

# Sunway Bhd

Anticipating a Stronger 4Q

**TP: RM2.40** (+25.7%)

Last Traded: RM1.91

**BUY (ESG: ★★★★★)**

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## Review

- Excluding the provision for impairment on investment in an associate, which amounted to RM3.1mn, Sunway reported a core net profit of RM294.7mn in 1H23. Results came within ours and consensus' full-year forecasts, accounting for 44% and 42%, respectively. We anticipate more robust 4Q results driven by year-end festivities and school holidays, particularly benefiting the group's property investment segment.
- A first interim dividend of 2sen/share was declared, matching the amount declared in the corresponding period last year.
- YoY:** 1H23 revenue increased 14% YoY to RM2.7bn, primarily due to higher contributions from all business segments, except for trading and manufacturing and quarry segments. However, net profit for the quarter grew at a slower pace of 9% YoY to RM294.7mn, mainly due to lower contributions from associates and JVs, alongside higher finance costs and tax expenses. Notably, the property development segment exhibited remarkable growth, with a 37% rise in revenue and a 47% increase in PBT. These boosts were fuelled by robust sales and higher progress billing from new and ongoing local development projects.
- QoQ:** Sunway's 2Q23 core net profit grew 8% QoQ to RM153.0mn on the back of a 16% increase in revenue. The improved performance primarily stemmed from higher contributions across most business segments, offsetting the comparatively weaker performance of the property investment segment. The latter's slower performance in this quarter resulted from lower contributions in the leisure segment, influenced by reduced visitor numbers during the fasting month in April and fewer school and public holidays within the quarter.
- Sunway's 2Q23 property sales increased 97% QoQ and more than doubled YoY to RM995mn. This boosted the YTD 1H23 property sales to RM1.5bn, reflecting a remarkable 61% YoY increase. Notably, Singapore projects accounted for the largest share of 1H23 sales, comprising 50% of the total. On the domestic front, both Sunway Flora Residence in Bukit Jalil (GDV: RM300mn) and Sunway Dora in Bayan Baru (GDV: RM70mn), Penang, have achieved decent take-up rates of 74% since their official launches in Mar-23 and Feb-23 respectively. – see **Figure 1**.

## Impact

- No change to our FY23-25 earnings forecasts.

## Outlook

- Sunway maintains its new sales target of RM2.3bn this year, with 1H23 sales already accounting for 65% of the target. Looking ahead, the group has lined up RM670mn worth of new launches in the 2H.
- With unbilled sales of RM4.9bn and an outstanding construction order

## Share Information

Bloomberg Code	SWB MK
Stock Code	5211
Listing	Main Market
Share Cap (mn)	4,954.6
Market Cap (RMmn)	9,463.4
52-wk Hi/Lo (RM)	1.94/1.45
12-mth Avg Daily Vol ('000 shrs)	2,863.0
Estimated Free Float (%)	22.7
Beta	0.7
Major Shareholders (%)	
	Sungei Way Corp (57.9)
	EPF (7.8)

## Forecast Revision

	FY23	FY24
Forecast Revision (%)	0.0	0.0
Net profit (RMmn)	664.3	750.9
Consensus	699.4	746.7
TA's / Consensus (%)	95.0	100.6
Previous Rating	Buy (Maintained)	
Consensus Target Price (RM)	2.23	

## Financial Indicators

	FY23	FY24
Net gearing (%)	58.5	58.2
CFPS (sen)	(2.1)	3.0
P/CFPS (x)	(91.0)	64.1
ROE (%)	5.2	5.7
ROA (%)	2.5	2.7
NTA/Share (RM)	2.1	2.2
Price/ NTA (x)	0.9	0.9

## Scorecard

	% of FY	
vs TA	44.0	Within
vs Consensus	42.0	Within

## Share Performance (%)

Price Change	SWB	FBM KLCI
1 mth	14.4	2.3
3 mth	23.2	2.3
6 mth	17.2	(0.4)
12 mth	15.1	(2.6)

(12-Mth) Share Price relative to the **FBMKLCI**



Source: Bloomberg

book of RM3.5bn (external jobs only), Sunway has earnings visibility for the next 3-4 years.

- We believe the strengthening domestic economy augurs well for Sunway going forward. In particular, Sunway's leisure, hotel, and healthcare segments are expected to benefit from the improvement of the inbound leisure tourism and medical tourism sectors as international travel continues to normalise.
- In the coming years, we expect the completion of the Rapid Transit System rail link and the potential establishment of the Johor-Singapore Special Economic Zone to bode positively for Sunway City Iskandar Puteri, the group's flagship township development, which is strategically located between Puteri Harbour and the Second Link to Singapore.

### Valuation

- We arrive at a new SOP-derived TP of RM2.40/share (previous RM2.27/share). This incorporates an increased P/E multiple of 14x (previously 12x) for the property development and property investment segments (excluding Sunway REIT) to reflect the upbeat property sector sentiment. We value SunCon and Sunway REIT based on our TPs. As for the healthcare division, we peg the valuation to the effective equity value based on GIC's offer. Meanwhile, the trading & manufacturing and quarry segment is valued at 10x CY24 earnings. Maintain Buy.

### SOP Valuation Table

	Stake	Value (RM mn)	RM/share*	Valuation Methodology
Property Dev & Inv	100.0%	5,880.5	1.00	14x CY24 Earnings
SunCon	54.6%	1,221.2	0.21	TP of RM1.73
Sunway REIT	40.9%	2,451.3	0.42	TP of RM1.75
Healthcare	84.0%	3,937.5	0.67	Pegged to Effective Equity Value Based on GIC's Offer
Trading & Manufacturing	100.0%	352.9	0.06	10x CY24 Earnings
Quarry & Others	100.0%	239.6	0.04	10x CY24 Earnings
<b>Total</b>		<b>14,083.1</b>	<b>2.40</b>	

Note \*: The calculation of value/share includes the ordinary shares that will issued upon the mandatory conversion of ICPS

Source: TA Research

Figure 1: 2022 & 2023 Launches & Sales Performance

Development	Location	Type	GDV (RM mn)	Launch date and take up
Jernih Residence	Kajang, Selangor	Service Apartments	313	Launched in May-22, 48% take up
Sunway Alishan Residences	Cheras, KL	Condominium & Superlinks	286	Launched in Sep-22, 35% take up
Sunway D' Hills	Kota Damansara, KL	Service Residences	359	Launched in Oct-22, 20% take up
<b>Total Launches in 2022</b>			<b>958</b>	
Sunway Flora Tower A	Bukit Jalil, KL	Service Apartments & Retail	300	Launched in Mar-23, 74% take up
Sunway Flora Tower B	Bukit Jalil, KL	Service Apartments & Retail	310	Target launch 4Q (replacing Sunway Bayu Ipoh)
Sunway Lenang Heights	Taman Molek, Johor Bahru	Semi D Homes & Bungalows	90	Target launch in 3Q
Sunway Maple	Sunway Iskandar Puteri, Johor	Landed Linked Homes	10	Likely defer to 2024
Sunway Aviana	Sunway Iskandar Puteri, Johor	Landed Linked Homes	150	Target launch in 4Q
Sunway Dora	Bayan Baru, Penang	Service Apartments	70	Launched in Feb-23, 74% take up
Terra Hills	Pasir Panjang, Singapore	Private Condominium	700	Launched in Feb-23, 36% take up
The Continuum	Thiam Siew Avenue, Singapore	Private Condominium	2000	Launched in Apr-23, 27% take up
Sunway Gardens Phase 3	Tianjin, China	Condominium	120	Target launch in Sept/Oct
<b>Total</b>			<b>3,750</b>	

Source: Sunway, TA Research

**Earnings Summary (RM mn)**

YE Dec 31 (RM'mn)	2021 <sup>^</sup>	2022	2023F	2024F	2025F
Revenue	3,714.2	5,195.0	5,477.1	5,679.1	5,726.2
EBITDA	457.7	713.6	694.2	699.5	740.8
EBITDA margin (%)	12.3	13.7	12.7	12.3	12.9
Pretax profit	434.7	855.3	895.1	982.2	1,032.3
Reported Net profit	293.5	676.7	664.3	750.9	797.6
Net profit -a dj	350.1	612.2	664.3	750.9	797.6
Net profit a djusted for preferential dividend	320.4	558.9	613.0	699.6	746.3
EPS (sen) #	4.5	10.6	10.4	11.9	12.7
EPS - a dj (sen) #	6.0	9.5	10.4	11.9	12.7
EPS Growth (Core) (%)	(18.2)	59.6	9.7	14.1	6.7
PER (x)	30.7	19.2	17.5	15.3	14.4
GDPS (sen)	2.5	5.5	5.5	6.0	6.0
Div Yield (%)	1.4	3.0	3.0	3.3	3.3
ROE (%)	3.3	5.0	5.2	5.7	5.9

<sup>^</sup> Restated

# EPS after preference dividend payment

Note: Following the partial divestment, Sunway Healthcare is presented as discontinued operations in FY20 & FY21. For FY22 onwards, Sunway will recognise its share of the profit or loss in Sunway Healthcare (84% stake on a fully converted basis) under the equity method of accounting.

## 2Q23 Results Analysis (RM mn)

YE 31 Dec (RM'mn)	2Q23	1Q23	2Q23	QoQ (%)	YoY (%)	IHFY22	IHFY23	YoY (%)
<b>Revenue</b>	<b>1,280.4</b>	<b>1,263.7</b>	<b>1,468.2</b>	<b>16.2</b>	<b>14.7</b>	<b>2,392.8</b>	<b>2,731.9</b>	<b>14.2</b>
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)
Others	161.6	175.8	180.3	2.6	11.5	345.0	356.1	3.2
<b>Operating profits</b>	<b>166.3</b>	<b>113.4</b>	<b>140.0</b>	<b>23.5</b>	<b>(15.8)</b>	<b>233.7</b>	<b>253.4</b>	<b>8.4</b>
Finance income	32.8	58.4	63.8	9.3	94.6	78.3	122.2	56.1
Finance costs	(61.0)	(62.4)	(78.4)	25.6	28.6	(90.6)	(140.8)	55.4
Associates	32.8	41.7	29.6	(28.9)	(9.7)	78.7	71.3	(9.4)
JV	44.1	41.1	47.9	16.7	8.7	97.4	89.0	(8.6)
EI	26.6	0.0	(3.1)	nm	(111.7)	34.1	(3.1)	(109.1)
PBT	215.0	192.0	203.0	5.7	(5.6)	397.4	395.0	(0.6)
<b>Core PBT</b>	<b>188.4</b>	<b>192.0</b>	<b>206.1</b>	<b>7.3</b>	<b>9.4</b>	<b>368.0</b>	<b>398.1</b>	<b>8.2</b>
Property Development	25.7	23.1	49.1	112.7	90.9	49.1	72.1	46.9
Property Investment	53.4	67.2	37.0	(45.0)	(30.8)	90.9	104.2	14.6
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	6.8	63.5	66.5	4.7
Others	18.1	20.3	23.3	15.0	28.8	45.5	43.6	(4.2)
Tax	(23.8)	(33.3)	(30.8)	(7.4)	29.4	(50.5)	(64.1)	26.7
MI	(22.4)	(17.1)	(22.3)	30.1	(0.3)	(41.4)	(39.4)	(4.9)
<b>Net profit</b>	<b>168.9</b>	<b>141.6</b>	<b>149.9</b>	<b>5.9</b>	<b>(11.2)</b>	<b>305.4</b>	<b>291.6</b>	<b>(4.5)</b>
<b>Core net profit</b>	<b>142.3</b>	<b>141.6</b>	<b>153.0</b>	<b>8.0</b>	<b>7.6</b>	<b>271.3</b>	<b>294.7</b>	<b>8.6</b>
Prefrential dividends on ICPS	0.0	(25.7)	0.0	(100.0)	0.0	(25.7)	(25.7)	0.0
<b>Net profit less preferential dividend</b>	<b>168.9</b>	<b>116.0</b>	<b>149.9</b>	<b>29.3</b>	<b>(11.2)</b>	<b>279.7</b>	<b>265.9</b>	<b>(4.9)</b>
<b>Core net profit less preferential dividend</b>	<b>142.3</b>	<b>116.0</b>	<b>153.0</b>	<b>32.0</b>	<b>7.6</b>	<b>245.6</b>	<b>269.0</b>	<b>9.5</b>
Reported EPS	(sen) 2.8	2.0	2.5	28.3	(9.9)	4.7	4.5	(4.0)
Adj EPS	(sen) 2.4	2.0	2.6	32.8	7.6	4.2	4.6	9.2
DPS	(sen) 2.0	0.0	2.0	nm	0.0	2.0	2.0	0.0
<b>Core PBT margin</b>	<b>(%) 14.7</b>	<b>15.2</b>	<b>14.0</b>	<b>(1.2)</b>	<b>(0.7)</b>	<b>15.4</b>	<b>14.6</b>	<b>(0.8)</b>
Property Development	(%) 9.0	9.3	13.6	4.2	4.6	11.0	11.8	0.8
Property Investment	(%) 35.7	32.0	18.5	(13.5)	(17.2)	33.6	25.5	(8.1)
Construction	(%) 14.0	12.0	11.0	(1.0)	(3.0)	13.5	11.5	(2.0)
Trading & Manufacturing	(%) 3.7	4.3	4.4	0.2	0.8	4.3	4.4	0.1
Quarry	(%) 1.8	4.5	4.7	0.2	2.9	3.8	4.6	0.8
Others	(%) 11.2	11.5	12.9	1.4	1.7	18.4	18.7	0.3
<b>Core net margin</b>	<b>(%) 11.1</b>	<b>11.2</b>	<b>10.4</b>	<b>(0.8)</b>	<b>(0.7)</b>	<b>19.5</b>	<b>17.2</b>	<b>(2.3)</b>
Effective tax rate	(%) (11.1)	(17.3)	(15.2)	2.2	(4.1)	(64.6)	(52.4)	12.2

^Restated

\* healthcare's contribution from Continuing Operations is based on the Group's share of its net profit.

# EPS after preference dividend payment

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### Stock Recommendation Guideline

- BUY** : Total return within the next 12 months exceeds required rate of return by 5%-point.  
**HOLD** : Total return within the next 12 months exceeds required rate of return by between 0-5%-point.  
**SELL** : Total return is lower than the required rate of return.  
**Not Rated:** The company is not under coverage. The report is for information only.

**Total Return** is defined as expected share price appreciation plus gross dividend over the next 12 months. Gross dividend is excluded from total return if dividend discount model valuation is used to avoid double counting.

**Required Rate of Return** of 7% is defined as the yield for one-year Malaysian government treasury plus assumed equity risk premium.

### ESG Scoring & Guideline

	Environmental	Social	Governance	Average
<b>Scoring</b>	★★★★★	★★★★★	★★★★★	★★★★★
<b>Remark</b>	The group implements a comprehensive programme aiming to reduce to GHG emission, water & waste with relevant targets and deadlines. It implemented a Zero Single Plastic Use Policy in its property division's assets, venues, and events	The group provides a conducive work environment. Promoting diversity and equal opportunity, 58% of its non-executive workforce are women. The company has strict regulations concerning health and safety, collaborating with suppliers and subcontractors to enforce them.	Sunway upholds high standards of corporate governance and transparency to safeguard shareholders' interests. It has an in-house investor relations team that is easily contactable.	

- ★★★★★ (≥80%) : Displayed market leading capabilities in integrating ESG factors in all aspects of operations, management and future directions.  
 ★★★★ (60-79%) : Above adequate integration of ESG factors into most aspects of operations, management and future directions.  
 ★★★ (40-59%) : Adequate integration of ESG factors into operations, management and future directions.  
 ★★ (20-39%) : Have some integration of ESG factors in operations and management but are insufficient.  
 ★ (<20%) : Minimal or no integration of ESG factors in operations and management.

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As of Friday, August 25, 2023, the analyst, Thiam Chiann Wen, who prepared this report, has interest in the following securities covered in this report:  
 (a) nil

**Kaladher Govindan – Head of Research**

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