

Sunway (SWB MK)

Boosted by Singapore project

Profit below but sales above

Sunway's 3Q23 core net profit of MYR180m (+22% YoY, +18% QoQ) was below our expectation but in line with consensus. Sales wise, 9M23 locked-in sales of MYR2.1b were above expectation, accounting for 90% of its FY23 sales goal of MYR2.3b (+15% YoY). We lower earnings forecasts by 2-7%. Our TP is however raised to MYR2.02 TP (+10sen) on a higher 0.9x FY24E PBV (previously 0.8x); HOLD. Our preferred sector pick is SPSB MK (BUY, CP: MYR0.845, TP: MYR1.20) and SDPR (BUY; CP: MYR0.595, TP: MYR0.75).

3Q results boosted by S'pore project

Sunway's 3Q23 net profit of MYR180m lifted 9M23 core net profit to MYR475m (+16% YoY), accounting for 66%/71% of MIBG/consensus' FY23E. The earnings gap, relative to our forecast, was mainly to the different timing in recognizing the contribution of Parc Central Residences project in Singapore. As at Sep 2023, net gearing was unchanged at 0.55x.

On track to meet sales target

Sunway has locked in MYR2.1b property sales in 9M23 or 90% of its FY23 property sales target. Of the MYR2.1b property sales recorded, 43% were derived from its JV projects in Singapore, 6% from China, 8% from Johor and the remaining from the Klang Valley and Penang. Effective unbilled sales were MYR4.6b as at Sep 2023 (3x FY24E property revenue). Elsewhere, 55%-owned Sunway Construction Group (SCGB MK; HOLD; CP: MYR1.89, TP: MYR1.85) has secured MYR2.2b worth of jobs in 9M23, increasing its outstanding orderbook to MYR5.8b as at Sep 2023.

Earnings adjustments

We lower our FY23/24/25 earnings forecasts by 6.7%/2%/3.8% to factor in the change in progress billing assumptions including the recognition of Parc Central Residences project in 1Q24 (previously 4Q23). We have also raised our FY23 sales assumption to MYR2.4b (+4%). We now value Sunway based on 0.9x CY24E PBV (+1SD on mean, from 0.8x FY24E PBV). The higher multiple reflects an improving property outlook in Iskandar Malaysia. 58% of Sunway's total GDV is derived from its Iskandar Puteri project.

FYE Dec (MYR m)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue	3,717	5,195	6,685	7,705	7,419
EBITDA	328	583	953	1,062	1,115
Core net profit	368	638	682	767	807
Core FDEPS (sen)	6.2	10.7	11.5	12.9	13.6
Core FDEPS growth(%)	(26.8)	73.2	7.0	12.5	5.1
Net DPS (sen)	2.5	5.5	3.5	3.9	4.1
Core FD P/E (x)	27.7	15.1	16.9	15.0	14.3
P/BV (x)	0.8	0.8	0.9	0.8	0.8
Net dividend yield (%)	1.5	3.4	1.8	2.0	2.1
ROAE (%)	24.7	5.5	5.3	5.8	5.9
ROAA (%)	1.6	2.5	2.6	2.8	2.8
EV/EBITDA (x)	52.1	30.2	20.2	18.4	18.2
Net gearing (%) (incl perps)	45.0	52.3	48.8	49.2	52.3
Consensus net profit	-	-	664	778	808
MIBG vs. Consensus (%)	-	-	2.7	(1.3)	(0.2)

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HOLD

Share Price	MYR 1.94
12m Price Target	MYR 2.02 (+4%)
Previous Price Target	MYR 1.92

Company Description

Sunway Bhd is involved in property development, investment properties and construction businesses

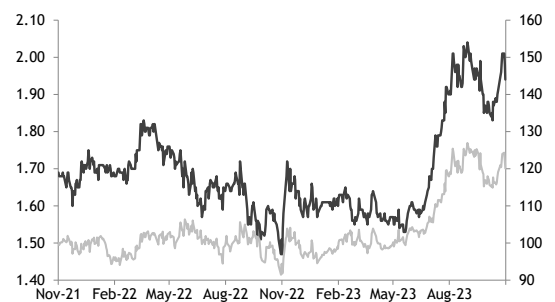
Statistics

52w high/low (MYR)	2.04/1.47
3m avg turnover (USDm)	3.7
Free float (%)	24.1
Issued shares (m)	5,005
Market capitalisation	MYR9.7B
	USD2.1B

Major shareholders:

Active Equity Sdn. Bhd.	64.4%
Employees Provident Fund	5.3%
CHEAH FOOK LING	2.6%

Price Performance



	-1M	-3M	-12M
Absolute (%)	4	2	28
Relative to index (%)	2	1	27

Source: FactSet

Fig. 1: Results summary table - Sunway

FY Dec (MYRm)	3Q23	3Q22	%YoY	2Q23	%QoQ	9M23	9M22	%YoY
Revenue	1,539.1	1,270.5	21.1	1,468.2	4.8	4,271.0	3,663.4	16.6
- Property dev	309.5	278.1	11.3	362.1	-14.5	919.4	722.7	27.2
- Property inv	232.8	188.6	23.4	199.4	16.8	642.1	459.3	39.8
- Construction	424.0	305.1	39.0	404.1	4.9	1,156.0	990.6	16.7
- Trading	242.6	198.8	22.0	227.8	6.5	694.5	668.7	3.9
- Quarry	148.8	105.6	40.9	94.5	57.5	321.5	282.8	13.7
- Others	181.4	194.3	-6.7	180.3	0.6	537.5	539.3	-0.3
PBIT	124.5	136.8	-9.0	140.2	-11.2	379.6	366.7	3.5
Finance costs	-28.0	-1.5	1,781.2	-14.6	-92.3	-46.7	-13.9	>-100
Other income	156.7	92.9	68.7	77.6	102.0	317.0	269.0	17.9
Pretax profit	247.8	225.2	10.1	203.0	22.1	642.8	612.8	4.9
- Property dev	70.4	35.8	96.8	49.1	43.5	142.6	84.9	67.9
- Property inv	55.2	85.7	-35.6	33.9	63.0	156.3	184.1	-15.1
- Construction	51.1	35.6	43.5	44.5	14.7	135.1	127.8	5.7
- Trading	13.4	12.4	8.5	10.1	32.9	33.1	32.4	2.4
- Quarry	10.2	1.9	439.5	4.4	>+100	18.1	8.6	>+100
- Healthcare	44.4	41.4	7.2	37.7	17.8	111.0	105.0	5.7
- Others	3.0	12.4	-75.6	23.3	-87.1	46.6	70.0	-33.4
Taxation	-40.5	-41.9	-3.3	-30.8	-31.6	-104.6	-90.1	-16.0
Minority interest	-27.0	-17.5	54.4	-22.3	-21.0	-66.4	-58.9	-12.7
Net profit	180.3	165.8	8.8	149.9	20.3	471.9	463.8	1.7
Core net profit	180.3	148.3	21.6	153.0	17.8	475.0	408.4	16.3
			+/- ppt		+/- ppt			
Pretax margin (%)	16.1	17.7	-1.6	13.8	2.3	15.1	15.7	-0.6
- Property dev	22.8	12.9	9.9	13.6	9.2	15.5	11.7	3.8
- Property inv	23.7	45.4	-21.7	17.0	6.7	24.3	40.1	-15.7
- Construction	12.1	11.7	0.4	11.0	1.0	11.7	12.9	-1.2
- Trading	5.5	6.2	-0.7	4.4	1.1	4.8	4.8	-0.1
- Quarry	6.9	1.8	5.1	4.7	2.2	5.6	3.0	2.6
- Others	1.7	6.4	-4.7	12.9	-11.3	8.7	13.0	-4.3
Tax rate (%)	-16.4	-20.7	4.4	-14.9	-1.4	-16.2	-15.7	-0.5

Source: Maybank IBG Research

Upside and downside risks

There are several risk factors to our earnings estimates and TP for Sunway: 1) slower-than-expected property sales and longer-than-expected downturn in the property sector; 2) delay in obtaining necessary approvals for its property projects; 3) slower progress billings and construction work pace; 4) higher raw material costs; and 5) labour shortage that hit its construction and hotel operations.

FYE 31 Dec	FY21A	FY22A	FY23E	FY24E	FY25E
Key Metrics					
P/E (reported) (x)	3.7	14.5	16.7	14.8	14.1
Core P/E (x)	27.4	14.9	16.7	14.8	14.1
Core FD P/E (x)	27.7	15.1	16.9	15.0	14.3
P/BV (x)	0.8	0.8	0.9	0.8	0.8
P/NTA (x)	0.8	0.7	0.8	0.8	0.8
Net dividend yield (%)	1.5	3.4	1.8	2.0	2.1
FCF yield (%)	3.9	nm	5.3	nm	nm
EV/EBITDA (x)	52.1	30.2	20.2	18.4	18.2
EV/EBIT (x)	52.1	30.2	21.1	19.2	19.0

INCOME STATEMENT (MYR m)

Revenue	3,717.3	5,195.0	6,684.9	7,705.5	7,419.2
EBITDA	327.8	583.4	952.7	1,061.9	1,115.4
Depreciation	0.0	0.0	(37.9)	(42.1)	(46.3)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	327.8	583.4	914.8	1,019.9	1,069.1
Net interest income / (exp)	54.9	(14.5)	(182.7)	(188.5)	(202.9)
Associates & JV	81.2	350.8	264.9	284.6	309.0
Exceptionals	0.0	0.0	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	463.9	919.8	997.0	1,116.0	1,175.2
Income tax	(116.2)	(167.0)	(239.3)	(267.8)	(282.0)
Minorities	(73.7)	(76.1)	(75.4)	(80.8)	(86.3)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	2,664.4	676.7	682.3	767.4	806.8
Core net profit	368.3	637.8	682.3	767.4	806.8

BALANCE SHEET (MYR m)

Cash & Short Term Investments	2,810.3	1,957.3	2,187.7	1,897.7	1,174.2
Accounts receivable	2,484.8	1,957.9	2,519.5	2,904.1	2,796.2
Inventory	2,422.4	3,279.6	3,576.0	4,314.5	5,375.7
Reinsurance assets	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	1,262.3	1,264.0	1,401.9	1,544.0	1,690.3
Intangible assets	376.2	378.1	378.1	378.1	378.1
Investment in Associates & JVs	8,901.7	9,343.5	9,343.5	9,343.5	9,343.5
Other assets	6,826.8	7,877.9	7,877.9	7,877.9	7,877.9
Total assets	25,084.3	26,058.4	27,284.6	28,259.7	28,635.9
ST interest bearing debt	4,093.6	4,918.7	4,918.7	4,918.7	4,918.7
Accounts payable	2,469.3	2,490.8	3,205.2	3,694.5	3,557.2
Insurance contract liabilities	0.0	0.0	0.0	0.0	0.0
LT interest bearing debt	4,621.9	4,137.5	4,137.5	4,137.5	4,137.5
Other liabilities	777.0	949.0	949.0	949.0	949.0
Total Liabilities	11,962.0	12,496.3	13,210.7	13,700.0	13,562.8
Shareholders Equity	12,030.4	12,529.1	13,041.0	13,526.8	14,040.3
Minority Interest	1,091.9	1,032.9	1,032.9	1,032.9	1,032.9
Total shareholder equity	13,122.3	13,562.0	14,073.9	14,559.7	15,073.2
Total liabilities and equity	25,084.3	26,058.4	27,284.6	28,259.7	28,635.9

CASH FLOW (MYR m)

Pretax profit	463.9	919.8	997.0	1,116.0	1,175.2
Depreciation & amortisation	0.0	0.0	37.9	42.1	46.3
Adj net interest (income)/exp	132.9	202.2	(182.7)	(188.5)	(202.9)
Change in working capital	107.4	(443.2)	478.9	(248.2)	(690.9)
Cash taxes paid	(105.3)	(170.6)	(239.3)	(267.8)	(282.0)
Other operating cash flow	(2,008.5)	(113.3)	0.0	0.0	0.0
Cash flow from operations	978.7	394.9	1,091.9	453.6	45.6
Capex	(580.2)	(487.5)	(487.5)	(487.5)	(487.5)
Free cash flow	398.5	(92.6)	604.4	(34.0)	(441.9)
Dividends paid	(152.0)	(222.5)	(374.0)	(256.0)	(281.5)
Equity raised / (purchased)	0.2	1.0	0.0	0.0	0.0
Change in Debt	1,203.7	340.7	0.0	0.0	0.0
Other invest/financing cash flow	(993.1)	(891.2)	0.0	0.0	0.0
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	457.4	(864.5)	230.4	(290.0)	(723.5)

FYE 31 Dec	FY21A	FY22A	FY23E	FY24E	FY25E
Key Ratios					
Growth ratios (%)					
Revenue growth	15.8	39.8	28.7	15.3	(3.7)
EBITDA growth	40.9	78.0	63.3	11.5	5.0
EBIT growth	40.9	78.0	56.8	11.5	4.8
Pretax growth	(5.4)	98.3	8.4	11.9	5.3
Reported net profit growth	645.8	(74.6)	0.8	12.5	5.1
Core net profit growth	(12.5)	73.1	7.0	12.5	5.1
Profitability ratios (%)					
EBITDA margin	8.8	11.2	14.3	13.8	15.0
EBIT margin	8.8	11.2	13.7	13.2	14.4
Pretax profit margin	12.5	17.7	14.9	14.5	15.8
Payout ratio	5.5	47.7	30.0	30.0	30.0
DuPont analysis					
Net profit margin (%)	71.7	13.0	10.2	10.0	10.9
Revenue/Assets (x)	0.1	0.2	0.2	0.3	0.3
Assets/Equity (x)	2.1	2.1	2.1	2.1	2.0
ROAE (%)	24.7	5.5	5.3	5.8	5.9
ROAA (%)	1.6	2.5	2.6	2.8	2.8
Leverage & Expense Analysis					
Asset/Liability (x)	2.1	2.1	2.1	2.1	2.1
Net gearing (%) (incl perps)	45.0	52.3	48.8	49.2	52.3
Net gearing (%) (excl. perps)	45.0	52.3	48.8	49.2	52.3
Net interest cover (x)	na	40.3	5.0	5.4	5.3
Debt/EBITDA (x)	nm	15.5	9.5	8.5	8.1
Capex/revenue (%)	15.6	9.4	7.3	6.3	6.6
Net debt/ (net cash)	5,905.2	7,098.9	6,868.5	7,158.5	7,882.0

Source: Company; Maybank IBG Research

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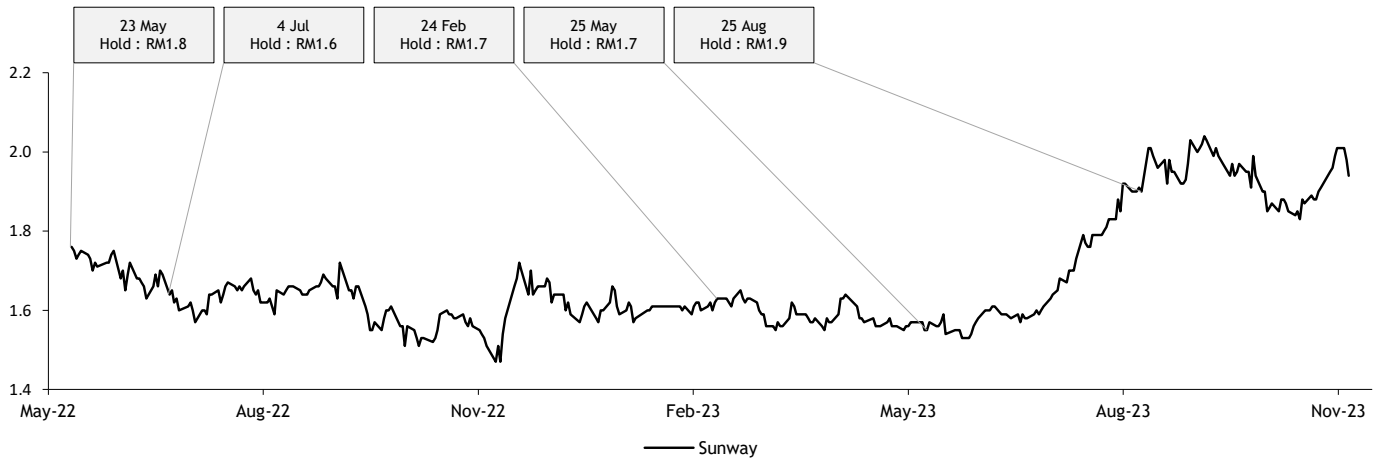
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