

8 July 2022

Property | Real Estate

## Sunway (SWB MK)

**Buy** (Maintained)

### Solid Enough To Ride Through Market Headwinds

- Maintain BUY and MYR2.06 TP, 26% upside and c.2% yield.** Given the market headwinds, we believe Sunway's solid fundamentals and diversified business model should help it to ride through this challenging period. Better earnings recovery in its three core divisions this year is likely to offset the weakness in smaller business divisions. The progressive opening of new investment properties will likely boost the performance of the property investment and healthcare divisions.
- All divisions, except the smaller divisions, should perform better.** We recently hosted a virtual meeting with Sunway's CFO Chong Chang Choong and the investor relations (IR) team. Management guided that the key divisions ie property development, property investment, and construction should see better earnings this year, but trading & manufacturing, quarry, and building materials may remain weak due to slower demand recovery, cost pressure, as well as disruption in supply due to the lockdown in China. Nevertheless, profit contribution from these three divisions has been small, accounting for only 10-12% of PBT pre-pandemic.
- The opening of Sunway Carnival's new phase should be well-received.** The recent opening of the new phase doubled the mall's NLA to 1m sqf. The new wing has already achieved an 80% occupancy upon opening, and the committed tenancy is 95%. As many of the retail brands are new in the Penang market, and given the lack of malls of this scale in the vicinity, we think Sunway Carnival will be well received. The upcoming opening of Sunway Medical Centre Seberang Perai (next to the mall) in 4Q22 should further boost retail and commercial activities in the area.
- Downside risk to MYR2.2bn sales target is possible.** While the company already achieved MYR447m new sales in 1Q22, demand for property may turn weaker given the expectation of an interest rate hike. Sunway Gardens in Tianjin China is now held back due to weak market sentiment and slower economic growth as a result of China's zero-COVID policy. Flynn Park in Singapore may be launched only in late 2022, or early 2023.
- Cost increase in the construction of hospitals.** The construction of new hospitals saw some cost increase due to rising building material prices and the purchase of new medical equipment, which is getting more expensive due to the weaker MYR. However, management guided that as Sunway Construction (SCGB MK, BUY, TP: MYR1.93) is the contractor undertaking all the construction works, the cost increase should still be under control given better cost management and timing of bulk procurement.
- ESG.** Our SOP-based TP includes an 8% ESG premium given our ESG score of 3.40 for Sunway, derived using our in-house proprietary methodology.

Target Price (Return): MYR2.06 (+26%)  
 Price (Market Cap): MYR1.63 (USD1,801m)  
 ESG score: 3.40 (out of 4)  
 Avg Daily Turnover (MYR/USD) 1.61m/0.37m

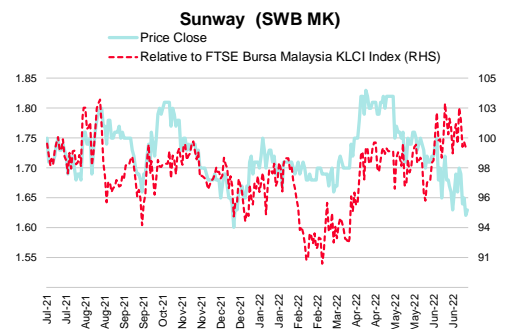
#### Analyst

Loong Kok Wen CFA  
 +603 9280 8861  
[loong.kok.wen@rhbgroup.com](mailto:loong.kok.wen@rhbgroup.com)



#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(5.2)	(5.2)	(10.4)	(4.1)	(6.9)
Relative	4.2	1.7	0.9	3.8	0.3
52-wk Price low/high (MYR)	1.60 – 1.83				



Source: Bloomberg

Forecasts and Valuation	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Total turnover (MYRm)	3,833	3,714	4,002	4,645	5,156
Recurring net profit (MYRm)	461	265	426	562	620
Recurring net profit growth (%)	(33.4)	(42.5)	60.4	32.0	10.5
Recurring EPS (MYR)	0.09	0.05	0.07	0.09	0.10
DPS (MYR)	0.01	0.03	0.03	0.04	0.04
Recurring P/E (x)	18.19	36.05	22.70	17.37	15.88
P/B (x)	0.88	0.79	0.79	0.77	0.76
Dividend Yield (%)	0.7	1.7	1.8	2.1	2.5
Return on average equity (%)	4.0	2.7	3.5	4.5	4.8
Net debt to equity (%)	50.7	44.9	49.9	50.4	52.2

Source: Company data, RHB

#### Overall ESG Score: 3.40 (out of 4)

##### E: EXCELLENT

Sunway City is a Green Building Index (GBI) certified township. The company managed to avoid 40,131 tonnes of CO<sub>2</sub>e from 2015-2019, and 1% of its electricity is from renewable sources (in 2019). Its main townships also have more than 40% open space, with greenscapes and bluescapes.

##### S: EXCELLENT

Sunway has made donations to aid the underserved communities in the B40 group, people with disabilities, youth, women, children and senior citizens. The Good Run in Oct 2019 managed to raise MYR275k to support medical treatment costs for cancer patients of the B40 group.

##### G: EXCELLENT

56% of board members are independent. Sunway has an in-house investor relations team that is easily accessible, and holds investor meetings, embodying good transparency and disclosure practices.

## Financial Exhibits

Asia	Financial summary (MYR)	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Malaysia	Recurring EPS	0.09	0.05	0.07	0.09	0.10
Property	EPS	0.07	0.05	0.07	0.09	0.10
<b>Sunway</b>	DPS	0.01	0.03	0.03	0.04	0.04
SWB MK	BVPS	1.85	2.05	2.07	2.11	2.15
Buy	Return on average equity (%)	4.0	2.7	3.5	4.5	4.8
	Return on average assets (%)	1.6	1.3	1.7	2.2	2.3
<b>Valuation basis</b>	<b>Valuation metrics</b>	<b>Dec-20</b>	<b>Dec-21</b>	<b>Dec-22F</b>	<b>Dec-23F</b>	<b>Dec-24F</b>
45% discount to property RNAV, 15x P/E for trading/building material division, 18.5x EV/EBITDA for healthcare division, and 10% holding co discount	Recurring P/E (x)	18.19	36.05	22.70	17.37	15.88
	P/B (x)	0.9	0.8	0.8	0.8	0.8
	Dividend Yield (%)	0.7	1.7	1.8	2.1	2.5
	EV/EBITDA (x)	48.42	36.16	42.09	28.69	27.23
<b>Key drivers</b>	<b>Income statement (MYRm)</b>	<b>Dec-20</b>	<b>Dec-21</b>	<b>Dec-22F</b>	<b>Dec-23F</b>	<b>Dec-24F</b>
New property sales, disposal of investment properties.	Total turnover	3,833	3,714	4,002	4,645	5,156
	Gross profit	804	798	971	1,223	1,366
	EBITDA	298	458	416	625	682
	Depreciation and amortisation	(47)	(131)	(97)	(105)	(112)
	Operating profit	251	327	319	520	570
	Net interest	28	55	(54)	(72)	(89)
	Pre-tax profit	509	466	591	780	862
	Taxation	(102)	(116)	(118)	(156)	(172)
	Reported net profit	360	294	426	562	620
	Recurring net profit	461	265	426	562	620
<b>Key risks</b>	<b>Cash flow (MYRm)</b>	<b>Dec-20</b>	<b>Dec-21</b>	<b>Dec-22F</b>	<b>Dec-23F</b>	<b>Dec-24F</b>
Weaker-than-expected market conditions	Change in working capital	(514)	(468)	24	(261)	(152)
	Cash flow from operations	(18)	202	542	411	545
	Capex	0	0	(1,022)	(377)	(739)
	Cash flow from investing activities	(529)	(2,891)	(916)	(202)	(502)
	Dividends paid	(60)	(163)	(178)	(209)	(242)
	Cash flow from financing activities	(1,380)	3,318	(274)	(305)	(336)
	Cash at beginning of period	5,889	2,269	2,817	2,323	2,161
	Net change in cash	(1,926)	628	(647)	(95)	(293)
	Ending balance cash	3,963	2,897	2,169	2,227	1,867
<b>Company Profile</b>	<b>Balance sheet (MYRm)</b>	<b>Dec-20</b>	<b>Dec-21</b>	<b>Dec-22F</b>	<b>Dec-23F</b>	<b>Dec-24F</b>
Sunway is a well-known developer in the Klang Valley. Its flagship project – Bandar Sunway – is a well-established integrated township. The company has successfully transformed a mining land to a matured residential and commercial cluster	Total cash and equivalents	2,269	2,817	2,323	2,161	1,893
	Tangible fixed assets	13,632	16,592	17,517	17,789	18,417
	Intangible assets	351	433	433	433	433
	Total other assets	65	60	249	409	553
	Total assets	21,119	25,087	25,515	26,290	27,226
	Short-term debt	5,132	4,094	4,094	4,094	4,094
	Total long-term debt	2,374	4,622	4,923	5,040	5,249
	Total liabilities	10,788	11,963	12,097	12,457	12,945
	Shareholders' equity	9,535	12,035	12,283	12,635	13,013
	Minority interests	797	1,089	1,136	1,198	1,267
	Total equity	10,332	13,123	13,418	13,833	14,281
	Total liabilities & equity	21,119	25,087	25,515	26,290	27,226
	<b>Key metrics</b>	<b>Dec-20</b>	<b>Dec-21</b>	<b>Dec-22F</b>	<b>Dec-23F</b>	<b>Dec-24F</b>
	Revenue growth (%)	(19.8)	(3.1)	7.7	16.1	11.0
	Recurring net profit growth (%)	(33.4)	(42.5)	60.4	32.0	10.5
	Recurrent EPS growth (%)	(36.4)	(49.6)	58.8	30.7	9.4
	Gross margin (%)	21.0	21.5	24.3	26.3	26.5
	Recurring net profit margin (%)	12.0	7.1	10.6	12.1	12.0
	Dividend payout ratio (%)	16.7	55.3	41.8	37.3	39.0

Source: Company data, RHB

Figure 1: RNAV estimate

Developments	Remaining Landbank (acre)	Remaining GDV (MYR m)	Effective stake	NPV @ 9%
<b>Selangor/KL</b>				
Sunway Damansara	21.70	2,235.30	60%	224.6
Sunway South Quay	29.90	2,486.70	100%	347.0
Sunway Monterez	4.40	38.00	60%	3.0
Sunway Semenyih	526.10	728.59	70%	58.1
Sunway Cheras	2.90	16.82	100%	1.7
Sunway Duta	3.16	120.00	60%	7.3
Sunway Resort City	7.7	660	100%	104.8
Sunway Velocity	2.20	1,983.98	85%	205.1
Sunway Velocity 2	5.50	1,360.00	50%	47.4
New land in Cochrane	6.59	1,150.00	100%	108.6
Sunway Tower KL 1	1.90	240.00	100%	21.5
Sunway Termuning	28.90	277.00	80%	16.5
Sg Long	28.90	277.00	80%	21.3
Mont Putra, Rawang	163.00	156.00	100%	13.9
Kelana Jaya	14.00	1,450.00	100%	113.6
Subang industrial	4.20	52.00	70%	3.8
Sunway Belfield	4.53	1,100.00	100%	86.2
Sunway Kajang	5.28	460.00	60%	24.8
USJ 1	14.80	1,400.00	100%	110.5
Sunway Avila	2.30	270.00	55%	14.6
Sunway ARTESSA, Wangsa Maju	3.69	300.00	55%	12.9
Sunway Damansara Hill, Kota Damansara	9.46	544.00	60%	35.9
Cheras land	3.34	225.00	100%	19.2
Mutiara Bukit Jalil	11.80	800.00	100%	60.1
Dengkil (Emerald Tycoon)	74.50	796.60	100%	45.3
<b>Perak</b>				
Sunway City Ipoh	336.4	928.40	96%	121.9
<b>Penang</b>				
Sunway Hills	80.70	849.00	100%	73.6
Sunway Wellesley, Bukit Mertajam	51.47	710.47	100%	73.4
Paya Terubong	24.90	1,500.00	100%	143.0
Sunway Tunas, Balik Pulau	9.00	60.00	100%	6.3
Sunway Betong, Balik Pulau	19.87	110.00	100%	11.5
<b>S'pore</b>				
Anchorvale Lane, Sengkang (Rivercove EC)	5.19	1,560.00	30%	43.1
Ki Residences (Clementi)	8.56	3,410.00	30%	103.5
Canberra Link, Sembawang	4.46	1,643.00	35%	58.2
Parc Central, Tampines EC	6.16	2,650.50	35%	81.0
Flynn Park Pasir Panjang	4.79	2,300.00	30%	69.8
Tanjong Katong	6.00	6,000.00	30%	104.0
<b>Johor</b>				
Bukit Lenang	64.79	698.40	80%	53.2
Medini	632.80	10,616.00	60%	511.0
Pendas	1,079.07	18,000.00	60%	643.8
<b>China</b>				
Tianjin Phase 3	6.85	780.00	60%	37.9
<b>India</b>				
Sunway OPUS Grand India	23.80	702.36	50%	23.1
Sunway MAK Signature Residence (JV with M.A.K Builders)	14.00	181.22	60%	7.5
<b>TOTAL</b>	<b>3,470.24</b>	<b>77,422.22</b>		<b>3,873.40</b>

Investment properties	Est. market value (MYR m)	Book value (MYR m)	Equity interest	Net surplus (MYR m)
Monash University Campus	302.8	302.8	100%	0
Monash U Residence	239.0	239.0	100%	0
Sunway Geo Tower	168.0	111.0	100%	57.0
Sunway Hotel Georgetown	60.0	37.6	100%	22.4
Sunway Hotel Phnom Penh	19.0	19.0	53%	0
Sunway Hotel Hanoi	5.0	5.0	100%	0
Sunway Giza	50.0	50.0	60%	0
Sunway Velocity Mall	1,805.0	805.0	59%	590.0
Sunway Citrine Hub	42.0	42.0	60%	0.0
Sunway Geo Avenue	94.0	94.0	100%	0.0
Subtotal				4,542.80
Shareholders' equity (ex cons. & healthcare)				9,812.40
Total				14,355.19
Discount to Property RNAV				45%
Discounted Property RNAV				7,895.36

Other divisions	Market value (MYR m)	Book value (MYR m)	Est. FY22 earnings (MYR m)	PE target (x)	Equity value surplus (MYR m)
40.9% Sunway REIT	2,017.1	1,479.0			538.07
54.4% Sunway Construction	1,273.1	844.1			429.07
Others			60	15	900.00
84% Sunway Healthcare			Est. FY22 EBITDA	EV/EBITDA (x)	Equity value
			182.9	18.5	2,841.60
Total					12,604.10
ESOS proceeds					151.21
Warrants conversion @ MYR1.56					1,044.44
Total RNAV					13,799.76
Holding company discount					10%
Discounted RNAV					12,419.78
Share base (mil) incl. warrants & ICPS					6,525.86
Intrinsic value					1.90
ESG premium					8%
TP (MYR)					2.06

Source: RHB

## Recommendation Chart

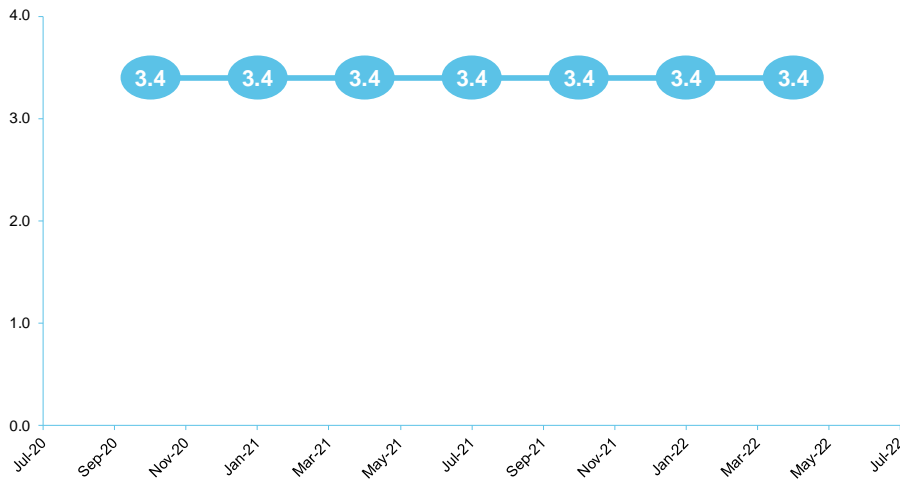


Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2022-05-26	Buy	2.06	1.74
2021-11-25	Buy	2.06	1.68
2021-08-25	Buy	2.00	1.77
2021-07-13	Buy	2.02	1.71
2021-06-24	Buy	2.09	1.73
2021-05-26	Buy	1.92	1.66
2021-04-19	Buy	1.95	1.64
2021-04-01	Buy	1.94	1.69
2021-03-16	Buy	1.88	1.64
2020-03-23	Buy	1.86	1.41
2020-02-26	Buy	2.00	1.79
2019-11-22	Buy	2.00	1.78
2019-10-29	Buy	1.95	1.70
2019-09-27	Buy	1.95	1.66
2019-08-28	Buy	1.85	1.59

Source: RHB, Bloomberg

## ESG Rating History



Source: RHB

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#### **KUALA LUMPUR**

**RHB Investment Bank Bhd**  
Level 3A, Tower One, RHB Centre  
Jalan Tun Razak  
Kuala Lumpur 50400  
Malaysia  
Tel : +603 9280 8888  
Fax : +603 9200 2216

#### **JAKARTA**

**PT RHB Sekuritas Indonesia**  
Revenue Tower, 11th Floor, District 8 - SCBD  
Jl. Jendral Sudirman Kav 52-53  
Jakarta 12190  
Indonesia  
Tel : +6221 509 39 888  
Fax : +6221 509 39 777

#### **BANGKOK**

**RHB Securities (Thailand) PCL**  
10th Floor, Sathorn Square Office Tower  
98, North Sathorn Road, Silom  
Bangrak, Bangkok 10500  
Thailand  
Tel: +66 2088 9999  
Fax :+66 2088 9799

#### **SINGAPORE**

**RHB Bank Berhad (Singapore branch)**  
90 Cecil Street  
#04-00 RHB Bank Building  
Singapore 069531  
Fax: +65 6509 0470