"1Q23 results were within expectations"

Share price performance

	1M	3M	12M
Absolute (%)	-5.5	-4.9	-11.4
Rel KLCI (%)	-4.5	-1.6	-3.7

	BUY	HOLD	SELL
Consensus	8	3	-

Stock Data

Sector	Property
Issued shares (m)	4,954.6
Mkt cap (RMm)/(US$m)	7,679.7 /1,672.7
Avg daily vol - 6mth (m)	2.9
52-wk range (RM)	1.45-1.77
Est free float	22.1%
Stock Beta	0.65
Net cash/(debt) (RMm)	(7,098.9)
ROE (2023E)	5.4%
Derivatives	No
Shariah Compliant	Yes
FTSE4Good Constituent	No
FBM EMAS (Top 200) ESG Rank	NA
ESG Risk Rating	13.6 (NA yoy)

Key Shareholders

Sungei Way Corp	57.9%
EPF	8.6%
Active Equity Sdn Bhd	3.4%

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

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Sunway Berhad (SWB MK)

BUY (maintain)
Up/Downside: +52.3%

Price Target: RM2.36
Previous Target (Rating): RM2.34 (BUY)

16% yoy earnings growth for 1Q23

- **Core net profit grew 16% yoy to RM143m in 1Q23 as all divisions performed better except the construction segment**
- **The group saw a sustained earnings recovery with the lifting of pandemic movement restrictions and the reopening of borders**
- **Sunway remains a top sector pick with a higher 12-month TP of RM2.36, based on the same 20% discount to our higher RNAV after rolling forward our valuation base year to 2024E**

Within expectations

Core net profit of RM143m (+16% yoy) in 1Q23 is equivalent to 21-22% of the consensus and our forecasts of RM661-678m for the full year. The results are within our expectations as we assume better performance in 2H23. Revenue (excluding healthcare division) grew 14% yoy to RM1.26bn in 1Q23, driven by higher revenue for all divisions except its construction segment (lower progress billings). PBT increased 3% yoy to RM192m in 1Q23, driven by higher property investment (+49% yoy), trading (+180% yoy) and quarry (+98% yoy) earnings. Construction earnings declined 17% yoy, while property development earnings were flat. The healthcare division contributed RM29m share of earnings (flat yoy) in 1Q23. Revenue fell 17% qoq in 1Q23 while net profit plunged 41% qoq, mainly due to weaker property development and construction earnings. We adjust our 2023-25E core EPS lower by 1% to reflect a slightly higher share base.

Higher sales and higher new construction contract wins

Sunway achieved RM505m in sales for 1Q23, up 13% yoy from RM447m for 1Q22, mainly on higher local sales. With higher planned launches worth RM3.51bn, it is targeting RM2.3bn of sales in 2023. Unbilled sales of RM4.39bn are likely to support revenue growth over the next 2-3 years. Sunway Construction (SunCon) secured RM1.3m new contracts in 1Q23 to expand its remaining order book to RM6bn.

Reaffirming our BUY call

We like Sunway as a key beneficiary of the reopening of key economic sectors and reopening of borders. This will likely sustain the strong recovery in its leisure and hospitality and healthcare businesses. We expect a 5% dip in core EPS in 2023E from the high base in 2022 but a rebound to a 2-year CAGR of 9% in 2024-25E. We lift our RNAV/share to RM2.94 (from RM2.92) to reflect higher property and construction valuations after rolling forward our valuation base year to 2024E. We reaffirm our BUY call on Sunway with a higher 12-month TP of RM2.36 (from RM2.34), based on a 20% RNAV discount. Downside risks: lower-than-expected property sales and delays in infrastructure projects.

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	926.6	983.2	1,106.9
Net profit (RMm)	294.4	676.7	677.8	722.0	812.0
EPS (sen)	5.9	13.8	13.7	14.6	16.4
PER (x)	26.1	11.2	11.3	10.6	9.5
Core net profit (RMm)	398.5	716.1	677.8	722.0	812.0
Core EPS (sen)	8.0	14.6	13.7	14.6	16.4
Core EPS growth (%)	4.1	82.4	(6.6)	6.5	12.5
Core PER (x)	19.3	10.6	11.3	10.6	9.5
Net DPS (sen)	2.5	5.5	5.5	5.5	5.5
Dividend Yield (%)	1.6	3.5	3.5	3.5	3.5
EV/EBITDA	23.3	19.5	16.9	16.2	14.4
Chg in EPS (%)			-1.3	-1.4	-1.4
Affin/Consensus (x)			1.0	1.0	1.1

Source: Company, Bloomberg, Affin Hwang forecasts

Fig 1: Results comparison

FYE 31 Dec (RMm)	1Q22	4Q22	1Q23	QoQ % chg	YoY % chg	Comment
Revenue	**1,112.5**	**1,531.6**	**1,263.7**	**(17)**	**14**	2022: Higher revenue yoy for all segments except construction with the lifting of pandemic lockdowns and reopening of borders.
Op costs	(1,024.0)	(1,245.9)	(1,117.0)	(10)	9	Higher labour and building material costs.
EBITDA	**88.4**	**285.7**	**146.7**	**(49)**	**66**	
EBITDA margin (%)	*8.0*	*18.7*	*11.6*	*(7.0ppt)*	*3.7ppt*	
Depn and amort	(32.8)	(35.8)	(32.1)	(10)	(2)	
EBIT	**55.7**	**249.9**	**114.6**	**(54)**	**106**	
EBIT margin (%)	*5.0*	*16.3*	*9.1*	*(7.2ppt)*	*4.1ppt*	
Interest income	45.5	61.6	58.4	(5)	28	
Interest expense	(29.7)	(62.2)	(62.4)	0	110	
Associates	99.2	81.8	82.7	1	(17)	
Forex gain (losses)	0.7	44.4	13.1	(70)	1,754	Unrealised forex loss on US$ debt. But hedged by derivatives.
Exceptional items	15.8	(81.7)	(14.4)	(82)	(191)	
Pretax profit	**187.1**	**293.9**	**192.0**	**(35)**	**3**	Higher earnings for property investment, trading and quarry operations. But lower for property development and construction.
Tax	(27.9)	(73.7)	(33.3)	(55)	19	
Tax rate (%)	*14.9*	*25.1*	*17.3*	*(7.7ppt)*	*2.4ppt*	
Minority interests	(19.1)	(17.2)	(17.1)	(1)	(10)	
Net profit	**140.1**	**203.0**	**141.6**	**(30)**	**1**	Within expectations.
EPS (sen)	2.4	3.5	2.0	(43)	(17)	
Core net profit	**123.7**	**240.2**	**142.9**	**(41)**	**16**	Within expectations. Exclude exceptional items.

Source: Affin Hwang, Company

Fig 2: Segmental revenue breakdown

FYE 31 Dec (RMm)	1Q22	4Q22	1Q23	QoQ % chg	YoY % chg
Ppty dev	158.2	442.7	247.8	(44)	57
Ppty inv	121.1	230.7	209.9	(9)	73
Construction	368.6	291.0	327.9	13	(11)
Trading	205.0	233.5	224.1	(4)	9
Quarry	76.2	123.4	78.2	(37)	3
Other	183.4	210.4	175.8	(16)	(4)
Total	**1,112.5**	**1,531.6**	**1,263.7**	**(17)**	**14**

Source: Affin Hwang, Company

Fig 3: Segmental PBT breakdown

FYE 31 Dec (RMm)	1Q22	4Q22	1Q23	QoQ % chg	YoY % chg
Ppty dev	23.4	70.4	23.1	(67)	(1)
Ppty inv	45.0	52.8	67.2	27	49
Construction	47.8	58.7	39.5	(33)	(17)
Trading	10.3	9.1	28.8	218	180
Quarry	4.9	5.1	9.6	87	98
Other	55.7	97.8	23.8	(76)	(57)
Total	**187.1**	**293.9**	**192.0**	**(35)**	**3**

Source: Affin Hwang, Company

Fig 4: Segmental PBT margin

FYE 31 Dec (%)	1Q22	4Q22	1Q23	QoQ ppt	YoY ppt
Ppty dev	14.8	15.9	9.3	(7)	(5)
Ppty inv	37.2	22.9	32.0	9	(5)
Construction	13.0	20.2	12.0	(8)	(1)
Trading	5.0	3.9	12.9	9	8
Quarry	6.4	4.2	12.3	8	6
Others	30.4	46.5	13.5	(33)	(17)
Total	**16.8**	**19.2**	**15.2**	**(4)**	**(2)**

Source: Affin Hwang, Company

Fig 5: RNAV and target price

RNAV by business segments	PER (X)	New RNAV (RMm)	Old RNAV (RMm)	Change (%)
Property development		3,947	4,066	(3)
Property development JV		2,314	2,229	4
Property investment		5,074	4,906	3
Construction	16	1,843	1,638	13
Building materials	14	700	700	0
Quarry	14	420	420	0
Healthcare	94	4,688	4,688	0
Total		**18,986**	**18,647**	**2**
Co. net cash/(debt)		(589.3)	(591.8)	(0)
RNAV		**18,397**	**18,055**	**2**
Number of shares		4,955	4,889	1
RNAV/share (RM)		**3.71**	**3.69**	**1**
Fully-diluted no. of shares		6,602	6,536	1
Fully-diluted RNAV/share (RM)		**2.94**	**2.92**	**1**
Target price @ 20% discount to RNAV (RM)		**2.36**	**2.34**	**1**

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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