

HLIB Research

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BUY (Maintain)

Target Price: RM2.65

Previously: RM2.65

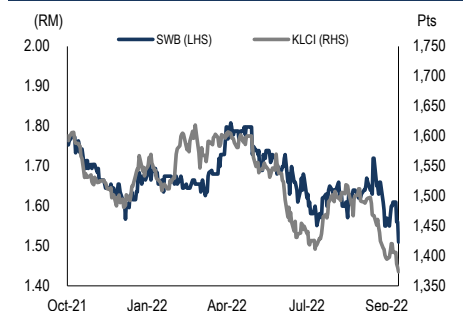
Current Price: RM1.51

Capital upside	75.5%
Dividend yield	3.1%
Expected total return	78.6%

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	-9.0	-10.7	-9.0
Relative	0.0	-5.0	3.1

Stock information

Bloomberg Ticker	SWB MK
Bursa Code	5211
Issued Shares (m)	4,889
Market cap (RM m)	7,578
3-mth avg. volume ('000)	539
SC Shariah-compliant	Yes
F4GBM Index member	Yes
ESG rating	★★★★

Major shareholders

Sungei Way Corp Sdn Bhd	14.2%
EPF	8.3%

Earnings summary

FYE (Dec)	FY21	FY22f	FY23f
PATMI – core (RM m)	370.3	502.2	567.4
EPS – core (sen)	7.6	10.3	11.6
P/E (x)	19.9	14.7	13.0

Sunway

Healthcare gaining traction

We see vast growth potential for hospitals as the demand is increasing due to (i) urbanization; and (ii) better health awareness post pandemic, while the supply remains well under the recommendation of WHO. With the strategic partnership with GIC, Sunway is expediting its growth plan with a healthy pipeline of expansion and new hospitals. As we illustrated through a comparison with its peer, we think that the segment is undervalued and believe it will increasingly draw investor's focus once the earnings from the segment filter through and as the segment progresses closer to the value unlocking exercise via an IPO. **Maintain BUY with an unchanged TP of RM2.65 based on SOP-derived valuation.**

The group organised a site tour to Sunway Medical Centre Sunway City (SMCSC) recently accompanied by its senior management team. The visit allowed us to get a glimpse on its well-equipped and state of the art medical facilities and infrastructure of the hospital, which was one of the reasons the group was able to attract top specialists and talents to work with them.

Background. SMCSC started operations with one tower in 1999, followed by its second tower in 2012 and expanded to Tower C in 2017, with total beds of 616 beds. Towers A and B are mainly for multi-disciplinary specialties, while Tower C houses Cancer & Radiosurgery Centre, Nuclear Medicine Centre, Digestive Health Centre, Dialysis Centre, consultation suites and wards. Sunway further expanded and started operations in SMC Velocity (SMCV) in Oct 2019. Sunway hospital which started as a catalytic development for its Sunway City township has taken a life on its own and is now one of the main drivers anchoring growth for the group.

Upcoming expansion:

1. SMCSC – Tower D, E and F

SMCSC is currently constructing Towers D, E and F. These towers will be opened by phases starting from 1Q23. This will add 450 beds, bringing total beds capacity to 1.1k. Post this expansion (with the 3 towers), SMCSC's size, in terms of bed capacity, will then be the largest private hospital in SEA. Tower D will have 30 floors with the 1st to 15th floors housing 180 medical suites, mainly on an expansion of capacity from the current facilities. The 16th to 30th floors will house a new segment called Sunway Sanctuary for senior living. Senior living segment will have 473 rooms, mainly targeted for (i) retirees; (ii) semi-retirees; and (iii) elderly with medical condition. Due to the proximity to the healthcare facilities, occupants will be able to receive prompt medical support. Tower E will be for major clinical speciality, e.g. heart, brain and orthopaedic. Tower F will be for women and children (paediatrics).

2. SMCV – Phase 2

SMCV Phase 2 expansion is expected to open by 3Q23. It will add another 110 beds capacity to bring total to 350 beds. The new phase has 22 floors. The lower 12 floors are connected to Phase 1 and are mainly for capacity expansion from Phase 1. Currently the hospital has occupancy rate of 60-70%, management hopes to achieve higher occupancy rate before the expansion.

New hospital pipelines:

1. SMC Seberang Jaya

Sunway will be opening its 3rd hospital at Seberang Jaya in 4Q22. The first phase will have 200 beds with 40 specialists. This will eventually expand to Phase 2 and 3 to bring total beds to c.333 beds capacity. The hospital is located next to Sunway Seberang Jaya Hotel and near to Sunway Carnival Mall.

2. SMC Damansara

SMC Damansara is under construction and is targeted to open by 1Q24 with potential capacity of c.336 beds. The hospital is located nearby Sunway Nexis and Tropicana Gardens Mall.

3. SMC Ipoh

SMC Ipoh is under construction and is targeted to open by 4Q24 with potential capacity of c.260 beds. The hospital is in Tambun and located beside Sunway Lost World of Tambun theme park and Banjaran Hotsprings Retreat resort.

4. Others

The other hospitals that are in the pipeline include (i) Kota Bahru, Kelantan; (ii) Paya Terubong, Penang; and (iii) Sunway City Iskandar Puteri, Johor.

With these 8 hospitals, the group will have >3k beds capacity.

Healthcare – growing demand. The demand for hospitals is growing due to (i) urbanization; and (ii) better health awareness post pandemic. Malaysia current beds per population is 1.9 beds per 1k population, which is well below WHO standard of 4.8 beds per 1k population. As such, there is still plenty of room for hospitals expansion. During the pandemic, government hospitals outsourced non-Covid patients to private hospitals, including Sunway hospitals due to capacity constraint in government hospitals. This practice is likely to continue post-pandemic. With borders reopened, Sunway has seen gradual improvement in foreign patients' footfall, with foreign patients now at c.8% of total patients (vs. c.10% pre-pandemic). Other than that, the group is also seeing an increase in domestic patient volume due to (i) pent-up demand from elective procedures; and (ii) more children patients as they return to school post-pandemic. SMCS and SMCV currently have a healthy blended average occupancy rate of c.70%.

Healthcare segment gaining traction. To gain some perspective on the value of Sunway Healthcare, we compare it to its closest domestic peer, KPJ. The disposal value to GIC values Sunway Healthcare (Sunway's stake) at RM3.94bn. This is quite similar to KPJ's current market cap of RM3.5bn. Granted, KPJ is larger in terms of capacity with 3,376 beds over 28 hospitals (vs Sunway's 737 beds over 2 hospitals). However, from profitability metric, we note that Sunway's healthcare is doing better as (i) its bottom line has already surpassed KPJ with the segment recording share of net profit (84% stake) of RM63.5m in 1H22 (vs. RM49.3m net profit for KPJ in the same period); (ii) the earnings per bed is significantly higher (c.5.9x of KPJ based on 1H22 numbers); and (iii) the impending strong pipeline and expansion for the next 3 years and beyond. Given such, we reckon that Sunway's value should be at least equivalent to that of KPJ, and under such an assumption, this already forms 47.4% of Sunway's current market capitalization.

The upcoming expansion in Tower D, E and F for SMCS has minimal execution risk given that it will be able to capture the spill over demand from its existing facilities in Tower A – C which is operating at close to maximum capacity. In addition, given its track record in SMCV, we believe its upcoming new hospital SMC Seberang Jaya should also be able to achieve similar speed of turnaround as SMCV (SMCV was able to turn profitable within 2 years).

Forecast. Unchanged.

Maintain **BUY** with an unchanged **TP** of **RM2.65** based on SOP-derived valuation. To sum up, the healthcare division is gaining traction in the group's development. We believe the stock will be re-rated in due time as the healthcare segment will increasingly draw investor focus as the earnings from this segment filters through and as the group progresses closer to the value unlocking exercise of its healthcare through IPO (to be completed by 31 Jan 2028 or earlier). Sunway remains as our top pick given the group's synergistic business model and well-integrated property, construction and building material operations.

Financial Forecast

All items in (RM m) unless otherwise stated

Balance Sheet

FYE Dec	FY20	FY21	FY22f	FY23f	FY24f
Cash	2,238.4	2,810.3	3,381.1	3,937.0	3,964.9
Placement in funds	100.3	98.8	98.8	98.8	98.8
Receivables	1,451.9	1,123.4	1,881.0	1,890.3	2,015.0
Inventories	606.0	670.5	1,115.1	1,120.6	1,194.5
Others	16,696.5	20,381.4	20,182.7	20,142.4	20,600.6
Assets	21,093.1	25,084.3	26,658.7	27,189.0	27,873.7
Payables	1,467.5	1,401.2	2,506.0	2,518.3	2,684.4
Debt	7,510.6	8,714.6	8,864.6	9,014.6	9,164.6
Others	1,804.5	1,846.2	1,846.2	1,846.2	1,846.2
Liabilities	10,782.6	11,962.0	13,216.7	13,379.1	13,695.2
Shareholder's equity	9,513.2	12,030.4	12,281.8	12,573.1	12,864.4
Minority interest	797.4	1,091.9	1,160.2	1,236.9	1,314.1
Perpetual bond	-	-	-	-	-
Equity	10,310.6	13,122.3	13,442.0	13,809.9	14,178.5

Cash Flow Statement

FYE Dec	FY20	FY21	FY22f	FY23f	FY24f
Profit before taxation	509.9	358.0	706.1	788.2	838.0
D&A	236.5	216.9	129.9	144.1	157.0
Working capital	297.5	(109.9)	247.9	317.6	(264.5)
Taxation	(61.3)	(105.3)	(135.7)	(144.0)	(158.3)
JV and Associates	(39.3)	70.0	(80.7)	(123.8)	(83.3)
Perpetual bond	-	-	-	-	-
Others	(68.6)	549.1	-	-	-
CFO	874.7	978.7	867.6	982.1	488.9
Capex	(957.0)	(580.2)	(300.0)	(300.0)	(300.0)
Others	158.6	(699.4)	-	-	-
CFI	(798.5)	(1,279.6)	(300.0)	(300.0)	(300.0)
Changes in debt	(897.1)	1,239.1	150.0	150.0	150.0
Shares issued	977.8	-	-	-	-
Dividends	(253.6)	(179.8)	(146.7)	(276.2)	(312.1)
Others	(86.8)	(214.4)	-	-	1.0
CFF	(259.7)	845.0	3.3	(126.2)	(161.1)
Net cash flow	(183.5)	544.1	570.9	555.9	27.8
Forex	7.3	5.3	-	-	-
Others	(140.2)	(117.7)	(117.7)	(117.7)	(117.7)
Beginning cash	2,554.7	2,378.6	2,928.0	3,498.9	4,054.7
Ending cash	2,238.4	2,810.3	3,381.2	3,937.0	3,964.9

Income statement

FYE Dec	FY20	FY21	FY22f	FY23f	FY24f
Revenue	3833.3	4529.3	4725.7	4749.0	5062.2
Operating cost	(3345.7)	(4090.3)	(4003.2)	(3982.6)	(4254.6)
EBITDA	487.6	439.0	722.5	766.4	807.5
D&A	(236.8)	(217.1)	(129.9)	(144.1)	(157.0)
Net Interest	28.3	54.9	(27.2)	(22.2)	9.2
JV & Associates	230.8	81.2	140.7	188.1	178.3
Pretax profit	509.9	358.0	706.1	788.2	838.0
Taxation	(102.6)	(116.2)	(135.7)	(144.0)	(158.3)
Minority Interest	(47.6)	(73.7)	(68.2)	(76.7)	(77.2)
Holders of Perpetual	0.0	0.0	0.0	0.0	0.0
Reported PATAMI	357.3	2664.4	502.2	567.4	602.5
Exceptionals	28.3	42.4	0.0	0.0	0.0
Core Earning	385.6	370.3	502.2	567.4	602.5
Basic shares (m)	4889.1	4889.1	4889.1	4889.1	4889.1
Consensus core PATMI			494.8	594.4	634.4
HLIB/ Consensus			101%	95%	95%

Valuation ratios

FYE Dec	FY20	FY21	FY22f	FY23f	FY24f
Net DPS (sen)	1.5	2.5	4.7	5.3	5.6
Yield (%)	1.0	1.7	3.1	3.5	3.7
Core EPS (sen)	7.9	7.6	10.3	11.6	12.3
P/E (x)	19.1	19.9	14.7	13.0	12.3
Market capitalization (m)	7382.5	7382.5	7382.5	7382.5	7382.5
Net cash (m)	(5171.9)	(5805.5)	(5384.7)	(4978.8)	(5101.0)
Net gearing (%)	50.2%	44.2%	40.1%	36.1%	36.0%
BV / share	2.1	2.7	2.7	2.8	2.9
P/BV (x)	0.7	0.6	0.5	0.5	0.5
ROA (%)	1.8	1.5	1.9	2.1	2.2
ROE (%)	3.7	2.8	3.7	4.1	4.2
Enterprise value	12554.4	13188.1	12767.2	12361.3	12483.5
EV/ EBITDA (x)	25.7	30.0	17.7	16.1	15.5

Figure #1 SOP table

Division	Stake	Value (RM m)	RM/share	Methodology
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%	4,893	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)		12,936	2.65	

HLIB Research

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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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