

HLIB Research

PP 9484/12/2012 (031413)

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BUY (Maintain)

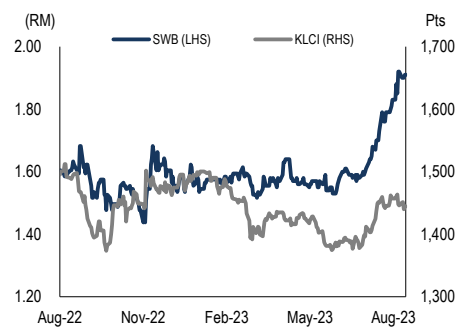
Target Price: **RM2.76**
Previously: **RM2.65**
Current Price: **RM1.91**

Capital upside 44.5%
Dividend yield 2.9%
Expected total return 47.4%

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	20.1	22.4	15.1
Relative	6.9	11.6	10.9

Stock information

Bloomberg Ticker	SWB MK
Bursa Code	5211
Issued Shares (m)	4,955
Market cap (RM m)	8,720
3-mth avg. volume ('000)	2,363
SC Shariah-compliant	Yes
F4GBM Index member	Yes
ESG rating	★★★★

Major shareholders

Sungei Way Corp Sdn Bhd	57.9%
EPF	7.6%

Earnings summary

FYE (Dec)	FY22	FY23f	FY24f
PATMI – core (RM m)	575.0	595.3	638.1
EPS – core (sen)	11.6	12.0	12.9
P/E (x) – FD	16.5	15.9	14.8

Sunway

Stable growth

Sunway reported 2Q23 core PATAMI of RM130.2m, which brought 1H23 sum to RM272m (+12.8% YoY). The results were within our but below consensus expectations. We make no changes to our forecasts and maintain our BUY call with a higher TP of RM2.76 (from RM2.65) based on SOP-derived valuation. Our higher SOP-derived value was a result of TP upgrades from its subsidiaries SunCon and SunREIT as well as an upward recalibration of RNAV assumption under property segment. Sunway remains our top pick given its synergistic business model which allows each of its individual business segment to integrate and tap into its vast business ecosystem, giving them a platform to thrive and grow beyond it.

Within our but below consensus. Sunway reported 2Q23 core PATAMI of RM130.2m (-8.2% QoQ; +11.3% YoY), which brought 1H23 sum to RM272m (+12.8% YoY), which were within our (45.7%) but below consensus (38.9%) full year forecasts. We deem the results to be within our expectation as we expect lumpy profit contribution from its Singapore property segment in 3Q23 as well as a seasonally stronger 4Q.

EIs. 1H23 core PATAMI was arrived at after including payment to ICPS holders of RM25.7m (note that consensus figure may not include this) and excluding net EIs of -RM6.1m from provision for impairment of financial and contract assets (-RM1.7m), provision for impairment of investment in associate and inventories (-RM4.4m), write-off of trade receivables, inventories and PPE (-RM723k), PPE disposal gain (+RM2.0m) and forex loss (-RM1.2m).

Dividend. 2 sen, ex-date: 20 Sep 2023 (2Q22: 2 sen). 1H23: 2 sen (1H22: 2 sen). The group also declared 1H23 preferential dividend of 2.625 sen, ex-date: 20 Sep 2023.

QoQ. Core PATAMI declined by -8.2% mainly due to payment to ICPS holders of RM25.7m. Excluding this, core PATAMI increased by +9.9% mainly contributed by (i) property development (+1.13x in PBT due to higher sales and progress billings from local projects); and (ii) healthcare (+30.8% in share of net profit due to strong operational results from SMC SC and SMCV as well as narrowing losses from SMC Penang).

YoY/YTD. Core PATAMI increased by +11.3% YoY and +12.8% YTD mainly contributed by improvement from property development segment (+90.9% YoY and +46.9% YTD in PBT) due to (i) higher sales and progress billings from local projects; and (ii) higher profit recognition from its Singapore private condominium – Ki Residences as it is in advance stage of construction.

Property development. In 2Q23, Sunway recorded effective new sales of RM920m (+1.04x QoQ; +1.26x YoY), which brought 1H23 sum to RM1.37bn (+69.8% YoY), making up 62.3% of its FY23 sales target of RM2.2bn. The group launched The Continuum in Singapore with effective GDV of RM2bn in 2Q23, which brought 1H23 total effective launch amount to RM3.07bn (+9.93x YoY), making up 87.5% of its FY23 launch target of RM3.51bn.

Effective unbilled sales as at 2Q23 stood at RM4.41bn (+12.8% QoQ), representing a strong cover ratio of 3.8x of its FY22 property development revenue. As at 30 June 2023, the accumulated progressive profits from the group's two Singapore executive condominiums amounted to RM131m, which is expected to be recognized in 3Q23 for Parc Canberra and 1Q24 for Parc Central Tampines.

Notably, the group's two new Singapore projects recorded encouraging take-up rates as at 30 June 2023: (i) Terra Hills (launched in Feb 2023 with effective GDV RM700m) recorded 36% take-up rate; and (ii) The Continuum (launched in Apr 2023 with effective GDV RM2bn) recorded 27% take-up rate.

Healthcare. Healthcare reported 2Q23 share of core net profit of RM37.7m (+30.8% QoQ; +6.9% YoY), which brought 1H23 sum to RM66.6m (+4.7% YoY). SMC SC and SMCV continue to record strong operational profits which more than mitigated the initial start-up losses from SMC Penang and Sunway Sanctuary. Particularly noteworthy is that SMC Penang's losses continued to narrow to -RM1.3m in 2Q23 (from -RM2.2m in 1Q23). Operationally, the group will continue to progressively open the remaining facilities in Tower D & E from SMC SC, while SMCV Phase 2 expansion is target to open by end-FY23. In 1H24, the group targets to open its new hospitals – SMC Ipoh and SMC Damansara.

Property investment. Property investment segment 2Q23 core PBT declined by -28.2% YoY due to higher operating costs from (i) higher utility charges; (ii) higher manpower costs from implementation of minimum wage; and (iii) higher finance cost from increase in interest rates. We expect a stronger 2H23 for the segment due to (i) recovery in Middle East tourist arrivals to Sunway City in 3Q23 during summer holidays which augurs well for its theme park as well as hotel and mall assets under SunREIT; and (ii) seasonally stronger 4Q due to year-end holiday and festivities.

Construction. SunCon's current order book stands at RM5.78bn which implies a healthy cover of 2.7x on FY22 construction revenue. We believe SunCon is on the brink of converting its massive ~RM6bn VN power plant job into active orderbook (possibly from Oct-23 onwards pending financial close). We expect SunCon to enter a more news flow heavy period going forward considering several award decisions are due soon, including industrial, buildings, internal projects and Tier 1 MRT3 packages. Latest developments surrounding Penang LRT (RM10-15bn) is positive and we expect SunCon to participate as a works package contractor.

Forecast. Unchanged.

Maintain **BUY** with a higher **TP** of **RM2.76** (from RM2.65) based on SOP-derived valuation. The higher SOP-derived value was a result of TP upgrades from its subsidiaries SunCon and SunREIT as well as upward recalibration in our RNAV assumption under property segment following its recent GDV expansion in Pendas, Johor. The stock is gaining increasing interest as evident from recent surge in trading volume, while its share price has also reached a recent record high. This is following the group's fast expansion in healthcare segment with improving earnings contribution as well as positive development in its property segment from recent landbank acquisitions and increase in stake in Pendas, Johor. Sunway remains our top sector pick given its synergistic business model which allows each of its individual business segment to integrate and tap into its vast business ecosystem, giving them a platform to thrive and grow beyond it.

Financial Forecast

All items in (RM m) unless otherwise stated

Balance Sheet

FYE Dec	FY21	FY22	FY23f	FY24f	FY25f
Cash	2,810.3	1,958.1	3,497.0	3,524.0	3,625.5
Placement in funds	98.8	535.5	535.5	535.5	535.5
Receivables	1,123.4	1,241.6	1,466.8	1,516.7	1,450.5
Inventories	670.5	697.6	872.1	901.8	862.5
Others	20,381.4	21,624.0	20,613.2	21,111.4	21,612.5
Assets	25,084.3	26,056.8	26,984.7	27,589.4	28,086.6
Payables	1,401.2	1,312.3	1,729.8	1,788.6	1,710.7
Debt	8,714.6	9,055.7	9,205.7	9,355.7	9,505.7
Others	1,846.2	2,116.2	2,116.2	2,116.2	2,116.2
Liabilities	11,962.0	12,484.2	13,051.7	13,260.6	13,332.6
Shareholder's equity	12,030.4	12,540.8	12,729.1	13,040.8	13,388.2
Minority interest	1,091.9	1,031.8	1,119.6	1,203.7	1,281.5
Perpetual bond	-	-	-	-	-
Equity	13,122.3	13,572.5	13,848.7	14,244.6	14,669.7

Cash Flow Statement

FYE Dec	FY21	FY22	FY23f	FY24f	FY25f
Profit before taxation	358.0	920.1	830.7	875.4	-
D&A	216.9	130.2	161.5	175.8	188.6
Working capital	(109.9)	(1,314.0)	1,483.4	(61.1)	(32.2)
Taxation	(105.3)	(170.1)	(96.3)	(101.8)	(117.6)
JV and Associates	70.0	(221.2)	(316.4)	(333.5)	(330.1)
Perpetual bond	-	-	(51.3)	(51.3)	(51.3)
Others	549.1	991.9	-	-	943.1
CFO	978.7	336.8	2,011.6	503.4	600.5
Capex	(580.2)	(332.0)	(300.0)	(300.0)	(300.0)
Others	(699.4)	(512.6)	-	-	-
CFI	(1,279.6)	(844.6)	(300.0)	(300.0)	(300.0)
Changes in debt	1,239.1	333.7	150.0	150.0	150.0
Shares issued	-	-	-	-	-
Dividends	(179.8)	(270.9)	(322.7)	(327.4)	(351.0)
Others	(214.4)	(387.3)	-	1.0	2.0
CFF	845.0	(324.5)	(172.7)	(176.4)	(199.0)
Net cash flow	544.1	(832.3)	1,538.9	27.0	101.5
Forex	5.3	(4.5)	-	-	-
Others	(117.7)	(133.1)	(133.1)	(133.1)	(133.1)
Beginning cash	2,378.6	2,928.0	2,091.2	3,630.1	3,657.1
Ending cash	2,810.3	1,958.1	3,497.0	3,524.0	3,625.5

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Income statement

FYE Dec	FY21	FY22	FY23f	FY24f	FY25f
Revenue	4529.3	5194.9	5040.9	5212.3	4985.1
Operating cost	(4090.3)	(4481.0)	(4393.3)	(4544.0)	(4288.0)
EBITDA	439.0	713.9	647.6	668.4	697.1
D&A	(217.1)	(130.5)	(161.5)	(175.8)	(188.6)
Net Interest	54.9	(14.5)	(84.8)	(68.6)	(18.6)
JV & Associates	81.2	351.1	429.5	451.4	453.1
Pretax profit	358.0	920.1	830.7	875.4	943.1
Taxation	(116.2)	(167.0)	(96.3)	(101.8)	(117.6)
Minority Interest	(73.7)	(76.3)	(87.8)	(84.1)	(77.8)
Holders of Perpetual	0.0	(51.3)	(51.3)	(51.3)	(51.3)
Reported PATAMI	2664.4	676.8	595.3	638.1	696.4
Exceptionals	(70.8)	50.5	0.0	0.0	0.0
Core Earning	370.3	575.0	595.3	638.1	696.4
Basic shares (m)	4954.6	4954.6	4954.6	4954.6	4954.6
Consensus core PATMI			699.4	746.7	798.8
HLIB/ Consensus			85%	85%	87%

Valuation ratios

FYE Dec	FY21	FY22	FY23f	FY24f	FY25f
Net DPS (sen)	2.5	5.5	5.6	6.0	6.5
Yield (%)	1.3	2.9	2.9	3.1	3.4
Core EPS (sen)	7.5	11.6	12.0	12.9	14.1
P/E (x)	25.6	16.5	15.9	14.8	13.6
Market capitalization (m)	9463.4	9463.4	9463.4	9463.4	9463.4
Net cash (m)	(5805.5)	(6562.2)	(5173.2)	(5296.2)	(5344.7)
Net gearing (%)	44.2%	48.3%	37.4%	37.2%	36.4%
BV / share	2.6	2.7	2.8	2.9	3.0
P/BV (x)	0.7	0.7	0.68	0.66	0.6
ROA (%)	1.5	2.2	2.2	2.3	2.5
ROE (%)	2.8	4.2	4.3	4.5	4.7
Enterprise value	15268.9	16025.5	14636.6	14759.5	14808.1
EV/ EBITDA (x)	34.8	22.4	22.6	22.1	21.2

Figure #1 Quarterly results comparison

FYE Dec (RM m)	2Q22	1Q23	2Q23	QoQ	YoY	1H22	1H23	YoY
Revenue	1,280.4	1,027.9	1,468.2	16.2%	14.7%	2,392.8	2,731.9	14.2%
Property Development	286.4	247.8	362.1	46.1%	26.4%	444.6	609.9	37.2%
Property Investment	149.6	209.9	199.4	-5.0%	33.3%	270.7	409.3	51.2%
Construction	316.8	327.9	404.1	23.2%	27.5%	685.5	732.0	6.8%
Trading/Manufacturing	264.8	224.1	227.8	1.7%	-14.0%	469.8	451.9	-3.8%
Quarry	101.1	78.2	94.5	20.8%	-6.5%	177.2	172.7	-2.5%
Investment	1.8	2.3	1.9	-15.2%	6.4%	3.7	4.2	13.5%
Others	159.8	173.5	178.4	2.8%	11.6%	341.3	351.9	3.1%
EBIT	171.0	113.4	140.0	23.5%	-18.1%	238.4	253.4	6.3%
Net Interest	(28.2)	(4.1)	(14.6)	259.7%	-48.2%	(12.4)	(18.6)	50.5%
Share of Associates/JCE	76.9	82.7	77.6	-6.2%	0.8%	176.1	160.3	-9.0%
PBT	219.8	192.0	203.0	5.7%	-7.6%	402.1	395.0	-1.8%
Property Development	25.7	23.1	49.1	112.7%	90.9%	49.1	72.1	46.9%
Property Investment	53.4	67.2	33.9	-49.7%	-36.6%	98.4	101.1	2.7%
Construction	44.4	39.5	44.5	12.7%	0.3%	92.2	84.0	-8.9%
Trading/Manufacturing	9.7	9.6	10.1	5.3%	4.3%	20.0	19.7	-1.4%
Quarry	1.8	3.5	4.4	26.0%	143.0%	6.7	7.9	18.5%
Healthcare	35.3	28.8	37.7	30.8%	6.9%	63.5	66.6	4.7%
Investment	7.3	6.6	8.6	30.5%	19.1%	18.5	15.3	-17.6%
Others	37.5	13.7	14.7	7.5%	-60.8%	53.6	28.3	-47.1%
PAT	194.8	158.8	172.2	8.5%	-11.6%	350.4	331.0	-5.5%
MI	(22.4)	(17.1)	(22.3)	30.1%	-0.3%	(41.4)	(39.4)	-4.9%
Payment to ICPS holders	(25.7)	-	(25.7)	NM	0.0%	(25.7)	(25.7)	0.0%
PATAMI	172.5	141.6	149.9	5.9%	-13.1%	309.0	291.6	-5.6%
EI	29.8	(0.2)	(5.9)	NM	NM	42.2	(6.1)	NM
Core Earnings	117.0	141.8	130.2	-8.2%	11.3%	241.1	272.0	12.8%
				<i>ppts change</i>	<i>ppts change</i>			<i>ppts change</i>
EBIT margin	13.4%	9.0%	9.5%	0.6	(3.8)	10%	9%	(0.7)
PBT margin	17.2%	15.2%	13.8%	(1.4)	(3.3)	17%	14%	(2.3)
PAT margin	9.1%	11.2%	8.9%	(2.4)	(0.3)	10%	10%	(0.1)

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Figure #2 SOP table

Division	Stake	Value (RM m)	RM/share	Methodology
Construction (SunCon)	54.56%	1,456	0.30	based on TP of RM 2.07
Sunway REIT	40.88%	2,646	0.54	based on TP of RM 1.89
Property Development & Investment	100%	5,150	1.06	based on 65% discount to RNAV
Healthcare	84%	4,471	0.92	25x FY24 P/E
Trading/Manufacturing	100%	260	0.05	8X trailing P/E
Quarry	100%	63	0.01	8X trailing P/E
		14,046	2.88	
Holding Company Net Debt		(589)	(0.12)	
Equity Value (RM)		13,457	2.76	

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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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