

"6M22 results were within expectations"

Share price performance



	1M	3M	12M
Absolute (%)	1.2	-5.1	-7.8
Rel KLCI (%)	1.1	-1.0	-2.4

	BUY	HOLD	SELL
Consensus	8	4	-

Stock Data

Sector	Property
Issued shares (m)	4,889.1
Mkt cap (RMm)/(US\$m)	8,115.9/1,809.0
Avg daily vol - 6mth (m)	1.3
52-wk range (RM)	1.56-1.85
Est free float	68.8%
Stock Beta	0.57
Net cash/(debt) (RMm)	(6,760.1)
ROE (2022E)	4.0%
Derivatives	No
Shariah Compliant	Yes
FTSE4Good Constituent	Yes
FBM EMAS (Top 200)	Top 25%
ESG Rank	

Key Shareholders

Sungei Way Corp Sdn.	56.9%
EPF	8.3%
AIA Bhd	2.3%
UBS AG Singapore	2.1%

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): RM2.24 (BUY)

Strong rebound

- Sunway's 6M22 results were within market and our expectations. Core net profit doubled yoy to RM267m in 6M22 as all divisions performed better
- Group saw a strong earnings recovery with the lifting of pandemic movement restrictions and the reopening of borders, as well as realising a gain from the disposal of an investment property
- We maintain our core EPS forecasts. Sunway remains a top sector pick with an unchanged 12-month TP of RM2.24, based on a 20% discount to RNAV

Within expectations

Core net profit of RM267m (+99% yoy) in 6M22 comprised 55-56% of full-year consensus and our forecasts of RM473-482m. Revenue (excluding healthcare division) grew 21% yoy to RM2.39bn in 6M22, driven by higher revenue for all divisions. The healthcare division was reclassified as a joint venture following the partial disposal of its stake to GIC. Similarly, PBT surged 142% yoy to RM402m in 6M22, mainly due to higher property development (+13% yoy), property investment (RM98m profit in 6M22 vs RM33m loss in 6M21), construction (+154% yoy) and quarry (+165% yoy) earnings. Revenue and PBT grew 15% qoq and 15% qoq in 2Q22 respectively, mainly driven by better performance for its property arm. Profit in 2Q22 was also boosted by a gain from the disposal of an investment property and associate Sunway REIT's stronger performance.

Robust sales and new construction contract wins

Sunway achieved RM932m in sales during 6M22, down 43% yoy from RM1.64bn in 6M21, 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 RM4.14bn are set to support revenue growth over the next 2-3 years. SunCon secured RM563m of new contracts in 6M22 to replenish its remaining order book to RM4.2bn.

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 likely drive a stronger recovery in its leisure and hospitality and healthcare businesses. We maintain our earnings forecasts for now given the risk of a global economy slowdown. However, there is potential upside to our earnings forecasts if the earnings growth momentum for all divisions is sustained. We reaffirm our BUY call on Sunway with a 12-month target price of RM2.24, based on 20% discount to RNAV. Downside risks: lower-than-expected property sales, and implementation delays of infrastructure projects.

Earnings & Valuation Summary

FYE 31 Dec	2020	2021	2022E	2023E	2024E
Revenue (RMm)	3,208.8	3,714.2	3,935.1	4,154.1	4,218.5
EBITDA (RMm)	499.0	582.8	544.9	767.5	812.8
Pretax profit (RMm)	490.1	465.7	725.6	748.4	799.6
Net profit (RMm)	340.3	294.4	524.6	533.2	573.8
EPS (sen)	6.9	6.0	10.7	10.9	11.7
PER (x)	25.4	28.9	16.2	16.0	14.8
Core net profit (RMm)	382.8	398.5	482.4	533.2	573.8
Core EPS (sen)	7.7	8.2	9.9	10.9	11.7
Core EPS growth (%)	(40.9)	5.7	21.0	10.5	7.6
Core PER (x)	22.6	21.3	17.6	16.0	14.8
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	26.1	18.9	17.7

Chg in EPS (%)

Affin/Consensus (x)

1.0 0.9 0.9

Source: Company, Bloomberg, Affin Hwang forecasts

Fig 1: Results comparison

FYE 31 Dec (RMm)	2Q21	1Q22	2Q22	QoQ % chg	YoY % chg	6M21	6M22	YoY % chg	Comment
Revenue	968	1,112	1,280	15	32	1,985	2,393	21	Higher property development (+82% yoy), property investment (+124% yoy) and construction (+27% yoy) revenue.
Op costs	(873)	(1,024)	(1,111)	8	27	(1,788)	(2,131)	19	Higher labour and building material costs.
EBITDA	95	88	169	91	78	197	262	33	
<i>EBITDA margin (%)</i>	<i>9.8</i>	<i>8.0</i>	<i>13.2</i>	<i>5.3ppt</i>	<i>3.4ppt</i>	<i>9.9</i>	<i>10.9</i>	<i>1.0ppt</i>	
Depn and amort	(53)	(33)	(33)	(0)	(38)	(106)	(66)	(38)	
EBIT	43	56	137	145	221	90	196	117	
<i>EBIT margin (%)</i>	<i>4.4</i>	<i>5.0</i>	<i>10.7</i>	<i>5.7ppt</i>	<i>6.3ppt</i>	<i>4.6</i>	<i>8.2</i>	<i>3.6ppt</i>	
Interest income	46	45	33	(28)	(28)	84	78	(7)	
Interest expense	(26)	(30)	(61)	106	137	(50)	(91)	81	
Associates	23	99	77	(22)	240	46	176	281	Fair value gain boosted associate Sunway REIT earnings
Forex gain (losses)	1	1	(9)	NA	NA	2	(27)	NA	Unrealised forex loss on US\$ debt. But hedged by derivatives.
Exceptional items	(7)	16	39	147	NA	(7)	70	NA	
Pretax profit	79	187	215	15	172	166	402	142	Strong yoy growth as all divisions performed better after pandemic movement and border restrictions were lifted.
Tax	(8)	(28)	(24)	(15)	202	(25)	(52)	110	
<i>Tax rate (%)</i>	<i>10.0</i>	<i>14.9</i>	<i>11.1</i>	<i>(3.8ppt)</i>	<i>1.1ppt</i>	<i>14.8</i>	<i>12.9</i>	<i>(2.0ppt)</i>	
Minority interests	(1)	(19)	(22)	17	3,664	(13)	(41)	231	
Net profit	71	140	169	21	139	129	309	140	Within expectations.
EPS (sen)	1.2	2.4	2.9	21	140	2.2	5.3	140	
Core net profit	77	124	139	13	82	134	267	99	Within expectations. Exclude exceptional items.

Source: Affin Hwang, Company

Fig 2: Segmental revenue breakdown

FYE 31 Dec (RMm)	2Q21	1Q22	2Q22	QoQ % chg	YoY % chg	6M21	6M22	YoY % chg
Ppty dev	147.4	158.2	286.4	81.0	94.3	244.5	444.6	81.8
Ppty inv	62.3	121.1	149.6	23.5	140.0	121.0	270.7	123.7
Construction	218.1	368.6	316.8	(14.0)	45.3	539.4	685.5	27.1
Trading	198.9	205.0	264.8	29.1	33.1	423.4	469.8	11.0
Quarry	70.5	76.2	101.1	32.7	43.4	147.7	177.2	20.0
Other	441.4	183.4	161.6	(11.8)	(63.4)	508.6	345.0	(32.2)
Total	1,138.5	1,112.5	1,280.4	15.1	12.5	1,984.7	2,392.8	20.6

Source: Affin Hwang, Company

Fig 3: Segmental PBT breakdown

FYE 31 Dec (RMm)	2Q21	1Q22	2Q22	QoQ % chg	YoY % chg	6M21	6M22	YoY % chg
Ppty dev	22.9	23.4	25.7	9.8	12.4	43.6	49.1	12.8
Ppty inv	(16.0)	45.0	53.4	18.7	NA	(32.9)	98.4	NA
Construction	8.6	47.8	44.4	(7.2)	414.7	36.3	92.2	154.0
Trading	10.0	10.3	9.7	(5.9)	(2.6)	22.2	20.0	(9.9)
Quarry	(0.5)	4.9	1.8	(62.7)	(431.7)	2.5	6.7	165.4
Other	68.1	55.7	80.0	43.7	17.5	94.5	135.7	43.6
Total	93.0	187.1	215.0	14.9	131.3	166.2	402.1	142.0

Source: Affin Hwang, Company

Fig 4: Segmental PBT margin

FYE 31 Dec (%)	2Q21	1Q22	2Q22	QoQ ppt	YoY ppt	6M21	6M22	YoY ppt
Ppty dev	15.5	14.8	9.0	(5.8)	(6.5)	17.8	11.0	(6.8)
Ppty inv	NA	37.2	35.7	(1.5)	NA	(27.2)	36.4	63.5
Construction	4.0	13.0	14.0	1.0	10.1	6.7	13.5	6.7
Trading	5.0	5.0	3.7	(1.4)	(1.3)	5.2	4.3	(1.0)
Quarry	NA	6.4	1.8	(4.6)	NA	1.7	3.8	2.1
Others	15.4	30.4	49.5	19.1	34.1	18.6	39.3	20.7
Total	8.2	16.8	16.8	0.0	8.6	8.4	16.8	8.4

Source: Affin Hwang, Company

Fig 5: RNAV and target price

RNAV by business segments	PER (X)	RNAV (RMm)
Property development		2,664
Property development JV		3,247
Property investment		4,585
Construction	16	1,536
Building materials	14	700
Quarry	14	420
Healthcare	94	4,688
Total		17,839
Co. net cash/(debt)		(591.8)
RNAV		17,247
Number of shares (m)		4,889
RNAV/share (RM)		3.53
Fully-diluted no. of shares (m)		6,536
Fully-diluted RNAV/share (RM)		2.80
Target price @ 20% discount to RNAV (RM)		2.24

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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