



AmInvestment Bank

# SUNWAY

(SWB MK EQUITY, SWAY.KL)

23 May 2024

## Company Report

### Potential new entrant of FBMKLCI constituent list

# BUY

(Maintained)

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**Rationale for report: Company Results**

Price	RM3.66
Fair Value	RM4.22
52-week High/Low	RM3.69/RM1.52

#### 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	764.0	825.8	879.2
FD Core EPS (sen)	12.4	13.6	14.7	15.6
FD Core EPS growth (%)	21.0	9.3	8.1	6.5
Consensus Net Profit (RM mil)	-	786.6	859.1	946.3
DPS (sen)	4.7	5.3	5.7	6.1
PE (x)	29.5	27.0	25.0	23.4
EV/EBITDA (x)	37.3	32.6	31.0	29.8
Div yield (%)	1.3	1.5	1.6	1.7
ROE (%)	5.6	5.9	6.1	6.2
Net Gearing (%)	53.6	55.1	56.7	56.3

#### Stock and Financial Data

Shares Outstanding (million)	5,630.2
Market Cap (RMmil)	20,771.4
Book Value (RM/Share)	2.46
P/BV (x)	1.5
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)	53.2

Price performance	3mth	6mth	12mth
Absolute (%)	30.7	88.7	133.1
Relative (%)	24.5	69.3	103.9



#### Investment Highlights

- We maintain BUY on Sunway with a raised SOP-based fair value (FV) of RM4.22/share (from RM3.30/share previously) to incorporate the market value of its investment properties and higher earnings assumption on Sunway Healthcare Group. Our FV also reflects a 3% premium for our 4-star ESG rating (Exhibits 5 & 6).
- Our FV implies FY25F PE of 29x, 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, robust construction arm, its exposure to the dynamic Johor property market as well as its potential inclusion to FBMKLCI constituent list.
- We made no changes to our forecast as Sunway's 1QFY24 CNP of RM170mil came in within expectations, making up 22% of both our and street's forecast.
- In 1QFY24, Sunway's property development revenue rose by 16% YoY while PBT surged 68% YoY. This was driven by stronger progress billings from new and ongoing local projects. Its strong unbilled sales of RM4.2bil currently are expected to be recognised progressively in FY24F-FY26F.
- Sunway's 1QFY24 new sales fell 1% YoY to RM498mil, made up 19% of its FY24F sales target of RM2.6bil (Exhibit 3). The major sales contributors are its projects from Singapore, as well as Sunway Belfield and Sunway Lenang Height from Malaysia.
- 1QFY24 property investment's revenue earnings improved 10% YoY while PBT rose 3%. These were mainly attributed to higher occupancy and average room rates at the group's hotels, increased revenue from property investment operations and contributions from leisure business.
- 1QFY24 revenue of the construction segment expanded by 14% YoY while PBT increased 7%. This was mainly attributed to higher progress billings from local and overseas construction projects.
- Healthcare's 1QFY24 share of net profit grew 28% YoY to RM37mil, mainly due to stronger performance from the 3 operating hospitals in line with the increase in licensed bed capacity to 1,158 in 1QFY24 from 866 1QFY23, partially offset by higher staff costs from increased headcount.

- On a QoQ comparison, all segments posted a weaker PBT as follows:
  - Property development PBT fell 44% QoQ due to higher profit recognition from the completion and handover of a local development project and more property development projects launches in the previous quarter.
  - 1QFY24 PBT in property investment declined 49% QoQ from lower contribution from the leisure and hospitality businesses due to seasonal factors and fasting month which occurred in 1QFY24. Meanwhile, Sunway recorded net fair value gains from revaluation of investment properties and assets of RM68mil in 4QFY23.
  - Meanwhile, the construction segment's 1QFY24 PBT was 33% lower QoQ due to lower progress billings from both local and overseas construction projects.
- Sunway is currently trading at an attractive FY25F PE of 25x vs. its 5-year peak of 29x.
- Meanwhile, with a market capitalisation of RM21bil, placing the group at 23rd currently in terms of market cap, Sunway is highly likely to be included in the FBMKLCI during the upcoming review. This inclusion could trigger further rallies in the share price, especially from foreign investors who track the index, given the current low foreign shareholding of 5.3% vs. its 8-year high of 10.5%.

## EXHIBIT 1: EARNINGS SUMMARY

YE to Dec (RM mil)	1QFY23	4QFY23	1QFY24	QoQ %	YoY %
<b>Revenue</b>	<b>1,263.7</b>	<b>1,868.8</b>	<b>1,419.0</b>	<b>(24.1)</b>	<b>12.3</b>
Operating costs	(1,156.7)	(1,774.2)	(1,269.8)	(28.4)	9.8
<b>EBITDA</b>	<b>107.0</b>	<b>94.5</b>	<b>149.1</b>	<b>57.8</b>	<b>39.3</b>
Other income	38.4	180.8	41.8	(76.9)	8.9
Depreciation	(32.1)	16.6	(32.5)	(>100)	1.3
Net finance income	(4.1)	(21.5)	(26.0)	21.2	>100
JV/Associate contributions	82.7	80.0	94.3	17.9	13.9
<b>Profit before tax</b>	<b>192.0</b>	<b>350.4</b>	<b>226.7</b>	<b>(35.3)</b>	<b>18.0</b>
Taxation	(33.3)	(33.1)	(35.7)	8.0	7.5
MI	(17.1)	(51.4)	(18.7)	(63.6)	9.3
<b>Profit after tax</b>	<b>141.6</b>	<b>265.9</b>	<b>172.2</b>	<b>(35.2)</b>	<b>21.6</b>
Exceptional item	(1.0)	(50.4)	(1.9)	(96.2)	94.4
<b>Core PATMI</b>	<b>140.6</b>	<b>215.5</b>	<b>170.3</b>	<b>(21.0)</b>	<b>21.1</b>
EPS (sen)	2.5	4.4	3.0	(30.7)	21.1
EBIT margin (%)	8.5	5.1	10.5	5.5	2.0
Effective tax rate (%)	17.3	9.4	15.8	6.3	(1.6)
Core PATMI margin (%)	11.1	11.5	12.0	0.5	0.9

Source: AmlInvestment Bank Bhd

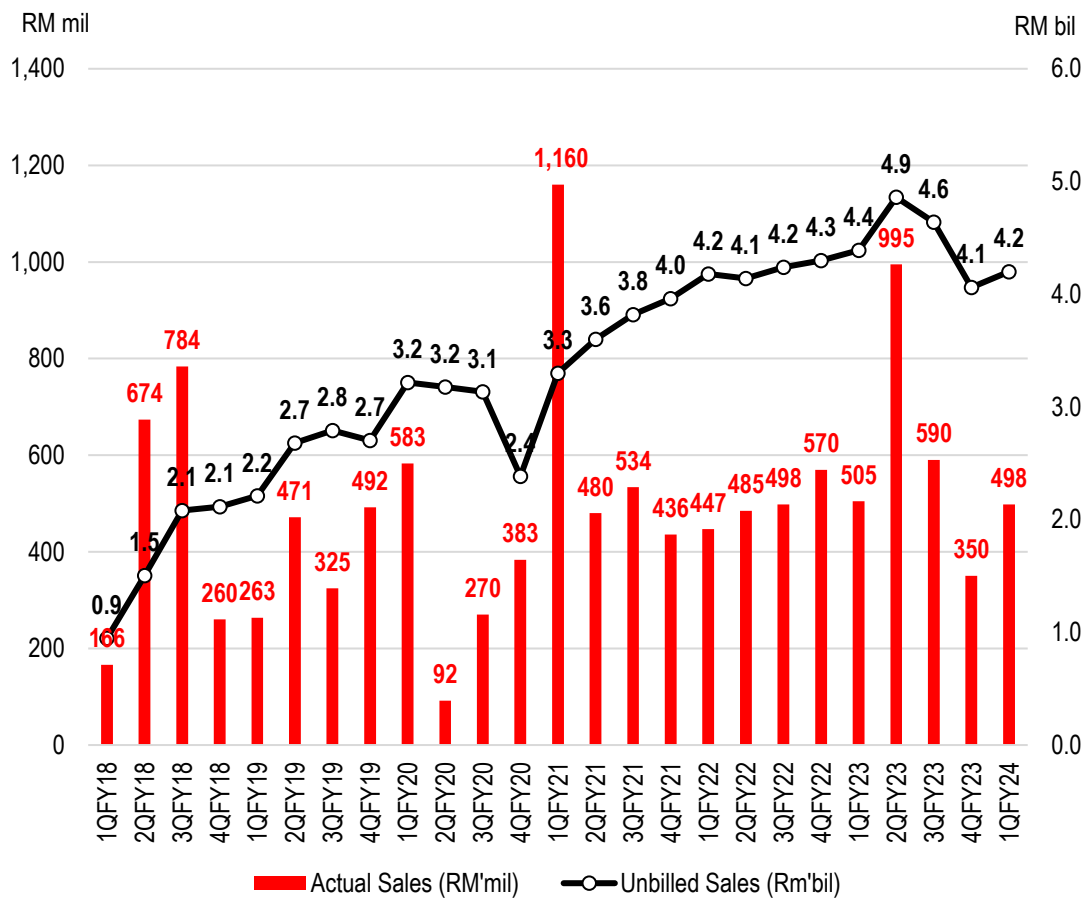
## EXHIBIT 2: SEGMENTAL BREAKDOWN

FY31 Dec (RM mil)	1QFY23	4QFY23	1QFY24	QoQ %	YoY %
Property development	247.8	499.4	287.7	(42.4)	16.1
Property investment	209.9	256.3	231.2	(9.8)	10.1
Construction	327.9	532.8	372.5	(30.1)	13.6
Others*	478.1	580.3	527.6	(9.1)	10.4
<b>Revenue</b>	<b>1,263.7</b>	<b>1,868.8</b>	<b>1,419.0</b>	<b>(24.1)</b>	<b>12.3</b>
Property development	23.1	69.0	38.8	(43.8)	68.2
Property investment	67.2	136.8	69.4	(49.2)	3.2
Construction	39.5	62.8	42.4	(32.5)	7.2
Others*	62.2	81.9	76.1	(7.0)	22.4
<b>PBT/(LBT)</b>	<b>192.0</b>	<b>350.4</b>	<b>226.7</b>	<b>(35.3)</b>	<b>18.0</b>
<b>Pretax margin (%)</b>					
Property development	9.3	13.8	13.5	(0.3)	4.2
Property investment	32.0	53.4	30.0	(23.3)	(2.0)
Construction	12.0	11.8	11.4	(0.4)	(0.7)
Others*	13.0	14.1	14.4	0.3	1.4

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

Source: AmlInvestment Bank Bhd

## EXHIBIT 3: ACTUAL SALES AND UNBILLED SALES



Source: AmlInvestment Bank Bhd

## EXHIBIT 4: PLANNED LAUNCHES IN 2024

Project	Product Type	Location	GDV (RM'mil)
Kelana Jaya Phase 2	Serviced Apartments & Super Link-house	Kelana Jaya, Selangor	455
Sunway Flora Plot 2 Tower A	Serviced Apartments	Bukit Jalil, Kuala Lumpur	232
Sunway V3 Tower A	Serviced Apartments	Taman Maluri, Kuala Lumpur	566
Sunway Bayu	Landed Homes	Sunway City Ipoh, Ipoh	85
Sunway Wellesley	Townhouses	Bukit Mertajam, Penang	129
Sunway Aviana	Landed Linked Homes	Sunway Iskandar Puteri, Johor	65
Sunway Sakura Phase 2	Landed Semi-D Homes	Sunway Iskandar Puteri, Johor	110
Sunway Maple	Townhouses & Linked Homes	Sunway Iskandar Puteri, Johor	170
Sunway Gardens Phase 3	Condominium	Tianjin, China	243
<b>Total</b>			<b>2,055</b>

Source: Sunway

## EXHIBIT 5: RNAV CALCULATIONS

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 Tunas, 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		1,393.3	
<b>Subtotal</b>		<b>5,198.4</b>	
Property (30% discount to RNAV)		3,638.9	
Investment properties		2,993.0	
Sunway Construction (54.56% stake @ AmlInvestment Valuation)		2,532.4	
Sunway REIT (40.9% stake @ AmlInvestment Valuation)		2,618.7	
Healthcare (84% stake @20x FY25 EV/EBITDA)		9,072.0	
Quarry & building materials (8x FY25 earnings)		265.1	
Trading & manufacturing (8x FY25 earnings)		451.9	
Total SOP		21,572.0	
NAV @ Property development		5,086.6	
<b>Fair value</b>		<b>26,658.6</b>	
Enlarged share base (mil shares)		6,516.6	
<b>Fair value/share (RM)</b>		<b>4.10</b>	
(+) 3% premium for 4-star ESG rating		0.12	
<b>Fair value/share (RM)+ ESG Premium</b>		<b>4.22</b>	

Source: AmlInvestment Bank Bhd

## EXHIBIT 6: ESG MATRIX

	Environmental assessment	Parameters	Weight age	Rating				Rationale
1	Scope 1 GHG Emissions	Co2e reduction	20%	*	*	*		22% YoY increase in FY22 due to back-to-office working arrangements and full business operations.
2	Scope 2 GHG Emissions	Co2e reduction	20%	*	*	*		32% YoY increase in FY22 due to back-to-office working arrangements and full business operations.
3	Scope 3 GHG Emissions	Co2e reduction	20%	*	*	*		56% YoY increase in FY22 after taking into account employee commuting for the first time in FY22. Only 10% YoY increase without considering it.
4	GHG Emissions Avoidance	Renewable Energy	20%	*	*	*	*	9% YoY increase in FY22. Target to harvest 40% of its electricity from renewable sources by 2030.
5	GHG Emissions Sequestration from Trees Planted	Number of Trees Planted in Sunway City	20%	*	*	*	*	143% YoY increase in FY22, reduced 1,126 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 doubled to 36 in 2022.
2	Women in workforce	% of total workforce	20%	*	*	*	*	49%
3	Investment in employee training	Average learning hours per employee:	20%	*	*	*	*	Increased to 40.2 hours in FY22 from 33 hours in FY21 and 20 hours in FY20
4	Racial diversity	% of work force	20%	*	*	*	*	43% Malay, 29% Chinese, 13% Indians, 15% others
5	Procurement sourcing from local vendors	% of total procurement	20%	*	*	*	*	Spent 93% 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%	*	*			22%
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%	*	*	*		55%
4	Independent board directors	% of total board directors	20%	*	*	*		55% - independent non-exec
5	Remuneration to directors	% of total staff costs	20%	*	*	*	*	RM38mil - 5% of 2022 staff costs
<b>Weighted score for governance assessment</b>			<b>100%</b>	*	*	*		
<b>Overall ESG Score</b>								
Environmental score			40%	*	*	*		
Social score			30%	*	*	*	*	
Governance score			30%	*	*	*		
<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 7: PB BAND CHART

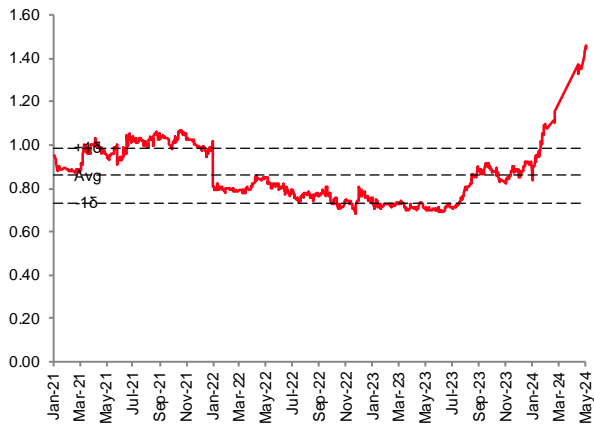
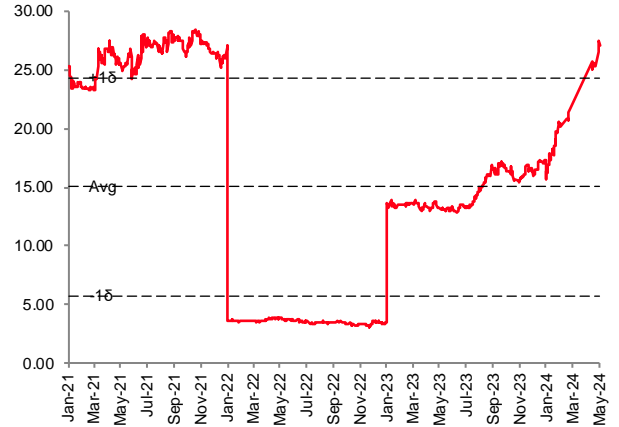


EXHIBIT 8: PE BAND CHART



## EXHIBIT 9: 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	874.1	938.8	987.7
Depreciation/Amortisation	(130.2)	(141.4)	(148.3)	(157.7)	(165.4)
Operating income (EBIT)	572.6	664.4	725.8	781.1	822.4
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)
<b>Pretax profit</b>	<b>909.2</b>	<b>993.2</b>	<b>1,138.5</b>	<b>1,221.5</b>	<b>1,292.6</b>
Taxation	(164.3)	(137.7)	(170.8)	(183.2)	(193.9)
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>830.1</b>	<b>891.9</b>	<b>945.2</b>
Core net profit	577.9	699.2	764.0	825.8	879.2
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	2,877.6	2,994.9	3,119.6
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>11,229.9</b>	<b>11,785.6</b>	<b>12,269.7</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	296.6	439.9	421.5
<b>Total current liabilities</b>	<b>8,033.0</b>	<b>9,273.7</b>	<b>9,858.9</b>	<b>10,607.8</b>	<b>11,085.8</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>14,385.4</b>	<b>14,974.3</b>	<b>15,597.9</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	2.66	2.77
Cash Flow (RMmil, YE 31 Dec)	FY22	FY23	FY24F	FY25F	FY26F
Pretax profit	909.2	993.2	1,138.5	1,221.5	1,292.6
Depreciation/Amortisation	130.2	141.4	148.3	157.7	165.4
Net change in working capital	(443.2)	(631.0)	(564.4)	193.2	(6.1)
Others	(201.3)	(113.4)	(716.0)	(1,654.6)	(1,260.4)
<b>Cash flow from operations</b>	<b>394.9</b>	<b>390.3</b>	<b>6.4</b>	<b>(82.3)</b>	<b>191.5</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)	(299.3)	(323.4)	(342.7)
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>707.9</b>	<b>289.7</b>	<b>7.1</b>
<b>Net cash flow</b>	<b>(834.6)</b>	<b>319.8</b>	<b>648.5</b>	<b>117.2</b>	<b>124.7</b>
<b>Net cash/(debt) b/f</b>	<b>2,732.2</b>	<b>1,894.7</b>	<b>2,229.2</b>	<b>2,877.6</b>	<b>2,994.9</b>
<b>Net cash/(debt) c/f</b>	<b>1,894.7</b>	<b>2,229.2</b>	<b>2,877.6</b>	<b>2,994.9</b>	<b>3,119.6</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	16.3	7.4	5.2
Pretax margin (%)	17.5	16.2	17.7	17.8	18.0
Net profit margin (%)	12.9	12.0	12.9	13.0	13.2
Interest cover (x)	39.6	9.7	68.0	68.8	69.1
Effective tax rate (%)	18.1	13.9	15.0	15.0	15.0
Dividend payout (%)	39.7	36.0	36.1	36.3	36.3
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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