

29 August 2024

Sunway Berhad

Stronger Quarters Ahead

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SUNWAY's 1HFY24 results were within expectations as we anticipate lumpier earnings in 2HFY24. Its 1HFY24 core net profit rose 21% YoY on stronger performance across all business segments. The outlook for its core property development, property investment, and construction segments is positive. We maintain our forecasts, maintain our TP of RM2.66 and maintain our UNDERPERFORM call as valuations are rich.

SUNWAY's 1HFY24 core net profit of RM321.0m (adjusted for one off adjustments of RM96.0m) came in at only 37% and 40% of our full-year forecasts and the full-year consensus estimate, respectively. However, we consider the results within expectations as we expect stronger earnings during the remaining quarters as progress billings accelerate for both property and construction arms.

YoY, its 1HFY24 revenue rose 10% driven largely by property investment (+13%), property development (+8%), and others (+14%) on higher contributions from building materials and community pharmacy businesses. Its core net profit (after accounting for one-off adjustments of RM96.0m) rose by a sharper 21% from better operating performance across all business segments.

QoQ, its 2QFY24 revenue inclined 11% from the above-mentioned. This led to its core net profit to incline by 19% (adjusted for one-off adjustments).

Outlook. Sunway expects a positive outlook across its business segments and the property division will focus on new launches in established townships. Its Singapore project, Park Central Residences, was handed over in July 2024 and in the medium term, its Johor project is set to benefit from the Johor-Singapore Special Economic Zone (JS-SEZ) and the Rapid Transit Link (RTS Link) to a lesser extent. Its FY24 launch target is RM2.1b and as of 1HFY24, it has achieved 39% of its total launch target. On property sales as of 1HFY24, it has reached RM1.3b, with 23% contributed from Johor.

Its construction unit has surpassed its CY24 order book replenishment target of RM2.5b to RM3.0b and is anticipating more public sector projects and data centre development. Its healthcare unit is poised to benefit from medical tourism and two new hospitals under its stable, i.e. Sunway Medical Centre Damansara and Sunway Medical Centre Ipoh are on track for opening in 4QFY24 and 1QFY25, respectively.

Forecasts. Maintained.

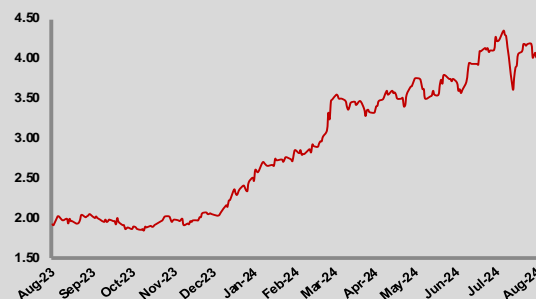
Valuations. We maintain our SoP-TP of RM2.66 as we maintain our 55% discount to RNAV for SUNWAY's property development segment (in line with industry peers) (see Page 3). There is no adjustment to our TP based on ESG given a 3-star rating as appraised by us (see Page 5).

Investment case. We like SUNWAY for: (i) having an eye for good land parcels, enabling it to execute quick turnaround for its property projects, (ii) it growing private healthy business backed by a pipeline of new medical centres within brown field townships, (iii) a diversified range of investment assets that provides recurring incomes, and (iv) a trusted Sunway brand. However, its valuations appear excessive following the run-up in its share prices. A strong re-rating could be a higher-than-expected listing valuation for its healthcare unit. Though we had applied a 15x RV/EBITDA into our SoP-TP, every 1x increment could raise our TP by RM0.06. Maintain **UNDERPERFORM**.

UNDERPERFORM ↔

Price : RM3.91
Target Price : RM2.66 ↔

Share Price Performance



KLCI 1,675.24
YTD KLCI chg 15.2%
YTD stock price chg 89.8%

Stock Information

Shariah Compliant Yes
Bloomberg Ticker SWB MK Equity
Market Cap (RM m) 22,119.0
Shares Outstanding 5,657.0
52-week range (H) 4.36
52-week range (L) 1.83
3-mth avg. daily vol. 16,122,220
Free Float 37%
Beta 0.9

Major Shareholders

Sungei Way Corp SdnBhd 45.2%
Cheah Fook Ling 10.9%
Employees Provident Fund 6.0%

Summary Earnings Table

FYE Dec (RM m)	2023A	2024F	2025F
Turnover	6,139.8	5,959.8	6,262.1
Operating Profit	664.4	672.3	713.5
Profit Before Tax	993.2	1,197.5	1,268.0
Net Profit	737.8	916.1	926.2
Core Net Profit	686.4	864.8	874.8
Consensus (NP)	-	797.5	885.5
Earnings Revision	-	-	-
Core EPS (sen)	11.6	14.7	14.8
Core EPS Growth (%)	9.7	26.0	1.2
NDPS (sen)	5.5	6.0	6.5
BVPS (RM)	2.3	2.4	2.5
PER (x)	33.6	26.7	26.4
PBV (x)	1.7	1.6	1.5
Net Gearing (x)	0.5	0.4	0.4
Net Div. Yield (%)	1.4	1.5	1.7

* Defined as core earnings attributable to ordinary shareholders excluding preferential dividends owing to ICPS issuances

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Risks to our call include: (i) a strong pickup in the property, hospitality, and MICE sectors, (ii) a decline in mortgage rates boosting affordability; and (iii) Improved spending confidence, prompting consumers to buy big-ticket items including properties.

Results Highlight

	2Q	1Q	QoQ	2Q	YoY	1H	1H	YoY
FYE Dec (RM m)	FY24	FY24	Chg	FY23	Chg	FY24	FY23	Chg
Revenue	1,579.9	1,419.0	11.3%	1,468.2	7.6%	2,998.9	2,731.9	9.8%
Operating Expenses	-1,445.9	-1,300.6	11.2%	-1,349.8	7.1%	-2,746.6	-2,537.0	8.3%
Other Operating Income	86.2	41.8	106.3%	21.8	295.7%	128.0	60.2	112.8%
Net Impairment Losses	-15.3	-1.7	800.1%	-0.2	9567.1%	-17.0	-1.7	899.5%
Operating Profit	205.0	158.4	29.4%	140.0	46.4%	363.4	253.4	43.4%
Net Interest Income/(Expense)	-9.6	-26.0	-63.1%	-14.6	-34.2%	-35.6	-18.6	91.0%
Associates/Joint Ventures	139.1	94.3	47.5%	77.6	79.3%	233.3	160.3	45.6%
Extraordinary Items	96.0	0.0	N.M	0.0	N.M.	96.0	0.0	N.M
Profit before tax	430.4	226.7	89.9%	203.0	112.0%	657.1	395.0	66.3%
Taxation	-44.6	-35.7	24.7%	-30.8	44.8%	-80.3	-64.1	25.4%
Minority Interest	-26.0	-18.7	38.8%	-22.3	16.6%	-44.7	-39.4	13.4%
Net Profit	359.9	172.2	109.0%	149.9	140.0%	532.1	291.6	82.5%
Core Net Profit	174.5	146.6	19.0%	149.9	16.4%	321.0	265.9	20.7%
Operating Margin	13.0%	11.2%		9.5%		12.1%	9.3%	
Pretax Margin	27.2%	16.0%		13.8%		21.9%	14.5%	
Net Margin	11.0%	10.3%		10.2%		10.7%	9.7%	
Effective Tax Rate	10.4%	15.8%		15.2%		12.2%	16.2%	
Net Gearing (x)	0.49	0.50		0.54		0.46	0.48	

Source: Company, Kenanga Research

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Segmental Breakdown

FYE Dec (RM m)	2Q FY24	1Q FY24	QoQ Chg	2Q FY23	YoY Chg	1H FY24	1H FY23	YoY Chg
Revenue								
Property Development	371.9	287.7	29.2%	362.1	2.7%	659.6	609.9	8.2%
Property Investment	231.0	231.2	-0.1%	199.4	15.8%	462.1	409.3	12.9%
Construction	381.1	372.5	2.3%	404.1	-5.7%	753.6	732.0	2.9%
Trading and Manufacturing	255.2	241.4	5.7%	227.8	12.0%	496.6	451.9	9.9%
Quarry	111.9	104.8	6.8%	94.5	18.5%	216.8	172.7	25.5%
Healthcare	0.0	0.0	N.M	0.0	N.M.	0.0	0.0	N.M
Investment Holdings	2.3	2.4	-7.9%	0.0	N.M.	4.7	0.0	N.M
Others	226.5	179.0	26.6%	180.3	25.7%	405.5	356.1	13.9%
Total Revenue	1,579.9	1,419.0	11.3%	1,468.2	7.6%	2,998.9	2,731.9	9.8%
Profit Before Tax								
Property Development	70.1	38.8	80.8%	49.1	42.9%	108.9	72.1	51.0%
Property Investment	86.2	69.4	24.1%	33.9	154.5%	155.6	101.1	53.9%
Construction	52.4	42.4	23.8%	44.5	17.8%	94.8	84.0	12.8%
Trading and Manufacturing	10.5	9.0	16.4%	10.1	3.4%	19.4	19.7	-1.4%
Quarry	11.2	11.1	0.8%	4.4	154.4%	22.3	7.9	182.6%
Healthcare	49.3	36.8	34.0%	37.7	30.8%	86.1	66.6	29.4%
Investment Holdings	39.8	6.6	498.9%	0.0	N.M.	46.4	0.0	N.M
Others	21.6	12.6	71.2%	23.3	-7.6%	34.1	43.6	-21.7%
Total Profit Before Tax	341.0	226.7	50.4%	203.0	68.0%	567.7	395.0	43.7%
Pre-tax Margin								
Property Development	18.9%	13.5%		13.6%		16.5%	11.8%	
Property Investment	37.3%	30.0%		17.0%		33.7%	24.7%	
Construction	13.8%	11.4%		11.0%		12.6%	11.5%	
Trading and Manufacturing	4.1%	3.7%		4.4%		3.9%	4.4%	
Quarry	10.0%	10.6%		4.7%		10.3%	4.6%	
Healthcare	N.M	N.M		N.M		N.M	N.M	
Investment Holdings	1765.2%	271.6%		N.M		987.9%	N.M	
Others	9.5%	7.0%		12.9%		8.4%	12.2%	
Total Pre-tax Margin	21.6%	16.0%		13.8%		18.9%	14.5%	

* Discrepancies exist in the segmental breakdown as compared to group-level numbers due to the unavailability of its restated numbers

^ excluding extraordinary items

Source: Company, Kenanga Research

SUNWAY's SoP

Segment	Value (RM m)	Valuation basis
Property Development	4,067.7	55% discount to RNAV
Property Investment (backed by 40.9%-owned associate Sunway REIT)	2,775.5	Kenanga's TP of RM1.65 for SREIT
Construction (via 54.4%-owned Sunway Construction)	3,002.1	Kenanga's TP of RM3.16 for SunCon
Trading & Manufacturing	417.0	P/E of 10x on FY24 earnings
Quarry	117.0	P/E of 12x on FY24 earnings
Healthcare	5,760.0	15x on FY25 EV/EBITDA
Investment Holdings & Others	245.0	P/E of 7x on FY25 earnings
Net cash / (debt) at holding company level	-600	As at 31 Dec 2023
Aggregate Valuation	15,784.3	
No of shares (m)	5,941.4	
FV per share (RM)	2.66	

Source: Company, Kenanga Research

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Peer Table Comparison

Name	Rating	Last Price (RM)	Target Price (RM)	Upside	Market Cap (RMm)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) - Core Earnings		PBV (x)		ROE		Net Div. (sen)		Net Div Yld.	
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.
PROPERTY																					
ECO WORLD DEVELOPMENT GROUP	UP	1.45	1.41	-2.8%	4,275.7	Y	10/2024	9.7	10.0	5.2%	3.6%	15.0	14.4	0.9	5.9%	6.0	4.1%				
IOI PROPERTIES GROUP BHD	UP	1.96	1.71	-12.8%	10,792.0	N	06/2025	11.0	11.3	18.6%	2.2%	17.8	17.4	0.4	2.5%	4.5	2.3%				
MAH SING GROUP BHD	MP	1.59	1.88	18.2%	4,070.6	Y	12/2024	10.2	11.0	14.6%	8.5%	15.6	14.4	1.0	6.5%	4.0	2.5%				
MKH BHD	OP	1.33	1.83	37.6%	767.9	Y	09/2024	18.0	20.1	41.8%	11.2%	7.4	6.6	0.4	5.3%	6.0	4.5%				
S P SETIA BHD	UP	1.08	0.900	-16.7%	5,247.4	Y	12/2024	12.8	5.3	185.9%	-58.5%	8.5	20.4	0.3	4.4%	5.0	4.6%				
SIME DARBY PROPERTY BHD	MP	1.33	1.36	2.3%	9,045.1	Y	12/2024	6.7	7.0	13.9%	4.9%	19.9	19.0	0.9	4.4%	2.8	2.1%				
SUNWAY BHD	UP	3.91	2.66	-32.0%	22,119.0	Y	12/2024	14.6	14.7	26.0%	1.2%	26.9	26.6	1.5	6.0%	6.0	1.5%				
UOA DEVELOPMENT BHD	UP	1.85	1.79	-3.2%	4,854.0	Y	12/2024	10.6	10.4	19.3%	-2.1%	17.4	17.8	0.8	4.5%	6.5	3.5%				
SECTOR AGGREGATE					61,171.8					32.4%	-7.8%	17.9	19.4	0.8	4.9%						

Source: Kenanga Research

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Stock ESG Ratings:

	Criterion	Rating				
GENERAL	Earnings Sustainability & Quality	★	★	★		
	Community Investment	★	★	★		
	Workers Safety & Wellbeing	★	★	★		
	Corporate Governance	★	★	☆		
	Anti-Corruption Policy	★	★	☆		
	Emissions Management	★	★	☆		
SPECIFIC	Product Quality & Safety	★	★	★	★	
	Effluent/Water Management	★	★	★		
	Waste Management	★	★	★		
	Biodiversity & Conservation	★	★	★	☆	
	Green Building	★	★	★		
	Supply Chain Management	★	★	★		
OVERALL		★	★	★		

☆ denotes half-star
 ★ -10% discount to TP
 ★★ -5% discount to TP
 ★★★ TP unchanged
 ★★★★ +5% premium to TP
 ★★★★★ +10% premium to TP

Stock Ratings are defined as follows:

Stock Recommendations

OUTPERFORM : A particular stock’s Expected Total Return is MORE than 10%
 MARKET PERFORM : A particular stock’s Expected Total Return is WITHIN the range of -5% to 10%
 UNDERPERFORM : A particular stock’s Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT : A particular sector’s Expected Total Return is MORE than 10%
 NEUTRAL : A particular sector’s Expected Total Return is WITHIN the range of -5% to 10%
 UNDERWEIGHT : A particular sector’s Expected Total Return is LESS than -5%

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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