWEIGHT	Industry, as defined by the analyst's coverage universe is expected to under-perform the KLCI benchmark over the next 12 months

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