

## Sunway (SWB MK)

# Expect stronger earnings in 2H23

### Profit below but sales in line

Sunway's 2Q23 core net profit of MYR153m (-4.6% YoY, +8% QoQ) was below our expectation but in line with consensus. Sales wise, 6M23 locked-in sales of MYR1.5b account for 65% of its FY23 sales goal of MYR2.3b (+15% YoY). We lower our earnings forecasts by -9% to +7% but raise TP to MYR1.92 TP (+20sen) on an unchanged 0.8x FY24E PBV (historical mean from 2018-2023) after our earnings revisions. HOLD. Our preferred pick for the sector is SP Setia (SPSB MK, BUY, CP: MYR0.835, TP: MYR1.20).

### Dragged by higher expenses at new medical centre

Sunway's 2Q23 core net profit of MYR153m lifted 6M23 core net profit to MYR294.7m (+2% YoY), accounting for 37%/44% of MIBG/consensus full-year estimates. We attribute the earnings gap to the higher-than-expected start-up operational losses from Sunway Medical Centre Penang and Sunway Sanctuary although group earnings would be stronger in 3Q23 due to contributions from its *Parc Canberra* project (100%-sold; MYR560m in effective GDV) in Singapore. Elsewhere, 2Q23 net gearing inched up to 0.55x, from 0.5x in end 1Q23.

### On track to meet its FY23 sales target

Sunway has locked in MYR1.5b property sales in 6M23 or 65% of its FY23 property sales target. Of the MYR1.5b property sales recorded, 51% were derived from its JV projects in Singapore, 6% from China and the remaining from the Klang Valley. Effective unbilled sales were MYR4.4b as at June 2023 (2.5x FY24E property revenue). Elsewhere, 55%-owned Sunway Construction Group (SCGB MK; HOLD; CP: MYR1.79, TP: MYR1.73) has secured MYR1.6b worth of jobs in 6M23, increasing its outstanding orderbook to MYR5.8b as at June 2023.

### Earnings adjustments

We lower our FY23/24/25 earnings forecasts by -9%/+3%/+7% to factor in higher operation expenses from its new healthcare centre and the change in progress billing assumptions. We however maintain our FY23 sales assumption of MYR2.3b as Sunway's projects in Singapore could be affected by the property cooling measures implemented by the Singapore government (including higher additional buyer's stamp duty rates for residential properties).

FYE Dec (MYR m)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue	3,717	5,195	6,883	7,702	7,454
EBITDA	328	583	1,005	1,077	1,134
Core net profit	368	638	731	783	839
Core FDEPS (sen)	6.2	10.7	12.3	13.2	14.1
Core FDEPS growth(%)	(26.8)	73.2	14.7	7.0	7.2
Net DPS (sen)	2.5	5.5	5.0	5.3	5.7
Core FD P/E (x)	27.7	15.1	15.5	14.5	13.5
P/BV (x)	0.8	0.8	0.9	0.8	0.8
Net dividend yield (%)	1.5	3.4	2.6	2.8	3.0
ROAE (%)	24.7	5.5	5.7	5.9	6.1
ROAA (%)	1.6	2.5	2.7	2.8	3.0
EV/EBITDA (x)	52.1	30.2	18.9	18.1	17.8
Net gearing (%) (incl perps)	45.0	52.3	47.8	50.4	53.2
Consensus net profit	-	-	690	775	821
MIBG vs. Consensus (%)	-	-	6.1	0.9	2.2

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# HOLD

Share Price MYR 1.91  
12m Price Target MYR 1.92 (+1%)  
Previous Price Target MYR 1.72

### Company Description

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

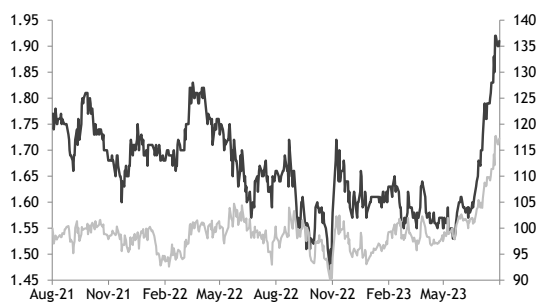
### Statistics

52w high/low (MYR)	1.92/1.47
3m avg turnover (USDm)	1.8
Free float (%)	21.6
Issued shares (m)	5,000
Market capitalisation	MYR9.5B
	USD2.1B

### Major shareholders:

Active Equity Sdn. Bhd.	64.4%
Employees Provident Fund	7.7%
CHEAH FOOK LING	2.6%

### Price Performance



	-1M	-3M	-12M
Absolute (%)	14	23	15
Relative to index (%)	13	21	17

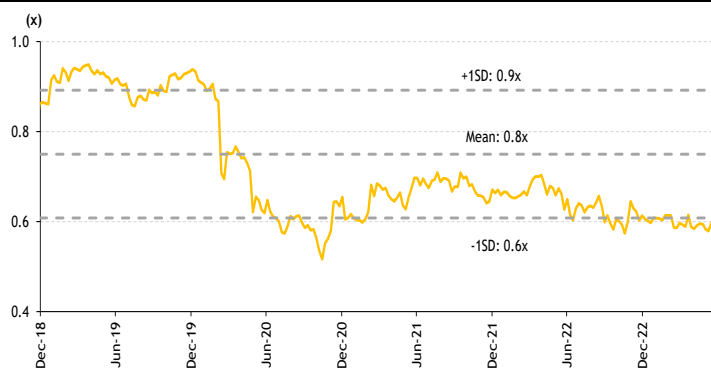
Source: FactSet

Fig. 1: Results summary table - Sunway

FY Dec (MYRm)	2Q23	2Q22	%YoY	1Q23	%QoQ	6M23	6M22	%YoY
<b>Revenue</b>	<b>1,468.2</b>	<b>1,280.4</b>	<b>14.7</b>	<b>1,263.7</b>	<b>16.2</b>	<b>2,731.9</b>	<b>2,392.8</b>	<b>14.2</b>
- Property dev	362.1	286.4	26.4	247.8	46.1	609.9	444.6	37.2
- Property inv	199.4	149.6	33.3	209.9	-5.0	409.3	270.7	51.2
- Construction	404.1	316.8	27.5	327.9	23.2	732.0	685.5	6.8
- Trading	227.8	264.8	-14.0	224.1	1.7	451.9	469.8	-3.8
- Quarry	94.5	101.1	-6.5	78.2	20.8	172.7	177.2	-2.5
- Others	180.3	161.6	11.5	175.8	2.6	356.1	345.0	3.2
<b>PBIT</b>	<b>140.2</b>	<b>160.3</b>	<b>-12.6</b>	<b>114.9</b>	<b>22.0</b>	<b>255.1</b>	<b>229.9</b>	<b>11.0</b>
Finance costs	-14.6	-28.2	48.2	-4.1	>+100	-18.6	-12.4	-50.5
Other income	77.6	76.9	0.8	82.7	-6.2	160.3	176.1	-9.0
<b>Pretax profit</b>	<b>203.0</b>	<b>205.3</b>	<b>-1.1</b>	<b>192.0</b>	<b>5.7</b>	<b>395.0</b>	<b>387.7</b>	<b>1.9</b>
- Property dev	49.1	25.7	90.9	23.1	>+100	72.1	49.1	46.9
- Property inv	33.9	53.4	-36.6	67.2	-49.7	101.1	98.4	2.7
- Construction	44.5	44.4	0.3	39.5	12.7	84.0	92.2	-8.9
- Trading	10.1	9.7	4.3	9.6	5.3	19.7	20.0	-1.4
- Quarry	4.4	1.8	>+100	3.5	26.0	7.9	6.7	18.5
- Healthcare	37.7	35.3	6.9	28.8	30.8	66.6	63.5	4.7
- Others	23.3	35.0	-33.3	20.3	15.0	43.6	57.7	-24.4
Taxation	-30.8	-21.5	-43.5	-33.3	7.4	-64.1	-48.2	-32.9
Minority interest	-22.3	-22.4	0.3	-17.1	-30.1	-39.4	-41.4	4.9
<b>Net profit</b>	<b>149.9</b>	<b>161.5</b>	<b>-7.2</b>	<b>141.6</b>	<b>5.9</b>	<b>291.6</b>	<b>298.0</b>	<b>-2.2</b>
<b>Core net profit</b>	<b>153.0</b>	<b>160.4</b>	<b>-4.6</b>	<b>141.6</b>	<b>8.0</b>	<b>294.7</b>	<b>289.4</b>	<b>1.8</b>
			<b>+/- ppt</b>		<b>+/- ppt</b>			
Pretax margin (%)	13.8	16.0	-2.2	15.2	-1.4	14.6	6.7	7.8
- Property dev	13.6	9.0	4.6	9.3	4.2	11.8	11.0	0.8
- Property inv	17.0	35.7	-18.7	32.0	-15.1	24.7	36.4	-11.7
- Construction	11.0	14.0	-3.0	12.0	-1.0	11.5	13.5	-2.0
- Trading	4.4	3.7	0.8	4.3	0.2	4.4	4.3	0.1
- Quarry	4.7	1.8	2.9	4.5	0.2	4.6	3.8	0.8
- Others	12.9	21.6	-8.7	11.5	1.4	12.2	16.7	-4.5
Tax rate (%)	-14.9	-10.8	-4.2	-17.3	2.4	-16.1	-29.9	13.8

Source: Maybank IBG Research

Fig 2: Sunway's 1-year forward PBV (2018-2023)



Source: Bloomberg, Company data, 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 projects; 3) slower progress billings in construction works; 4) higher raw material costs; and 5) labour shortage that hit its construction and hotel operations.

FYE 31 Dec	FY21A	FY22A	FY23E	FY24E	FY25E
<b>Key Metrics</b>					
P/E (reported) (x)	3.7	14.5	15.3	14.3	13.4
Core P/E (x)	27.4	14.9	15.3	14.3	13.4
Core FD P/E (x)	27.7	15.1	15.5	14.5	13.5
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	2.6	2.8	3.0
FCF yield (%)	3.9	nm	6.8	nm	nm
EV/EBITDA (x)	52.1	30.2	18.9	18.1	17.8
EV/EBIT (x)	52.1	30.2	19.6	18.9	18.5

**INCOME STATEMENT (MYR m)**

Revenue	3,717.3	5,195.0	6,883.1	7,701.7	7,453.5
EBITDA	327.8	583.4	1,004.7	1,077.2	1,134.1
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	966.8	1,035.2	1,087.8
Net interest income / (exp)	54.9	(14.5)	(179.5)	(191.0)	(204.0)
Associates & JV	81.2	350.8	274.6	291.7	333.8
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	1,061.9	1,135.8	1,217.6
Income tax	(116.2)	(167.0)	(254.9)	(272.6)	(292.2)
Minorities	(73.7)	(76.1)	(75.7)	(80.5)	(86.3)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	2,664.4	676.7	731.4	782.7	839.0
Core net profit	368.3	637.8	731.4	782.7	839.0

**BALANCE SHEET (MYR m)**

Cash & Short Term Investments	2,810.3	1,957.3	2,344.9	1,768.0	1,119.7
Accounts receivable	2,484.8	1,957.9	2,594.1	2,902.6	2,809.1
Inventory	2,422.4	3,279.6	3,400.3	4,337.4	5,266.0
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
<b>Total assets</b>	<b>25,084.3</b>	<b>26,058.4</b>	<b>27,340.8</b>	<b>28,151.5</b>	<b>28,484.6</b>
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	3,300.2	3,692.6	3,573.7
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
<b>Total Liabilities</b>	<b>11,962.0</b>	<b>12,496.3</b>	<b>13,305.7</b>	<b>13,698.2</b>	<b>13,579.2</b>
Shareholders Equity	12,030.4	12,529.1	13,002.2	13,420.4	13,872.5
Minority Interest	1,091.9	1,032.9	1,032.9	1,032.9	1,032.9
<b>Total shareholder equity</b>	<b>13,122.3</b>	<b>13,562.0</b>	<b>14,035.1</b>	<b>14,453.3</b>	<b>14,905.4</b>
<b>Total liabilities and equity</b>	<b>25,084.3</b>	<b>26,058.4</b>	<b>27,340.8</b>	<b>28,151.5</b>	<b>28,484.6</b>

**CASH FLOW (MYR m)**

Pretax profit	463.9	919.8	1,061.9	1,135.8	1,217.6
Depreciation & amortisation	0.0	0.0	37.9	42.1	46.3
Adj net interest (income)/exp	132.9	202.2	(179.5)	(191.0)	(204.0)
Change in working capital	107.4	(443.2)	583.7	(459.8)	(564.0)
Cash taxes paid	(105.3)	(170.6)	(254.9)	(272.6)	(292.2)
Other operating cash flow	(2,008.5)	(113.3)	0.0	0.0	0.0
Cash flow from operations	978.7	394.9	1,249.2	254.4	203.6
Capex	(580.2)	(487.5)	(487.5)	(487.5)	(487.5)
Free cash flow	398.5	(92.6)	761.6	(233.1)	(283.9)
Dividends paid	(152.0)	(222.5)	(374.0)	(343.9)	(364.4)
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)	387.6	(577.0)	(648.3)

FYE 31 Dec	FY21A	FY22A	FY23E	FY24E	FY25E
<b>Key Ratios</b>					
<b>Growth ratios (%)</b>					
Revenue growth	15.8	39.8	32.5	11.9	(3.2)
EBITDA growth	40.9	78.0	72.2	7.2	5.3
EBIT growth	40.9	78.0	65.7	7.1	5.1
Pretax growth	(5.4)	98.3	15.5	7.0	7.2
Reported net profit growth	645.8	(74.6)	8.1	7.0	7.2
Core net profit growth	(12.5)	73.1	14.7	7.0	7.2
<b>Profitability ratios (%)</b>					
EBITDA margin	8.8	11.2	14.6	14.0	15.2
EBIT margin	8.8	11.2	14.0	13.4	14.6
Pretax profit margin	12.5	17.7	15.4	14.7	16.3
Payout ratio	5.5	47.7	40.0	40.0	40.0
<b>DuPont analysis</b>					
Net profit margin (%)	71.7	13.0	10.6	10.2	11.3
Revenue/Assets (x)	0.1	0.2	0.3	0.3	0.3
Assets/Equity (x)	2.1	2.1	2.1	2.1	2.1
ROAE (%)	24.7	5.5	5.7	5.9	6.1
ROAA (%)	1.6	2.5	2.7	2.8	3.0
<b>Leverage &amp; Expense Analysis</b>					
Asset/Liability (x)	2.1	2.1	2.1	2.1	2.1
Net gearing (%) (incl perps)	45.0	52.3	47.8	50.4	53.2
Net gearing (%) (excl. perps)	45.0	52.3	47.8	50.4	53.2
Net interest cover (x)	na	40.3	5.4	5.4	5.3
Debt/EBITDA (x)	nm	15.5	9.0	8.4	8.0
Capex/revenue (%)	15.6	9.4	7.1	6.3	6.5
Net debt/ (net cash)	5,905.2	7,098.9	6,711.3	7,288.2	7,936.5

Source: Company; Maybank IBG Research

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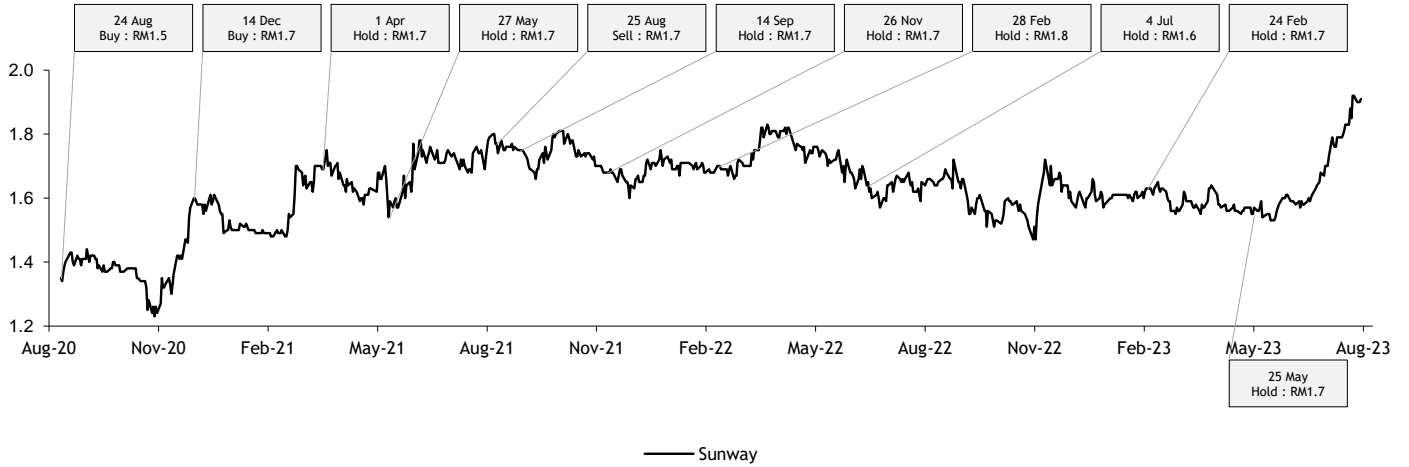
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Historical recommendations and target price: Sunway (SWB MK)



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