

Sunway Bhd

Targeting 15% Sales Growth for FY23

TP: RM2.28 (+40.7%)

Last Traded: RM1.62

BUY (ESG: ★★★★★)

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Review

- Sunway reported RM612.2mn core net profit in FY22, which was in line with our forecasts but above consensus estimates. Results accounted for 102% and 112% of our and consensus' full-year projections, respectively.
- A second interim dividend of 3.5sen/share was declared in 4Q22, bringing the full-year dividend declared to 5.5sen/share. (FY21: 2.5sen/share).
- **YoY:** FY22 revenue increased 40% YoY to RM5.2bn, primarily due to increased contributions from all business segments. Likewise, the period's core net profit surged 75% YoY to RM612.2mn, with higher profit contributions from all business divisions except the "others" segment. Specifically, the group's property investment segment PBT returned to the black, driven by the reopening and normalisation of the local economy, allowing the leisure and hospitality businesses to resume full operations.
- **QoQ:** Sunway's 4Q22 core net profit grew 28% QoQ to RM189.2mn, driven by a 21% growth in revenue. The stronger performance was mainly due to higher contributions from most business segments, which offset the lower contributions from the trading and manufacturing segments.
- Sunway's 4Q22 property sales increased 35% YoY and 17% QoQ to RM590mn, bringing FY22 sales to RM2.02bn (-22% YoY). This came in below management's sales target of RM2.2bn but within our sales assumptions of RM2.0bn. We attribute the weaker sales performance to the delay in new launches, since only RM1.0bn of the planned RM2.3bn launches for FY22 were rolled-out.
- Ki Residences, a private condominium project in Singapore, is a major contributor to FY22 sales (26% of FY22 sales), with a 97% take-rate as of the end of Dec-22, up from 79% as of the end of Dec-21. Multiple increases in interest rates in 2022 appear to have had a negative impact on the property sales performance. We note take-up rates for Jernih Residence in Kajang and Sunway Alishan in Cheras only hit 32% and 18%, respectively, since their official launches in May and September last year – see **Figure 1**.

Impact

- After incorporating the actual FY22 results, our FY23 and FY24 earnings projections are adjusted higher by 1% and 3%, respectively. We introduce our FY25 net profit forecast of RM798mn, representing earnings growth of 6.2% YoY.

Outlook

- Sunway is targeting new sales of RM2.3bn this year (+15% YoY), underpinned by new projects worth RM3.5bn – see **Figure 2** and other existing projects. Of the RM3.5bn new launches, 77% of the total launches are comprised of projects in Singapore, followed by 20% from Malaysia

Share Information

Bloomberg Code	SWB MK
Stock Code	5211
Listing	Main Market
Share Cap (mn)	4,889.1
Market Cap (RMmn)	7,920.3
52-wk Hi/Lo (RM)	1.85/1.45
12-mth Avg Daily Vol ('000 shrs)	1,466.2
Estimated Free Float (%)	25.5
Beta	0.4
Major Shareholders (%)	
	Sungei Way Corp (56.9)
	EPF (8.3)

Forecast Revision

	FY23	FY24
Forecast Revision (%)	1.3	3.2
Net profit (RMmn)	664.3	750.9
Consensus	631.1	673.8
TA's / Consensus (%)	105.3	111.4
Previous Rating	Buy (Maintained)	
Consensus Target Price (RM)	2.07	

Financial Indicators

	FY23	FY24
Net gearing (%)	58.5	58.2
CFPS (sen)	(2.1)	3.0
P/CFPS (x)	(77.1)	54.4
ROE (%)	5.2	5.7
ROA (%)	2.5	2.7
NTA/Share (RM)	2.1	2.2
Price/ NTA (x)	0.8	0.7

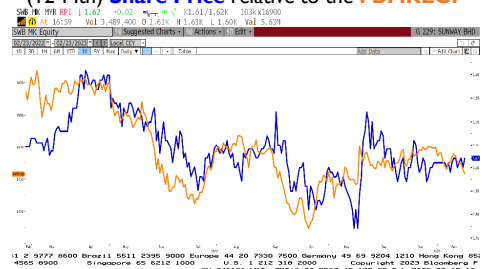
Scorecard

	% of FY	
vs TA	102.0	Within
vs Consensus	112.0	Above

Share Performance (%)

Price Change	SWB	FBM KLCI
1 mth	2.5	(2.8)
3 mth	10.2	1.0
6 mth	(1.8)	(1.7)
12 mth	(3.6)	(8.1)

(12-Mth) Share Price relative to the FBMKLCI



and the remaining 3% from China. Our FY23 property sales assumption is higher than management's, at RM2.4bn, in anticipation of robust sales from Singapore.

- The group's unbilled sales of RM4.3bn and outstanding construction order book of RM3.5bn (external jobs only) should provide 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. Although its property development division may be negatively affected by the rise in interest rates, we believe the ongoing economic recovery should help to cushion this impact.

Valuation

- Factoring in the earnings revision as well as the new TPs for both SunCon and Sunway REIT, we arrive at a new TP of RM2.28 (RM2.15 previously), based on SOP valuation. Maintain Buy.

SOP Valuation Table

		(RM mn)		
Property Dev & Inv	100.0%	5,040.5	0.86	12x CY24 Earnings
SunCon	54.6%	1,369.5	0.23	TP of RM1.94
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
Total		13,391.3	2.28	

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 Launches & Sales Performance

Development	Location	Type	GDV (RM mn)	Launch date and take up
Jernih Residence	Kajang, Selangor	Service Apartments	281	Launched in May-22, 32% take up
Sunway Alishan Residences	Cheras, KL	Condominium & Superlinks	261	Launched in Sep-22, 18% take up
Sunway D' Hills	Kota Damansara, KL	Service Residences	359	Launched in Oct-22
Total Launches in 2022			901	

Source: Sunway, TA Research

Figure 2: 2023 Planned Launches

Development	Location	Type	GDV (RM mn)
Sunway Flora	Bukit Jalil, KL	Service Apartments & Retail	300
Sunway Bayu	Sunway City Ipoh, Ipoh	Landed Apartments	70
Sunway Lenang Heights	Taman Molek, Johor Bahru	Semi D Homes & Bungalows	90
Sunway Maple	Sunway Iskandar Puteri, Johor	Landed Linked Homes	10
Sunway Aviana	Sunway Iskandar Puteri, Johor	Landed Linked Homes	150
Sunway Dora	Bayan Baru, Penang	Service Apartments	70
Terra Hills	Pasir Panjang, Singapore	Private Condominium	700
The Continuum	Thiam Siew Avenue, Singapore	Private Condominium	2000
Sunway Gardens Phase 3	Tianjin, China	Condominium	120
Total			3,510

Source: Sunway, TA Research

Earnings Summary (RM mn)

YE Dec 31 (RM'mn)	2021 [^]	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 -adj	350.1	612.2	664.3	750.9	797.6
EPS (sen)	5.0	11.5	11.3	12.8	13.6
EPS - adj (sen)	6.0	10.4	11.3	12.8	13.6
EPS Growth (Core) (%)	(18.2)	74.8	8.5	13.0	6.2
PER (x)	27.1	15.5	14.3	12.7	11.9
GDPS (sen)	2.5	5.5	5.5	6.0	6.0
Div Yield (%)	1.5	3.4	3.4	3.7	3.7
ROE (%)	3.3	5.0	5.2	5.7	5.9

[^] Restated

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.

4Q22 Results Analysis (RM mn)

YE 31 Dec (RM'mn)	4Q21 [^]	3Q22	4Q22	QoQ (%)	YoY (%)	FY21 [^]	FY22	YoY(%)
Continuing Operations								
Revenue	1,243.8	1,270.5	1,531.6	20.5	23.1	3,714.2	5,195.0	39.9
Property Development	182.6	278.1	442.7	59.2	142.4	624.2	1,165.3	86.7
Property Investment	133.4	188.6	230.7	22.3	73.0	312.3	690.0	120.9
Construction	379.6	305.1	291.0	(4.6)	(23.3)	1,111.7	1,281.6	15.3
Trading & Manufacturing	229.9	198.8	233.5	17.4	1.5	839.8	902.1	7.4
Quarry	105.7	105.6	123.4	16.9	16.7	337.8	406.2	20.3
Others	212.6	194.3	210.4	8.3	(1.0)	488.3	749.8	53.5
Operating profits	237.1	132.4	212.7	60.7	(10.3)	327.1	583.4	78.4
Finance income	37.8	47.8	61.6	28.9	63.1	157.2	187.7	19.4
Finance costs	(34.9)	(49.3)	(62.2)	26.2	78.1	(102.3)	(202.2)	97.6
Associates	8.6	37.4	3.0	(92.0)	(65.0)	62.7	119.2	90.1
JV	8.1	55.5	78.8	42.2	868.4	21.0	231.7	1,001.9
EI	29.2	16.6	13.8	(16.9)	(52.7)	29.2	64.5	120.9
PBT	256.6	223.8	293.9	31.3	14.5	463.9	919.8	98.3
Core PBT	227.4	207.2	280.1	35.2	23.2	434.7	855.3	96.8
Property Development	64.4	35.8	70.4	96.7	9.3	152.6	155.3	1.8
Property Investment	7.6	69.1	75.7	9.5	893.8	(37.6)	235.7	(727.4)
Construction	91.1	35.6	58.7	64.9	(35.5)	148.8	186.6	25.4
Trading & Manufacturing	9.0	12.4	9.1	(26.7)	0.5	37.9	41.4	9.4
Quarry	4.4	1.9	5.1	171.1	16.6	9.4	13.7	45.7
Healthcare*	0.0	41.4	35.0	(15.5)	nm	0.0	140.0	nm
Others	50.9	11.0	26.1	138.0	(48.7)	125.5	82.6	(34.2)
Tax	(73.0)	(41.6)	(73.7)	77.1	0.9	(116.2)	(167.0)	43.7
MI	(28.7)	(17.5)	(17.2)	(1.2)	(40.0)	(55.1)	(76.1)	38.3
Net profit from continuing operations	154.9	164.7	203.0	23.2	31.1	293.5	676.7	130.6
Core net profit from continuing operations (a)	125.7	148.1	189.2	27.7	50.5	265.2	612.2	130.8
Discontinued Operations								
Profit from discontinued operations, net of tax	33.7	0.0	0.0	nm	nm	104.4	0.0	nm
Net gain arising from partial divestment of Sunway Healthcare	2,286.1	0.0	0.0	nm	nm	2,286.1	0.0	nm
MI	(19.3)	0.0	0.0	nm	nm	(19.5)	0.0	nm
Profits from discontinued operations	2,300.5	0.0	0.0	nm	nm	2,371.0	0.0	nm
Core net profit from discontinued operations (b)	14.4	0.0	0.0	nm	nm	84.9	0.0	nm
Core net profit (a + b)	140.1	148.1	189.2	27.7	35.1	350.1	612.2	74.8
Reported EPS	(sen) 41.9	2.8	3.5	23.6	(91.7)	45.4	11.5	(74.8)
Adj EPS	(sen) 2.4	2.5	3.2	27.7	35.1	6.0	10.4	74.0
DPS	(sen) 1.5	0.0	3.5	nm	133.3	2.5	5.5	120.0
Core PBT margin	(%) 18.3	16.3	18.3	2.0	0.0	11.7	16.5	4.8
Property Development	(%) 35.2	12.9	15.9	3.0	(19.3)	24.4	13.3	(11.1)
Property Investment	(%) 5.7	36.6	32.8	(3.8)	27.1	(12.0)	34.2	46.2
Construction	(%) 24.0	11.7	20.2	8.5	(3.8)	13.4	14.6	1.2
Trading & Manufacturing	(%) 3.9	6.2	3.9	(2.3)	(0.0)	4.5	4.6	0.1
Quarry	(%) 4.2	1.8	4.2	2.4	(0.0)	2.8	3.4	0.6
Others	(%) 24.0	5.6	12.4	6.8	(11.5)	25.7	11.0	(14.7)
Core net margin	(%) 11.3	11.7	12.4	0.7	1.1	9.4	11.8	2.4
Effective tax rate	(%) (28.5)	(18.6)	(25.1)	(6.5)	3.4	(25.1)	(18.2)	6.9

[^]Restated

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

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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
Scoring	★★★★★	★★★★★	★★★★★	★★★★★
Remark	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, February 24, 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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