

Sunway Bhd

Boosted by Property Investment Segment

TP: RM1.81 (+9.0%)

Last Traded: RM1.66

HOLD (ESG: ★★★★★)

Thiam Chiann Wen

Tel: +603-2167 9615

cwthiam@ta.com.my

www.taonline.com.my

Review

- Sunway reported a core net profit of RM274.9mn in IHFY22 after excluding the share of valuation gain pursuant to Sunway REIT's acquisition of an investment property of RM7.5mn and the gain on disposal of RM26.6mn of one new start-up investment.
- Results came in within our expectations but ahead of consensus, accounting for 53% and 57% of our and consensus' full-year forecasts, respectively.
- A first interim dividend of 2 sen/share was announced (IH21: 1 sen/share)
- **YoY:** IH22 revenue and core net profit grew by 48% and 37% YoY to RM2.4bn and RM274.9mn, primarily due to increased contributions from all business segments. Specifically, property investment segment PBT returned to the black, thanks to the reopening and normalisation of the local economy which allow the leisure and hospitality businesses to resume full operations.
- **QoQ:** Despite revenue growing by 15% to RM1.3bn, Sunway's 2Q22 core net profit only climbed by 7% QoQ to RM142.3mn, largely due to higher finance costs and lower contributions from associates and JVs.
- Sunway's 2Q22 property sales declined grew 1% YoY and 8% QoQ to RM484mn, bringing IH22 sales to RM932mn (-43% YoY). Ki Residences, a private condominium project in Singapore, is a major contributor to IH22 sales (30% of IH22 sales), with a 95% take-rate as of the end of Jun-22, up from 79% as of the end of Dec-21.

Impact

- No change to our FY22-24 earnings forecasts.

Outlook

- Sunway maintains its FY22 sales target of RM2.2bn, considering IH22 sales accounted for 42% of the target. The planned overseas launches will be deferred to next year due to delay in completion of the land acquisition in Singapore (Fynn Park, GDV: RM676mn) and weak market conditions in China (Sunway Gardens, GDV: RM276mn). Nonetheless, management remains confident that the sales target is achievable with the group's existing projects.
- The group's unbilled sales of RM4.1bn and outstanding construction order book of RM2.3bn (external jobs only) should provide earnings visibility for the next 2-3 years.
- Sunway is expected to benefit from the on-going economic recovery as Malaysia has transitioned to the endemic phase of Covid 19 and reopened its economy and international borders. In particular, Sunway anticipates that its leisure and hospitality segments will perform well as a result of rising visitor arrivals and rising domestic tourism demand. As international

Share Information

Bloomberg Code	SWB MK
Stock Code	5211
Listing	Main Market
Share Cap (mn)	4,889.1
Market Cap (RMmn)	8,115.9
52-wk Hi/Low (RM)	1.85/1.56
12-mth Avg Daily Vol ('000 shrs)	1,229.1
Estimated Free Float (%)	25.5
Beta	0.4
Major Shareholders (%)	
	Sungei Way Corp (56.9)
	EPF (8.3)

Forecast Revision

	FY22	FY23
Forecast Revision (%)	0.0	0.0
Net profit (RMmn)	523.1	563.6
Consensus	484.0	587.5
TA's / Consensus (%)	108.1	95.9
Previous Rating	Hold (Maintained)	
Consensus Target Price (RM)	2.03	

Financial Indicators

	FY22	FY23
Net gearing (%)	44.5	42.8
CFPS (sen)	10.5	5.0
P/CFPS (x)	16.6	35.0
ROE (%)	4.3	4.5
ROA (%)	2.1	2.3
NTA/Share (RM)	2.0	2.1
Price/NTA (x)	0.8	0.8

Scorecard

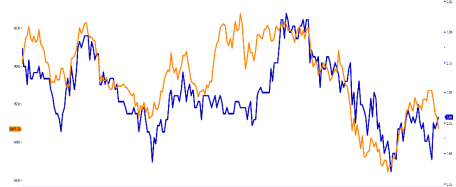
	% of FY	
vs TA	53.0	Within
vs Consensus	57.0	Above

Share Performance (%)

Price Change	SWB	FBM KLCI
1 mth	1.2	0.1
3 mth	(5.1)	(4.2)
6 mth	1.2	(6.8)
12 mth	(7.8)	(5.5)

(12-Mth) Share Price relative to the FBMKLCI

SHR: MK 1.66 -9.0% → -7% → 81.05 (1.66) 11500x1500
 4585 8900 4585 8900
 11.8 2777 8600 8700 8800 8900 9000 9100 9200 9300 9400 9500 9600 9700 9800 9900 10000
 11.8 2777 8600 8700 8800 8900 9000 9100 9200 9300 9400 9500 9600 9700 9800 9900 10000
 11.8 2777 8600 8700 8800 8900 9000 9100 9200 9300 9400 9500 9600 9700 9800 9900 10000



Source: Bloomberg

travel returns to normalcy, the reviving medical tourism industry will also bode well for the healthcare segment.

Valuation

- We maintain Hold on Sunway with an unchanged target price of RM1.81/share, based on SOP Valuation.

SOP Valuation Table

	Stake	Value (RM mn)	RM/share	Valuation Methodology
Property Dev & Inv	100.0%	2,867.9	0.49	12x CY23 Earnings
SunCon	54.6%	1,108.3	0.19	TP of RM1.57
Sunway REIT	40.9%	2,325.2	0.40	TP of RM1.66
Healthcare	84.0%	3,937.5	0.67	Pegged to Effective Equity Value Based on GIC's Offer
Trading & Manufacturing	100.0%	320.6	0.05	10x CY23 Earnings
Quarry	100.0%	66.5	0.01	10x CY23 Earnings
Total		10,626.1	1.81	

Source: TA Research

Earnings Summary (RM mn)

YE Dec 31 (RM'mn)	2020	2021	2022F	2023F	2024F
Revenue	3,208.8	3,714.2	4,674.8	4,927.1	5,004.5
EBITDA	376.5	457.7	590.4	608.2	584.3
EBITDA margin (%)	11.7	12.3	12.6	12.3	11.7
Pretax profit	494.8	465.7	680.7	745.1	770.5
Reported Net profit	340.3	323.6	523.1	563.6	602.5
Net profit -adj	362.0	350.1	523.1	563.6	602.5
EPS (sen)	7.3	5.5	8.9	9.6	10.3
EPS - adj (sen)	7.3	6.0	8.9	9.6	10.3
EPS Growth (Core) (%)	49.6	(18.2)	49.4	7.7	6.9
PER (x)	22.8	27.8	18.6	17.3	16.2
GDPS (sen)	1.5	2.5	3.0	3.5	3.5
Div Yield (%)	0.9	1.5	1.8	2.1	2.1
ROE (%)	4.0	3.2	4.3	4.5	4.7

^ Restated

Note: Following the partial divestment, Sunway Healthcare is presented as discontinued operations in FY20 & FY21. For FY22 onwards, Sunway will recognise its share of the profit or loss in Sunway Healthcare (84% stake on a fully converted basis) under the equity method of accounting.

YE 31 Dec (RM'mn)	2Q21 [^]	1Q22	2Q22	QoQ (%)	YoY (%)	1HFY21 [^]	1HFY22	YoY(%)	
Continuing Operations									
Revenue	767.3	1,112.5	1,280.4	15.1	66.9	1,613.4	2,392.8	48.3	
Property Development	147.4	158.2	286.4	81.0	94.3	244.5	444.6	81.8	
Property Investment	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 & 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	
Others	70.2	183.4	161.6	(11.8)	130.4	137.3	345.0	151.3	
Operating profits	6.5	72.1	166.3	130.5	2,447.3	38.5	238.4	519.7	
Finance income	42.7	45.5	32.8	(27.8)	(23.2)	78.8	78.3	(0.7)	
Finance costs	(20.3)	(29.7)	(61.0)	105.5	199.7	(38.8)	(90.6)	133.6	
Associates	15.9	45.9	32.8	(28.5)	106.5	32.3	78.7	143.6	
JV	6.7	53.3	44.1	(17.2)	557.6	13.9	97.4	599.8	
EI	0.0	7.5	26.6	nm	0.0	0.0	34.1	>100	
PBT	51.5	187.1	215.0	14.9	317.6	124.7	402.1	222.5	
Core PBT	51.5	179.6	215.0	19.7	317.6	124.7	394.6	216.5	
Property Development	22.9	23.4	25.7	9.8	12.4	43.6	49.1	12.8	
Property Investment	(16.0)	37.5	53.4	42.4	(433.4)	(32.9)	90.9	>100	
Construction	8.6	47.8	44.4	(7.2)	414.7	36.3	92.2	154.0	
Trading & Manufacturing	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	
Healthcare*	0.0	28.2	35.3	25.0	nm	0.0	63.5	nm	
Others	26.6	27.4	44.7	63.0	68.0	53.0	72.1	36.0	
Tax	(7.8)	(27.9)	(23.8)	(14.7)	203.8	(24.6)	(51.7)	110.1	
MI	(0.5)	(19.1)	(22.4)	17.2	>100	(12.3)	(41.4)	237.8	
Net profit from continuing operations	43.2	140.1	168.9	20.5	291.2	87.8	309.0	251.9	
Core net profit from continuing operations (a)	94.2	132.6	142.3	7.3	51.1	200.2	274.9	37.3	
Discontinued Operations									
Profit from discontinued operations, net of tax	27.5	0.0	0.0	nm	nm	41.4	0.0	nm	
Net gain arising from partial divestment of S unway Healthcare	0.0	0.0	0.0	nm	nm	0.0	0.0	nm	
MI	(0.1)	0.0	0.0	nm	nm	(0.3)	0.0	m	
Profits from discontinued operations	27.4	0.0	0.0	nm	nm	41.2	0.0	nm	
Core net profit from discontinued operations (b)	27.4	0.0	0.0	nm	nm	41.2	0.0	nm	
Core net profit (a + b)	121.5	132.6	142.3	7.3	17.1	241.4	274.9	13.9	
Reported EPS	(sen)	1.2	2.4	2.8	18.0	135.0	2.2	5.2	>100
Adj EPS	(sen)	2.1	2.2	2.4	8.8	17.1	4.1	4.7	12.6
DPS	(sen)	1.0	0.0	2.0	>100	100.0	1.0	2.0	>100
Core PBT margin	(%)	6.7	16.1	16.8	0.7	10.1	7.7	16.5	8.8
Property Development	(%)	15.5	14.8	9.0	(5.8)	(6.5)	17.8	11.0	(6.8)
Property Investment	(%)	(25.7)	31.0	35.7	4.7	61.4	(27.2)	33.6	60.8
Construction	(%)	4.0	13.0	14.0	1.0	10.1	6.7	13.5	6.7
Trading & Manufacturing	(%)	5.0	5.0	3.7	(1.4)	(1.3)	5.2	4.3	(1.0)
Quarry	(%)	(0.8)	6.4	1.8	(4.6)	2.6	1.7	3.8	2.1
Others	(%)	37.9	15.0	27.7	12.7	(10.3)	38.6	20.9	(17.7)
Core net margin	(%)	15.8	11.9	11.1	(0.8)	(4.7)	15.0	11.5	(3.5)
Effective tax rate	(%)	(15.2)	(14.9)	(11.1)	3.8	4.1	(19.7)	(12.9)	6.9

[^]Restated

* healthcare's contribution from Continuing Operations is based on the Group's share of its net profit.

2Q22 Results Analysis (RM mn)

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Stock Recommendation Guideline

- BUY** : Total return within the next 12 months exceeds required rate of return by 5%-point.
HOLD : Total return within the next 12 months exceeds required rate of return by between 0-5%-point.
SELL : Total return is lower than the required rate of return.
Not Rated: The company is not under coverage. The report is for information only.

Total Return is defined as expected share price appreciation plus gross dividend over the next 12 months. Gross dividend is excluded from total return if dividend discount model valuation is used to avoid double counting.

Required Rate of Return of 7% is defined as the yield for one-year Malaysian government treasury plus assumed equity risk premium.

ESG Scoring & Guideline

	Environmental	Social	Governance	Average
Scoring	★★★★★	★★★★★	★★★★★	★★★★★
Remark	The group implements a comprehensive programme aiming to reduce to GHG emission, water & waste with relevant targets and deadlines. It implemented a Zero Single Plastic Use Policy in its property division's assets, venues, and events	The group provides a conducive work environment. Promoting diversity and equal opportunity, 58% of its non-executive workforce are women. The company has strict regulations concerning health and safety, collaborating with suppliers and subcontractors to enforce them.	Sunway upholds high standards of corporate governance and transparency to safeguard shareholders' interests. It has an in-house investor relations team that is easily contactable.	

- ★★★★★ (≥80%) : Displayed market leading capabilities in integrating ESG factors in all aspects of operations, management and future directions.
 ★★★★ (60-79%) : Above adequate integration of ESG factors into most aspects of operations, management and future directions.
 ★★★ (40-59%) : Adequate integration of ESG factors into operations, management and future directions.
 ★★ (20-39%) : Have some integration of ESG factors in operations and management but are insufficient.
 ★ (<20%) : Minimal or no integration of ESG factors in operations and management.

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As of Thursday, August 25, 2022, the analyst, Thiam Chiann Wen, who prepared this report, has interest in the following securities covered in this report:
 (a) nil

Kaladher Govindan – Head of Research

TA SECURITIES HOLDINGS BERHAD (14948-M)
 A Participating Organisation of Bursa Malaysia Securities Berhad

Menara TA One | 22 Jalan P. Ramlee | 50250 Kuala Lumpur | Malaysia | Tel: 603 – 2072 1277 | Fax: 603 – 2032 5048
 www.ta.com.my