

### COMPANY RESULTS

## Sunway (SWB MK)

3Q22: Above Expectations

Sunway saw 3Q22 core earnings improve by 6% qoq and 77% yoy to RM143m, driven by higher contributions across all segments and improved progress billings amid the economic reopening. 9M22 earnings came in above expectations, accounting for 85% of our full-year estimates. Property sales in 9M22 stood at RM1.2b amid a lack of project launches due to delays in approvals. Earnings recovery is underway on resilient healthcare and strong unbilled sales. Maintain BUY. Target price: RM2.38.

### 3Q22 RESULTS

Year to 31 Dec (RMm)	3Q22	qoq % chg	yoy % chg	9M22	yoy % chg
Revenue	1,270.5	(0.8)	19.3	3,663.4	20.1
Property Development	278.1	(2.9)	41.1	722.7	63.6
Construction	305.1	(3.7)	58.4	990.6	35.3
Property Investment	188.6	26.1	225.3	459.3	156.6
Pre-tax profit	223.8	4.1	96.6	625.9	123.5
Property Development	35.8	39.2	(19.8)	84.9	(3.7)
Construction	35.6	(19.8)	66.8	127.8	121.7
Property Investment	85.7	60.4	797.4	184.1	507.7
PATAMI (ex-sukuk)	164.7	(2.5)	124.6	466.1	148.8
Core net profit (ex-sukuk)	143.0	5.5	76.5	403.5	106.9
Pre-tax Margins (%)	%	+ppt	+ppt	%	+ppt
Property Development	12.9	3.9	(9.8)	11.7	(8.2)
Construction	11.7	(2.3)	0.6	12.9	5.0
Property Investment	45.4	9.7	66.6	40.1	65.3

Source: Sunway, UOB Kay Hian

### RESULTS

• **3Q22 results above expectations.** Sunway reported a higher core net profit of RM143m (+5.5% qoq, +76.5% yoy) on the back of revenue of RM1.3b (-0.8% qoq, +19.3% yoy). 9M22 earnings of RM403.5m (+106.9% yoy) were above expectations, accounting for around 85% and 80% of our and consensus' full-year forecasts respectively. The earnings growth was driven by higher contribution across almost all segments with the reopening of the economy, offsetting the lower contributions from construction.

• **9M22 property sales of RM1.2b.** Effective property sales in 3Q22 stood at RM413m (+1.5% qoq), bringing total effective property sales in 9M22 to RM1.2b (-41% yoy). This is mainly contributed by sales from local and Singapore projects. The weaker sales were due to a lack of launches (ytd: RM542m), vs sales target of RM2.2b for 2022.

### KEY FINANCIALS

Year to 31 Dec (RMm)	2020	2021	2022F	2023F	2024F
Net turnover	3,213	3,714	4,686	6,239	6,593
EBITDA	456	543	686	961	1,093
Operating profit	233	327	572	781	847
Net profit (rep./act.)	311	264	545	664	696
Net profit (adj.)	384	292	545	664	696
EPS (sen)	7.7	6.0	11.1	13.6	14.2
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	11.6	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	-	-	556	698	717
UOBKH/Consensus (x)	-	-	0.98	0.95	1.03

Source: Sunway, Bloomberg, UOB Kay Hian

## BUY

(Maintained)

Share Price	RM1.58
Target Price	RM2.38
Upside	+42.4%
(Previous TP)	RM2.25)

### COMPANY DESCRIPTION

A leading construction company and property developer in Malaysia.

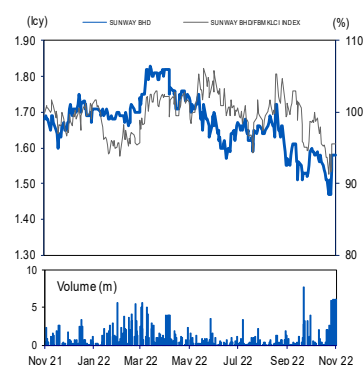
### STOCK DATA

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			
<b>1mth</b>	<b>3mth</b>	<b>6mth</b>	<b>1yr</b>	<b>YTD</b>
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)

**Hazmy Hazin**  
+603-2147 1934  
noorhazmy@uobkayhian.com

### STOCK IMPACT

- Property development: Stronger earnings ahead...** Sunway's property arm reported higher 3Q22 PBT of RM35.8m (+39.2% qoq). This is largely due to higher progressive profit recognition from a private condominium project in Singapore during 3Q22. This helped to offset the lower revenue of RM278m (-2.9% qoq) due to slower progress billings from the ongoing local projects, which we believe was caused by the prolonged impact of the current labour shortage. Sunway's property division is expected to have better profit recognition going forward as most of its projects in Malaysia are entering advanced development phases. Meanwhile, 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.
- ...leveraging on the existing projects.** Parc Central Tampines has been fully taken up. Local projects such as Sunway Belfield and Velocity TWO also saw strong take-up rates of >90%. Recently, Sunway announced that it has recorded 1,131 unit bookings worth RM800m for eight projects under Sunway's Signature Series 2022 campaign. Ytd, the company has launched: a) Jernih Residence in Kajang with GDV of RM281m in May, and b) Alishan Residences in Cheras with GDV of RM261m in September. This brings ytd total launches to RM542m. In 2023, Sunway plans to launch its Flynn Park project in Singapore (GDV: RM676m) and Sunway Gardens project in China (GDV: RM276m). Total effective property sales in 9M22 is RM1.2b and management is maintaining its full-year target of RM2.2b for 2022. This will be supported by its strong unbilled sales of >RM4b (4x 2022 property revenue).
- Healthcare: Prime beneficiary of international border reopening.** The healthcare arm reported stronger 3Q22 core PAT of RM41.4m (+17% qoq, +42% yoy). This is mainly due to 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 9M22 PAT came in at RM89m (+87% yoy) mainly due to the low-base effect, with higher productivity levels and improved construction billings given the absence of COVID-19-related lockdowns this year. However, PBT margin declined slightly by 1ppt yoy due to final accounting for some of the nearly-completed projects last year. The group has replenished RM882m worth of new contracts in 9M22 (vs RM2b target) with an outstanding orderbook of RM4b and tender book of >RM17b. 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

- We raise our 2022-24 net profit forecasts by 15%, 6% and 5% respectively to reflect the better-than-expected results.

### VALUATION/RECOMMENDATION

- Maintain **BUY** with a higher target price of **RM2.38**, based on a 10% discount to our SOTP-based valuation of RM2.63/share (post dilution of warrants). Our target price implies a 2023F PE of 21x and P/B of 0.9x (its five-year mean).

### ENVIRONMENTAL, SOCIAL, GOVERNANCE (ESG)

<ul style="list-style-type: none"> <li><b>Environmental</b></li> </ul>
- In 2020, 3% of electricity was generated by solar panels.
<ul style="list-style-type: none"> <li><b>Social</b></li> </ul>
- The group has donated RM1m to the National COVID-19 Fund.
<ul style="list-style-type: none"> <li><b>Governance</b></li> </ul>
- Good company transparency along with an anti-bribery and anti-corruption policy.

### SOTP-BASED VALUATION

	(RMm)	Remarks
Property development REIT (40.9% stake)	3,843	20% discount to property RNAV
	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 Healthcare	1,497	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	
SOTP/share (RM)	2.63	
Discount	10%	
<b>Target price (RM)</b>	<b>2.38</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	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
<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

### PROFIT & LOSS

Year to 31 Dec (RMm)	2021	2022F	2023F	2024F
Net turnover	3,714	4,686	6,239	6,593
EBITDA	543	686	961	1,093
Deprec. & amort.	216	112	175	238
EBIT	327	572	781	847
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	545	664	696
Net profit (adj.)	292	545	664	696

### 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
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)
<b>Net cash inflow (outflow)</b>	<b>548</b>	<b>(332)</b>	<b>(1,791)</b>	<b>(448)</b>
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

### 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)

## Disclosures/Disclaimers

This report is prepared by UOB Kay Hian Private Limited ("UOBKH"), which is a holder of a capital markets services licence and an exempt financial adviser in Singapore.

This report is provided for information only and is not an offer or a solicitation to deal in securities or to enter into any legal relations, nor an advice or a recommendation with respect to such securities.

**This report is prepared for general circulation.** It does not have regard to the specific investment objectives, financial situation and the particular needs of any recipient hereof. Advice should be sought from a financial adviser regarding the suitability of the investment product, taking into account the specific investment objectives, financial situation or particular needs of any person in receipt of the recommendation, before the person makes a commitment to purchase the investment product.

This report is confidential. This report may not be published, circulated, reproduced or distributed in whole or in part by any recipient of this report to any other person without the prior written consent of UOBKH. This report is not directed to or intended for distribution to or use by any person or any entity who is a citizen or resident of or located in any locality, state, country or any other jurisdiction as UOBKH may determine in its absolute discretion, where the distribution, publication, availability or use of this report would be contrary to applicable law or would subject UOBKH and its connected persons (as defined in the Financial Advisers Act, Chapter 110 of Singapore) to any registration, licensing or other requirements within such jurisdiction.

The information or views in the report ("Information") has been obtained or derived from sources believed by UOBKH to be reliable. However, UOBKH makes no representation as to the accuracy or completeness of such sources or the Information and UOBKH accepts no liability whatsoever for any loss or damage arising from the use of or reliance on the Information. UOBKH and its connected persons may have issued other reports expressing views different from the Information and all views expressed in all reports of UOBKH and its connected persons are subject to change without notice. UOBKH reserves the right to act upon or use the Information at any time, including before its publication herein.

Except as otherwise indicated below, (1) UOBKH, its connected persons and its officers, employees and representatives may, to the extent permitted by law, transact with, perform or provide broking, underwriting, corporate finance-related or other services for or solicit business from, the subject corporation(s) referred to in this report; (2) UOBKH, its connected persons and its officers, employees and representatives may also, to the extent permitted by law, transact with, perform or provide broking or other services for or solicit business from, other persons in respect of dealings in the securities referred to in this report or other investments related thereto; (3) the officers, employees and representatives of UOBKH may also serve on the board of directors or in trustee positions with the subject corporation(s) referred to in this report. (All of the foregoing is hereafter referred to as the "Subject Business"); and (4) UOBKH may otherwise have an interest (including a proprietary interest) in the subject corporation(s) referred to in this report.

As of the date of this report, no analyst responsible for any of the content in this report has any proprietary position or material interest in the securities of the corporation(s) which are referred to in the content they respectively author or are otherwise responsible for.

**IMPORTANT DISCLOSURES FOR U.S. PERSONS**

This research report was prepared by UOBKH, a company authorized, as noted above, to engage in securities activities in Singapore. UOBKH is not a registered broker-dealer in the United States and, therefore, is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. This research report is provided for distribution by UOBKH (whether directly or through its US registered broker dealer affiliate named below) to "major U.S. institutional investors" in reliance on the exemption from registration provided by Rule 15a-6 of the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act"). All US persons that receive this document by way of distribution from or which they regard as being from UOBKH by their acceptance thereof represent and agree that they are a major institutional investor and understand the risks involved in executing transactions in securities.

Any U.S. recipient of this research report wishing to effect any transaction to buy or sell securities or related financial instruments based on the information provided in this research report should do so only through UOB Kay Hian (U.S.) Inc ("UOBKHUS"), a registered broker-dealer in the United States. Under no circumstances should any recipient of this research report effect any transaction to buy or sell securities or related financial instruments through UOBKH.

UOBKHUS accepts responsibility for the contents of this research report, subject to the terms set out below, to the extent that it is delivered to and intended to be received by a U.S. person other than a major U.S. institutional investor.

The analyst whose name appears in this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA") and may not be an associated person of UOBKHUS and, therefore, may not be subject to applicable restrictions under FINRA Rules on communications with a subject company, public appearances and trading securities held by a research analyst account.

### Analyst Certification/Regulation AC

Each research analyst of UOBKH who produced this report hereby certifies that (1) the views expressed in this report accurately reflect his/her personal views about all of the subject corporation(s) and securities in this report; (2) the report was produced independently by him/her; (3) he/she does not carry out, whether for himself/herself or on behalf of UOBKH or any other person, any of the Subject Business involving any of the subject corporation(s) or securities referred to in this report; and (4) he/she has not received and will not receive any compensation that is directly or indirectly related or linked to the recommendations or views expressed in this report or to any sales, trading, dealing or corporate finance advisory services or transaction in respect of the securities in this report. However, the compensation received by each such research analyst is based upon various factors, including UOBKH's total revenues, a portion of which are generated from UOBKH's business of dealing in securities.

Reports are distributed in the respective countries by the respective entities and are subject to the additional restrictions listed in the following table.

General	This report is not intended for distribution, publication to or use by any person or entity who is a citizen or resident of or located in any country or jurisdiction where the distribution, publication or use of this report would be contrary to applicable law or regulation.
Hong Kong	This report is distributed in Hong Kong by UOB Kay Hian (Hong Kong) Limited ("UOBKHHK"), which is regulated by the Securities and Futures Commission of Hong Kong. Neither the analyst(s) preparing this report nor his associate, has trading and financial interest and relevant relationship specified under Para. 16.4 of Code of Conduct in the listed corporation covered in this report. UOBKHHK has provided investment banking services to China Resources Mixc Lifestyle Services (1209 HK) and has received compensation for such services in the preceding 12 months. Where the report is distributed in Hong Kong and contains research analyses or reports from a foreign research house, please note: (i) recipients of the analyses or reports are to contact UOBKHHK (and not the relevant foreign research house) in Hong Kong in respect of any matters arising from, or in connection with, the analysis or report; and (ii) to the extent that the analyses or reports are delivered to and intended to be received by any person in Hong Kong who is not a professional investor, or institutional investor, UOBKHHK accepts legal responsibility for the contents of the analyses or reports only to the extent required by law.
Indonesia	This report is distributed in Indonesia by PT UOB Kay Hian Sekuritas, which is regulated by Financial Services Authority of Indonesia ("OJK"). Where the report is distributed in Indonesia and contains research analyses or reports from a foreign research house, please note recipients of the analyses or reports are to contact PT UOBKH (and not the relevant foreign research house) in Indonesia in respect of any matters arising from, or in connection with, the analysis or report.
Malaysia	Where the report is distributed in Malaysia and contains research analyses or reports from a foreign research house, the recipients of the analyses or reports are to contact UOBKHM (and not the relevant foreign research house) in Malaysia, at +603-21471988, in respect of any matters arising from, or in connection with, the analysis or report as UOBKHM is the registered person under CMSA to distribute any research analyses in Malaysia.
Singapore	This report is distributed in Singapore by UOB Kay Hian Private Limited ("UOBKH"), which is a holder of a capital markets services licence and an exempt financial adviser regulated by the Monetary Authority of Singapore. Where the report is distributed in Singapore and contains research analyses or reports from a foreign research house, please note: (i) recipients of the analyses or reports are to contact UOBKH (and not the relevant foreign research house) in Singapore in respect of any matters arising from, or in connection with, the analysis or report; and (ii) to the extent that the analyses or reports are delivered to and intended to be received by any person in Singapore who is not an accredited investor, expert investor or institutional investor, UOBKH accepts legal responsibility for the contents of the analyses or reports only to the extent required by law.
Thailand	This report is distributed in Thailand by UOB Kay Hian Securities (Thailand) Public Company Limited, which is regulated by the Securities and Exchange Commission of Thailand.
United Kingdom	This report is being distributed in the UK by UOB Kay Hian (U.K.) Limited, which is an authorised person in the meaning of the Financial Services and Markets Act and is regulated by The Financial Conduct Authority. Research distributed in the UK is intended only for institutional clients.
United States of America ('U.S.')	This report cannot be distributed into the U.S. or to any U.S. person or entity except in compliance with applicable U.S. laws and regulations. It is being distributed in the U.S. by UOB Kay Hian (US) Inc, which accepts responsibility for its contents. Any U.S. person or entity receiving this report and wishing to effect transactions in any securities referred to in the report should contact UOB Kay Hian (US) Inc. directly.

Copyright 2022, UOB Kay Hian Pte Ltd. All rights reserved.

<http://research.uobkayhian.com>

RCB Regn. No. 197000447W