



AmInvestment Bank

# SUNWAY

(SWB MK EQUITY, SWAY.KL)

29 Aug 2024

## Company Report

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Rationale for report: Company Result

# BUY

(Maintained)

Price	RM3.91
Fair Value	RM4.48
52-week High/Low	RM4.42/RM1.82

### Key Changes

Fair value	📈
EPS	📈

YE to Dec	FY23	FY24F	FY25F	FY26F
Revenue (RM mil)	6,139.8	6,437.4	6,845.0	7,179.2
Core net profit (RM mil)	699.2	845.0	933.0	1,001.4
FD Core EPS (sen)	12.4	15.0	16.6	17.8
FD Core EPS growth (%)	21.0	20.9	10.4	7.3
Consensus Net Profit (RM mil)	-	797.5	885.5	993.4
DPS (sen)	4.7	5.8	6.4	6.9
PE (x)	31.5	26.1	23.6	22.0
EV/EBITDA (x)	39.2	30.9	28.6	27.2
Div yield (%)	1.3	1.6	1.8	1.9
ROE (%)	5.6	6.4	6.8	6.9
Net Gearing (%)	53.6	54.8	56.1	55.3

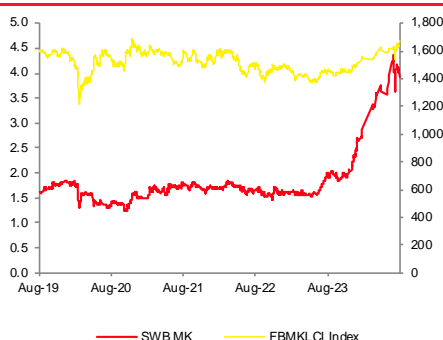
### Stock and Financial Data

Shares Outstanding (million)	5,630.2
Market Cap (RMmil)	22,014.3
Book Value (RM/Share)	2.46
P/BV (x)	1.6
ROE (%)	5.6
Net Gearing (%)	53.6

Major Shareholders	Sungei Way (49.0%)
	Cheah Fook Ling (11.0%)
	EPF (5.5%)

Free Float	34.6
Avg Daily Value (RMmil)	63.1

Price performance	3mth	6mth	12mth
Absolute (%)	5.7	40.1	94.5
Relative (%)	1.9	29.3	67.7



### Investment Highlights

- We maintain BUY on Sunway with a raised SOP-based fair value (FV) of RM4.48/share (from RM4.22/share previously) due to our higher earnings forecasts. Our FV also reflects a 3% premium for our 4-star ESG rating (Exhibits 5 & 6).
- Our FV implies FY25F PE of 27x, 1.5 standard deviation above its 5-year median of 15x. We believe the premium to be reasonable considering the rapid growth of Sunway Healthcare, recovery in construction margins with data centred-themed catalysts and exposure to the dynamic Johor property market.
- We raise FY24F-FY26F earnings by 11%-14% on higher margin assumptions as Sunway's 1HFY24 core net profit (CNP) of RM405mil (excluding exceptional items largely from fair value gains arising from the redemption of 41%-owned Sunway REIT's perpetual notes and acquisition of 6 Giant hypermarkets) came in above expectations, making up 53% of our earlier full-year forecast and 51% of street's.
- In 1HFY24, Sunway's property development revenue rose by 8% YoY while PBT surged at a faster pace of 51% YoY due to a 4.7%-point improvement in pretax margin to 16.5%. Its unbilled sales rose 7% QoQ to RM4.5bil from RM4.2bil in 1QFY24 as 2QFY24 sales soared 61% QoQ to RM802mil.
- Sunway's 1HFY24 new sales slid 13% YoY to RM1.3bil, yet still achieved half of its FY24F sales target of RM2.6bil (+6.6% YoY). The major sales contributors were Sunway Velocity 3 (Tower A & B), Sunway Aviana (Phase 3) and Sunway Gardens (Phase 3). In 2HFY24, Sunway plans to launch RM1.2bil of developments, a 46% increase from RM811mil in 1HFY24 to attain the group's FY24F target of RM2.1bil.
- QoQ, 2QFY24 property investment revenue was flat while PBT rose 24% due to the lumpy fair value gains from Sunway REIT.
- 2QFY24 revenue of the construction segment climbed by a slight 2% QoQ but PBT increased at a faster 24% given minimal legacy projects while new jobs generate higher margins. New orders secured YTD has reached RM3.5bil, which led to the group revising FY24F construction order book replenishment target to RM4bil-RM5bil from RM2.5bil-RM3bil earlier.
- Healthcare's 2QFY24 share of net profit grew 34% QoQ to RM49mil as 1QFY24 was affected by the festive season and school holidays. This segment is expected to register robust growth with the expansion of Sunway Medical Centre (SMC) Damansara and SMC Ipoh coupled with the gradual expansion of total bed capacity to 2,300 by 2025 from 1,158 currently.
- Sunway is currently trading at an attractive FY25F PE of 24x vs. its 5-year peak of 29x.

## EXHIBIT 1: EARNINGS SUMMARY

YE to Dec (RM mil)	2QFY23	1QFY24	2QFY24	QoQ (%)	YoY (%)	1HFY23	1HFY24	YoY (%)
<b>Revenue</b>	<b>1,468.2</b>	<b>1,419.0</b>	<b>1,579.9</b>	<b>11.3</b>	<b>7.6</b>	<b>2,731.9</b>	<b>2,998.9</b>	<b>9.8</b>
Operating costs	(1,318.4)	(1,271.0)	(1,461.4)	15.0	10.8	(2,475.1)	(2,732.4)	10.4
<b>EBITDA</b>	<b>149.8</b>	<b>148.0</b>	<b>118.5</b>	<b>(19.9)</b>	<b>(20.9)</b>	<b>256.8</b>	<b>266.5</b>	<b>3.8</b>
Depreciation	(31.5)	(32.5)	(36.1)	11.1	14.5	(63.6)	(68.6)	7.8
Net finance income	(14.6)	(26.0)	(9.6)	(63.1)	(34.2)	(18.6)	(35.6)	91.0
JV/Associate contributions	77.6	94.3	139.1	47.5	79.3	160.3	233.3	45.6
<b>Profit before tax</b>	<b>203.0</b>	<b>226.7</b>	<b>341.0</b>	<b>50.4</b>	<b>68.0</b>	<b>395.0</b>	<b>567.7</b>	<b>43.7</b>
Taxation	(30.8)	(35.7)	(44.6)	24.7	44.8	(64.1)	(80.3)	25.4
MI	(22.3)	(18.7)	(26.0)	38.8	16.6	(39.4)	(44.7)	13.4
PATAMI	149.9	172.2	270.5	57.0	80.4	291.6	442.7	51.8
<b>Core PATAMI</b>	<b>154.1</b>	<b>171.1</b>	<b>234.2</b>	<b>36.9</b>	<b>51.9</b>	<b>294.8</b>	<b>405.3</b>	<b>37.5</b>
EPS (sen)	2.6	2.9	3.6	22.7	36.2	5.0	6.2	24.0
Dividend (sen)	0.0	0.0	2.0	n/m	n/m	2.0	2.0	0.0
EBITDA margin (%)	10.2	10.4	7.5	(2.9)	(2.7)	9.4	8.9	(0.5)
Effective tax rate (%)	15.2	15.8	13.1	(2.7)	(2.1)	16.2	14.1	(2.1)
Core PATAMI margin (%)	10.5	12.1	14.8	2.8	4.3	10.8	13.5	2.7

Source: Company

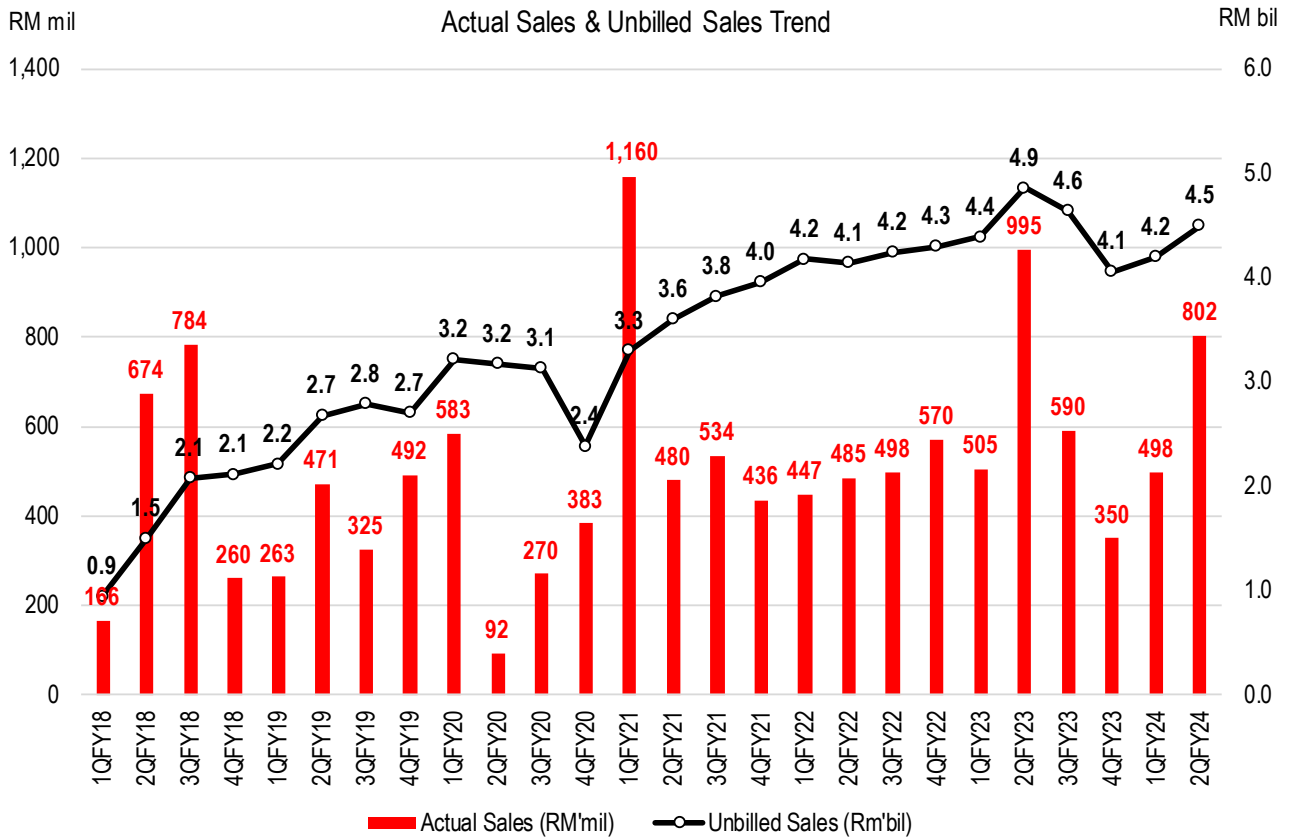
## EXHIBIT 2: SEGMENTAL BREAKDOWN

FY31 Dec (RM mil)	2QFY23	1QFY24	2QFY24	QoQ %	YoY %	1HFY23	1HFY24	YoY %
Property development	362.1	287.7	371.9	29.2	2.7	609.9	659.6	8.2
Property investment	199.4	231.2	231.0	(0.1)	15.8	409.3	462.1	12.9
Construction	404.1	372.5	381.1	2.3	(5.7)	732.0	753.6	2.9
Others*	502.6	527.6	595.9	13.0	18.6	980.7	1,123.5	14.6
<b>Revenue</b>	<b>1,468.2</b>	<b>1,419.0</b>	<b>1,579.9</b>	<b>11.3</b>	<b>7.6</b>	<b>2,731.9</b>	<b>2,998.9</b>	<b>9.8</b>
Property development	49.1	38.8	70.1	80.8	42.9	72.1	108.9	51.0
Property investment	33.9	69.4	86.2	24.1	>100	101.1	155.6	53.9
Construction	44.5	42.4	52.4	23.8	17.8	84.0	94.8	12.8
Others*	75.6	76.1	132.3	73.8	75.1	137.8	208.4	51.3
<b>PBT/(LBT)</b>	<b>203.0</b>	<b>226.7</b>	<b>341.0</b>	<b>50.4</b>	<b>68.0</b>	<b>395.0</b>	<b>567.7</b>	<b>43.7</b>
<b>Pretax margin (%)</b>				<b>%-point</b>	<b>%-point</b>			<b>%-point</b>
Property development	13.6	13.5	18.9	5.4	5.3	11.8	16.5	4.7
Property investment	17.0	30.0	37.3	7.3	20.3	24.7	33.7	9.0
Construction	11.0	11.4	13.8	2.4	2.7	11.5	12.6	1.1
Others*	15.0	14.4	22.2	7.8	7.2	14.0	18.6	4.5

\* Including building materials, community pharmacy business and other segments

Source: Company

EXHIBIT 3: SUNWAY'S ACTUAL SALES VS. UNBILLED SALES



Source: Company

## EXHIBIT 4: RNAV BREAKDOWN

DEVELOPMENT PROPERTIES	Outstanding GDV (RMmil)	NPV@8% (RMmil)	Stake (%)
<b>Selangor/KL</b>			
Sunway Damansara	1,953.3	118.7	60.0
Sunway South Quay	2,486.7	282.2	100.0
Sunway Monterez	38.0	2.6	60.0
Sunway Semenyih	728.6	58.0	70.0
Sunway Cheras	241.8	27.5	100.0
Sunway Duta	120.0	7.8	60.0
Sunway Resort City	660.1	71.1	100.0
Sunway Velocity	1,984.0	181.6	85.0
Sunway Velocity TWO	600.0	38.8	60.0
Sunway Velocity 3	1,200.0	76.9	60.0
Sunway Tower KL 1	240.0	25.8	100.0
Sunway Termuning	265.2	22.8	80.0
Mont Putra, Rawang	156.0	16.8	100.0
Kelana Jaya	1,450.0	156.1	100.0
Jalan Belfield	450.0	48.4	100.0
Lot One, Kajang	236.0	25.4	100.0
USJ 1, Subang Jaya	1,400.0	150.7	100.0
Sri Hartamas	220.0	21.1	70.0
Wangsa Maju-1	40.0	2.4	55.0
Bukit Jalil (Sterling Paradise)	800.0	107.4	100.0
Dengkil (Emerald Tycoon)	813.2	87.5	100.0
Jalan Cochrane	1,150.0	89.5	70.0
<b>Perak</b>			
Sunway City Ipoh	928.4	91.3	96.0
<b>Penang</b>			
Sunway Hills	849.0	86.3	100.0
Sunway Wellesley, Bukit Mertajam	710.5	72.2	100.0
Paya Terubong	1,500.0	152.0	100.0
Sunway T unas, Balik Pulau	60.0	6.1	100.0
Sunway Betong, Balik Pulau	110.0	11.2	100.0
<b>Johor</b>			
Bukit Lenang	568.4	32.7	80.0
Medini	10,616.0	458.6	60.0
Pendas	18,000.0	777.6	60.0
<b>Singapore</b>			
Flynn Park, Pasir Panjang	2,300.0	79.3	30.0
Thiam Siam Avenue, Tanjong Katong	6,150.0	211.9	30.0
<b>China</b>			
Tianjin Eco-City	688.8	48.6	60.0
Unbilled sales		1,500.0	
<b>Subtotal</b>		<b>5,305.0</b>	
Property (20% discount to RNAV)		4,244.0	
Investment properties		2,993.0	
Sunway Construction (54.6% stake @ AmInvestment Valuation)		3,033.2	
Sunway REIT (40.9% stake @ AmInvestment Valuation)		2,618.7	
Healthcare (84% stake @20x FY25F EV/EBITDA)		9,072.0	
Quarry & building materials (15x FY25F earnings)		710.2	
Trading & manufacturing (10x FY25F earnings)		564.8	
Total SOP		23,236.0	
NAV @ Property development		5,109.1	
<b>Fair value</b>		<b>28,345.2</b>	
Enlarged share base (mil shares)		6,526.6	
<b>Fair value/share (RM)</b>		<b>4.35</b>	
(+) 3% premium for 4-star ESG rating		0.13	
<b>Fair value/share (RM)+ ESG Premium</b>		<b>4.48</b>	

Source: AmInvestment Bank Bhd

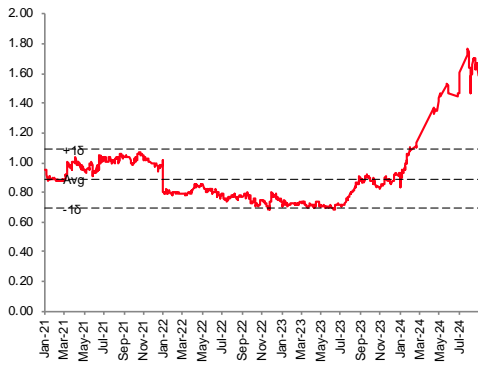
## EXHIBIT 5: ESG MATRIX

	Environmental assessment	Parameters	Weightage	Rating				Rationale
1	Scope 1 GHG Emissions	Co2e reduction	20%	*	*	*		84% YoY increase in FY23 due to expansion of liquefied petroleum gas data from the Retail and Hospitality divisions.
2	Scope 2 GHG Emissions	Co2e reduction	20%	*	*	*		167% YoY increase in FY23 attributed to the overall increase in energy consumption.
3	Scope 3 GHG Emissions	Co2e reduction	20%	*	*	*		67% YoY increase in FY23 attributed to the overall increase in energy consumption.
4	GHG Emissions Avoidance	Renewable Energy	20%	*	*	*	*	Avoided 9,098 tonnes of Co2e emissions by using renewable energy generated by rooftop solar panels.
5	GHG Emissions Sequestration from Trees Planted	Number of Trees Planted	20%	*	*	*	*	400% YoY increase in FY23, reduced 5,719 tonnes of CO2e emissions.
	<b>Weighted score for environmental assessment</b>		<b>100%</b>	*	*	*		
	<b>Social assessment</b>							
1	Health, safety & well-being	Recorded injuries	20%	*	*	*	*	No reports of fatalities or high-consequence work-related injuries. But lost time injury has increased to 56 from 36 in 2023.
2	Women in workforce	% of total workforce	20%	*	*	*	*	57%
3	Investment in employee training	Average learning hours per employee	20%	*	*	*	*	Increased to 40.6 hours in FY23 from 40.2 hours in FY22.
4	Racial diversity	% of work force	20%	*	*	*	*	48% Malay, 29% Chinese, 17% Indians, 6% others
5	Procurement sourcing from local vendors	% of total procurement	20%	*	*	*	*	Spent 85% of our procurement budget on local suppliers.
	<b>Weighted score for social assessment</b>		<b>100%</b>	*	*	*	*	
	<b>Governance assessment</b>							
1	Board age diversity	% under 60 years old	20%	*	*			30%
2	Board women representation	% of total board directors	20%	*	*	*	*	60% male, 40% female
3	Directors with tenure below 6 years	% below 6 years category	20%	*	*	*		30%
4	Independent board directors	% of total board directors	20%	*	*	*		60% - independent non-exec
5	Remuneration to directors	% of total staff costs	20%	*	*	*	*	RM38mil - 5% of 2023 staff costs
	<b>Weighted score for governance assessment</b>		<b>100%</b>	*	*	*	*	
	<b>Environmental score</b>		<b>40%</b>	*	*	*		
	<b>Social score</b>		<b>30%</b>	*	*	*	*	
	<b>Governance score</b>		<b>30%</b>	*	*	*	*	
	<b>Overall ESG Score</b>		<b>100%</b>	*	*	*	*	

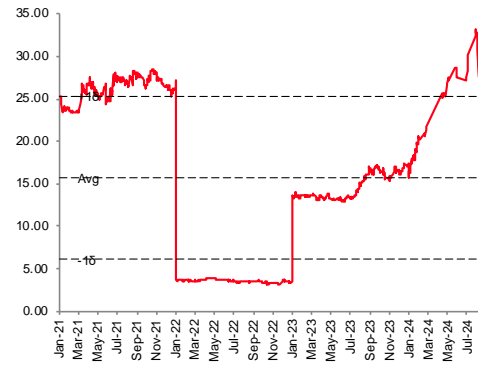
We accord a discount/premium of -6%, -3%, 0%, +3% and +6% on fundamental fair value based on the overall ESG rating as appraised by us, from 1-star to 5-star.

Source: AmlInvestment Bank Bhd

**EXHIBIT 6: PB BAND CHART**



**EXHIBIT 7: PE BAND CHART**



## EXHIBIT 8: FINANCIAL DATA

Income Statement (RMmil, YE 31 Dec)	FY22	FY23	FY24F	FY25F	FY26F
Revenue	5,194.9	6,139.8	6,437.4	6,845.0	7,179.2
EBITDA	702.8	751.7	969.3	1,064.8	1,131.5
Depreciation/Amortisation	(130.2)	(141.4)	(148.3)	(157.7)	(165.4)
Operating income (EBIT)	572.6	664.4	821.1	907.2	966.1
Other income & associates	351.1	397.0	423.4	451.7	482.2
Net interest	(14.5)	(68.2)	(10.7)	(11.3)	(11.9)
Exceptional items	-	-	-	-	-
<b>Pretax profit</b>	<b>909.2</b>	<b>993.2</b>	<b>1,233.8</b>	<b>1,347.5</b>	<b>1,436.4</b>
Taxation	(164.3)	(137.7)	(185.1)	(202.1)	(215.5)
Minorities/pref dividends	(76.3)	(117.8)	(137.7)	(146.4)	(153.5)
<b>Net profit</b>	<b>668.6</b>	<b>737.8</b>	<b>911.0</b>	<b>999.0</b>	<b>1,067.4</b>
Core net profit	577.9	699.2	845.0	933.0	1,001.4
Balance Sheet (RMmil, YE 31 Dec)	FY22	FY23	FY24F	FY25F	FY26F
Fixed assets	1,265.1	1,357.7	1,423.5	1,513.6	1,587.5
Intangible assets	441.4	454.4	454.4	454.4	454.4
Other long-term assets	16,015.5	16,720.5	17,458.1	18,505.5	19,199.7
<b>Total non-current assets</b>	<b>17,722.0</b>	<b>18,532.6</b>	<b>19,336.0</b>	<b>20,473.6</b>	<b>21,241.6</b>
Cash & equivalent	1,958.1	2,300.4	2,888.0	3,019.0	3,158.5
Stock	3,279.5	3,561.0	3,733.6	3,970.0	4,163.8
Trade debtors	1,754.1	2,790.3	2,925.5	3,110.8	3,262.6
Other current assets	1,349.7	1,428.6	1,693.2	1,709.9	1,723.7
<b>Total current assets</b>	<b>8,341.4</b>	<b>10,080.3</b>	<b>11,240.3</b>	<b>11,809.7</b>	<b>12,308.6</b>
Trade creditors	2,518.2	3,102.7	3,253.1	3,459.1	3,627.9
Short-term borrowings	5,361.0	6,017.6	6,309.3	6,708.8	7,036.3
Other current liabilities	153.9	153.4	255.0	343.4	266.0
<b>Total current liabilities</b>	<b>8,033.0</b>	<b>9,273.7</b>	<b>9,817.3</b>	<b>10,511.4</b>	<b>10,930.2</b>
Long-term borrowings	3,186.2	3,713.3	4,494.9	4,774.4	4,862.8
Other long-term liabilities	1,292.7	627.9	627.9	627.9	627.9
<b>Total long-term liabilities</b>	<b>4,478.9</b>	<b>4,341.2</b>	<b>5,122.8</b>	<b>5,402.3</b>	<b>5,490.7</b>
<b>Shareholders' funds</b>	<b>12,519.6</b>	<b>13,854.6</b>	<b>14,437.4</b>	<b>15,094.8</b>	<b>15,792.3</b>
Minority interests	1,031.8	1,143.4	1,198.8	1,274.8	1,337.0
BV/share (RM)	2.22	2.46	2.56	2.68	2.80
Cash Flow (RMmil, YE 31 Dec)	FY22	FY23	FY24F	FY25F	FY26F
Pretax profit	909.2	993.2	1,233.8	1,347.5	1,436.4
Depreciation/Amortisation	130.2	141.4	148.3	157.7	165.4
Net change in working capital	(443.2)	(631.0)	(616.4)	124.6	(80.0)
Others	(201.3)	(113.4)	(719.9)	(1,659.8)	(1,267.2)
<b>Cash flow from operations</b>	<b>394.9</b>	<b>390.3</b>	<b>45.7</b>	<b>(30.0)</b>	<b>254.6</b>
Capital expenditure	(110.8)	(96.0)	(65.8)	(90.2)	(73.9)
Net investments & sale of fixed assets	(204.4)	(17.6)	-	-	-
Others	(870.5)	(358.5)	-	-	-
<b>Cash flow from investing</b>	<b>(1,069.1)</b>	<b>(472.2)</b>	<b>(65.8)</b>	<b>(90.2)</b>	<b>(73.9)</b>
Debt raised/(repaid)	370.6	1,075.6	1,073.2	679.1	415.8
Equity raised/(repaid)	-	676.4	-	-	-
Dividends paid	(222.5)	(231.1)	(328.2)	(362.0)	(391.0)
Others	(90.7)	(1,119.3)	(66.0)	(66.0)	(66.0)
<b>Cash flow from financing</b>	<b>(160.4)</b>	<b>401.7</b>	<b>678.9</b>	<b>251.1</b>	<b>(41.2)</b>
<b>Net cash flow</b>	<b>(834.6)</b>	<b>319.8</b>	<b>658.9</b>	<b>130.9</b>	<b>139.5</b>
<b>Net cash/(debt) b/f</b>	<b>2,732.2</b>	<b>1,894.7</b>	<b>2,229.2</b>	<b>2,888.0</b>	<b>3,019.0</b>
<b>Net cash/(debt) c/f</b>	<b>1,894.7</b>	<b>2,229.2</b>	<b>2,888.0</b>	<b>3,019.0</b>	<b>3,158.5</b>
Key Ratios (YE 31 Dec)	FY22	FY23	FY24F	FY25F	FY26F
Revenue growth (%)	39.8	18.2	4.8	6.3	4.9
EBITDA growth (%)	29.0	7.0	28.9	9.9	6.3
Pretax margin (%)	17.5	16.2	19.2	19.7	20.0
Net profit margin (%)	12.9	12.0	14.2	14.6	14.9
Interest cover (x)	39.6	9.7	76.9	79.9	81.2
Effective tax rate (%)	18.1	13.9	15.0	15.0	15.0
Dividend payout (%)	39.7	36.0	36.0	36.2	36.6
Debtors turnover (days)	123	166	166	166	166
Stock turnover (days)	200	203	207	205	207
Creditors turnover (days)	175	167	180	179	180

Source: Company, AmlInvestment Bank Bhd estimates

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