

## HLIB Research

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**BUY** (Maintain)

**Target Price:** RM2.65

**Previously:** RM2.65

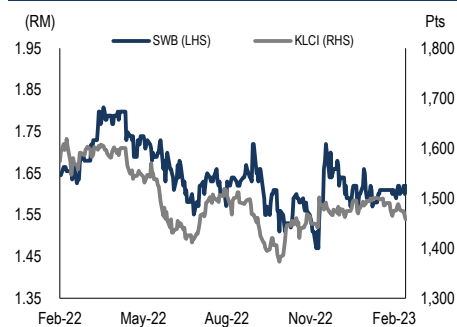
**Current Price:** RM1.62

Capital upside	63.6%
Dividend yield	3.5%
Expected total return	67.1%

**Sector coverage:** Property

Company description: Sunway is a conglomerate that engages in property development, property investment, construction, leisure and hospitality, education, trading and manufacturing, building materials and healthcare.

### Share price



Historical return (%)	1M	3M	12M
Absolute	2.5	5.2	-3.6
Relative	5.5	8.4	4.1

### Stock information

Bloomberg Ticker	SWB MK
Bursa Code	5211
Issued Shares (m)	4,889
Market cap (RM m)	7,920
3-mth avg. volume ('000)	2,495
SC Shariah-compliant	Yes
F4GBM Index member	Yes
ESG rating	★ ★ ★ ★

### Major shareholders

Sungei Way Corp Sdn Bhd	14.2%
EPF	8.4%

### Earnings summary

FYE (Dec)	FY22	FY23f	FY24f
PATMI – core (RM m)	574.8	606.2	627.7
EPS – core (sen)	11.8	12.4	12.8
P/E (x) – FD	13.8	13.1	12.6

# Sunway

## Results above expectations

Sunway reported 4Q22 core PATAMI of RM186.2m bringing FY22's sum to RM574.8m (+95.9% YoY). The results were above ours and consensus' expectations mainly due to stronger-than-expected contributions from property development and construction segments. Maintain forecasts and BUY call with TP of RM2.65 based on SOP-derived valuation. The group has multi levers of growth, particularly with its fast expanding crown jewel, healthcare segment. Sunway remains our top pick given its synergistic business model with well-integrated property, construction and building material operations.

**Above expectations.** Sunway reported 4Q22 core PATAMI of RM186.2m (+26.3% QoQ; +97.1% YoY), bringing FY22's sum to RM574.8m (+95.9% YoY). The results were above our (111.1%) and consensus (105.1%) expectations. The positive deviation was due to stronger-than-expected contributions from property development and construction segments. FY22 core PATAMI was arrived at after including payment to ICPS holders of RM51.3m and excluding net EIs of +RM50.5m mainly from impairment of financial assets and contract assets (-RM35m), provision of impairment for investment (-RM17.4m), PPE disposal gain (RM30.4m), one-off remeasurement gain of leases for SMC Tower A and B (RM36.7m), disposal gain on investment (RM26.6m) and re-measurement gain of Sunway Velocity Two, Sunway Artessa and Daksina Harta (RM6m).

**Dividend.** 3.5 sen, where shareholders have the option to reinvest 2 sen under the dividend reinvestment scheme (DRS) into new ordinary shares with the remaining 1.5 sen paid in cash. Details on the DRS including the issue price of the new shares and price fixing date will be announced at a later date. (4Q21 DPS: 1.5 sen). FY22: 5.5 sen (FY21: 2.5 sen). The group also declared 2H22 preferential dividend of 2.625 sen, ex-date: 20 Mar 2023.

**QoQ.** Core PATAMI increased by +26.3% mainly from the improvement in property development and construction segments. Property development improvement was from better site progress as well as the completion and handover of a local development while construction improvement was from better profit margin achieved.

**YoY/YTD.** Core PATAMI increased by +97.1% YoY and +95.9% YTD mainly from the improvement in property investment segment due to increased visitations to its theme park, improvement in hotels occupancy rates as well as improvement from its associate SunREIT.

**Property development.** In 4Q22, Sunway recorded new sales of RM540m (+30.8% QoQ; -50% YoY), bringing FY22's sum to RM1.76bn (-27.9% YoY), representing 80% of its initial FY22 sales target. The group does not have any new project launches in 4Q22, while its FY22 total launches were 700m (-74.1% YoY), which made up 35% of its initial launch target of RM2bn. Unbilled sales as at 4Q22 stood at RM3.82bn (+2.4% QoQ), representing a strong cover ratio of 3.2x of its FY22 property development revenue. 58.6% of its unbilled sales came from its Singapore projects (Parc Canberra and Parc Central Tampines).

For FY23, the group is setting a sales target of RM2.2bn (+25% YoY) and launch target of RM3.4bn (+3.9x YoY). Most of the new launch pipelines are from Singapore (76.9%), with the remaining from China (3.4%), KL (8.5%), Johor (7.1%), Ipoh (2%) and Penang (2%).

**Property investment.** We expect its hotel segment to record further improvement benefitting from the recovery in tourist arrival. For SunREIT, we should see further improvement in FY23 stemming from (i) full year contribution from Sunway Carnival

Mall's new wing; (ii) reopening of the remaining room inventory in Sunway Resort; and (iii) rental reversion in retail malls.

**Construction.** SunCon current order book stands at RM5.3bn which implies a healthy cover of 2.5x on FY22 construction revenue. We expect further developments in 1H23 from the yet to be finalised Vietnam power plant project worth RM5.8bn. If successful, SunCon's order book would more than doubled to c.RM10bn or c.47% higher than its previous record high order book of RM6.8bn achieved in FY17.

**Healthcare.** Healthcare reported 4Q22 share of core net profit of RM35m (-15.5% QoQ; +11.5% YoY), bringing FY22's sum to RM140m (+36.8% YoY). Note that we have excluded one-off net remeasurement gain of leases following the termination of rental agreement of SMC Tower A and B amounting to RM36.7m from 4Q22 figure. The lower QoQ performance was due to share of losses from SMC Penang of -RM8.4m which commenced operations in Nov 2022. Excluding this, the performance is comparable to the preceding quarter.

Recent news reported that local public hospitals are facing capacity issue, underscoring the severe shortage in the local hospital supply. Given such, we expect Sunway Healthcare should benefit as more patients turn to private hospitals to seek treatment. The recent opening of SMC Penang in Nov 2022 with 200 beds for its initial phase is also timely to capture the current strong demand in healthcare.

**Forecast.** Unchanged.

Maintain **BUY** with an unchanged **TP** of **RM2.65** based on SOP-derived valuation. The group has multi levers of growth, particularly with its fast expanding crown jewel, healthcare segment. By investing in the stock, investors could take advantage to gain an early exposure to its healthcare segment prior to its value unlocking exercise through IPO listing to be completed by 31 Jan 2028 or earlier. The segment at this juncture continues to be undervalued but we believe it should be re-rated in due time as it increasingly draw investor's focus given strong healthcare demand and as the earnings from this segment filters through. Sunway remains our top pick given its synergistic business model with well-integrated property, construction and building material operations.

**Sunway- warrant.** Exercise price of the warrant will be adjusted to RM1.35 on 4 Oct 2023. It will expire on 3 Oct 2024. It presents a good proxy for those in waiting for listing of healthcare.

**Figure #1 Financial forecast summary**

FYE Dec (RM m)	FY20	FY21	FY22	FY23f	FY24f
Revenue	3,833.3	4,529.3	5,195.0	4,749.0	5,062.2
EBITDA	487.6	439.0	713.6	576.0	637.9
EBIT	250.8	221.9	583.4	432.0	480.9
PBT	509.9	358.0	919.8	796.6	836.9
PAT	407.3	241.7	752.8	699.1	722.1
PATMI – Core	385.6	370.3	574.8	606.2	627.7
PATMI – Reported	357.3	2,664.4	676.7	606.2	627.7
Shareholder's equity	9,513.2	12,030.4	12,529.1	12,618.7	12,914.0
Core EPS (sen)	7.9	7.6	11.8	12.4	12.8
P/E (x)	20.5	21.4	13.8	13.1	12.6
EV/EBITDA (x)	26.9	31.3	21.0	22.8	20.9
DPS (sen)	1.5	2.5	5.5	5.7	5.9
Yield (%)	0.9	1.5	3.4	3.5	3.6
BVPS (RM/share)	2.1	2.7	2.6	2.8	2.9
P/B (x)	0.8	0.6	0.6	0.6	0.6
ROE (%)	3.7%	2.8%	4.6%	4.4%	4.4%
Net Gearing (%)	50.2%	44.2%	52.3%	37.4%	37.8%

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**Figure #2 Quarterly results comparison**

FYE Dec (RM m)	4Q21	3Q22	4Q22	QoQ	YoY	FY21	FY22	YoY
Revenue	1247.0	1270.5	1531.6	20.5%	22.8%	3717.3	5195.0	39.8%
Property Development	182.6	278.1	442.7	59.2%	142.4%	624.2	1165.3	86.7%
Property Investment	133.4	188.6	230.7	22.3%	73.0%	312.3	690.0	120.9%
Construction	379.6	305.1	291.0	-4.6%	-23.3%	1111.7	1281.6	15.3%
Trading/Manufacturing	229.9	198.8	233.5	17.4%	1.5%	839.8	902.1	7.4%
Quarry	105.7	105.6	123.4	16.9%	16.7%	337.8	406.2	20.3%
Investment	31.8	9.2	6.5	-29.5%	-79.7%	42.7	19.3	-54.8%
Others	180.8	185.2	204.0	10.2%	12.8%	445.6	730.5	63.9%
EBIT	237.8	132.4	212.7	60.7%	-10.6%	327.8	583.4	78.0%
Net Interest	2.8	-1.5	-0.6	-60.0%	-121.0%	54.9	-14.5	-126.3%
Share of Associates/JCE	14.2	92.9	81.8	-11.9%	475.8%	81.2	350.8	332.1%
PBT	254.8	223.8	293.9	31.3%	15.3%	463.9	919.8	98.3%
Property Development	64.4	35.8	70.4	96.7%	9.3%	152.6	155.3	1.8%
Property Investment	36.8	85.7	52.8	-38.4%	43.3%	-8.3	236.9	NM
Construction	91.1	35.6	58.7	64.9%	-35.5%	148.8	186.6	25.4%
Trading/Manufacturing	9.0	12.4	9.1	-26.7%	0.5%	37.9	41.4	9.4%
Quarry	4.4	1.9	5.1	171.1%	16.6%	9.4	13.7	45.7%
Healthcare	31.4	41.4	35.0	-15.5%	11.5%	102.3	140.0	36.8%
Investment	35.1	-6.1	11.4	-286.3%	-67.5%	90.6	23.8	-73.7%
Others	15.8	17.1	14.7	-14.0%	-7.0%	34.9	85.4	145.0%
PAT	181.8	182.2	220.2	20.9%	21.2%	347.7	752.840	116.5%
MI	-47.1	-17.5	-17.2	-1.2%	-63.4%	-73.7	-76.149	3.3%
Payment to ICPS holders	-25.7	0.0	-25.7	NM	-0.1%	-51.4	-51.3	-0.1%
PATAMI	63.9	164.7	203.0	23.2%	217.7%	274.0	676.7	147.0%
EI	-56.3	17.3	-8.9	-151.7%	-84.1%	-70.8	50.5	-171.3%
<b>Core Earnings</b>	<b>94.5</b>	<b>147.5</b>	<b>186.2</b>	<b>26.3%</b>	<b>97.1%</b>	<b>293.4</b>	<b>574.8</b>	<b>95.9%</b>
				<i>Ppts change</i>	<i>Ppts change</i>			<i>Ppts change</i>
EBIT margin	19.1%	10.4%	13.9%	3.5	-5.18	8.8%	11.2%	2.4
PBT margin	20.4%	17.6%	19.2%	1.6	-1.25	12.5%	17.7%	5.2
PAT margin	7.6%	11.6%	12.2%	0.6	4.58	7.9%	11.1%	3.2

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**Figure #3**      **SOP table**

<b>Division</b>	<b>Stake</b>	<b>Value (RM m)</b>	<b>RM/share</b>	<b>Methodology</b>
Construction (SunCon)	54.56%	1,294	0.27	Based on TP of RM 1.90
Sunway REIT	40.88%	2,338	0.48	Based on TP of RM 1.67
Property Development & Investment	100%	4,888	1.00	Discounted RNAV
Healthcare	84%	3,948	0.81	31x EV/EBITDA
Trading/Manufacturing	100%	295	0.06	10X trailing P/E
Quarry	100%	167	0.03	10X trailing P/E
<b>Equity Value (RM)</b>		<b>12,931</b>	<b>2.65</b>	

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## Stock rating guide

<b>BUY</b>	Expected absolute return of +10% or more over the next 12 months.
<b>HOLD</b>	Expected absolute return of -10% to +10% over the next 12 months.
<b>SELL</b>	Expected absolute return of -10% or less over the next 12 months.
<b>UNDER REVIEW</b>	Rating on the stock is temporarily under review which may or may not result in a change from the previous rating.
<b>NOT RATED</b>	Stock is not or no longer within regular coverage.

## Sector rating guide

<b>OVERWEIGHT</b>	Sector expected to outperform the market over the next 12 months.
<b>NEUTRAL</b>	Sector expected to perform in-line with the market over the next 12 months.
<b>UNDERWEIGHT</b>	Sector expected to underperform the market over the next 12 months.

The stock rating guide as stipulated above serves as a guiding principle to stock ratings. However, apart from the abovementioned quantitative definitions, other qualitative measures and situational aspects will also be considered when arriving at the final stock rating. Stock rating may also be affected by the market capitalisation of the individual stock under review.