

"9M22 results were above expectations"

Share price performance



	1M	3M	12M
Absolute (%)	3.9	-4.8	-6.0
Rel KLCI (%)	1.0	-4.2	-4.0

	BUY	HOLD	SELL
Consensus	9	3	-

Stock Data

Sector	Property
Issued shares (m)	4,889.1
Mkt cap (RMm)/(US\$m)	7,724.7 / 1,724.5
Avg daily vol - 6mth (m)	0.8
52-wk range (RM)	1.45-1.85
Est free float	68.4%
Stock Beta	0.67
Net cash/(debt) (RMm)	(6,760.1)
ROE (2022E)	4.4%
Derivatives	No
Shariah Compliant	Yes
FTSE4Good Constituent	Yes
FBM EMAS (Top 200)	Top 25%
ESG Risk Rating	13.6 (0.0 yoy)

Key Shareholders

Sungei Way Corp Sdn.	56.9%
EPF	8.3%
AIA Bhd	2.3%

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

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Sunway Berhad (SWB MK)

BUY (maintain)

Up/Downside: +44.9%

Price Target: RM2.29

Previous Target (Rating): RM2.24 (BUY)

Strong rebound

- Sunway's 9M22 results surprised us on the upside. Core net profit jumped 85% yoy to RM414m in 9M22 as most divisions performed better, except the property development segment
- The group saw a strong earnings recovery with the lifting of pandemic movement restrictions and the reopening of borders, as well as realising gains from the disposal of an investment property and investments
- We lift our core EPS by 3-9% over 2022-24E to reflect higher earnings for its property unit. Sunway remains a top sector pick with a higher 12-month TP of RM2.29, based on a 20% discount to our higher RNAV

Above expectations

Core net profit of RM414m (+85% yoy) in 9M22 represents 84-86% of full-year consensus and our forecasts of RM482-495m. Revenue (excluding healthcare division) grew 20% yoy to RM3.66bn in 9M22, driven by higher revenue for all divisions. PBT surged 124% yoy to RM626m in 9M22, mainly driven by higher property investment (RM184m profit in 9M22 vs RM45m loss in 9M21), construction (+122% yoy), trading (+12% yoy) and quarry (+72% yoy) earnings. But property development PBT contracted 4% yoy. The healthcare division was reclassified as a joint venture following the partial disposal of its stake to GIC, which contributed RM105m share of earnings (+48% yoy). Despite the 1% qoq contraction in revenue, core net profit grew 6% qoq mainly due to strong property investment performance.

Lower sales and new construction contract wins

Sunway achieved RM1.43bn in sales for 9M22, down 34% yoy from RM2.17bn in 9M21, 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 RM4.24bn are set to support revenue growth over the next 2-3 years. Sunway Construction (SunCon) secured RM882m new contracts in 9M22 to replenish its remaining order book to RM4bn.

Reaffirming our BUY call

We like Sunway as a key beneficiary of the re-opening of key economic sectors and re-opening of borders will likely drive a stronger recovery in its leisure and hospitality and healthcare businesses. We lift our 2022-24E core EPS by 3-9% to reflect higher property investment and Sunway REIT earnings, partly offset by lower SunCon earnings. We lift our RNAV/sh to RM2.86 (from RM2.80) to reflect a higher property investment segment valuation. We reaffirm our BUY call on Sunway with a higher 12-month TP of RM2.29 (from RM2.24), based on 20% RNAV discount. Downside risks: lower-than-expected property sales and delays of infrastructure projects.

Earnings & Valuation Summary

FYE 31 Dec	2020	2021	2022E	2023E	2024E
Revenue (RMm)	3,208.8	3,714.2	4,148.0	4,289.5	4,358.3
EBITDA (RMm)	499.0	582.8	567.5	774.9	820.8
Pretax profit (RMm)	490.1	465.7	797.8	773.7	818.7
Net profit (RMm)	340.3	294.4	585.0	556.3	591.6
EPS (sen)	6.9	6.0	12.0	11.4	12.1
PER (x)	23.0	26.2	13.2	13.9	13.1
Core net profit (RMm)	382.8	398.5	525.6	556.3	591.6
Core EPS (sen)	7.7	8.2	10.8	11.4	12.1
Core EPS growth (%)	(40.9)	5.7	31.9	5.8	6.4
Core PER (x)	20.5	19.4	14.7	13.9	13.1
Net DPS (sen)	1.5	4.5	5.0	5.5	5.5
Dividend Yield (%)	0.9	2.8	3.2	3.5	3.5
EV/EBITDA	26.3	23.4	23.8	17.7	16.6
Chg in EPS (%)			+9.0	+4.3	+3.1
Affin/Consensus (x)			1.2	0.9	0.9

Source: Company, Bloomberg, Affin Hwang forecasts

Fig 1: Results comparison

FYE 31 Dec (RMm)	3Q21	2Q22	3Q22	QoQ % chg	YoY % chg	9M21	9M22	YoY % chg	Comment
Revenue	1,065	1,280	1,271	(1)	19	3,050	3,663	20	9M22: Higher revenue yoy for all segments with the lifting of pandemic lockdowns and reopening of borders.
Op costs	(918)	(1,111)	(1,127)	1	23	(2,706)	(3,258)	20	
EBITDA	147	169	144	(15)	(2)	344	406	18	
<i>EBITDA margin (%)</i>	<i>13.8</i>	<i>13.2</i>	<i>11.3</i>	<i>(1.9ppt)</i>	<i>(2.5ppt)</i>	<i>11.3</i>	<i>11.1</i>	<i>(0.2ppt)</i>	
Depn and amort	(55)	(33)	(29)	(12)	(47)	(161)	(94)	(41)	
EBIT	93	137	115	(16)	24	183	311	70	
<i>EBIT margin (%)</i>	<i>8.7</i>	<i>10.7</i>	<i>9.1</i>	<i>(1.6ppt)</i>	<i>0.3ppt</i>	<i>6.0</i>	<i>8.5</i>	<i>2.5ppt</i>	
Interest income	44	33	48	46	9	128	126	(2)	
Interest expense	(34)	(61)	(49)	(19)	45	(84)	(140)	67	
Associates	21	77	93	21	348	67	269	302	Fair value gain boosted associate Sunway REIT earnings
Forex gain (losses)	2	(9)	(41)	346	NA	5	(69)	NA	Unrealised forex loss on US\$ debt. But hedged by derivatives.
Exceptional items	(12)	39	59	50	NA	(19)	128	NA	
Pretax profit	114	215	224	4	97	280	626	124	Higher earnings for all divisions except the property development (-4% yoy) segment, which saw lower profit margin.
Tax	(19)	(24)	(42)	75	123	(43)	(93)	115	
<i>Tax rate (%)</i>	<i>16.4</i>	<i>11.1</i>	<i>18.6</i>	<i>7.5ppt</i>	<i>2.2ppt</i>	<i>15.5</i>	<i>14.9</i>	<i>(0.6ppt)</i>	
Minority interests	(14)	(22)	(17)	(22)	24	(27)	(59)	122	
Net profit	81	169	165	(2)	103	210	474	126	Above expectations.
EPS (sen)	1.4	2.9	2.8	(3)	103	4	8	125	
Core net profit	91	139	147	6	63	224	414	85	Above expectations. Exclude exceptional items.

Source: Affin Hwang, Company

Fig 2: Segmental revenue breakdown

FYE 31 Dec (RMm)	3Q21	2Q22	3Q22	QoQ % chg	YoY % chg	9M21	9M22	YoY % chg
Ppty dev	197.1	286.4	278.1	(2.9)	41.1	441.6	722.7	63.6
Ppty inv	58.0	149.6	188.6	26.1	225.3	179.0	459.3	156.6
Construction	192.7	316.8	305.1	(3.7)	58.4	732.1	990.6	35.3
Trading	186.4	264.8	198.8	(24.9)	6.6	609.9	668.7	9.6
Quarry	84.3	101.1	105.6	4.5	25.2	232.0	282.8	21.9
Other	346.5	161.6	194.3	20.2	(43.9)	855.1	539.3	(36.9)
Total	1,065.0	1,280.4	1,270.5	(0.8)	19.3	3,049.7	3,663.4	20.1

Source: Affin Hwang, Company

Fig 3: Segmental PBT breakdown

FYE 31 Dec (RMm)	3Q21	2Q22	3Q22	QoQ % chg	YoY % chg	9M21	9M22	YoY % chg
Ppty dev	44.6	25.7	35.8	39.2	(19.8)	88.2	84.9	(3.7)
Ppty inv	(12.3)	53.4	85.7	60.4	NA	(45.2)	184.1	NA
Construction	21.4	44.4	35.6	(19.8)	66.8	57.7	127.8	121.7
Trading	6.7	9.7	12.4	27.8	86.0	28.8	32.4	12.2
Quarry	2.5	1.8	1.9	4.4	(23.7)	5.0	8.6	71.5
Other	51.0	80.0	52.4	(34.5)	2.8	145.5	188.1	29.3
Total	113.8	215.0	223.8	4.1	96.6	280.0	625.9	123.5

Source: Affin Hwang, Company



Fig 4: Segmental PBT margin

FYE 31 Dec (%)	3Q21	2Q22	3Q22	QoQ ppt	YoY ppt	9M21	9M22	YoY % chg
Ppty dev	22.6	9.0	12.9	3.9	(9.8)	20.0	11.7	(8.2)
Ppty inv	NA	35.7	45.4	9.7	NA	NA	40.1	NA
Construction	11.1	14.0	11.7	(2.3)	0.6	7.9	12.9	5.0
Trading	3.6	3.7	6.2	2.6	2.7	4.7	4.8	0.1
Quarry	2.9	1.8	1.8	(0.0)	(1.1)	2.1	3.0	0.9
Others	14.7	49.5	27.0	(22.5)	12.3	17.0	34.9	17.9
Total	10.7	16.8	17.6	0.8	6.9	9.2	17.1	7.9

Source: Affin Hwang, Company

Fig 5: RNAV and target price

RNAV by business segments	PER	New RNAV	Old RNAV	Change
	(X)	(RMm)	(RMm)	(%)
Property development		2,659	2,664	(0.2)
Property development JV		3,239	3,247	(0.2)
Property investment		5,002	4,585	9.1
Construction	16	1,536	1,536	0.0
Building materials	14	700	700	0.0
Quarry	14	420	420	0.0
Healthcare	94	4,688	4,688	0.0
Total		18,245	17,839	2.3
Co. net cash/(debt)		(591.8)	(591.8)	0.0
RNAV		17,653	17,247	2.4
Number of shares		4,889	4,889	0.0
RNAV/share (RM)		3.61	3.53	2.4
Fully-diluted no. of shares		6,536	6,536	0.0
Fully-diluted RNAV/share (RM)		2.86	2.80	2.2
Target price @ 20% discount to RNAV (RM)		2.29	2.24	2.2

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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