HLIB Research
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Sunway

Strong end to FY23

Sunway reported 4Q23 core PATAMI of RM182.7m (-3.3% QoQ; +2.6% YoY), which brought FY23 sum to RM647.9m (+14.3% YoY). The results were above our (108.8%) but within consensus (96.4%) full year forecasts. The positive deviation was due to stronger than expected contribution from property development and construction segments. We revise upwards our FY24/FY25 forecasts by +6.3%/+3.2% mainly to account for higher contribution from the group's Singapore property development projects. Maintain BUY with a slightly higher TP of RM3.10 (from RM3.08) based on SOP-derived valuation. The group's prospects remain bright anchored by three main growth pillars, namely healthcare, property development and construction segments.

BUY (Maintain)

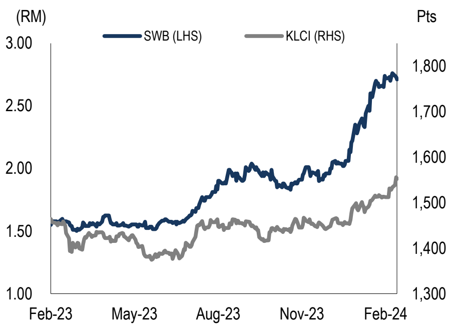
Target Price:	**RM3.10**
Previously:	**RM3.08**
Current Price:	**RM2.71**

Capital upside	14.4%
Dividend yield	2.3%
Expected total return	16.7%

Sector coverage: Property

Company description: Sunway is a conglomerate that engages in property development, property investment, construction, leisure and hospitality, education, trading and manufacturing, building materials and healthcare.

Share price



Historical return (%)	1M	3M	12M
Absolute	8.4	39.7	69.4
Relative	4.1	31.0	59.7

Stock information

Bloomberg Ticker	SWB MK
Bursa Code	5211
Issued Shares (m)	5,492
Market cap (RM m)	14,883
3-mth avg. volume ('000)	11,758
SC Shariah-compliant	Yes
F4GBM Index member	Yes
ESG rating	★★★★

Major shareholders

Sungei Way Corp Sdn Bhd	49.5%
Tan Sri Jeffrey Cheah	11.0%
EPF	5.4%

Earnings summary

FYE (Dec)	FY23	FY24f	FY25f
PATMI – core (RM m)	647.9	678.1	718.5
EPS – core (sen)	11.8	12.3	13.1
P/E (x) – FD	23.0	21.9	20.7

Above ours but within consensus. Sunway reported 4Q23 core PATAMI of RM182.7m (-3.3% QoQ; +2.6% YoY), which brought FY23's sum to RM647.9m (+14.3% YoY). The results were above our (108.8%) but within consensus (96.4%) full year forecasts. The positive deviation was due to stronger than expected contribution from (i) property development (higher progress billings and handover of completed project Velocity Two); and (ii) construction segments.

EIs. FY23 core PATAMI was arrived at after including payment to ICPS holders of RM51.3m (note that consensus figure may not include this) and excluding net EIs of +RM38.6m from provision for impairment of financial and contract assets (-RM32.5m), net provision for impairment of investment in JV, inventories and right-of-use assets (-RM5.6m), reversal of impairment of PPE (+RM19.9m), write-off of trade receivables, inventories, PPE and intangible assets (-RM6.2m), PPE disposal gain (+RM4.5m), forex gain (+RM1.5m), net loss on derivatives and financial guarantee contracts (-RM12.3m), reclassification and re-measurement gains from JV (+RM1.4m) and FV gain on investment properties (+RM67.9m).

Dividend. 3.5 sen, where shareholders have the option to reinvest the entire 3.5 sen under the dividend reinvestment scheme (DRS) into new ordinary shares. Details on the DRS including the issue price of the new shares and price fixing date will be announced at a later date. (4Q22: 3.5sen). FY23: 5.5 sen (FY22: 5.5 sen). The group also declared 2H23 preferential dividend of 2.625 sen, ex-date: 18 Mar 2023.

QoQ. Core PATAMI declined by -3.3% due to payment to ICPS holders of RM25.7m in this quarter. Excluding this, core PATAMI increased by +10.3% mainly contributed by property investment (+24.8% in core PBT due to seasonally higher contribution from leisure and hospitality segment as a result of festive month and school holidays), construction (+22.9% in PBT due to higher progress billings from local construction projects) and others (+2.5x in core PBT from a low base due to higher contribution from community pharmacy and other businesses).

YoY. Core PATAMI increased marginally by +2.6% mainly contributed by healthcare (+19.1% in core share of profit due to stronger operational results from SMC SC and SMCV) partially offset by property investment (-9% in core PBT due to higher utility, manpower and finance costs).

YTD. Core PATAMI increased by +14.3% mainly contributed by property development (+36.3% in PBT due to recognition of lumpy profit of RM46.3m from Singapore project in FY23), quarry (+1.01x in PBT due to increased demand from local council and highway projects), healthcare (+9.1% in core share of profit due to stronger operational performance from SMC SC and SMCV which mitigated the start-up losses from SMC Penang and Sunway Sanctuary).

Property development. In 4Q23, Sunway recorded effective new sales of RM290m (-40.8% QoQ; -46.3% YoY), which brought FY23 sum to RM2.15bn (+22.2% YoY), making up 97.7% of its FY23 sales target of RM2.2bn. The group launched RM313m of effective GDV in 4Q23, bringing full-year effective launch amount to RM4.1bn (vs. RM0.7bn in FY22). Effective unbilled sales as at 4Q23 stood at RM3.63bn (-12.9% QoQ), representing 2.94x of its FY23 property development revenue. As at 31 Dec 2023, the accumulated progressive profits from Parc Central Tampines amounts to RM108.9m, which is expected to be recognized in 1H24.

For FY24, the group is setting an effective sales target of RM2.1bn (-2.3% YoY) and effective launch target of RM1.6bn (-61% YoY). The lower launch target in FY24 was due to high base in preceding year from the launch of two large Singapore projects.

Healthcare. Healthcare reported 4Q23 share of core net profit of RM41.7m (-6.2% QoQ; +19.1% YoY), which brought FY23 sum to RM152.7m (+9.1% YoY). The lower share of profit QoQ was due to higher tax in current quarter. Notably SMC Penang which commenced operations in Nov 2022 had achieved breakeven at PAT level in current quarter. Operationally, SMCV Phase 2 has started opening progressively since Feb-24. The target opening date for SMC Damansara and SMC Ipoh are 4Q24 and 1Q25 respectively.

Construction. SunCon's current order book stands at RM5.3bn which implies a 2.0x on FY23 construction revenue. In FY24, SunCon is poised to grow its annual replenishment to RM2.5-3.0bn, higher than its typical RM2.0bn target. We see multiple upside potential to management's FY24 wins target given vibrant data centre & industrial markets, potential formalisation of its Vietnam project and mega rail rollout.

Forecast. We revise upwards our FY24/FY25 forecasts by +6.3%/+3.2% mainly to account for higher contribution from the group's Singapore property development projects.

Maintain **BUY** with a slightly higher **TP** of **RM3.10** (from RM3.08) based on SOP-derived valuation following our earnings revision. The group's prospects remain bright anchored by three main growth pillars, namely healthcare, property development and construction segments.

FYE Dec (RM m)	FY21	FY22	FY23	FY24f	FY25f
Revenue	4,529.3	5,194.9	6,139.8	5,212.3	4,985.1
EBITDA	439.0	713.9	805.8	713.4	692.1
EBIT	221.9	583.5	664.4	537.6	503.5
PBT	358.0	920.1	993.2	920.4	939.3
PAT	241.7	753.1	855.6	807.8	822.6
PATMI – Core	370.3	575.0	647.9	678.1	718.5
PATMI – Reported	2,664.4	676.8	737.8	678.1	718.5
Shareholder's equity	12,030.4	12,540.8	13,854.6	13,080.8	13,428.3
Core EPS (sen)	6.7	10.5	11.8	12.3	13.1
P/E (x)	40.2	25.9	23.0	21.9	20.7
EV/EBITDA (x)	47.1	30.0	27.6	28.2	29.2
DPS (sen)	2.5	5.5	5.5	6.4	6.7
Yield (%)	0.9	2.0	2.0	2.3	2.5
BVPS (RM/share)	2.4	2.5	2.5	2.6	2.7
P/B (x)	1.1	1.1	1.1	1.0	1.0
ROE (%)	2.8%	4.2%	4.7%	4.7%	4.9%
Net Gearing (%)	44.2%	48.3%	49.0%	36.9%	36.1%

Figure #1 Quarterly results comparison

FYE Dec (RM m)	4Q22	3Q23	4Q23	QoQ	YoY	FY22	FY23	YoY
Revenue	1531.6	1539.1	1868.8	*21.4%*	*22.0%*	5194.9	6139.8	*18.2%*
Property Development	442.7	309.5	499.4	*61.3%*	*12.8%*	1165.3	1418.8	*21.8%*
Property Investment	230.7	232.8	256.3	*10.1%*	*11.1%*	690.0	898.4	*30.2%*
Construction	291.0	424.0	532.8	*25.7%*	*83.1%*	1281.6	1688.9	*31.8%*
Trading/Manufacturing	233.5	242.6	260.1	*7.2%*	*11.4%*	902.1	954.6	*5.8%*
Quarry	123.4	148.8	124.8	*-16.1%*	*1.1%*	406.2	446.3	*9.9%*
Investment	6.5	12.9	6.6	*-49.2%*	*1.7%*	19.3	23.7	*22.6%*
Others	204.0	168.5	188.9	*12.1%*	*-7.4%*	730.5	709.2	*-2.9%*
EBIT	201.9	119.1	291.9	*145.0%*	*44.6%*	572.6	664.4	*16.0%*
Net Interest	-0.6	-28.0	-21.5	*-23.5%*	*3495.0%*	-14.5	-68.2	*370.9%*
Share of Associates/JCE	82.0	156.7	80.0	*-49.0%*	*-2.5%*	351.1	397.0	*13.1%*
PBT	283.3	247.8	350.4	*41.4%*	*23.7%*	909.2	993.2	*9.2%*
Property Development	70.4	70.4	69.0	*-2.0%*	*-1.9%*	155.3	211.6	*36.3%*
Property Investment	75.7	55.2	68.9	*24.8%*	*-9.0%*	259.8	225.1	*-13.3%*
Construction	58.7	51.1	62.8	*22.9%*	*6.9%*	186.6	197.9	*6.1%*
Trading/Manufacturing	9.1	13.4	12.0	*-10.6%*	*32.2%*	41.4	45.1	*8.9%*
Quarry	5.1	10.2	9.4	*-7.8%*	*83.5%*	13.7	27.5	*101.0%*
Healthcare	35.0	44.4	41.7	*-6.2%*	*19.1%*	140.0	152.7	*9.1%*
Investment	-15.2	-1.5	-16.8	*1019.3%*	*10.5%*	-2.8	-3.0	*8.6%*
Others	14.7	4.5	15.7	*247.9%*	*6.9%*	85.4	68.4	*-19.9%*
PAT	212.2	207.3	317.3	*53.1%*	*49.5%*	744.9	855.558	*14.9%*
MI	-17.4	-27.0	-51.4	*90.7%*	*196.3%*	-76.3	-117.783	*54.5%*
Payment to ICPS holders	-25.7	0.0	-25.7	*#DIV/0!*	*0.0%*	-51.3	-51.3	*0.0%*
PATAMI	194.9	180.3	265.9	*47.5%*	*36.4%*	668.6	737.8	*10.3%*
EI	-8.9	-8.7	57.5	*-763.6%*	*-744.7%*	50.5	38.6	*-23.6%*
Core Earnings	178.2	189.0	182.7	*-3.3%*	*2.6%*	566.7	647.9	*14.3%*
				ppts change	*ppts change*			*ppts change*
EBIT margin	13.2%	7.7%	15.6%	*7.9*	*2.44*	11.0%	10.8%	*-0.2*
PBT margin	18.5%	16.1%	18.8%	*2.7*	*0.25*	17.5%	16.2%	*-1.3*
PAT margin	11.6%	12.3%	9.8%	*-2.5*	*-1.85*	10.9%	10.6%	*-0.4*

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Figure #2 SOP table

Division	Stake	Value (RM m)	RM/share	Methodology
Construction (SunCon)	54.56%	2,075	0.37	based on TP of RM 2.95
Sunway REIT	40.88%	2,534	0.45	based on TP of RM 1.81
Property Development & Investment	100%	6,741	1.20	based on 55% discount to RNAV
Healthcare	84%	6,259	1.12	35x FY24 P/E
Trading/Manufacturing	100%	260	0.05	8X trailing P/E
Quarry	100%	63	0.01	8X trailing P/E
		17,933	3.20	
Holding Company Net Debt		(589)	(0.11)	
Equity Value (RM)		**17,344**	**3.10**	

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Stock rating guide

BUY	Expected absolute return of +10% or more over the next 12 months.
HOLD	Expected absolute return of -10% to +10% over the next 12 months.
SELL	Expected absolute return of -10% or less over the next 12 months.
UNDER REVIEW	Rating on the stock is temporarily under review which may or may not result in a change from the previous rating.
NOT RATED	Stock is not or no longer within regular coverage.

Sector rating guide

OVERWEIGHT	Sector expected to outperform the market over the next 12 months.
NEUTRAL	Sector expected to perform in-line with the market over the next 12 months.
UNDERWEIGHT	Sector expected to underperform the market over the next 12 months.

The stock rating guide as stipulated above serves as a guiding principle to stock ratings. However, apart from the abovementioned quantitative definitions, other qualitative measures and situational aspects will also be considered when arriving at the final stock rating. Stock rating may also be affected by the market capitalisation of the individual stock under review.