

29 August 2024

Property | Real Estate

Sunway (SWB MK)

Buy (Maintained)

Parc Central In Singapore To Drive 3Q24 Earnings

Target Price (Return): MYR5.00 (+28%)
 Price (Market Cap): MYR3.91 (USD5,091m)
 ESG score: 3.4 (out of 4)
 Avg Daily Turnover (MYR/USD) 61.1m/13.3m

- Maintain BUY and MYR5.00 TP, 28% upside with c.1% FY24F yield.** Sunway's 2Q24 results are in line. In 3Q24, we expect it to book robust earnings – driven by the handover of Parc Central Residences in Singapore, whereby a total of MYR123m in progressive profits will be recognised. Its 1H24 new sales of MYR1.27bn also puts it on track to meet its FY24 target of MYR2.6bn. Investors should continue to accumulate shares, premised on the group's strategic exposure in Iskandar Malaysia, as well as the upcoming listing of Sunway Healthcare Group.
- 2Q24 results review.** The QoQ revenue growth was mainly driven by the property development segment, attributed to higher sales and progress billings from ongoing local property projects. The healthcare segment also reported higher revenue growth of 13.5% QoQ, while the unit's EBIT margin has also recovered to 17% from 14% in the previous quarter. This was mainly driven by higher revenue contributions from the three existing hospitals, via higher occupancy rates at Sunway Medical Centre (SMC) Kuala Lumpur and SMC Velocity, as well as higher revenue per patient bed days for all hospitals. Note: Headline PBT was boosted by a MYR62.4m fair value gain from the redemption of an investment, and a MYR27m share of fair value gain from the REIT's newly acquired investment properties. A 2 sen first interim DPS was declared (1H23 DPS: 2 sen).
- Sales picked up in 2Q24.** New property sales hit MYR773m, vs MYR498m in 1Q24. 1H24 sales of MYR1.27bn was mainly contributed by Aviana (MYR190m), Velocity 3 (MYR181m), Jernih Residence (MYR122m) and Belfield (MYR89m). Projects in Singapore brought in MYR273m in sales. The take-up rates for Terra Hills and The Continuum in Singapore improved marginally to 42% and 44%, from 42% for both projects in 1Q24, as the market there remains challenging. However, sales for projects in Malaysia are encouraging. Sunway Aviana terraces Phase 1-3 in Iskandar Malaysia are all fully sold, while the take-up rate for Jernih Residence in Kajang increased quite significantly to 87% and 81% for Tower A and B, from 71% and 55% in 1Q24. Velocity 3 (GDV: MYR618m), launched in May 2024, already hit a take-up rate of 46%.
- We make no changes to our earnings forecasts.** 3Q24 earnings are expected to be much stronger, driven by the completion of Parc Central in July. Sunway's unbilled sales and outstanding construction orderbook stood at MYR4.5bn and MYR7.4bn, from MYR4.2bn and MYR6.3bn in 1Q24.
- Maintain TP.** Our TP includes a 8% ESG premium applied on its SOP-derived intrinsic value.

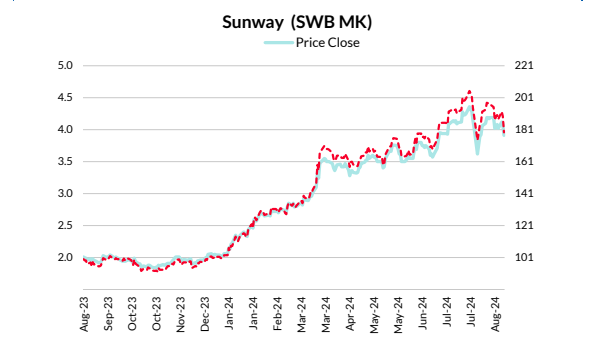
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	89.8	(8.0)	5.7	40.1	94.5
Relative	74.6	(11.9)	2.0	31.7	78.5
52-wk Price low/high (MYR)				1.83	4.36



Source: Bloomberg

Forecasts and Valuation	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Total turnover (MYRm)	5,195	6,140	6,409	6,724	7,041
Recurring net profit (MYRm)	677	816	850	886	924
Recurring net profit growth (%)	155.1	20.6	4.1	4.2	4.3
Recurring EPS (MYR)	0.12	0.14	0.14	0.14	0.15
DPS (MYR)	0.06	0.05	0.06	0.06	0.07
Recurring P/E (x)	33.90	28.46	28.16	27.29	26.42
P/B (x)	1.83	1.68	1.67	1.62	1.58
Dividend Yield (%)	1.4	1.3	1.4	1.5	1.7
Return on average equity (%)	5.5	5.6	6.0	6.1	6.1
Net debt to equity (%)	52.3	43.4	41.7	39.3	35.6

Source: Company data, RHB

Overall ESG Score: 3.4 (out of 4)

E: EXCELLENT

Sunway City is a Green Building Index (GBI)-certified township. Sunway managed to avoid 40,131 tonnes of CO₂e over 2015-2019, and 1% of its electricity used comes from renewable sources (in 2019). Its main townships also have more than 40% open space, with greenescapes and bluescapes incorporated.

S: EXCELLENT

Sunway has made donations to aid the underserved communities in the B40 segment, people with disabilities, youth, women, children and senior citizens. The Good Run in Oct 2019 managed to raise MYR275k to support medical treatment costs for cancer patients from the B40 segment.

G: EXCELLENT

56% of board members are independent directors. Sunway has an in-house investor relations team that is easily accessible, and holds investor meetings, embodying good transparency and disclosure practices.

Financial Exhibits

Asia	Financial summary (MYR)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Malaysia	Recurring EPS	0.12	0.14	0.14	0.14	0.15
Property	EPS	0.12	0.12	0.14	0.14	0.15
Sunway	DPS	0.06	0.05	0.06	0.06	0.07
SWB MK	BVPS	2.14	2.33	2.35	2.41	2.47
Buy	Return on average equity (%)	5.5	5.6	6.0	6.1	6.1
	Return on average assets (%)	2.6	2.7	2.9	3.0	3.0
Valuation basis						
Our SOP-based valuation comprises:	Valuation metrics	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
i. 25% discount to RNAV for the property development arm;	Recurring P/E (x)	33.90	28.46	28.16	27.29	26.42
ii. 14x P/E for the trading/building materials division;	P/B (x)	1.8	1.7	1.7	1.6	1.6
iii. 20x EV/EBITDA for healthcare division;	Dividend Yield (%)	1.4	1.3	1.4	1.5	1.7
iv. With a 0% holding company discount applied.	EV/EBITDA (x)	43.54	38.33	37.89	34.71	33.64
Key drivers	Income statement (MYRm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
i. New property sale;	Total turnover	5,195	6,140	6,409	6,724	7,041
ii. Disposal of investment properties	Gross profit	1,353	1,514	1,574	1,704	1,780
	EBITDA	714	806	836	918	947
	Depreciation and amortisation	(130)	(141)	(130)	(136)	(138)
	Operating profit	583	664	706	783	809
	Net interest	(14)	(68)	18	(8)	(2)
	Pre-tax profit	920	993	1,148	1,247	1,301
	Taxation	(167)	(138)	(207)	(262)	(273)
	Reported net profit	677	738	850	886	924
	Recurring net profit	677	816	850	886	924
Key risks	Cash flow (MYRm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Weaker-than-expected market conditions	Change in working capital	(661)	(449)	36	(155)	(156)
	Cash flow from operations	145	426	959	771	793
	Capex	(373)	(455)	(532)	(257)	(44)
	Cash flow from investing activities	(929)	(159)	(388)	(27)	264
	Dividends paid	(323)	(295)	(337)	(371)	(406)
	Cash flow from financing activities	62	1,087	(431)	(464)	(498)
	Cash at beginning of period	2,817	1,959	2,314	2,441	2,640
	Net change in cash	(722)	1,353	140	280	559
	Ending balance cash	2,095	3,312	2,454	2,721	3,199
Company Profile	Balance sheet (MYRm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Sunway is a well-known developer in the Klang Valley. Its flagship project, Bandar Sunway, is a well-established integrated township. The group has successfully transformed mining land to a matured residential and commercial cluster	Total cash and equivalents	1,959	3,140	3,266	3,465	3,860
	Tangible fixed assets	17,677	17,980	18,382	18,503	18,410
	Intangible assets	441	454	454	454	454
	Total other assets	61	99	336	538	720
	Total assets	26,058	28,613	29,491	30,341	31,155
	Short-term debt	4,919	6,018	6,018	6,018	6,018
	Total long-term debt	4,137	3,633	3,758	3,822	3,839
	Total liabilities	12,496	13,615	13,888	14,124	14,315
	Shareholders' equity	12,529	13,855	14,368	14,883	15,401
	Minority interests	1,033	1,143	1,235	1,335	1,439
	Total equity	13,562	14,998	15,603	16,218	16,840
	Total liabilities & equity	26,058	28,613	29,491	30,341	31,155
	Key metrics	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Revenue growth (%)	39.9	18.2	4.4	4.9	4.7
	Recurring net profit growth (%)	155.1	20.6	4.1	4.2	4.3
	Recurrent EPS growth (%)	155.1	19.1	1.1	3.2	3.3
	Gross margin (%)	26.0	24.7	24.6	25.3	25.3
	Recurring net profit margin (%)	13.0	13.3	13.3	13.2	13.1
	Dividend payout ratio (%)	47.7	40.0	39.6	41.9	43.9

Source: Company data, RHB

Results At A Glance

Figure 1: Quarterly results

FYE Dec (MYR mil)	2Q23	1Q24	2Q24	QoQ (%)	YoY (%)	1H23	1H24	YoY (%)	Comments
Turnover	1,468.2	1,419.0	1,579.9	11.3	7.6	2,731.9	2,998.9	9.8	
Prop dev	362.1	287.7	371.9	29.2	2.7	609.9	659.6	8.2	Revenue was higher QoQ, driven by higher sales and progress billings from ongoing local property projects.
Prop invt	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	Revenue was higher QoQ, due mainly to higher billings of building and data centre projects.
Trading & Manufacturing	227.8	241.4	255.2	5.7	12.0	451.9	496.6	9.9	
Quarry	94.5	104.8	111.9	6.8	18.5	172.7	216.8	25.5	
Investment holdings	1.9	2.4	2.3	n.m.	n.m.	4.2	4.7	12.0	
Others	178.4	179.0	226.5	26.6	27.0	351.9	405.5	15.2	
EBIT	140.0	158.4	211.6	33.5	51.1	253.4	370.0	46.0	
EBIT Margin (%)	9.5%	11.2%	13.4%			9.3%	12.3%		
Prop dev	44.7	33.6	51.4	52.9	14.9	58.9	84.9	44.2	The higher EBIT QoQ was due to higher billings from local developments and a private residential project in Singapore.
Prop invt	28.2	54.1	44.7	(17.3)	58.3	73.9	98.8	33.7	
Construction	48.8	49.8	54.6	9.7	11.8	92.6	104.4	12.8	
Trading & Manufacturing	12.4	11.5	13.3	15.9	7.2	23.3	24.8	6.4	
Quarry	5.2	10.9	10.0	(8.2)	93.3	9.6	20.8	117.1	
Investment holdings	(13.4)	(10.8)	21.0	n.m.	(256.8)	(31.3)	10.2	(132.7)	
Others	14.1	9.4	16.6	76.1	17.7	26.4	26.0	(1.6)	
Exceptional items	(3.1)	0.0	96.0	n.m.	n.m.	(3.1)	96.0	n.m.	
Finance cost	(14.6)	(26.0)	(9.6)	(63.1)	(34.2)	(18.6)	(35.6)	91.0	
Asso & jv	77.6	94.3	139.1	47.5	79.3	160.3	233.3	45.6	
Other Income	0.0	0.0	0.0	n.m.	n.m.	0.0	0.0	0.0	
Pretax profit	203.0	226.7	341.0	50.4	68.0	395.0	567.7	43.7	Headline PBT was boosted by a fair value gain of MYR62.5m arising from the redemption of an investment and share of fair value gain of MYR27m from the newly acquired investment properties under the REIT.
PBT margin (%)	13.8%	16.0%	21.6%			14.5%	18.9%		
Tax	(30.8)	(35.7)	(44.6)	24.7	44.8	(64.1)	(80.3)	25.4	
Tax (%)	15.2%	15.8%	13.1%			16.2%	14.1%		
PAT	172.2	190.9	296.5	55.3	72.1	331.0	487.4	47.3	
MI	(22.3)	(18.7)	(26.0)	-	n.m.	(39.4)	(44.7)	13.4	
Net profit	149.9	172.2	270.5	57.0	80.4	291.6	442.7	51.8	
Core net profit	146.8	172.2	174.5	1.3	18.8	288.5	346.7	20.2	Within expectations.
Net margin (%)	10.0	12.1	11.0						
EPS (sen)	2.5	2.3	0.0			4.5	4.5		
NTA (RM)	2.15	2.18	0.00			2.15	2.15		
DPS (sen)	2.0	0.0	0.0			2.0	2.0		
EBIT margin:									
Prop dev	12.3%	11.7%	13.8%			9.7%	9.7%		
Prop invt	14.2%	23.4%	19.4%			18.1%	18.1%		
Construction	12.1%	13.4%	14.3%			12.6%	12.6%		
Trading & Manufacturing	5.5%	4.8%	5.2%			5.2%	5.2%		
Quarry	5.5%	10.4%	8.9%			5.6%	5.6%		
Investment holdings	n.m.	n.m.	n.m.			n.m.	n.m.		
Others	7.9%	5.3%	7.3%			7.5%	7.5%		

Source: Company data, RHB

Figure 2: RNAV estimate

Developments	Remaining Landbank (acre)	Remaining GDV (MYR m)	Effective stake	NPV @ 9%	
Selangor/KL					
Sunway Damansara	13.19	938.30	60%	75.5	
Sunway South Quay	32.90	2,486.70	100%	320.7	
Sunway Monterez	4.40	38.00	60%	2.8	
Sunway Semenyih	523.11	728.59	70%	47.5	
Sunway Cheras	2.92	4.50	100%	0.4	
Sunway Duta	3.16	120.00	60%	6.4	
Sunway Resort City	7.7	660	100%	96.0	
Sunway Living Space (Sri Hartamas)	5.09	850.00	100%	85.7	
Sunway Velocity 2	1.01	80.00	60%	4.3	
Sunway Velocity 3	5.50	1,200.00	60%	81.2	
New land in Cochrane	5.52	1,150.00	100%	134.9	
Sunway Tower KL 1	0.92	240.00	100%	20.4	
Sunway Termuning	31.20	13.59	80%	0.8	
Mont Putra, Rawang	158.00	156.00	100%	13.2	
Kelana Jaya	13.96	860.00	100%	70.0	
Sunway Belfield	1.65		100%	-	
Jernih Residence, Kajang	2.44	264.00	60%	12.4	
USJ 1	14.80	1,400.00	100%	114.1	
Mutiara Bukit Jalil	8.02	697.00	100%	54.6	
Kuang land	245.00	2,000.00	100%	139.6	
Dengkil (Emerald Tycoon)	61.23	813.90	100%	40.9	
Perak					
Sunway City Ipoh	324.1	3,746.38	96%	502.3	
Penang					
Sunway Hills	80.70		100%	-	
Sunway Wellesley, Bukit Mertajam	50.66	710.47	100%	68.9	
Paya Terubong	19.79	1,500.00	100%	109.1	
Sunway Tunas, Balik Pulau	9.37	20.60	100%	1.6	
Sunway Betong, Balik Pulau	19.87	16.80	100%	1.3	
S'pore					
Terra Hills Pasir Panjang	4.79	2,873.00	30%	76.6	
The Continuum Tanjong Katong	6.06	7,480.00	30%	114.3	
Tengah Plantation Close 1	4.06	2,591.50	35%	69.9	
Tengah Plantation Close 2	5.00	2,982.00	35%	73.7	
Johor					
Bukit Lenang	30.48	850.00	80%	87.9	
Medini	530.44	10,505.00	60%	604.1	
Pendas	1,071.47	18,000.00	100%	1,217.7	
China					
Tianjin Phase 3	5.87	688.80	60%	29.4	
Unbilled sales				585.0	
TOTAL	4,086.03	76,973.59		4,900.45	
Investment properties					
	Est. market value (MYR m)	Book value (MYR m)	Equity interest	Net surplus (MYR m)	
Monash University Campus	375.0	375.0	100%	0	
Monash U Residence	465.0	465.0	100%	0	
Sunway Geo Tower	180.0	112.0	100%	68.0	
Sunway Hotel Georgetown	60.0	37.6	100%	22.4	
Sunway Hotel Phnom Penh	17.0	17.0	53%	0	
Sunway Hotel Hanoi	1.0	1.0	100%	0	
Sunway Giza	52.0	52.0	60%	0	
Sunway Velocity Mall	2,755.0	908.5	59%	1089.4	
Sunway Citrine Hub	42.0	42.0	60%	0.0	
Sunway Geo Avenue	100.0	47.0	100%	53.0	
Sunway Big Box retail hub	220.0	220.0	100%	0.0	
Sunway Visio Tower	100.0	100.0	100%	0.0	
Sunway V Office	160.0	160.0	100%	0.0	
Subtotal				6,080.26	
Shareholders' equity (ex cons. & healthcare)				13,854.57	
Total				19,934.83	
Discount to Property RNAV				25%	
Discounted Property RNAV				14,951.12	
Other divisions					
	Market value (MYR m)	Book value (MYR m)	Est. FY25 earnings (MYR m)	PE target (x)	Equity value surplus (MYR m)
40.9% Sunway REIT	2,689.4	1,479.0			1,210.43
54.6% Sunway Construction	3,882.6	844.0			3,038.57
Others			130	13	1,690.00
			Est. FY25 EBITDA	EV/EBITDA (x)	Equity value
84% Sunway Healthcare			563.6	20.1	8,927.34
Total					29,817.47
ESOS proceeds					151.21
Warrants conversion @ MYR1.35					227.26
Total RNAV					30,195.94
Holding company discount					0%
Discounted RNAV					30,195.94
Share base (mil) incl. warrants & ICPS					6,525.86
Intrinsic value					4.63
ESG premium					8%
TP (MYR)					5.00

Source: RHB

Emissions And ESG

Trend analysis

In FY22, Sunway's Scope 1 emissions increased to 65,329 tonnes of CO2e (FY21: 53,765 tonnes of CO2e), while its Scope 2 emissions increased to 55,813 tonnes of CO2e (FY21: 42,307 tonnes of CO2e).

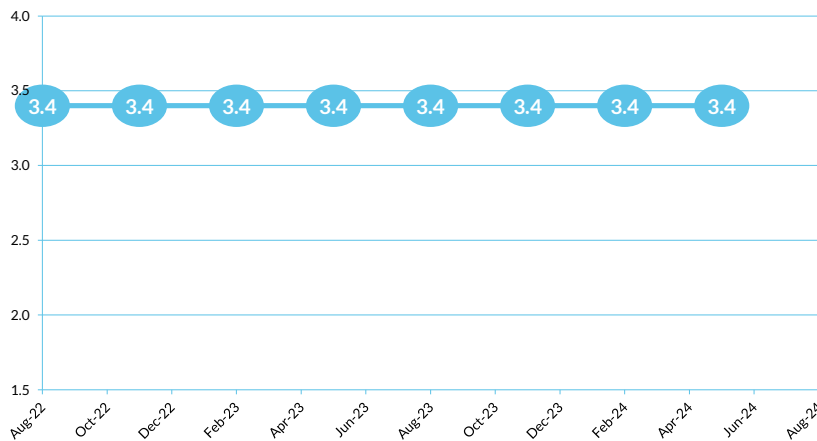
Emissions (tCO2e)	Dec-21	Dec-22	Dec-23
Scope 1	53,765	65,329	na
Scope 2	42,307	55,813	na
Scope 3	41,432	64,603	na
Total emissions	137,504	185,745	na

Source: Company data, RHB

Latest ESG-Related Developments

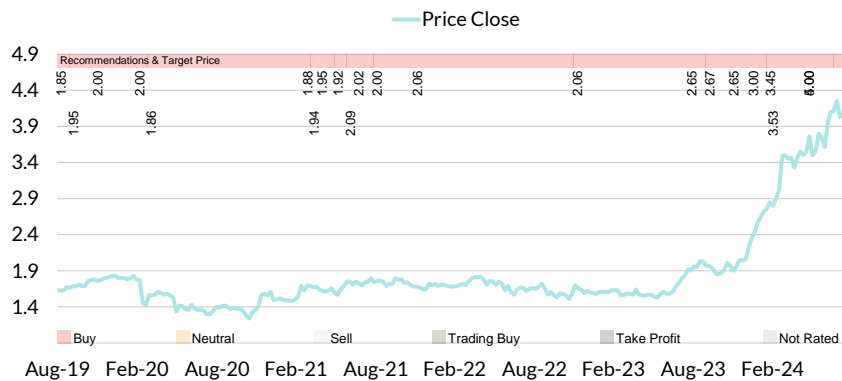
- Sunway is a constituent of the FTSE4Good Bursa Malaysia Index.
- It aims to be carbon-neutral by 2050.

ESG Rating History



Source: RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2024-07-18	Buy	5.00	4.09
2024-05-22	Buy	4.00	3.66
2024-02-22	Buy	3.53	2.80
2024-02-16	Buy	3.45	2.76
2024-01-07	Buy	3.00	2.22
2023-11-22	Buy	2.65	1.94
2023-09-28	Buy	2.67	1.99
2023-08-17	Buy	2.65	1.92
2023-01-12	Buy	2.06	1.61
2022-11-28	Buy	2.06	1.58
2022-08-24	Buy	2.06	1.66
2022-05-26	Buy	2.06	1.74
2021-11-25	Buy	2.06	1.68
2021-08-25	Buy	2.00	1.77
2021-07-13	Buy	2.02	1.71

Source: RHB, Bloomberg

RHB Guide to Investment Ratings

Buy:	Share price may exceed 10% over the next 12 months
Trading Buy:	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
Neutral:	Share price may fall within the range of +/- 10% over the next 12 months
Take Profit:	Target price has been attained. Look to accumulate at lower levels
Sell:	Share price may fall by more than 10% over the next 12 months
Not Rated:	Stock is not within regular research coverage

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