

25 August 2022

Property | Real Estate

Sunway (SWB MK)

Buy (Maintained)

Promising Earnings Recovery In 2Q; Keep BUY

Target Price (Return): MYR2.06 (24.1%)
 Price (Market Cap): MYR1.66 (USD1,809m)
 ESG score: 3.40 (out of 4)
 Avg Daily Turnover (MYR/USD) 1.07m/0.24m

- **Maintain BUY and MYR2.06 TP, 24% upside with c.2% yield.** Sunway's 2Q22 results came in above expectations. All key business divisions, except for construction, saw encouraging growth momentum. 1H property sales already hit MYR932m and we think the company should be able to meet its MYR2.2bn target if Flynn Park in Singapore (GDV: MYR676m) can be launched on time this year. A 2 sen first interim dividend was declared.
- **2Q22 results.** Except for the construction, trading & manufacturing, and quarry segments, all business divisions saw encouraging growth during the quarter. The strong performance from the property investment division was mainly due to higher visitorship as well as occupancy rates for the hotels. Meanwhile, net gearing ratio increased to 0.50x from 0.46x in the previous quarter, resulting in higher interest expense during the quarter. The higher amount of borrowings was mainly for the working capital for ongoing developments as well as funding for recent new land acquisitions.
- **Property sales momentum remains healthy.** New property sales achieved MYR485m vs MYR447m in 1Q22, bringing 1H total to MYR932m. Projects in Singapore contributed MYR281m. Locally, the key sales contributors were Belfield (MYR211m), d'hill Residence (MYR117m), Serene (MYR102m), Velocity TWO (MYR100m), and Artessa (MYR65m). Currently all projects in Singapore are 95-100% sold. The take-up rates (plus booking) for Belfield Block C, Velocity TWO Tower D and d'hill Residence have already reached 44%, 38%, and 64%. The newly launched Jernih Residence in Kajang is now 22% sold. However, sales for Artessa at Wangsa Maju is rather slow, only at 48% (43% in 1Q22). The project was launched in November last year.
- **Keeping MYR2.2bn sales target.** We believe Sunway should be able to meet its MYR2.2bn sales target by year end if Flynn Park in Singapore can be rolled out in 4Q22. In the pipeline, Sunway will likely launch Sunway Alishan in Cheras (GDV: MYR261m) and Sunway Bukit Jalil (GDV: MYR275m) in 2H. Apart from these, some landed homes will also be launched in Sunway City Ipoh, Sunway Wellesley, and Sunway Iskandar. Sunway Gardens in Tianjin will likely be deferred.
- **Forecast.** In view of the better than expected earnings performance in 1H22, we raise our FY22-24 earnings forecast by 6-15%. Unbilled sales remained steady at MYR4.14bn (from MYR4.18bn as at 1Q22), while its outstanding construction orderbook fell slightly to MYR4.23bn (from MYR4.44bn as at 1Q22).
- **ESG.** Based on our in-house proprietary methodology, we derived an ESG score of 3.40 for Sunway. Our SOP-based TP includes an 8% ESG premium.

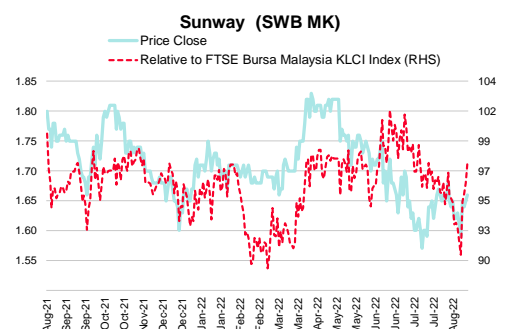
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(3.5)	1.2	(5.2)	(1.2)	(7.8)
Relative	2.9	1.1	(1.0)	5.6	(2.2)
52-wk Price low/high (MYR)	1.57 – 1.83				



Source: Bloomberg

Forecasts and Valuation	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Total turnover (MYRm)	3,833	3,714	4,370	4,814	5,396
Recurring net profit (MYRm)	461	265	514	593	676
Recurring net profit growth (%)	(33.4)	(42.5)	93.9	15.4	14.0
Recurring EPS (MYR)	0.09	0.05	0.09	0.10	0.11
DPS (MYR)	0.01	0.03	0.04	0.05	0.06
Recurring P/E (x)	18.52	36.72	19.13	16.75	14.84
P/B (x)	0.90	0.81	0.80	0.79	0.78
Dividend Yield (%)	0.7	1.7	2.4	3.0	3.6
Return on average equity (%)	4.0	2.7	4.2	4.8	5.3
Net debt to equity (%)	50.7	44.9	48.1	50.4	53.5

Source: Company data, RHB

Overall ESG Score: 3.40 (out of 4)

E: EXCELLENT

Sunway City is a Green Building Index (GBI) certified township. The company managed to avoid 40,131 tonnes of CO₂e from 2015-2019, and 1% of its electricity is from renewable sources (in 2019). Its main townships also have more than 40% open space, with greenscapes and bluescapes.

S: EXCELLENT

Sunway has made donations to aid the underserved communities in the B40 group, people with disabilities, youth, women, children and senior citizens. The Good Run in Oct 2019 managed to raise MYR275k to support medical treatment costs for cancer patients of the B40 group.

G: EXCELLENT

56% of board members are independent. Sunway has an in-house investor relations team that is easily accessible, and holds investor meetings, embodying good transparency and disclosure practices.

Financial Exhibits

Asia	Financial summary (MYR)	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Malaysia	Recurring EPS	0.09	0.05	0.09	0.10	0.11
Property	EPS	0.07	0.05	0.09	0.10	0.11
Sunway	DPS	0.01	0.03	0.04	0.05	0.06
SWB MK	BVPS	1.85	2.05	2.08	2.11	2.14
Buy	Return on average equity (%)	4.0	2.7	4.2	4.8	5.3
	Return on average assets (%)	1.6	1.3	2.0	2.3	2.5
Valuation basis						
45% discount to property RNAV, 15x P/E for trading/building material division, 18.5x EV/EBITDA for healthcare division, and 10% holding co discount						
Key drivers						
New property sales, disposal of investment properties						
Key risks						
Weaker-than-expected market conditions						
Company Profile						
A well-known developer in the Klang Valley. Its flagship project - Bandar Sunway is a well-established integrated township. The company has successfully transformed a mining land to a matured residential and commercial cluster						
	Valuation metrics	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
	Recurring P/E (x)	18.52	36.72	19.13	16.75	14.84
	P/B (x)	0.9	0.8	0.8	0.8	0.8
	Dividend Yield (%)	0.7	1.7	2.4	3.0	3.6
	EV/EBITDA (x)	48.94	36.54	32.63	27.27	24.97
	Income statement (MYRm)	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
	Total turnover	3,833	3,714	4,370	4,814	5,396
	Gross profit	804	798	1,158	1,291	1,482
	EBITDA	298	458	535	664	758
	Depreciation and amortisation	(47)	(131)	(94)	(102)	(111)
	Operating profit	251	327	441	562	647
	Net interest	28	55	(52)	(71)	(88)
	Pre-tax profit	509	466	714	824	939
	Taxation	(102)	(116)	(143)	(165)	(188)
	Reported net profit	360	294	514	593	676
	Recurring net profit	461	265	514	593	676
	Cash flow (MYRm)	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
	Change in working capital	(514)	(468)	(198)	(136)	(187)
	Cash flow from operations	(18)	202	416	568	571
	Capex	0	0	(622)	(654)	(799)
	Cash flow from investing activities	(529)	(2,891)	(515)	(479)	(562)
	Dividends paid	(60)	(163)	(237)	(299)	(363)
	Cash flow from financing activities	(1,380)	3,318	(333)	(394)	(457)
	Cash at beginning of period	5,889	2,269	2,817	2,430	2,135
	Net change in cash	(1,926)	628	(432)	(305)	(448)
	Ending balance cash	3,963	2,897	2,384	2,125	1,687
	Balance sheet (MYRm)	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
	Total cash and equivalents	2,269	2,817	2,430	2,135	1,730
	Tangible fixed assets	13,632	16,592	17,119	17,671	18,359
	Intangible assets	351	433	433	433	433
	Total other assets	65	60	249	409	553
	Total assets	21,119	25,087	25,659	26,335	27,267
	Short-term debt	5,132	4,094	4,094	4,094	4,094
	Total long-term debt	2,374	4,622	4,816	5,008	5,233
	Total liabilities	10,788	11,963	12,201	12,517	13,061
	Shareholders' equity	9,535	12,035	12,312	12,606	12,919
	Minority interests	797	1,089	1,146	1,212	1,287
	Total equity	10,332	13,123	13,458	13,818	14,206
	Total liabilities & equity	21,119	25,087	25,659	26,335	27,267
	Key metrics	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
	Revenue growth (%)	(19.8)	(3.1)	17.7	10.2	12.1
	Recurring net profit growth (%)	(33.4)	(42.5)	93.9	15.4	14.0
	Recurrent EPS growth (%)	(36.4)	(49.6)	92.0	14.2	12.8
	Gross margin (%)	21.0	21.5	26.5	26.8	27.5
	Recurring net profit margin (%)	12.0	7.1	11.8	12.3	12.5
	Dividend payout ratio (%)	16.7	55.3	46.1	50.4	53.6

Source: Company data, RHB

Results At a Glance

Figure 1: Quarterly results

FYE Dec (MYR mil)	2Q21	1Q22	2Q22	QoQ (%)	YoY (%)	1HFY21	1HFY22	YoY (%)	Comments
Turnover	967.9	1,112.5	1,280.4	15.1	32.3	1,984.7	2,392.8	20.6	
Prop dev	147.4	158.2	286.4	81.0	94.3	244.5	444.6	81.8	The higher revenue QoQ was due to higher progress billings from ongoing local development projects.
Prop invt	62.3	121.1	149.6	23.5	140.0	121.0	270.7	123.7	The stronger revenue was due to higher visitorship and higher occupancy rates, as well as net gain from disposal of an investment property.
Construction	218.1	368.6	316.8	(14.0)	45.3	539.4	685.5	27.1	The lower revenue was mainly due to slower progress billings for some local projects.
Trading & Manufacturing	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	
Investment holdings	1.2	1.9	1.8	n.m.	n.m.	2.3	3.7	60.6	
Others	69.0	181.5	159.8	(11.9)	131.8	135.0	341.3	152.8	
EBIT	36.5	72.1	166.3	130.5	355.6	85.5	238.4	178.7	
EBIT Margin (%)	3.8%	6.5%	13.0%			4.3%	10.0%		
Prop dev	15.6	4.4	24.7	461.7	58.3	28.7	29.0	1.2	
Prop invt	(9.3)	14.8	53.9	263.8	(680.3)	(23.6)	68.7	(391.4)	
Construction	5.7	43.5	43.9	0.8	671.3	32.0	87.4	173.4	EBIT margin was higher due to higher progressive profit recognition.
Trading & Manufacturing	10.8	10.9	10.8	(1.0)	0.5	23.7	21.7	(8.4)	
Quarry	(0.1)	5.0	2.4	(52.0)	(2346.7)	2.5	7.4	200.3	
Investment holdings	(19.4)	(22.2)	(6.6)	n.m.	(65.9)	(33.1)	(28.8)	(13.1)	
Others	3.3	15.7	37.2	137.5	1028.7	8.3	52.9	533.9	
Exceptional items	0.0	(7.5)	0.0	n.m.	n.m.	0.0	(7.5)	n.m.	
Finance cost	(25.7)	15.8	(28.2)	(278.4)	9.6	(11.2)	(12.4)	10.3	
Asso & JV	22.6	99.2	76.9	(22.4)	240.4	46.2	176.1	280.8	The higher associate and JV income in 1Q22 was mainly due to higher progressive profit recognition from Ki Residence.
Other Income	0.0	0.0	0.0	n.m.	n.m.	0.0	0.0	0.0	
Pretax profit	79.0	187.1	215.0	14.9	172.2	166.2	402.1	142.0	
PBT margin (%)	8.2%	16.8%	16.8%			8.4%	16.8%		
Tax	(7.9)	(27.9)	(23.8)	(14.7)	202.3	(24.7)	(51.7)	109.5	
Tax (%)	10.0%	14.9%	11.1%			14.8%	12.9%		
PAT	71.1	159.2	191.2	20.1	168.9	141.5	350.4	147.7	
MI	(0.6)	(19.1)	0.0	(100.0)	(100.0)	(12.5)	(19.1)	52.4	
Net profit	70.5	140.1	191.2	36.5	171.2	129.0	331.3	156.9	
Core net profit	70.5	132.6	191.2	44.2	171.2	129.0	323.8	151.1	Above expectations.
Net margin (%)	7.3	11.9	14.9						
EPS (sen)	1.2	2.4	2.9			2.2	2.2		
NTA (RM)	1.64	2.08	2.10			1.64	1.64		
DPS (sen)	1.0	0.0	2.0			1.0	1.0		
EBIT margin:									
Prop dev	10.6%	2.8%	8.6%			11.7%	11.7%		
Prop invt	-14.9%	12.2%	36.0%			-19.5%	-19.5%		
Construction	2.6%	11.8%	13.8%			5.9%	5.9%		
Trading & Manufacturing	5.4%	5.3%	4.1%			5.6%	5.6%		
Quarry	-0.2%	6.6%	2.4%			1.7%	1.7%		
Investment holdings	n.m.	n.m.	n.m.			n.m.	n.m.		
Others	4.8%	8.6%	23.3%			6.2%	6.2%		

Source: Company data, RHB

Figure 2: RNAV estimate

Developments	Remaining		Effective stake	NPV @ 9%	
	Landbank (acre)	GDV (MYR m)			
Selangor/KL					
Sunway Damansara	21.70	2,235.30	60%	224.6	
Sunway South Quay	29.90	2,486.70	100%	347.0	
Sunway Monterez	4.40	38.00	60%	3.0	
Sunway Semenyih	526.10	728.59	70%	58.1	
Sunway Cheras	2.90	16.82	100%	1.7	
Sunway Duta	3.16	120.00	60%	7.3	
Sunway Resort City	7.7	660	100%	104.8	
Sunway Velocity	2.20	1,983.98	85%	205.1	
Sunway Velocity 2	5.50	1,360.00	50%	47.4	
New land in Cochrane	6.59	1,150.00	100%	108.6	
Sunway Tower KL 1	1.90	240.00	100%	21.5	
Sunway Termuning	28.90	277.00	80%	16.5	
Sg Long	28.90	277.00	80%	21.3	
Mont Putra, Rawang	163.00	156.00	100%	13.9	
Kelana Jaya	14.00	1,450.00	100%	113.6	
Subang industrial	4.20	52.00	70%	3.8	
Sunway Belfield	4.53	1,100.00	100%	86.2	
Sunway Kajang	5.28	460.00	60%	24.8	
USJ 1	14.80	1,400.00	100%	110.5	
Sunway Avila	2.30	270.00	55%	14.6	
Sunway ARTESSA, Wangsa Maju	3.69	300.00	55%	12.9	
Sunway Damansara Hill, Kota Damansara	9.46	544.00	60%	35.9	
Cheras land	3.34	225.00	100%	19.2	
Mutiara Bukit Jalil	11.80	800.00	100%	60.1	
Dengkil (Emerald Tycoon)	74.50	796.60	100%	45.3	
Perak					
Sunway City Ipoh	336.4	928.40	96%	121.9	
Penang					
Sunway Hills	80.70	849.00	100%	73.6	
Sunway Wellesley, Bukit Mertajam	51.47	710.47	100%	73.4	
Paya Terubong	24.90	1,500.00	100%	143.0	
Sunway Tunas, Balik Pulau	9.00	60.00	100%	6.3	
Sunway Betong, Balik Pulau	19.87	110.00	100%	11.5	
S'pore					
Anchorvale Lane, Sengkang (Rivercove EC)	5.19	1,560.00	30%	43.1	
Ki Residences (Clementi)	8.56	3,410.00	30%	103.5	
Canberra Link, Sembawang	4.46	1,643.00	35%	58.2	
Parc Central, Tampines EC	6.16	2,650.50	35%	81.0	
Flynn Park Pasir Panjang	4.79	2,300.00	30%	69.8	
Tanjong Katong	6.00	6,000.00	30%	104.0	
Johor					
Bukit Lenang	64.79	698.40	80%	53.2	
Medini	632.80	10,616.00	60%	511.0	
Pendas	1,079.07	18,000.00	60%	643.8	
China					
Tianjin Phase 3	6.85	780.00	60%	37.9	
India					
Sunway OPUS Grand India	23.80	702.36	50%	23.1	
Sunway MAK Signature Residence (JV with M.A.K Builders)	14.00	181.22	60%	7.5	
TOTAL	3,470.24	77,422.22		3,873.40	
Investment properties	Est. market value	Book value	Equity	Net surplus	
	(MYR m)	(MYR m)	interest	(MYR m)	
Monash University Campus	302.8	302.8	100%	0	
Monash U Residence	239.0	239.0	100%	0	
Sunway Geo Tower	168.0	111.0	100%	57.0	
Sunway Hotel Georgetown	60.0	37.6	100%	22.4	
Sunway Hotel Phnom Penh	19.0	19.0	53%	0	
Sunway Hotel Hanoi	5.0	5.0	100%	0	
Sunway Giza	50.0	50.0	60%	0	
Sunway Velocity Mall	1,805.0	805.0	59%	590.0	
Sunway Citrine Hub	42.0	42.0	60%	0.0	
Sunway Geo Avenue	94.0	94.0	100%	0.0	
Subtotal				4,542.80	
Shareholders' equity (ex cons. & healthcare)				9,812.40	
Total				14,355.19	
Discount to Property RNAV				45%	
Discounted Property RNAV				7,895.36	
Other divisions	Market value	Book value	Est. FY22 earnings	PE target	Equity value surplus
	(MYR m)	(MYR m)	(MYR m)	(x)	(MYR m)
40.9% Sunway REIT	2,017.1	1,479.0			538.07
54.4% Sunway Construction	1,273.1	844.1			429.07
Others			60	15	900.00
			Est. FY22 EBITDA	EV/EBITDA (x)	Equity value
84% Sunway Healthcare			182.9	18.5	2,841.60
Total					12,604.10
ESOS proceeds					151.21
Warrants conversion @ MYR1.56					1,044.44
Total RNAV					13,799.76
Holding company discount					10%
Discounted RNAV					12,419.78
Share base (mil) incl. warrants & ICPS					6,525.86
Intrinsic value					1.90
ESG premium					8%
TP (MYR)					2.06

Source: RHB

Recommendation Chart

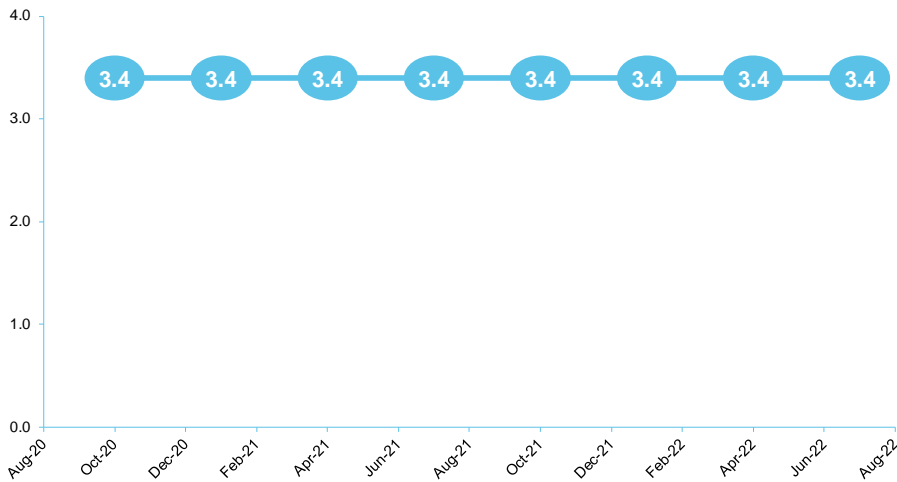


Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2022-05-26	Buy	2.06	1.74
2021-11-25	Buy	2.06	1.68
2021-08-25	Buy	2.00	1.77
2021-07-13	Buy	2.02	1.71
2021-06-24	Buy	2.09	1.73
2021-05-26	Buy	1.92	1.66
2021-04-19	Buy	1.95	1.64
2021-04-01	Buy	1.94	1.69
2021-03-16	Buy	1.88	1.64
2020-03-23	Buy	1.86	1.41
2020-02-26	Buy	2.00	1.79
2019-11-22	Buy	2.00	1.78
2019-10-29	Buy	1.95	1.70
2019-09-27	Buy	1.95	1.66
2019-08-28	Buy	1.85	1.59

Source: RHB, Bloomberg

ESG Rating History



Source: RHB

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Buy:	Share price may exceed 10% over the next 12 months
Trading Buy:	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
Neutral:	Share price may fall within the range of +/- 10% over the next 12 months
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Not Rated:	Stock is not within regular research coverage

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