

Sunway Bhd

Burgeoning into the Largest Conglomerate on Bursa

TP: RM4.12 (+12.6%)

Last Traded: RM3.66

BUY (ESG: ★★★★★)

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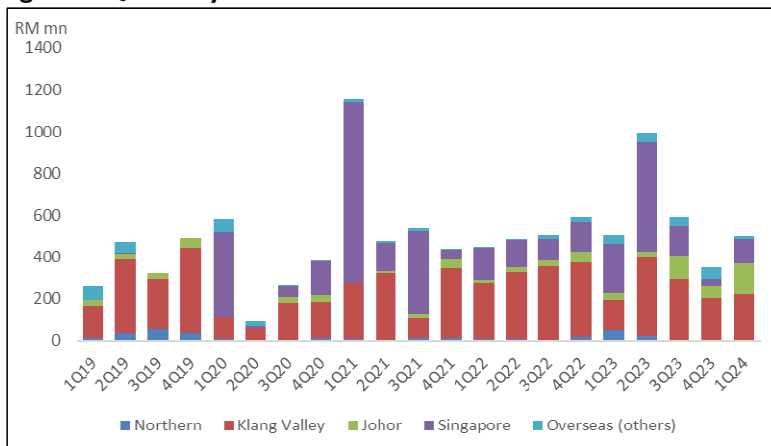
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Review

- Sunway's IQ24 core net profit of RM172.2mn came in within expectations, accounting for 22% of both our and the consensus' full-year forecasts. 2Q24 results are expected to receive a significant boost from the lumpy recognition of profit from Parc Central Residences, an executive condominium project in Singapore, upon its completion. The accumulated progressive profits for this project amounted to RM120mn as at the end of March 2024.
- **YoY:** IQ24 revenue increased by 12% YoY to RM1.4bn driven by stronger performance across all business segments. PBT rose 18% YoY, aligning with the revenue growth. All segments recorded higher PBT except trading and manufacturing and other segments. The property development segment's PBT grew 68% due to higher sales and progress billings from new and ongoing local projects. The healthcare division's performance was also encouraging, with a 28% YoY increase in PBT driven by a 34% increase in licensed bed capacity.
- **QoQ:** IQ24 revenue contracted by 24% due to lower contribution from all segments due to seasonality factor. Note that, the fourth quarter is traditionally a stronger quarter for most business segments. However, PBT eased only 3.4% QoQ, largely cushioned by higher associate profits.
- Sunway recorded new sales of RM498mn in IQ24, up 41% QoQ but down 2% YoY. We consider the sales performance remarkable, especially given that there were no new launches in IQ. The Klang Valley region contributed 44% of total sales. In Johor, property demand surged, with sales rising to RM148mn, compared to RM28mn in IQ23 and RM60mn in 4Q23 – see **Figure I**.

Figure I: Quarterly Sales Performance



Source: Sunway, TA Research

Share Information

Bloomberg Code	SWB MK
Stock Code	5211
Listing	Main Market
Share Cap (mn)	5,630.2
Market Cap (RMmn)	20,606.5
52-wk Hi/Lo (RM)	3.69/1.52
12-mth Avg Daily Vol ('000 shrs)	10,243.0
Estimated Free Float (%)	27.4
Beta	0.8
Major Shareholders (%)	
Tan Sri Dato' Seri Dr. Jeffery Cheah (63.6)	
EPF (5.3)	

Forecast Revision

	FY24	FY25
Forecast Revision (%)	0.7	4.1
Net profit (RMmn)	783.4	888.9
Consensus	786.8	859.1
TA's / Consensus (%)	99.6	103.5
Previous Rating	Buy (Maintained)	
Consensus Target Price (RM)	3.39	

Financial Indicators

	FY24	FY25
Net gearing (%)	53.2	52.6
CFPS (sen)	2.6	4.3
P/CFPS (x)	143.5	85.9
ROE (%)	5.6	6.1
ROA (%)	2.7	3.0
NTA/Share (RM)	2.1	2.2
Price/NTA (x)	1.7	1.7

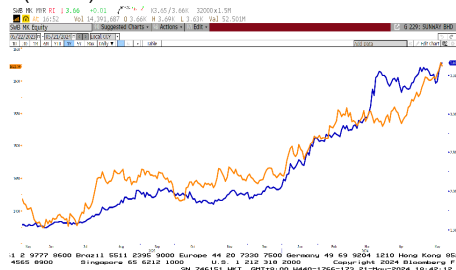
Scorecard

	% of FY	
vs TA	22.0	Within
vs Consensus	22.0	Within

Share Performance (%)

Price Change	SWB	FBM KLCI
1 mth	9.9	4.8
3 mth	35.1	4.5
6 mth	84.8	10.8
12 mth	133.1	13.5

(12-Mth) Share Price relative to the FBMKLCI



Source: Bloomberg

Impact

- After reviewing our earnings model and incorporating revised earnings for SunCon, we adjust our FY24/25/26 earnings forecasts upwards by 0.7%/4.1%/4.0%, respectively.

Outlook

- Sunway is targeting new sales of RM2.6bn this year (+6% YoY), with 1Q24 sales accounting for 19% of the target. The group plans to launch projects worth RM1.4bn in 2H, primarily in Malaysia, comprising 83% of the total launches. With unbilled sales of RM4.2bn and an outstanding construction order book of RM4.1bn (external jobs only), Sunway has earnings visibility for the next 3-4 years.
- SunCon has significantly expanded its involvement in Advanced Technology Facilities projects. Securing three new data centre projects in the Klang Valley in 1Q24, it continues to actively pursue further opportunities in this sector. The outlook for major infrastructure projects is increasingly favourable, underscored by recent tenders for the expansion of the Penang Airport and the proposed development of the Bayan Lepas Light Rapid Transit projects.
- In our view, Sunway is well-positioned to benefit from the strengthening domestic economy. We believe the retail, leisure, hotel, and healthcare segments are expected to experience positive impacts from this economic growth. Notably, the healthcare sector, a key growth driver for Sunway, is expected to perform strongly, supported by the expansion of existing capacity and the upcoming launch of SMC Damansara and SMC Ipoh in 4Q24 and 1Q25, respectively, adding 600 beds to the current 1,158 licensed beds.
- Looking ahead, we expect the completion of the Rapid Transit System (RTS) rail link and the establishment of the Johor-Singapore Special Economic Zone (JS-SEZ) to bode positively for Sunway City Iskandar Puteri. The JS-SEZ is gaining traction, with recent advancements like the use of QR codes for border clearance enhancing convenience for travellers between Singapore and Johor. The positive sentiment is clearly reflected in the strong sales performance of Sunway Aviana, a landed development within Sunway City Iskandar Puteri. Since their official launches in October 2023, Phase 1 and Phase 2 have achieved remarkable take-up rates of 100% and 91%, respectively. Building on this momentum, Phase 3, launched in April 2024, has already seen an impressive take-up rate of 86%.

Valuation

- We arrive at a new SOP-derived TP of RM4.12/share (previously RM3.29/share). This incorporates an increased P/E multiple of 20x (previously 16x) for the property development and property investment segments (excluding Sunway REIT) to reflect the upbeat property sector sentiment. We value SunCon and Sunway REIT based on our latest TPs. As for the healthcare division, we peg the valuation at a 24x EV/EBITDA (previously 20x), to account for its strong earnings growth trajectory ahead driven by expansion plans. Meanwhile, the trading & manufacturing and quarry segments are valued at 12x CY25 earnings. Maintain **Buy**.
- The potential inclusion of Sunway as a new constituent of the FBMKLCI could serve as an added catalyst. Currently ranked 23rd by full market capitalisation, Sunway is eligible for inclusion in the benchmark index and is expected to replace the lowest-ranked constituent stock, AMMB, based on the latest market capitalisation data.

SOP Valuation Table

	Stake	Value (RM mn)	RM/share*	Valuation Methodology
Property Dev & Inv	100.0%	9,000.3	1.36	20x CY25 Earnings
SunCon	54.6%	2,675.4	0.40	TP of RM3.79
Sunway REIT	40.9%	2,633.4	0.40	TP of RM1.88
Healthcare	84.0%	12,166.6	1.84	24x CY25 EV/EBITDA
Trading & Manufacturing	100.0%	467.7	0.07	12x CY25 Earnings
Quarry & Others	100.0%	304.4	0.05	12x CY25 Earnings
Total		27,247.8	4.12	

Note *: Fully diluted. The calculation of value/share includes the ordinary shares that will be issued upon the mandatory conversion of ICPS.

Source: TA Research

Figure 2: 2024 Planned Launches

Development	Location	Type	GDV (RM mn)	Remark
Kelana Jaya Phase 2	Kelana Jaya, Selangor	Serviced Apartments & Super Link House	455	
Sunway Flora Plot 2 Tower A	Bukit Jalil, Kuala Lumpur	Serviced Apartments	232	
Sunway V3 Tower A	Taman Maluri, Kuala Lumpur	Serviced Apartments	566	Launched in May, Take up 51%
Sunway Bayu	Sunway City Ipoh, Ipoh	Landed Homes	85	
Sunway Wellesley	Bukit Mertajam, Penang	Townhouses	129	
Sunway Aviana	Sunway Iskandar Puteri, Johor	Landed Linked Homes	65	Launched in Apr, Take up 86%
Sunway Sakura Phase 2	Sunway Iskandar Puteri, Johor	Landed Semi-D Homes	110	
Sunway Maple	Sunway Iskandar Puteri, Johor	Townhouses & Linked Homes	170	
Sunway Gardens Phase 3	Tianjin, China	Condominium	243	
Total			2,055	

Source: Sunway, TA Research

Earnings Summary (RM mn)

YE Dec 31 (RM'mn)	2022	2023	2024F	2025F	2026F
Revenue	5,195.0	6,139.8	5,779.0	6,466.2	6,719.3
EBITDA	713.6	785.6	733.2	839.0	895.0
EBITDA margin (%)	13.7	12.8	12.7	13.0	13.3
Pretax profit	855.3	908.6	1,016.2	1,154.0	1,181.6
Reported Net profit	676.7	737.8	783.4	888.9	907.5
Net profit -a dj	612.2	653.2	783.4	888.9	907.5
Net profit a djusted for preferential dividend	558.9	601.8	732.0	863.2	907.5
EPS (sen) #	10.6	11.6	11.2	13.1	13.7
EPS - a dj (sen) #	9.5	10.1	11.2	13.1	13.7
EPS Growth (Core) (%)	59.6	6.3	10.8	16.3	5.1
PER (x)	38.4	36.1	32.6	28.0	26.7
GDPS (sen)	5.5	5.5	6.0	6.5	6.5
Div Yield (%)	1.5	1.5	1.6	1.8	1.8
ROE (%)	5.0	5.0	5.6	6.1	6.1

^ Restated

EPS after preference dividend payment

Note: Following the partial divestment, Sunway Healthcare is presented as discontinued operations in FY20 & FY21. For FY22 onwards, Sunway will recognise its share of the profit or loss in Sunway Healthcare (84% stake on a fully converted basis) under the equity method of accounting.

IQ24 Results Analysis (RM mn)

YE 31 Dec (RM'mn)	IQ23	4Q23	IQ24	QoQ (%)	YoY (%)	
Revenue	1,263.7	1,868.8	1,419.0	(24.1)	12.3	
<i>Property Development</i>	247.8	499.4	287.7	(42.4)	16.1	
<i>Property Investment</i>	209.9	256.3	231.2	(9.8)	10.1	
<i>Construction</i>	327.9	532.8	372.5	(30.1)	13.6	
<i>Trading & Manufacturing</i>	224.1	260.1	241.4	(7.2)	7.7	
<i>Quarry</i>	78.2	124.8	104.8	(16.0)	34.0	
<i>Others</i>	175.8	195.4	181.4	(7.2)	3.2	
Operating profits	113.4	291.9	158.4	(45.7)	39.8	
Finance income	58.4	73.2	59.3	(19.0)	1.6	
Finance costs	(62.4)	(94.7)	(85.3)	(9.9)	36.7	
Associates	41.7	19.9	38.8	95.3	(6.9)	
JV	41.1	60.1	55.5	(7.7)	35.0	
EI	0.0	87.7	0.0	nm	0.0	
PBT	192.0	350.4	226.7	(35.3)	18.0	
Core PBT	192.0	262.7	226.7	(13.7)	18.0	
<i>Property Development</i>	23.1	69.0	38.8	(43.8)	68.2	
<i>Property Investment</i>	67.2	68.9	69.4	0.8	3.2	
<i>Construction</i>	39.5	62.8	42.4	(32.5)	7.2	
<i>Trading & Manufacturing</i>	9.6	12.0	9.0	(25.2)	(6.4)	
<i>Quarry</i>	3.5	9.4	11.1	18.2	218.1	
<i>Healthcare*</i>	28.8	41.7	36.8	(11.8)	27.6	
<i>Others</i>	20.3	(1.1)	19.2	(1,910.9)	(5.2)	
Tax	(33.3)	(33.1)	(35.7)	8.0	7.5	
MI	(17.1)	(51.4)	(18.7)	(63.6)	9.3	
Net profit	141.6	265.9	172.2	(35.2)	21.6	
Core net profit	141.6	178.2	172.2	(3.4)	21.6	
Prefential dividends on ICPS	(25.7)	0.0	(25.7)	nm	0.0	
Net profit less preferential dividend	116.0	265.9	146.6	(44.9)	26.4	
Core net profit less preferential dividend	116.0	178.2	146.6	(17.8)	26.4	
Reported EPS	(sen)	2.0	4.4	2.3	(48.3)	14.6
Adj EPS	(sen)	2.0	2.9	2.3	(22.9)	15.4
DPS	(sen)	0.0	3.5	0.0	(100.0)	0.0
Core PBT margin	(%)	15.2	14.1	16.0	1.9	(0.8)
<i>Property Development</i>	(%)	9.3	13.8	13.5	(0.3)	(4.2)
<i>Property Investment</i>	(%)	32.0	26.9	30.0	3.2	2.0
<i>Construction</i>	(%)	12.0	11.8	11.4	(0.4)	0.7
<i>Trading & Manufacturing</i>	(%)	4.3	4.6	3.7	(0.9)	0.6
<i>Quarry</i>	(%)	4.5	7.5	10.6	3.1	(6.1)
<i>Others</i>	(%)	11.5	(0.5)	10.6	11.1	0.9
Core net margin	(%)	11.2	9.5	12.1	2.6	(0.9)
Effective tax rate	(%)	(17.3)	(9.4)	(15.8)	(6.3)	(1.6)

^Restated

*healthcare's contribution from Continuing Operations is based on the Group's share of its net profit.

EPS after preference dividend payment

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Stock Recommendation Guideline

- BUY** : Total return within the next 12 months exceeds required rate of return by 5%-point.
HOLD : Total return within the next 12 months exceeds required rate of return by between 0-5%-point.
SELL : Total return is lower than the required rate of return.
Not Rated: The company is not under coverage. The report is for information only.

Total Return is defined as expected share price appreciation plus gross dividend over the next 12 months. Gross dividend is excluded from total return if dividend discount model valuation is used to avoid double counting.

Required Rate of Return of 7% is defined as the yield for one-year Malaysian government treasury plus assumed equity risk premium.

ESG Scoring & Guideline

	Environmental	Social	Governance	Average
Scoring	★★★★★	★★★★★	★★★★★	★★★★★
Remark	The group implements a comprehensive programme aiming to reduce to GHG emission, water & waste with relevant targets and deadlines. It implemented a Zero Single Plastic Use Policy in its property division's assets, venues, and events	The group provides a conducive work environment. Promoting diversity and equal opportunity, 58% of its non-executive workforce are women. The company has strict regulations concerning health and safety, collaborating with suppliers and subcontractors to enforce them.	Sunway upholds high standards of corporate governance and transparency to safeguard shareholders' interests. It has an in-house investor relations team that is easily contactable.	

- ★★★★★ (≥80%) : Displayed market leading capabilities in integrating ESG factors in all aspects of operations, management and future directions.
 ★★★★★ (60-79%) : Above adequate integration of ESG factors into most aspects of operations, management and future directions.
 ★★★ (40-59%) : Adequate integration of ESG factors into operations, management and future directions.
 ★★ (20-39%) : Have some integration of ESG factors in operations and management but are insufficient.
 ★ (<20%) : Minimal or no integration of ESG factors in operations and management.

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As of Thursday, May 23, 2024, the analyst, Thiam Chiann Wen, who prepared this report, has interest in the following securities covered in this report:
 (a) nil

Kaladher Govindan – Head of Research

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