Sunway Berhad (SWB MK)

BUY (maintain)
Up/Downside: +19%

Price Target: RM2.30
Previous Target (Rating): RM2.30 (BUY)

"9M23 results within expectations"

Expect sustained earnings in 4Q23

- **Core net profit grew 23% yoy to RM491m in 9M23, mainly driven by higher property development, quarry and construction earnings**
- **The group saw robust sales driven by overseas projects. We maintain our earnings forecasts with expectation of flat qoq earnings in 4Q23**
- **Sunway remains a top sector pick with a 12-month TP of RM2.30, based on an unchanged 20% discount to RNAV**

Results were within street's and our expectations

Core net profit of RM491m (+23% yoy) in 9M23 is equivalent to 74% of the consensus and our forecasts of RM661-668m for the full year. Revenue (excluding healthcare division) grew 17% yoy to RM4.27bn in 9M23, driven by higher revenue across all divisions except its investment holding segment (-0.3% yoy). PBT increased 5% yoy to RM643m in 9M23, driven by higher property development (+68% yoy), quarry (+112% yoy), construction (+6% yoy) and trading (+2% yoy) earnings. This was dragged by lower investment holding (-10% yoy) and property investment (-15% yoy) earnings, mainly due to higher operating and interest expenses. The healthcare division contributed RM111m to earnings (+6% yoy) in 9M23. Revenue grew 5% qoq to RM1.54bn in 3Q23, while core net profit rose 18% qoq to RM189m as all divisions performed better except the investment holding segment (-22% qoq).

Robust sales and higher new construction contract wins

Sunway saw robust sales of RM2.09bn (+46% yoy) for 9M23, representing 90% of its target sales of RM2.3bn for 2023. The strong sales for its Singapore projects contributed 43% of total sales. Unbilled sales of RM4.64bn will support revenue growth over the next 2-3 years. Sunway Construction (SunCon) secured RM2.3bn of new contracts in 9M23 to grow its remaining order book to RM5.8bn.

Top sector pick; reaffirming our BUY call

Sunway will benefit from the establishment of a Johor-Singapore Special economic zone since the bulk of its remaining GDV lies within Johor at approximately 60% of the RM48.9bn total remaining GDV. We maintain our earnings forecasts on expectation of sustained progress billings and inventory sales in 4Q23. We expect core EPS to decline 9% in 2023E from a high base in 2022 but rebound to a 2-year CAGR of 10% in 2024-25E. Maintain our BUY call with a 12-month TP of RM2.30, based on a 20% RNAV discount. Downside risks: lower-than-expected property sales and delays in infrastructure project roll-out.

Share price performance

	1M	3M	12M
Absolute (%)	3.7	2.1	28.5
Rel KLCI (%)	2.6	1.7	27.1

	BUY	HOLD	SELL
Consensus	9	3	-

Stock Data

Sector	Property
Issued shares (m)	4,960.0
Mkt cap (RMm)/(US$m)	9,622.4/2,055.2
Avg daily vol - 6mth (m)	6.7
52-wk range (RM)	1.45-2.07
Est free float	25.6%
Stock Beta	0.77
Net cash/(debt) (RMm)	(7,677)
ROE (2023E)	5.2%
Derivatives	No
Shariah Compliant	Yes
FTSE4Good Constituent	No
FBM EMAS (Top 200)	No
ESG Rank	
ESG Risk Rating	NA

Key Shareholders

Sungei Way Corp Sdn	57.9%
Employees Provident	5.0%
Active Equity Sdn Bhd	3.4%
Cheah Fook Ling	2.7%

Source: Bloomberg, Affin Hwang, Bursa Malaysia, ESG Risk Rating Powered by Sustainalytics

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Earnings & Valuation Summary

FYE 31 Dec	2021	2022	2023E	2024E	2025E
Revenue (RMm)	3,714.2	5,195.0	5,293.6	5,355.0	5,492.7
EBITDA (RMm)	582.8	753.1	843.6	860.2	946.3
Pretax profit (RMm)	465.7	919.8	905.7	963.9	1,084.7
Net profit (RMm)	294.4	676.7	661.1	706.6	794.2
EPS (sen)	5.9	13.8	13.3	14.3	16.0
PER (x)	32.7	14.0	14.5	13.6	12.1
Core net profit (RMm)	398.5	716.1	661.1	706.6	794.2
Core EPS (sen)	8.0	14.6	13.3	14.3	16.0
Core EPS growth (%)	4.1	82.4	(8.9)	6.9	12.4
Core PER (x)	24.2	13.2	14.5	13.6	12.1
Net DPS (sen)	2.5	5.5	5.5	5.5	5.5
Dividend Yield (%)	1.3	2.8	2.8	2.8	2.8
EV/EBITDA	26.6	22.0	19.2	18.5	16.5
Chg in EPS (%)			-	-	-
Affin/Consensus (x)			1.0	1.0	1.0

Source: Company, Bloomberg, Affin Hwang forecasts

RSDH disposal to set a new hospital valuation benchmark

The recent purchase of Ramsay-Sime Darby Healthcare (RSDH) by Columbia Hospital at an enterprise value (EV) of RM5,944m implies an EV/EBITDA valuation of 19.7x (based on RSDH's 2022 EBITDA of RM302m). Based on a similar multiple of EV/EBITDA of 19.7x, SHG is valued an EV of RM5,380m, which is higher than our RM4,725m assumption in our RNAV/share estimate of RM3.62 for Sunway. Hence, we believe there is potential upside to our SHG valuation as EBITDA is expected to expand with the addition of 3 hospitals in the long run, which will cumulatively add 696-bed capacity to its current 875-bed total capacity. We like Sunway's strategy as it targets new healthcare services expansion to support its matured township development, while growing healthcare earnings in the long run. Some of the recent hospital additions are Sunway Medical Centre (SMC) Velocity in Kuala Lumpur and SMC Penang.

Fig 1: Results comparison

FYE 31 Dec (RMm)	3Q22	2Q23	3Q23	QoQ % chg	YoY % chg	9M22	9M23	YoY % chg	9M23 comment
Revenue	**1,271**	**1,468**	**1,539**	**4.8**	**21.1**	**3,663**	**4,271**	**16.6**	9M23: Higher revenue yoy for all segments except its other investment holdings segment due to lower contributions from building material and community pharmacy business.
Op costs	(1,125)	(1,286)	(1,371)	6.6	21.8	(3,271)	(3,778)	15.5	Higher labour and building material costs.
EBITDA	**145**	**182**	**169**	**(7.5)**	**15.9**	**393**	**493**	**25.5**	
EBITDA margin (%)	*11.4*	*12.4*	*11.0*	*(1.5 ppt)*	*(0.5 ppt)*	*10.7*	*11.5*	*0.8 ppt*	
Depn and amort	(29)	(32)	(40)	27.8	39.3	(94)	(104)	10.0	
EBIT	**116**	**151**	**128**	**(14.9)**	**10.1**	**298**	**389**	**30.4**	
EBIT margin (%)	*9.2*	*10.3*	*8.3*	*(1.9 ppt)*	*(0.8 ppt)*	*8.1*	*9.1*	*1.0 ppt*	
Interest income	48	64	62	(3.3)	29.1	126	187	48.3	
Interest expense	(49)	(78)	(90)	14.5	82.1	(140)	(231)	64.8	
Associates	93	78	157	102.0	68.7	269	317	17.9	
Forex gain (losses)	(41)	(80)	(3)	(96.1)	(92.5)	(69)	(70)	1.3	Unrealised forex loss on US$ debt. But hedged by derivatives.
Exceptional items	59	69	(6)	NA	NA	128	50	(60.9)	
Pretax profit	**225**	**203**	**248**	**22.1**	**10.1**	**613**	**643**	**4.9**	Higher earnings for property development, construction, trading and quarry operations. But lower for property investment earnings.
Tax	(42)	(31)	(41)	31.6	(2.5)	(93)	(105)	12.1	
Tax rate (%)	*18.5*	*15.2*	*16.4*	*1.2 ppt*	*(2.1 ppt)*	*15.2*	*16.3*	*1.1 ppt*	
Minority interests	(17)	(22)	(27)	21.0	54.4	(59)	(66)	12.7	
Net profit	**166**	**150**	**180**	**20.3**	**8.5**	**461**	**472**	**2.4**	Within expectations.
EPS (sen)	3	3	3	2.8	(6.8)	8	7	(11.6)	
Core net profit	**149**	**161**	**189**	**18.0**	**27.3**	**401**	**491**	**22.5**	Within expectations. Exclude exceptional items.

Source: Affin Hwang, Company

Fig 2: Segmental revenue breakdown

FYE 31 Dec (RMm)	3Q22	2Q23	3Q23	QoQ % chg	YoY % chg	9M22	9M23	YoY % chg
Ppty dev	278	362	310	(14.5)	11.3	723	919	27.2
Ppty inv	189	199	233	16.8	23.4	459	642	39.8
Construction	305	404	424	4.9	39.0	991	1,156	16.7
Trading	199	228	243	6.5	22.0	669	695	3.9
Quarry	106	94	149	57.5	40.9	283	321	13.7
Other	194	180	181	0.6	(6.7)	539	537	(0.3)
Total	**1,271**	**1,468**	**1,539**	**4.8**	**21.1**	**3,663**	**4,271**	**16.6**

Source: Affin Hwang, Company

Fig 3: Segmental PBT breakdown

FYE 31 Dec (RMm)	3Q22	2Q23	3Q23	QoQ % chg	YoY % chg	9M22	9M23	YoY % chg
Ppty dev	36	49	70	43.5	96.8	85	143	67.9
Ppty inv	86	34	55	63.0	(35.6)	184	156	(15.1)
Construction	36	45	51	14.7	43.5	128	135	5.7
Trading	12	10	13	32.9	8.5	32	33	2.4
Quarry	2	4	10	131.7	439.5	9	18	111.5
Other	52	61	47	(22.3)	(9.5)	175	158	(9.9)
Total	**224**	**203**	**248**	**22.1**	**10.7**	**613**	**643**	**4.9**

Source: Affin Hwang, Company

Fig 4: Segmental PBT margin

FYE 31 Dec (RMm)	3Q22	2Q23	3Q23	QoQ ppt	YoY ppt	9M22	9M23	YoY % chg
Ppty dev	12.9	13.6	22.8	9.2	9.9	11.7	15.5	3.8
Ppty inv	45.4	17.0	23.7	6.7	(21.7)	40.1	24.3	(15.7)
Construction	11.7	11.0	12.1	1.0	0.4	12.9	11.7	(1.2)
Trading	6.2	4.4	5.5	1.1	(0.7)	4.8	4.8	(0.1)
Quarry	1.8	4.7	6.9	2.2	5.1	3.0	5.6	2.6
Other	27.0	33.9	26.2	(7.7)	(0.8)	32.5	29.3	(3.1)
Total	**17.6**	**13.8**	**16.1**	**2.3**	**(1.5)**	**16.7**	**15.1**	**(1.7)**

Source: Affin Hwang, Company

Fig 5: RNAV and target price

RNAV by business segments	PER (X)	RNAV (RMm)
Property development		3,947
Property development JV		2,314
Property investment		4,591
Construction	16	1,843
Building materials	14	700
Quarry	14	420
Healthcare	94	4,725
Total		**18,541**
Co. net cash/(debt)		(589.3)
RNAV		**17,951**
Number of shares		4,955
RNAV/share (RM)		**3.62**
Fully-diluted no. of shares		6,602
Fully-diluted RNAV/share (RM)		**2.88**
Target price @ 20% discount to RNAV (RM)		**2.30**

Source: Affin Hwang estimates and forecasts

Important Disclosures and Disclaimer

Equity Rating Structure and Definitions

BUY	Total return is expected to exceed +10% over a 12-month period
HOLD	Total return is expected to be between -5% and +10% over a 12-month period
SELL	Total return is expected to be below -5% over a 12-month period
NOT RATED	Affin Hwang Investment Bank Berhad does not provide research coverage or rating for this company. Report is intended as information only and not as a recommendation

The total expected return is defined as the percentage upside/downside to our target price plus the net dividend yield over the next 12 months.

OVERWEIGHT	Industry, as defined by the analyst's coverage universe, is expected to outperform the KLCI benchmark over the next 12 months
NEUTRAL	Industry, as defined by the analyst's coverage universe, is expected to perform inline with the KLCI benchmark over the next 12 months
UNDERWEIGHT	Industry, as defined by the analyst's coverage universe is expected to under-perform the KLCI benchmark over the next 12 months

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