22 February 2024

Outthink. Outperform.

AFFIN HWANG INVESTMENT BANK

Results Note | **RM2.71 @ 21 February 2024**

"2023 results above expectations"

Share price performance

	1M	3M	12M
Absolute (%)	11.1	36.9	67.3
Rel KLCI (%)	6.3	29.0	58.8

	BUY	HOLD	SELL
Consensus	9	1	1

Stock Data

Sector	Property
Issued shares (m)	5,491.8
Mkt cap (RMm)/(US$m)	14,882.9/3,102.2
Avg daily vol - 6mth (m)	10.4
52-wk range (RM)	1.52-2.79
Est free float	26.1%
Stock Beta	0.91
Net cash/(debt) (RMm)	(7,350)
ROE (2024E)	5.3%
Derivatives	No
Shariah Compliant	Yes
FTSE4Good Constituent	No
FBM EMAS (Top 200)	No
ESG Rank	
ESG Risk Rating	NA

Key Shareholders

Sungei Way Corp Sdn	49.5%
Employees Provident	11.0%
Active Equity Sdn Bhd	5.4%
Cheah Fook Ling	3.0%

Source: Bloomberg, Affin Hwang, Bursa Malaysia, ESG Risk Rating Powered by Sustainalytics

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Sunway Berhad (SWB MK)

BUY (maintain)
Up/Downside: +25.5%

Price Target: RM3.40
Previous Target (Rating): RM2.90 (BUY)

Strong 2023 performance and bullish outlook

- **Core net profit grew 13% yoy to RM798m in 2023, mainly driven by higher property development, quarry and construction earnings**
- **The group saw robust sales driven by overseas projects in 2023 – now sets a higher 2024 sales target of RM2.6bn (+13% from its previous 2023 target)**
- **Sunway remains a top sector BUY – we raise our 12-month target price (TP) to RM3.40, based on a lower 10% discount to our higher RNAV**

Results were above street and our expectations

Core net profit of RM797.6m (+13% yoy) in 2023 is equivalent to 120% of the consensus and our forecasts of RM661-672m. Revenue (excluding healthcare division) grew 18% yoy to RM6.14bn in 2023, driven by higher revenue across all divisions except its investment holding segment (-2% yoy). PBT increased 9% yoy to RM993m in 2023, primarily attributed to a +36% yoy surge in property development earnings, as the group recognised a RM46m PBT upon the completion and handover of one of the group's Singapore developments. This was dragged by its investment holdings segment (-21% yoy), mainly due to lower contributions from its pharmacy and other businesses. The healthcare division contributed RM153m to earnings (-14% yoy) in 2023. Revenue rose 21% qoq to RM1.87bn in 4Q23, while core net profit rose 50% qoq to RM284m as all divisions performed better except the investment holding segment.

Robust sales and higher new construction contract wins

Sunway saw robust sales of RM2.44bn (+21% yoy) for 2023, surpassing its sales target of RM2.3bn. With higher planned launches worth RM2.1bn, Sunway is targeting RM2.6bn of sales in 2024. Unbilled sales of RM4.06bn will support revenue growth over the next 2-3 years. Sunway Construction (SCGB MK, RM2.61, Buy, TP: RM2.90) achieved RM2.5bn in new contract wins in 2023, surpassing its RM2.0bn target and replenishing its remaining order book to RM5.3bn.

Top sector pick; reaffirming our BUY call

Sunway will benefit from the establishment of a Johor-Singapore Special Economic Zone (JB-SG SEZ) since the bulk of its remaining GDV lies within Johor at approximately 60% of the RM52.9bn total remaining GDV. We lift our core EPS by 2-5% in 2024-25E and introduce our 2026E earnings with a 3 year-CAGR of 9% in 2023-26E. We upgrade our 12-month TP to RM3.40, based on a 10% discount to lifted RNAV/share of RM3.75 as we update our valuation methodology of the Healthcare segment to EV/EBITDA (from PER previously). Downside risks: lower-than-expected property sales and delays in infrastructure project roll-out.

Earnings & Valuation Summary

FYE 31 Dec	2022	2023E	2024E	2025E	2026E
Revenue (RMm)	5,195.0	6,139.8	6,384.9	6,853.9	7,047.5
EBITDA (RMm)	753.1	865.7	919.7	1,080.6	1,206.8
Pretax profit (RMm)	919.8	993.2	1,027.9	1,256.7	1,399.3
Net profit (RMm)	676.7	737.8	755.4	924.7	1,029.0
EPS (sen)	13.8	14.9	15.2	18.7	20.8
PER (x)	19.6	18.2	17.8	14.5	13.0
Core net profit (RMm)	716.1	797.6	755.4	924.7	1,029.0
Core EPS (sen)	14.6	16.1	15.2	18.7	20.8
Core EPS growth (%)	82.4	9.9	(5.3)	22.4	11.3
Core PER (x)	18.5	16.8	17.8	14.5	13.0
Net DPS (sen)	5.5	5.5	5.5	5.5	5.5
Dividend Yield (%)	2.0	2.0	2.0	2.0	2.0
EV/EBITDA	27.0	24.0	22.0	18.5	16.1
Chg in EPS (%)			2.3	4.7	New
Affin/Consensus (x)			1.0	1.1	-

Source: Company, Bloomberg, Affin Hwang forecasts

Fig 1: Results comparison

FYE 31 Dec (RMm)	4Q22	3Q23	4Q23	QoQ % chg	YoY % chg	2022	2023	YoY % chg	Comment
Revenue	**1,532**	**1,539**	**1,869**	**21.4**	**22.0**	**5,195**	**6,140**	**18.2**	2023: Higher revenue yoy for all segments except its others segment due to lower contributions from building material and community pharmacy business.
Op costs	(1,246)	(1,371)	(1,521)	11.0	22.1	(4,452)	(5,274)	18.5	Operational losses from the start-up of Sunway Sanctuary and higher operating cost
EBITDA	**286**	**169**	**348**	**106.2**	**21.7**	**742**	**866**	**16.6**	
EBITDA margin (%)	*18.7*	*11.0*	*18.6*	*7.6 ppt*	*(0.1 ppt)*	*14.3*	*14.1*	*(0.2 ppt)*	
Depn and amort	(36)	(40)	(38)	(6.9)	4.9	(130)	(141)	8.6	
EBIT	**250**	**128**	**310**	**141.7**	**24.1**	**612**	**724**	**18.3**	
EBIT margin (%)	*16.3*	*8.3*	*16.6*	*8.3 ppt*	*0.3 ppt*	*11.8*	*11.8*	*0.0 ppt*	
Interest income	62	62	73	18.6	18.8	188	257	37.0	
Interest expense	(62)	(90)	(95)	5.4	52.2	(202)	(325)	60.9	
Associates	82	157	80	(49.0)	(2.3)	351	397	13.2	
Forex gain (losses)	44	(3)	35	NA	(21.3)	(24)	(35)	42.7	Unrealised forex loss on US$ debt. But hedged by derivatives.
Exceptional items	(82)	(6)	(53)	777.2	(34.9)	(15)	(25)	66.4	
Pretax profit	**294**	**248**	**350**	**41.4**	**19.2**	**909**	**993**	**9.2**	Higher earnings for property development, construction, trading quarry operations. But lower for property investment earnings.
Tax	(74)	(41)	(33)	(18.4)	(55.1)	(164)	(138)	(16.2)	
Tax rate (%)	*25.1*	*16.4*	*9.4*	*(6.9 ppt)*	*(16 ppt)*	*18.1*	*13.9*	*(4.2 ppt)*	
Minority interests	(17)	(27)	(51)	90.7	198.1	(76)	(118)	54.7	
Net profit	**203**	**180**	**266**	**47.5**	**31.0**	**669**	**738**	**10.3**	Above expectation
EPS (sen)	3	3	4	68.2	26.1	11	12	9.8	
Core net profit	**240**	**189**	**284**	**49.9**	**18.3**	**708**	**798**	**12.6**	Above expectation, excluding exceptional items.

Source: Affin Hwang, Company

Fig 2: Segmental revenue breakdown

FYE 31 Dec (RMm)	4Q22	3Q23	4Q23	QoQ % chg	YoY % chg	2022	2023	YoY % chg
Ppty dev	443	310	499	61.3	12.8	1,165	1,419	21.8
Ppty inv	231	233	256	10.1	11.1	690	898	30.2
Construction	291	424	533	25.7	83.1	1,282	1,689	31.8
Trading	233	243	260	7.2	11.4	902	955	5.8
Quarry	123	149	125	(16.1)	1.1	406	446	9.9
Other	210	181	195	7.7	(7.1)	750	733	(2.3)
Total	**1,532**	**1,539**	**1,869**	**21.4**	**22.0**	**5,195**	**6,140**	18.2

Source: Affin Hwang, Company

Fig 3: Segmental PBT breakdown

FYE 31 Dec (RMm)	4Q22	3Q23	4Q23	QoQ % chg	YoY % chg	2022	2023	YoY % chg
Ppty dev	70	70	69	(2.0)	(1.9)	155	212	36.3
Ppty inv	53	55	137	147.8	159.2	236	293	24.3
Construction	59	51	63	22.9	6.9	187	198	6.1
Trading	9	13	12	(10.6)	32.2	42	45	8.6
Quarry	5	10	9	(7.8)	83.5	14	27	101.0
Other	98	47	60	27.3	(38.2)	276	218	(21.1)
Total	**294**	**248**	**350**	**41.4**	**19.2**	**909**	**993**	9.2

Source: Affin Hwang, Company

Fig 4: Segmental PBT margin

FYE 31 Dec (%)	4Q22	3Q23	4Q23	QoQ ppt	YoY ppt	2022	2023	YoY ppt
Ppty dev	15.9	22.8	13.8	(8.9)	(2.1)	13.3	14.9	1.6
Ppty inv	22.9	23.7	53.4	29.7	30.5	34.2	32.6	(1.6)
Construction	20.2	12.1	11.8	(0.3)	(8.4)	14.6	11.7	(2.8)
Trading	3.9	5.5	4.6	(0.9)	0.7	4.6	4.7	0.1
Quarry	4.2	6.9	7.5	0.7	3.4	3.4	6.2	2.8
Others	46.5	26.2	30.9	4.8	(15.6)	36.9	29.8	(7.1)
Total	**19.2**	**16.1**	**18.8**	**2.7**	**(0.4)**	**17.5**	**16.2**	**(1.3)**

Source: Affin Hwang, Company

RSDH disposal to set a new hospital valuation benchmark

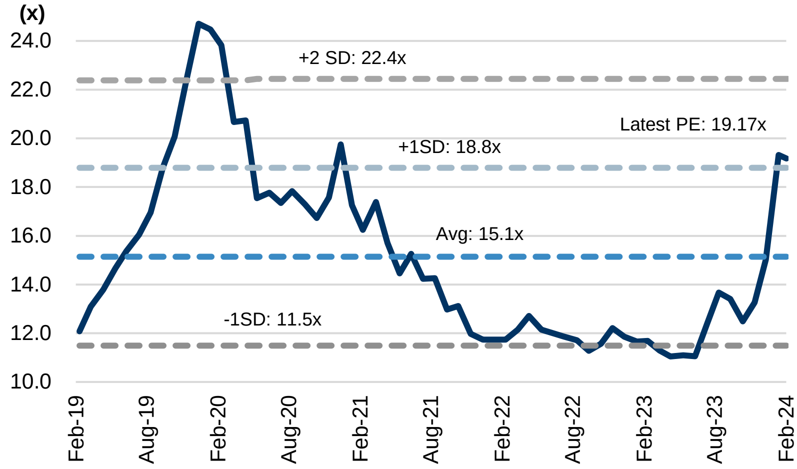
We increase our TP to RM3.40 from RM2.90 previously as we update our valuation methodology of the Healthcare segment using EV/EBITDA (from PER previously) valuation and adjust the Construction segment valuation based on our recently raised TP for Sunway Construction. We apply an EV/EBITDA multiple of 20x on its healthcare division's 2024E EBITDA to value the unit (drawing reference from the RM6bn sale of Ramsay Sime Darby Healthcare (RSDH) at an implied EV/EBITDA of 20x). This is at a premium to other listed hospital operators (average EV/EBITDA of 12.4x) as Sunway is currently undergoing an aggressive growth phase, whereby EBITDA growth should remain strong in the coming years. We believe the next leg of growth will be driven by organic expansion of its 3 hospitals in the pipeline, which will cumulatively add 696-bed capacity to its current 875-bed total capacity. We like Sunway's strategy to expand its healthcare services to support its matured township developments and growing healthcare earnings in the long run. Some of the recent hospital additions are Sunway Medical Centre (SMC) Velocity in Kuala Lumpur and SMC Penang.

Fig 5: RNAV and target price

RNAV by business segments	PER (X)	EV/EBITDA (X)	New RNAV (RMm)	Old RNAV (RMm)	Change (%)
Property development			5,351	5,414	(1)
Property development JV			2,881	2,936	(2)
Property investment			4,919	4,919	0
Construction	16		2,458	1,843	33
Building materials	14		700	700	0
Quarry	14		420	420	0
Healthcare		20	7,602	4,725	61
Total			**24,331**	**20,958**	**16**
Co. net cash/(debt)			(589.3)	(589.3)	0
RNAV			**23,742**	**20,369**	**17**
Number of shares			4,955	4,955	0
RNAV/share (RM)			**4.79**	**4.11**	**17**
Fully-diluted no. of shares			6,602	6,602	0
Fully-diluted RNAV/share (RM)			**3.75**	**3.24**	**16**
Target price @ 10% discount to RNAV (RM)			**3.40**	**2.90**	**17**

Source: Affin Hwang estimates

Fig 6: 12-month forward PER



Source: Bloomberg, Affin Hwang

Important Disclosures and Disclaimer

Equity Rating Structure and Definitions

BUY	Total return is expected to exceed +10% over a 12-month period
HOLD	Total return is expected to be between -5% and +10% over a 12-month period
SELL	Total return is expected to be below -5% over a 12-month period
NOT RATED	Affin Hwang Investment Bank Berhad does not provide research coverage or rating for this company. Report is intended as information only and not as a recommendation

The total expected return is defined as the percentage upside/downside to our target price plus the net dividend yield over the next 12 months.

OVERWEIGHT	Industry, as defined by the analyst's coverage universe, is expected to outperform the KLCI benchmark over the next 12 months
NEUTRAL	Industry, as defined by the analyst's coverage universe, is expected to perform inline with the KLCI benchmark over the next 12 months
UNDERWEIGHT	Industry, as defined by the analyst's coverage universe is expected to under-perform the KLCI benchmark over the next 12 months

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