

HLIB Research

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BUY (Maintain)

Target Price: RM2.58
Previously: RM2.58
Current Price: RM1.68

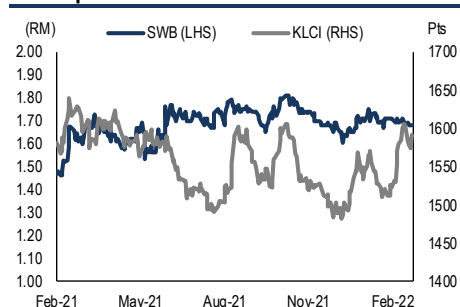
Capital upside 53.6%

Dividend yield 2.8%

Expected total return 56.4%

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 -1.2 0.0 12.8

Relative -6.3 -4.7 12.0

Stock information

Bloomberg Ticker	SWB MK
Bursa Code	5211
Issued Shares (m)	4,889
Market cap (RM m)	8,214
3-mth avg. volume ('000)	983
SC Shariah-compliant	Yes
F4GBM Index member	Yes
ESG rating	★★★

Major shareholders

Sungei Way Corp Sdn Bhd	56.9%
EPF	8.6%

Earnings summary

FYE (Dec)	FY21	FY22f	FY23f
PATMI – core (RM m)	370.3	501.7	567.1
EPS – core (sen)	6.3	8.6	9.7
P/E (x) – FD	26.6	19.6	17.4

Sunway

Strong results achieved

FY21's core PATMI RM370.3m (-4.0% YoY) beat ours and consensus expectations from the higher construction as well as investment holding contribution. New sales of RM2.61bn was achieved in FY21, exceeding its sales target of RM2.2bn. For FY22, Sunway is setting a conservative sales target of RM2.2bn (-15.7% YoY) likely due to the ending of HOC. This is supported by RM2.3bn GDV launches target of FY22. Point to note is the turnaround of SMCV during 4Q21 period, which lowered the YTD operating losses. Maintain our forecast and reiterate our BUY call with an unchanged TP of RM2.58 based on SOP-derived valuation.

Beat expectations. 4QFY21 core PATMI of RM171.4m (+88.8% QoQ, -28.6% YoY) brought FY21's sum to RM370.3m (-4.0% YoY). The latter accounted 129% of our full year forecast and 120% of consensus. The positive deviation stemmed from higher than expected contribution from construction segment as well as investment holdings. FY21 core PATMI was derived from reported PATMI of RM2.7bn after (i) excluding payment to ICPS holder amounting to RM51.4m, (ii) excluding RM2.3bn net gain on partial divestment of Sunway Healthcare Group, and (iii) subsequently adding back other net EIs of RM42.4m (mostly from impairment loss and write-off).

Note: Sunway from now on has reclassified healthcare under Discontinued Operations in accordance with MFRS 5 due to the completion of the initial closing in relation to the partial divestment of Sunway Healthcare Group which resulted in its reclassification as joint ventures. Note that we included the healthcare segment numbers (discontinued operation) in total revenue and on our derivation of core PATMI.

Dividend. Declared a second interim dividend of 1.5 sen per ordinary share, going ex on 21 Mar 2022 (bringing total dividend to 2.5 sen). The group also declared 2H21 preferential dividend of 2.625% (5.25% p.a.) based on the issue price of RM1.00 per ICPS going ex on 21 Mar 2022.

QoQ. Core earnings almost doubled contributed by higher revenue from all segments except property development as well as higher margin from construction business segment margins, driven by upwards margin recalibration for advanced stage projects.

YoY. Core PATMI was lower by -28.6% despite registering higher revenue of 15.8% due to payment to ICPS holder as well as lower profit recognition from property development (as previous financial year accounted for the recognition of the balance of the development profits for one of the Group's Singapore and China property development projects).

YTD. Core PATMI edged down by -4% despite higher total revenue by +18.2% owing to lower profit recognition from property development (as mentioned above) as well as lower profit margin from quarry.

Property development. New sales of RM2.61bn was achieved in FY21, exceeding its sales target of RM2.2bn. Unbilled sales rose to RM3.96bn in 4Q21 from RM3.83bn in 3Q21. For FY22, Sunway is setting a conservative sales target of RM2.2bn (-15.7% YoY) likely due to the ending of HOC. This is supported by RM2.3bn GDV launches target of FY22.

Property investment. Performance of the segment improved significantly in the current quarter due to the reopening of the social and local tourism-related activities in Phase 4 of the NRP. We expect a continuous recovery in retail and hotel segments

being backed by economic recovery from ongoing booster shots rollout as well as opening of international borders.

Construction. Current orderbook stands at RM4.75bn which implies a healthy cover of 4.3x on FY21 construction revenue. FY21 saw RM1.5bn order book replenishment (from RM796m in 9MFY21) with new project of Solar Photovoltaic system (worth RM387m) and Sunway South Quay CP2 Superstructure (worth RM293m).

Healthcare. Healthcare segment 4Q21 PBT recorded an impressive 104% growth YoY (and growth of 6.5% QoQ), bringing FY21's PBT sum to RM102.3m (5.9x YoY), attributable to strong recovery in hospital activities with higher number of admissions and outpatient treatments at Sunway Medical Centre (SMC) and SMCV. As a result, profit of SMC improved significantly, while the operating loss of SMCV reduced to -RM8.6m (from -RM32.0m SPLY).

Forecast. No changes to our forecast despite the positive results surprise as we prefer to err on the side of conservatism. Furthermore, we already imputed a 35% growth to our FY22 forecast as Sunway is poised for a better recovery given its wide ranging business exposure.

We maintain our **BUY** call with an unchanged **TP** of **RM2.58** based on SOP-derived valuation pegged to FY22 horizon. Sunway remains our top pick given its well-integrated property, construction and building material operations. With its wide ranging business exposure, the group is a good proxy to the economic recovery. Meanwhile, its efforts to expedite expansion of healthcare with its new strategic partner GIC, will culminate in the separate listing of healthcare unit to help unlock value in the group.

Figure #1 Financial forecast summary

FYE Dec (RM m)	FY19	FY20	FY21	FY22f	FY23f
Revenue	4,780.3	3,833.3	4,529.3	4,686.8	4,749.0
EBITDA	801.8	487.6	439.0	806.2	838.6
EBIT	567.9	250.8	439.0	558.7	586.8
PBT	865.3	509.3	568.1	703.7	780.2
PAT	786.9	407.3	453.9	568.6	642.4
PATMI – Core	684.8	385.6	370.3	501.7	567.1
PATMI – Reported	709.2	359.6	2,665.4	501.7	567.1
HLIB/ Consensus (%) – Core PATMI				105%	96%
FD Core EPS (sen)	11.7	6.6	6.3	8.6	9.7
FD P/E (x)	14.4	29.7	26.6	19.6	17.4
EV/EBITDA (x)	19.0	31.0	35.9	18.4	17.2
DPS (sen)	9.1	1.5	2.5	4.7	5.3
Yield (%)	5.4	0.9	1.5	2.8	3.2
BVPS (RM/share)	1.6	1.8	2.2	1.8	1.9
P/B (x)	1.0	1.0	0.8	0.9	0.9
ROE (%)	7.3%	3.2%	3.1%	4.6%	5.1%
Net Gearing (%)	56.9%	50.0%	49.0%	46.1%	40.8%

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Figure #2 Quarterly results comparison

FYE Dec (RM m)	4Q20	3Q21	4Q21	QoQ	YoY	FY20	FY21	YoY
Revenue	1278.0	1065.0	1479.6	38.9%	15.8%	3833.3	4529.3	18.2%
Property Development	184.3	197.1	182.6	-7.3%	-0.9%	495.0	624.2	26.1%
Property Investment	46.1	58.0	133.4	130.0%	189.6%	334.0	312.3	-6.5%
Construction	424.6	192.7	379.6	97.0%	-10.6%	990.2	1111.7	12.3%
Trading/Manufacturing	245.8	186.4	229.9	23.3%	-6.5%	812.1	839.8	3.4%
Quarry	109.8	84.3	105.7	25.4%	-3.7%	321.4	337.8	5.1%
Healthcare	178.0	208.1	235.8	13.3%	32.4%	620.3	815.1	31.4%
Investment	1.4	8.6	31.8	271.3%	2225.2%	4.7	42.7	814.0%
Others	88.1	129.9	180.8	39.2%	105.1%	255.6	445.6	74.3%
EBIT	38.3	83.3	270.1	224.2%	604.7%	250.8	439.0	75.0%
Net Interest	58.2	9.8	1.2	-88.0%	-98.0%	28.5	45.3	59.1%
Share of Associates/JCE	163.8	20.7	16.7	-19.3%	-89.8%	230.0	83.7	-63.6%
PBT	260.4	113.8	288.0	153.0%	10.6%	509.3	568.1	11.5%
Property Development	227.3	44.6	64.4	44.2%	-71.7%	297.0	152.6	-48.6%
Property Investment	-82.7	-12.3	36.8	- N.M.	N.M.	-30.8	-8.3	N.M.
Construction	39.0	21.4	91.1	326.7%	133.9%	105.1	148.8	41.6%
Trading/Manufacturing	11.4	6.7	9.0	35.7%	-20.8%	24.9	37.9	52.4%
Quarry	5.6	2.5	4.4	77.4%	-21.3%	14.8	9.4	-36.5%
Healthcare	22.5	29.5	31.4	6.5%	39.8%	17.4	102.3	488.0%
Investment	18.2	10.6	35.1	232.2%	92.8%	56.8	90.6	59.6%
Others	19.2	11.0	15.8	44.3%	-17.4%	24.2	34.9	44.0%
PAT	215.7	95.2	217.3	128.3%	0.7%	407.3	453.9	11.4%
MI	-14.1	-14.1	-48.0	N.M.	N.M.	-47.7	-74.6	N.M.
Payment to ICPS holders	0.0	0.0	-25.7	N.M.	N.M.	0.0	-51.4	N.M.
PATAMI	201.6	81.1	143.6	77.0%	-28.8%	359.6	327.9	-8.8%
EI	38.4	9.7	27.8	N.M.	N.M.	26.0	42.4	N.M.
Core Earnings	240.0	90.8	171.4	88.8%	-28.6%	385.6	370.3	-4.0%
				Ppts change	Ppts change			Ppts change
EBIT margin	3.0%	7.8%	18.3%	10.4	15.26	6.5%	9.7%	3.1
PBT margin	20.4%	10.7%	19.5%	8.8	-0.91	13.3%	12.5%	-0.7
PAT margin	18.8%	8.5%	11.6%	3.1	-7.20	10.1%	8.2%	-1.9

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Figure #3 SOP table

Division	Stake	Value (RM m)	RM/share	Methodology
Construction (SunCon)	54.56%	1,315	0.27	Based on TP of RM 1.77
Sunway REIT	40.88%	1,932	0.40	Based on TP of RM 1.54
Property Development & Investment	100%	4,893	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
Equity Value (RM)		12,551	2.58	

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Stock rating guide

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

Sector rating guide

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

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