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Malaysia Property

Reuters SWAY.KL
Bloomberg SWB MK

Priced on 23 August 2022
KLSE Comp @ 1,482.6

12M hi/lo RM1.83/1.57

12M price target RM1.85
±% potential +12%

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

Market cap US\$1.8bn

3M ADV US\$0.2m

Foreign s'holding 5.4%

Major shareholders

Jeffrey Cheah Fook Ling 63.0%
EPF 9.3%

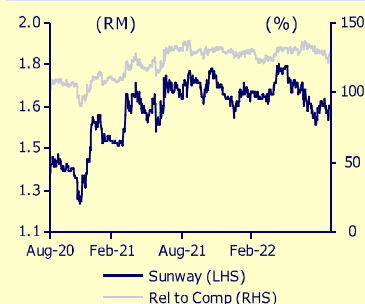
Blended ESG Score (%)*

Overall 82.7
Country average 71.0
GEM sector average 69.3

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

Stock performance (%)

	1M	3M	12M
Absolute	0.6	(6.3)	(8.3)
Relative	(0.5)	(2.5)	(5.9)
Abs (US\$)	(0.2)	(8.3)	(13.7)



Source: Bloomberg

After rain comes sunshine

Operations gradually recovering as the economy reopens

Sunway's 1H22 earnings of RM252m were within our estimate/consensus at 59%/57%. Property sales worth RM0.9bn were recorded, forming 42% of its RM2.2bn full-year target, which it maintained. Healthcare operations continue to improve, as occupancy of its flagship hospital improved to c.75% (from 65% QoQ). Retail tenant sales exceeded pre-Covid levels, with fewer rental rebates given to tenants. Hotels remain impacted by weak tourist inflow (as expected), but it continues to see gradual recovery. We maintain our forecast and Outperform rating on an unchanged SOTP-derived target price of RM1.85.

- Sunway's 2Q22 RM138m (+107% YoY/+22% QoQ) brought its 1H22 earnings to RM252m (+114% YoY). This formed 59%/57% of our estimate/consensus.
- We deem this in-line as 2Q22 had a lumpy recognition within the property development segment which was not expected to be repeated over the coming quarters.
- 2Q22 property sales worth RM485m were registered, bringing its 1H22 sales to RM932m. This formed 42% of the company's RM2.2n full-year target, which it is well on track to achieve.
- Its kept its RM2.3bn launch target for now, with the possibility of launches in Singapore (RM 676m) and China (RM276m) being postponed to next year.
- Upcoming property launches may see slight margin compression (not disclosed for now) as higher ASPs may not be sufficient to fully factor in the higher costs. Unbilled sales are at RM4.14bn (with RM2.1bn from Singapore), representing a strong cover ratio of close to 4x (ex-Singapore).
- On its healthcare operations, its hospital occupancy is close to 75% for Sunway Medical Centre and c.60% for Sunway Medical Centre Velocity.
- Revenue and intensity per patient has risen due to the contribution of Covid-related patients.
- On its retail operations, tenant sales have exceeded pre-Covid levels while rental rebates have gone down on average, as expected.
- The office segment remains stable, as it was generally unaffected by the pandemic.
- 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. Meetings, incentives, conferences and exhibition (MICE) activities are at c.20%-30% of pre-Covid levels.
- On a positive note, the Sunway Lagoon theme park is now profitable, operating close to 70% of its pre-Covid level.
- We maintain our forecast and Outperform rating on an unchanged target price of RM1.85.

Financials

Year to 31 December	20A	21A	22CL	23CL	24CL
Revenue (RMm)	3,829	4,529	5,356	5,915	6,093
Net profit (RMm)	388	319	426	699	750
EPS (sen)	8.0	6.6	8.7	14.3	15.4
CL/consensus (11) (EPS%)	-	-	97	139	144
EPS growth (% YoY)	(39.0)	(17.6)	33.4	64.0	7.4
PE (x)	20.7	25.2	18.9	11.5	10.7
Dividend yield (%)	0.9	1.3	1.3	2.2	2.3
FCF yield (%)	3.8	3.9	7.8	5.5	2.5
PB (x)	1.1	0.8	0.8	0.8	0.7
ROE (%)	4.6	3.3	3.8	6.0	6.1
Net debt/equity (%)	51.0	45.0	39.9	35.8	34.2

Source: www.clsa.com



Figure 1

Earnings summary								
	2Q22	2Q21	YoY	1Q22	QoQ	6M22	6M21	YoY
Revenue	1280.4	967.9	32.3%	1112.5	15.1%	2392.8	1984.7	20.6%
Property Development	286.4	147.4	94.3%	158.2	81.0%	444.6	244.5	81.8%
Property Investment	149.6	62.3	140.0%	121.1	23.5%	270.7	121.0	123.7%
Construction	316.8	218.1	45.3%	368.6	(14.0%)	685.5	539.4	27.1%
Trading/Manufacturing	264.8	198.9	33.1%	205.0	29.1%	469.8	423.4	11.0%
Quarry	101.1	70.5	43.4%	76.2	32.7%	177.2	147.7	20.0%
Healthcare	0.0	200.6	(100.0%)	0.0	#DIV/0!	0.0	371.2	(100.0%)
Investment	1.8	1.2	49.1%	1.9	(4.0%)	3.7	2.3	60.6%
Others	159.8	69.0	131.8%	181.5	(11.9%)	341.3	135.0	152.8%
EBIT	166.3	36.5	355.6%	72.1	130.5%	238.4	85.5	178.7%
Net Interest	(28.2)	19.9	(241.6%)	15.8	(278.4%)	(12.4)	34.4	(136.0%)
Share of Associates/JCE	76.9	22.6	240.4%	99.2	(22.4%)	176.1	46.2	280.8%
PBT	215.0	79.0	172.2%	187.1	14.9%	402.1	166.2	142.0%
Property Development	25.7	22.9	12.4%	23.4	9.8%	49.1	43.6	12.8%
Property Investment	53.4	(16.0)	(433.6%)	45.0	18.7%	98.4	(32.9)	(399.5%)
Construction	44.4	8.6	414.7%	47.8	(7.2%)	92.2	36.3	154.0%
Trading/Manufacturing	9.7	10.0	(2.6%)	10.3	(5.9%)	20.0	22.2	(9.9%)
Quarry	1.8	(0.5)	(431.7%)	4.9	(62.7%)	6.7	2.5	165.4%
Healthcare	35.3	27.5	28.4%	28.2	25.0%	63.5	41.5	53.2%
Investment	7.3	23.1	(68.6%)	11.3	(35.6%)	18.5	44.9	(58.8%)
Others	37.5	3.5	975.6%	16.2	131.9%	53.6	8.1	564.0%
Tax	(23.8)	(7.9)	202.3%	(27.9)	(14.7%)	(51.7)	(24.7)	109.5%
PAT	191.2	71.1	168.9%	159.2	20.1%	350.4	141.5	147.7%
MI	(23.3)	(0.6)	3816.5%	(18.2)	28.0%	(41.4)	(12.5)	231.0%
PATAMI	160.3	62.6	155.9%	133.4	20.1%	293.7	113.2	159.4%
EI	(21.9)	4.2	(619.0%)	(19.7)	11.1%	(41.6)	4.9	(954.7%)
Core Earnings	138.4	66.9	107.0%	113.7	21.7%	252.1	118.1	113.5%

Source: CLSA, Company

Figure 2

Sunway's fair value			
Division	Value (RM m)	RM/share	Methodology
Construction (SunCon)	1,269	0.26	54.56% stake based on TP of RM1.80
Sunway REIT (SunREIT)	1,960	0.40	40.88% stake based on TP of RM1.50
Property Development	1,421	0.29	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
	11,192	2.30	
Holding Company Net Cash/(Debt)	(1,192)	(0.24)	
	10,000	2.05	
10% Holding Company Discount	(1,000)	(0.21)	
Fair Value (RM)	9,000	1.85	

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 80% 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.



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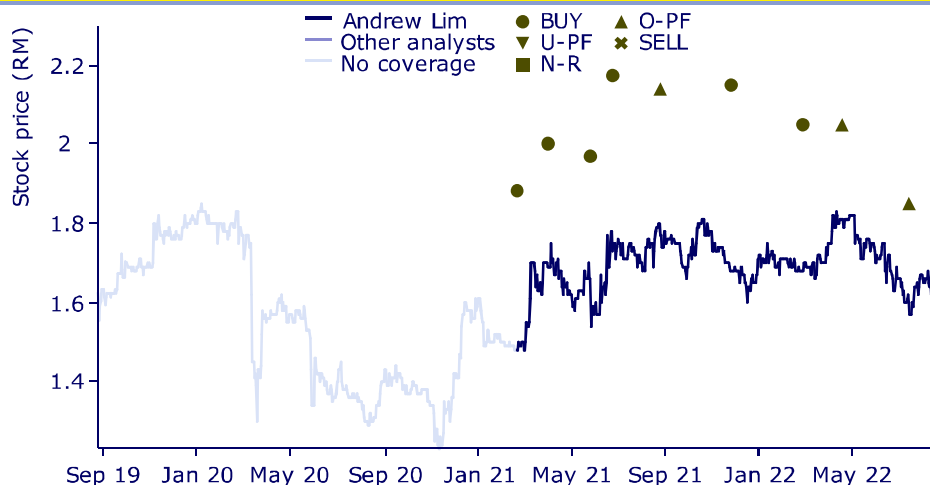
Sunway (SWB MK - RM1.65 - OUTPERFORM)
 Sunway Reit (SREIT MK - RM1.52 - O-PF)

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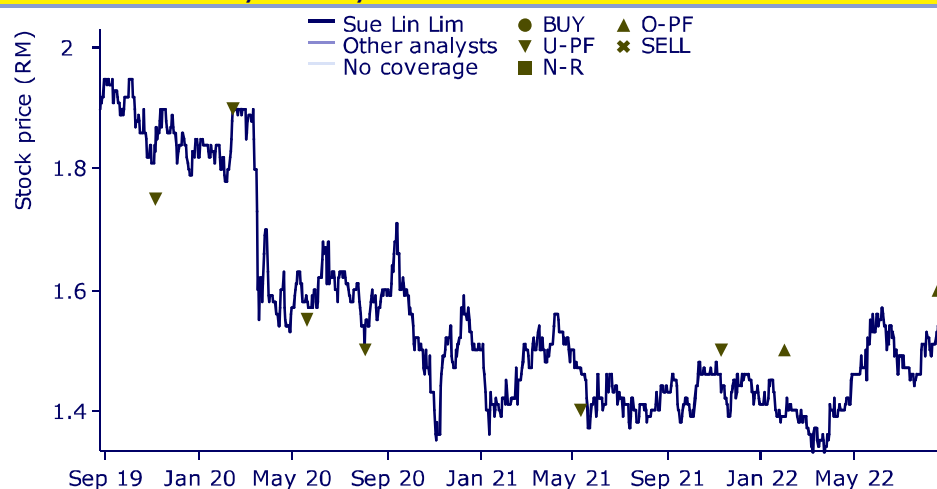
Date	Rec	Target	Date	Rec	Target
14 Jul 2022	O-PF	1.85	24 Jun 2021	BUY	2.17
18 Apr 2022	O-PF	2.05	26 May 2021	BUY	1.97
26 Feb 2022	BUY	2.05	01 Apr 2021	BUY	2.00
25 Nov 2021	BUY	2.15	20 Feb 2021	BUY	1.88
25 Aug 2021	O-PF	2.14			

Source: CLSA

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Recommendation history of Sunway Real Estate Investment SREIT MK



Date	Rec	Target	Date	Rec	Target
19 Aug 2022	O-PF	1.60	04 Aug 2020	U-PF	1.50
31 Jan 2022	O-PF	1.50	20 May 2020	U-PF	1.55
10 Nov 2021	U-PF	1.50	14 Feb 2020	U-PF	1.90
11 May 2021	U-PF	1.40	05 Nov 2019	U-PF	1.75

Source: CLSA

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