

Sunway Bhd

A Steady Start to 2023
TP: RM2.27 (+46.5%)
Last Traded: RM1.55
BUY (ESG: ★★★★★)

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Review

- Sunway's IQ23 net profit of RM141.6mn came in within expectations, accounting for 21% of both ours and consensus' full-year forecasts.
- YoY:** IQ23 revenue increased 14% YoY to RM1.3bn, primarily due to increased contributions from all business segments, except the construction division. However, net profit for the quarter grew at a slower pace of 10% YoY to RM141.6mn, mainly due to lower contribution from associates and JVs as well as higher finance costs and higher tax expenses.
- QoQ:** Sunway's IQ23 net profit fell 25% QoQ to RM141.6mn, on the back of a 18% decrease in revenue. The weaker performance was mainly due to lower contributions from most business segments, which offset the higher contributions from the trading & manufacturing segment.
- Sunway's IQ23 property sales increased 13% YoY but decreased 14% QoQ to RM505mn. Terra Hills, a private condominium project in Singapore, is a major contributor to IQ23 sales (47% of IQ23 sales), with a 38% take up rate. On the domestic front, Sunway Flora Residence in Bukit Jalil (GDV: RM300mn) and Sunway Dora in Bayan Baru (GDV: RM70mn), Penang have achieved decent take up rates of 53% and 73% since their official launch in Mar-23 and Feb-23 respectively. – see **Figure I**.

Impact

- No change to our FY23-25 earnings forecasts.

Outlook

- Sunway aims to achieve new sales of RM2.3bn this year, with IQ23 sales already accounting for 21% of the target. The group plans to launch projects worth RM3.5bn, primarily in Singapore, comprising 77% of total launches. We understand that Sunway has rolled-out all scheduled launches in Singapore.
- Despite recent cooling measures in Singapore, Sunway believes foreign investors are still interested in investing there as geopolitical tension has increased Singapore's attraction as a financial outpost and safe haven.
- Based on Singapore government's data, the impact of higher Additional Buyer's Stamp Duty (ABSD) is expected to affect only 10% of residential property transactions, as most purchases are made by Singaporean citizens and permanent residents buying their first property.
- With unbilled sales of RM4.4bn and an outstanding construction order book of RM3.8bn (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

Share Information

Bloomberg Code	SWB MK
Stock Code	5211
Listing	Main Market
Share Cap (mn)	4,954.6
Market Cap (RMmn)	7,679.6
52-wk Hi/Lo (RM)	1.77/1.45
12-mth Avg Daily Vol ('000 shrs)	1,807.6
Estimated Free Float (%)	22.1
Beta	0.5
Major Shareholders (%)	
	Sungei Way Corp (57.9)
	EPF (8.6)

Forecast Revision

	FY23	FY24
Forecast Revision (%)	0.0	0.0
Net profit (RMmn)	664.3	750.9
Consensus	661.3	697.9
TA's / Consensus (%)	100.5	107.6
Previous Rating	Buy (Maintained)	
Consensus Target Price (RM)	2.11	

Financial Indicators

	FY23	FY24
Net gearing (%)	56.7	58.5
CFPS (sen)	(12.5)	(2.1)
P/CFPS (x)	(12.4)	(73.8)
ROE (%)	5.0	5.2
ROA (%)	2.4	2.5
NTA/Share (RM)	2.1	2.1
Price/NTA (x)	0.7	0.7

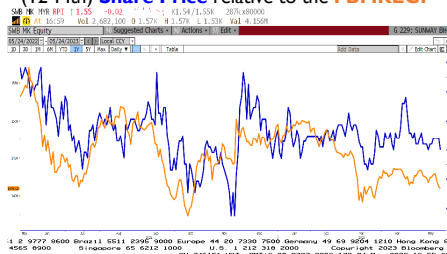
Scorecard

	% of FY	
vs TA	21.0	Within
vs Consensus	21.0	Within

Share Performance (%)

Price Change	SWB	FBM KLCI
1 mth	(5.5)	(0.9)
3 mth	(4.9)	(3.2)
6 mth	0.6	(6.1)
12 mth	(11.4)	(7.9)

(12-Mth) Share Price relative to the FBMKLCI



segments are expected to benefit from the improvement of the inbound leisure tourism and medical tourism sectors as international travel continues to normalise. While the property development division may face challenges from rising interest rates and cooling measures in Singapore, the ongoing economic recovery is expected to mitigate the impact.

Valuation

- Factoring in the new TP for both SunCon, we arrive at a new TP of RM2.27 (RM2.28 previously), based on SOP valuation. Maintain Buy.

SOP Valuation Table

	Stake	Value (RM mn)	RM/share*	Valuation Methodology
Property Dev & Inv	100.0%	5,040.5	0.86	12x CY24 Earnings
SunCon	54.6%	1,277.7	0.22	TP of RM1.81
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		13,299.5	2.27	

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, 39% take up
Sunway Alishan Residences	Cheras, KL	Condominium & Superlinks	286	Launched in Sep-22, 30% take up
Sunway D' Hills	Kota Damansara, KL	Service Residences	359	Launched in Oct-22
Total Launches in 2022			958	
Sunway Flora	Bukit Jalil, KL	Service Apartments & Retail	300	Launched in Mar-23, 53% take up
Sunway Bayu	Sunway City Ipoh, Ipoh	Landed Apartments	70	Target launch in 2Q
Sunway Lenang Heights	Taman Molek, Johor Bahru	Semi D Homes & Bungalows	90	Target launch in 2H
Sunway Maple	Sunway Iskandar Puteri, Johor	Landed Linked Homes	10	Target launch in 2H
Sunway Aviana	Sunway Iskandar Puteri, Johor	Landed Linked Homes	150	Target launch in 2H
Sunway Dora	Bayan Baru, Penang	Service Apartments	70	Launched in Feb-23, 73% take up
Terra Hills	Pasir Panjang, Singapore	Private Condominium	700	Launched in Feb-23, 38% take up
The Continuum	Thiam Siew Avenue, Singapore	Private Condominium	2000	Launched in Apr-23
Sunway Gardens Phase 3	Tianjin, China	Condominium	120	Target launch in 2Q
Total			3,510	

Source: Sunway, TA Research

Figure 2: New Property Cooling Measures in Singapore: Adjustments to Additional Buyer's Stamp Duty

Additional Buyer's Stamp Duty		Rates from Dec 16, 2021 to Apr 26, 2023	New rates on or after Apr 27, 2023
Singapore citizens	1st residential property	0%	0% (no change)
	2nd residential property	17%	20%
	3rd & subsequent residential property	25%	30%
Permanent Residents	1st residential property	5%	5% (no change)
	2nd residential property	25%	30%
	3rd & subsequent residential property	30%	35%
Foreigners	Any residential property	30%	60%

Source: MAS

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 -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)	26.0	16.3	14.8	13.0	12.2
GDPS (sen)	2.5	5.5	5.5	6.0	6.0
Div Yield (%)	1.6	3.5	3.5	3.9	3.9
ROE (%)	3.3	5.0	5.2	5.7	5.9

[^] 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.

IQ23 Results Analysis (RM mn)

YE 31 Dec (RM'mn)	4Q21[^]	3Q22	4Q22	QoQ (%)	YoY (%)	
Revenue	1,112.5	1,531.6	1,263.7	(17.5)	13.6	
Property Development	158.2	442.7	247.8	(44.0)	56.6	
Property Investment	121.1	230.7	209.9	(9.0)	73.3	
Construction	368.6	291.0	327.9	12.7	(11.0)	
Trading & Manufacturing	205.0	233.5	224.1	(4.0)	9.3	
Quarry	76.2	123.4	78.2	(36.6)	2.7	
Others	183.4	210.4	175.8	(16.5)	(4.1)	
Operating profits	67.4	212.7	113.4	(46.7)	68.2	
Finance income	45.5	61.6	58.4	(5.3)	28.4	
Finance costs	(29.7)	(62.2)	(62.4)	0.3	110.4	
Associates	45.9	3.0	41.7	1,287.5	(9.2)	
JV	53.3	78.8	41.1	(47.9)	(22.9)	
EI	7.5	13.8	0.0	nm	nm	
PBT	182.4	293.9	192.0	(34.7)	5.3	
Core PBT	179.6	280.1	192.0	(31.4)	6.9	
Property Development	23.4	70.4	23.1	(67.2)	(1.5)	
Property Investment	37.5	75.7	67.2	(11.1)	79.2	
Construction	47.8	58.7	39.5	(32.7)	(17.4)	
Trading & Manufacturing	10.3	9.1	9.6	5.7	(6.8)	
Quarry	4.9	5.1	3.5	(31.8)	(28.0)	
Healthcare*	28.2	35.0	28.8	(17.7)	2.1	
Others	27.4	26.1	20.3	(22.4)	(26.1)	
Tax	(26.8)	(73.7)	(33.3)	(54.8)	24.3	
MI	(19.1)	(17.2)	(17.1)	(0.7)	(10.2)	
Net profit	136.5	203.0	141.6	(30.2)	3.8	
Core net profit	129.0	189.2	141.6	(25.1)	9.8	
Prefential dividends on ICPS	(25.7)	0.0	(25.7)	nm	0.0	
Net profit less preferential dividend	110.8	203.0	116.0	(42.9)	4.6	
Core net profit less preferential dividend	103.3	189.2	116.0	(38.7)	12.2	
Reported EPS	(sen)	1.9	3.5	2.0	(42.8)	4.8
Adj EPS	(sen)	1.8	3.2	2.0	(38.7)	12.2
DPS	(sen)	0.0	3.5	0.0	nm	0.0
Core PBT margin	(%)	16.1	18.3	15.2	(3.1)	(0.9)
Property Development	(%)	14.8	15.9	9.3	(6.6)	(5.5)
Property Investment	(%)	31.0	32.8	32.0	(0.8)	1.1
Construction	(%)	13.0	20.2	12.0	(8.1)	(0.9)
Trading & Manufacturing	(%)	5.0	3.9	4.3	0.4	(0.7)
Quarry	(%)	6.4	4.2	4.5	0.3	(1.9)
Others	(%)	15.0	12.4	11.5	(0.9)	(3.4)
Core net margin	(%)	11.6	12.4	11.2	(1.1)	(0.4)
Effective tax rate	(%)	(14.7)	(25.1)	(17.3)	7.7	(2.6)

[^]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
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 Thursday, May 25, 2023, the analyst, Thiam Chiann Wen, who prepared this report, has interest in the following securities covered in this report:
 (a) nil

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