

COMPANY RESULTS

Sunway (SWB MK)

4Q22: Within Expectations

Sunway saw 4Q22 core earnings improve by 17% qoq to RM167.3m, driven by higher contribution across all key segments and improved progress billings amid economic recovery. 2022 earnings came in within expectations, accounting for 103% of our full-year estimates. Property sales in 2022 stood at RM2b (-23% yoy) amid lack of project launches due to delay in approvals. Earnings recovery is underway on resilient healthcare and strong unbilled sales. Maintain BUY. Target price: RM2.38.

4Q22 RESULTS

Year to 31 Dec (RMm)	4Q22	qoq% chg	yoy % chg	2022	yoy % chg
Revenue	1,531.6	20.5	23.1	5,195.0	21.0
Property Development	442.7	59.2	142.4	1,165.3	86.7
Construction	291.0	(4.6)	(23.3)	1,281.6	15.3
Property Investment	230.7	22.3	73.0	690.0	120.9
Pre-tax profit	293.9	31.3	14.5	919.8	71.4
Property Development	70.4	96.7	9.3	155.3	1.8
Construction	58.7	64.9	(35.5)	186.6	25.4
Property Investment	52.8	(38.4)	43.3	236.9	2,937.4
PATAMI (ex-sukuk)	203.0	23.2	38.0	669.1	100.1
Core net profit (ex-sukuk)	167.3	17.0	(7.5)	570.8	51.9
Pre-tax Margins (%)	%	+ppt	+ppt	%	+ppt
Property Development	15.9	3.0	(19.3)	13.3	(11.1)
Construction	20.2	8.5	(3.8)	14.6	1.2
Property Investment	22.9	(22.6)	(4.7)	34.3	37.0

Source: Sunway, UOB Kay Hian

RESULTS

- 4Q22 results within expectations.** Sunway reported a higher core net profit of RM167.3m (+17% qoq) on the back of stronger revenue of RM1.5b (+20.5% qoq). 2022 earnings of RM570.8m (+51.9% yoy) were in line with our expectations, accounting for around 103% of our and consensus' full-year forecasts. The earnings growth was driven by higher contribution across almost all segments with the reopening of the economy, offsetting the lower contributions from property investment.
- 2022 property sales of RM2b.** Property sales in 4Q22 stood at around RM800m (+93.7% qoq), bringing total property sales in 2022 to RM2b (-23% yoy). This is mainly contributed by sales from local and Singapore projects. The weaker sales yoy were due to a lack of launches in 2022 of RM1b, vs launches of RM3.2b in 2021.

KEY FINANCIALS

Year to 31 Dec (RMm)	2021	2022	2023F	2024F	2025F
Net turnover	3,714	5,195	6,239	6,593	6,922
EBITDA	543	714	961	1,093	1,147
Operating profit	327	583	781	847	890
Net profit (rep./act.)	264	669	664	696	731
Net profit (adj.)	292	571	664	696	731
EPS (sen)	6.0	10.6	13.6	14.2	15.0
PE (x)	27.8	15.3	12.8	12.4	11.9
P/B (x)	0.7	0.7	0.6	0.6	0.6
EV/EBITDA (x)	27.4	19.1	16.5	14.6	13.9
Dividend yield (%)	1.5	3.0	3.1	3.2	3.2
Net margin (%)	7.1	10.6	11.0	11.4	11.6
Net debt/(cash) to equity (%)	44.0	45.6	43.2	41.7	39.3
Interest cover (x)	6.0	8.2	8.9	9.2	9.8
ROE (%)	2.4	4.4	5.0	5.3	5.7
Consensus net profit	-	-	698	717	-
UOBKH/Consensus (x)	-	-	0.95	1.03	-

Source: Sunway Berhad, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	RM1.62
Target Price	RM2.38
Upside	+46.9%

COMPANY DESCRIPTION

A leading construction company and property developer in Malaysia.

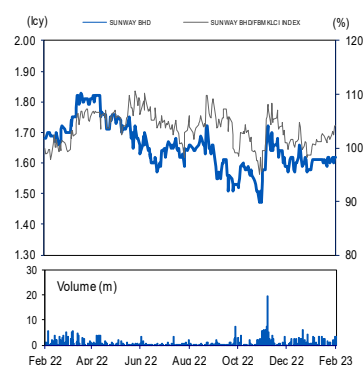
STOCK DATA

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			
1mth	3mth	6mth	1yr	YTD
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
FY23 NAV/Share (RM)	2.53
FY23 Net Debt/Share (RM)	1.15

PRICE CHART



Source: Bloomberg

ANALYST(S)

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STOCK IMPACT

- Property development: Stronger earnings ahead...** Its property arm reported higher 4Q22 PBT of RM70.4m (+96.7% qoq) on the back of stronger revenue of RM442.7m (+59.2% qoq). This is largely due to higher progressive profit recognition from ongoing and completed local development projects during 4Q22. Progress billings are also improving for the ongoing local projects, which we believe is caused by the easing of 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.** In 2022, the company launched: a) Jernih Residence in Kajang with GDV of RM281m in May 22, and b) Alishan Residences in Cheras with GDV of RM261m in Sep 22 and d'hill Residences in Wangsa Maju with GDV of RM359m in Oct 22. This brings 2022 total launches to around RM1b. In 2023, Sunway targets total launches at RM3.5b (77% Singapore, 20% Malaysia, 3% China). Among the key projects are The Continuum (GDV: RM2b) and Terra Hills (GDV: RM700m) in Singapore, Sunway Flora at Bukit Jalil (GDV: RM300m) and Sunway Gardens in China (GDV: RM120m). Total property sales in 2022 came to RM2b and management is setting its 2023 full-year target at RM2.3b. This will be supported by its strong unbilled sales of >RM4.3b (4x 2022 property revenue).
- Healthcare: Prime beneficiary of international border reopening.** The healthcare arm reported 4Q22 core PAT of RM35m (+4% yoy), after excluding a one-off net remeasurement gain of leases of RM36.7m. This yoy growth 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 2022 PAT came in higher at RM133m (+18% yoy) mainly due to better productivity level (from the newer projects as well) and improved billings given the absence of lockdowns. Margins also improved to 12.2% (+4.3ppt qoq) driven by higher margins from some of the tail-end projects. The group has replenished RM2.5b worth of new contracts in 2022 (hitting its target) with an outstanding orderbook of RM5.3b (3x of revenue cover) and tender book of >RM21b. Its target of new contract wins for 2023 is RM2b. The group expects more opportunities in the semiconductor, data centres, power plant and warehouses space. It is also among the frontrunners for the civil packages of the railway jobs given its strong execution track record, coupled with its strong balance sheet.

EARNINGS REVISION/RISK

- None.

VALUATION/RECOMMENDATION

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

SOTP-BASED VALUATION

	(RMm)	Remarks
Property development	3,843	20% discount to property RNAV
REIT (40.9% stake)	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	1,497	
Healthcare	3,930	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
Total SOTP value (A)	13,099	
Share base (m) (B)	4,963	
Warrants proceeds (C)	964	Assume conversion price at RM1.44/share (expiring in Oct 24)
Total SOTP value post warrants proceeds (A+C)	14,063	
Enlarged share base (m)	5,633	
SOTP/share (RM)	2.63	
Discount	10%	
Target price (RM)	2.38	

Source: Sunway, UOB Kay Hian

EXPANSION PLAN FOR MEDICAL CENTRES

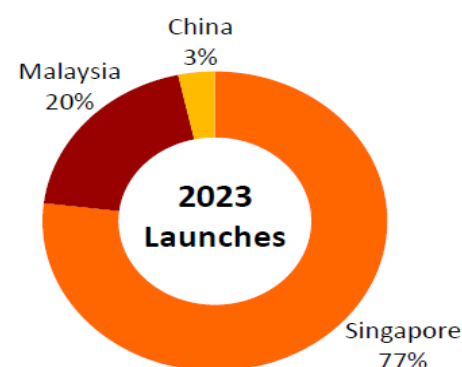
State	Location	Total beds	Exp. completion
Existing Medical Centre			
Kuala Lumpur	Sunway City - (Tower A,B,C)	616	Completed
	Velocity	240*	Completed
Expansion plan			
Kuala Lumpur	Sunway City - (Tower D,E,F)	465	Q222
	Velocity (Phase 2)	110	Q323
Selangor	Damansara	336	Q323
Penang	Seberang Jaya	333	2022
	Paya Terubong	120**	Planning stage
Perak	Ipoh	260	Q124
Kelantan	Kota Bharu	200	Q325
Johor	Iskandar	200**	Planning stage
Total		2,880	

*Full capacity

**Estimates

Source: Sunway, UOB Kay Hian

2023 LAUNCHES BREAKDOWN



Source: Sunway

PROFIT & LOSS

Year to 31 Dec (RMm)	2022	2023F	2024F	2025F
Net turnover	5,195	6,239	6,593	6,922
EBITDA	714	961	1,093	1,147
Deprec. & amort.	130	175	238	251
EBIT	583	781	847	890
Associate contributions	351	364	373	392
Net interest income/(expense)	(15)	(38)	(77)	(81)
Pre-tax profit	920	1,047	1,081	1,135
Tax	(167)	(262)	(270)	(284)
Minorities	(76)	(121)	(123)	(129)
Net profit	669	664	696	731
Net profit (adj.)	571	664	696	731

BALANCE SHEET

Year to 31 Dec (RMm)	2022	2023F	2024F	2025F
Fixed assets	5,676	6,698	7,721	8,107
Other LT assets	12,190	12,513	12,887	13,531
Cash/ST investment	2,482	691	243	255
Other current assets	5,300	7,028	7,390	7,760
Total assets	26,058	26,930	28,241	29,653
ST debt	4,093	4,093	4,093	4,298
Other current liabilities	2,785	3,536	4,299	4,514
LT debt	4,022	4,022	4,022	4,223
Other LT liabilities	1,236	1,236	1,236	1,298
Shareholders' equity	12,351	12,762	13,187	13,846
Minority interest	1,161	1,282	1,405	1,475
Total liabilities & equity	26,058	26,930	28,241	29,653

CASH FLOW

Year to 31 Dec (RMm)	2022	2023F	2024F	2025F
Operating	395	433	753	791
Pre-tax profit	920	1,047	1,081	1,135
Tax	(167)	(262)	(270)	(284)
Deprec. & amort.	130	175	238	251
Associates	(351)	(323)	(373)	(392)
Working capital changes	61	(977)	401	421
Non-cash items	(59)	8	77	81
Investing	(1,069)	(1,197)	(1,261)	(1,324)
Capex (growth)	(1,069)	(1,197)	(1,261)	(1,324)
Investments	0	0	0	0
Proceeds from sale of assets	0	0	0	0
Others	0	0	0	0
Financing	(160)	(261)	(340)	(357)
Dividend payments	(190)	(253)	(263)	(276)
Issue of shares	0	0	0	0
Proceeds from borrowings	0	0	0	0
Others/interest paid	59	(8)	(77)	(81)
Net cash inflow (outflow)	(835)	(791)	(448)	(370)
Beginning cash & cash equivalent	2,732	1,895	1,104	656
Changes due to forex impact	0	0	0	0
Ending cash & cash equivalent	1,895	1,104	656	286

KEY METRICS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
Profitability				
EBITDA margin	13.2	15.1	16.2	17.0
Pre-tax margin	17.1	17.5	17.1	18.0
Net margin	10.7	10.6	10.4	10.9
ROA	1.9	2.4	2.4	2.5
ROE	3.9	5.0	5.1	5.4
Growth				
Turnover	19.9	34.4	5.4	5.7
EBITDA	8.5	53.8	12.9	13.5
Pre-tax profit	63.4	37.6	3.2	3.4
Net profit	80.3	33.3	3.6	3.8
Net profit (adj.)	62.9	33.3	3.6	3.8
EPS	62.9	33.3	3.6	3.8
Leverage				
Debt to total capital	37.5	36.6	35.7	37.5
Debt to equity	65.7	63.6	61.5	64.6
Net debt/(cash) to equity	45.6	58.2	59.7	62.7
Interest cover (x)	8.2	(97.1)	(10.2)	(10.7)

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