25 August 2023

Outthink. Outperform.

AFFIN HWANG INVESTMENT BANK

Results Note | **RM1.91 @ 24 August 2023**

"6M23 results below expectations"

Share price performance

	1M	3M	12M
Absolute (%)	14.4	23.2	15.1
Rel KLCI (%)	11.8	20.3	17.9

	BUY	HOLD	SELL
Consensus	9	3	-

Stock Data

Sector	Property
Issued shares (m)	4,954.6
Mkt cap (RMm)/(US$m)	9463.4/2037.2
Avg daily vol - 6mth (m)	4.0
52-wk range (RM)	1.45-1.94
Est free float	22.7%
Stock Beta	0.77
Net cash/(debt) (RMm)	(7,629.9)
ROE (2023E)	5.4%
Derivatives	No
Shariah Compliant	Yes
FTSE4Good Constituent	No
FBM EMAS (Top 200)	No
ESG Rank	
ESG Risk Rating	NA

Key Shareholders

Sungei Way Corp Sdn	57.9%
Employees Provident	7.8%
Active Equity Sdn Bhd	3.4%
Cheah Fook Ling	2.7%

Source: Bloomberg, Affin Hwang, Bursa Malaysia, ESG Risk Rating Powered by Sustainalytics

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Sunway Berhad (SWB MK)

BUY (maintain)
Up/Downside: +20.3%

Price Target: RM2.30
Previous Target (Rating): RM2.36 (BUY)

Sequential earnings growth

- **Core net profit grew 18% yoy to RM301.9m in 6M23 as all divisions performed better**
- **The group saw a sustained earnings recovery with higher property and construction revenue, and services earnings growth. We trim core EPS by 2% to reflect lower REIT earnings**
- **Sunway remains a top sector pick with a lower 12-month TP of RM2.30, based on the same 20% discount to our reduced RNAV**

Below expectations

Core net profit of RM302m (+18% yoy) in 6M23 is equivalent to 43-45% of the consensus and our forecasts of RM678-699m for the full year. The results are below our expectations mainly due to lower-than-expected REIT earnings. Revenue (excluding healthcare division) grew 14% yoy to RM2.73bn in 6M23, driven by higher revenue for all divisions except its trading and quarry segments. PBT increased 2% yoy to RM395m in 6M23, driven by higher property development (+47% yoy), property investment (+3% yoy) and quarry (+18% yoy) earnings. Construction and trading earnings declined 9% yoy and 1% yoy respectively. The healthcare division contributed RM67m to earnings (+5% yoy) in 6M23. Revenue grew 16% qoq to RM1.47bn in 2Q23 and core net profit rose 12% qoq to RM161m as all divisions performed better except the property investment division. We adjust our 2023-25E core EPS lower by 2% to reflect lower REIT earnings.

Higher sales and higher new construction contract wins

Sunway achieved RM1.5bn in sales for 6M23, surged 61% yoy from RM0.93bn for 6M22, mainly on higher Singapore sales. With higher planned launches worth RM3.51bn, it is targeting RM2.3bn of sales in 2023. Unbilled sales of RM4.14bn are likely to support revenue growth over the next 2-3 years. Sunway Construction (SunCon) secured RM1.6bn of new contracts in 6M23 to replenish its remaining order book to RM5.8bn.

Reaffirming our BUY call

We believe Sunway will benefit from the potential setting up of a Johor-Singapore special economic zone since its Johor land bank contributes the highest portion of remaining gross development value at 60% of the RM48.9bn total. We expect a 9% core EPS decline in 2023E from the high base in 2022 but a rebound to a 2-year CAGR of 10% in 2024-25E. We cut our RNAV/share to RM2.87 (from RM2.94) to reflect the lower Sunway REIT valuation. Maintain our BUY call with a lower 12-month TP of RM2.30 (from RM2.36), based on a 20% RNAV discount. Downside risks: lower-than-expected property sales and delays in infrastructure projects.

Earnings & Valuation Summary

FYE 31 Dec	2021	2022	2023E	2024E	2025E
Revenue (RMm)	3,714.2	5,195.0	5,293.6	5,355.0	5,492.7
EBITDA (RMm)	582.8	753.1	843.6	860.2	946.3
Pretax profit (RMm)	465.7	919.8	905.7	963.9	1,084.7
Net profit (RMm)	294.4	676.7	661.1	706.6	794.2
EPS (sen)	5.9	13.8	13.3	14.3	16.0
PER (x)	32.2	13.8	14.3	13.4	11.9
Core net profit (RMm)	398.5	716.1	661.1	706.6	794.2
Core EPS (sen)	8.0	14.6	13.3	14.3	16.0
Core EPS growth (%)	4.1	82.4	(8.9)	6.9	12.4
Core PER (x)	23.8	13.0	14.3	13.4	11.9
Net DPS (sen)	2.5	5.5	5.5	5.5	5.5
Dividend Yield (%)	1.3	2.9	2.9	2.9	2.9
EV/EBITDA	26.4	21.8	19.0	18.3	16.4
Chg in EPS (%)			-2.5	-2.1	-2.2
Affin/Consensus (x)			0.9	0.9	1.0

Source: Company, Bloomberg, Affin Hwang forecasts

Fig 1: Results comparison

FYE 31 Dec (RMm)	2Q22	1Q23	2Q23	QoQ % chg	YoY % chg	6M22	6M23	YoY % chg	2Q23 Comment
Revenue	**1,280**	**1,264**	**1,468**	**16.2**	**14.7**	**2,393**	**2,732**	**14.2**	6M23: Higher revenue yoy for all segments except trading and quarry divisions.
Op costs	(1,111)	(1,117)	(1,286)	15.1	15.7	(2,146)	(2,405)	12.1	Higher labour and building material costs.
EBITDA	**169**	**147**	**182**	**24.2**	**7.6**	**247**	**327**	**32.3**	
EBITDA margin (%)	*13.2*	*11.6*	*12.4*	*0.8 ppt*	*(0.8 ppt)*	*10.3*	*12.0*	*1.6 ppt*	
Depn and amort	(33)	(32)	(32)	(1.6)	(3.7)	(66)	(64)	(2.9)	
EBIT	**137**	**115**	**151**	**31.5**	**10.3**	**182**	**264**	**45.1**	
EBIT margin (%)	*10.7*	*9.1*	*10.3*	*1.2 ppt*	*(0.4 ppt)*	*7.6*	*9.7*	*2.1 ppt*	
Interest income	33	58	64	9.3	94.6	78	122	56.1	
Interest expense	(61)	(62)	(78)	25.6	28.6	(91)	(141)	55.4	
Associates	77	83	78	(6.2)	0.8	176	160	(9.0)	
Forex gain (losses)	(9)	13	(80)	NA	759.6	(27)	(66)	143.2	Unrealised forex loss on US$ debt. But hedged by derivatives.
Exceptional items	39	(14)	69	NA	76.9	70	56	(19.2)	
Pretax profit	**215**	**192**	**203**	**5.7**	**(5.6)**	**388**	**395**	**1.9**	Higher earnings for property development and investment, and quarry operations. But lower for construction and trading earnings.
Tax	(24)	(33)	(31)	(7.4)	29.4	(48)	(64)	32.9	
Tax rate (%)	*11.1*	*17.3*	*15.2*	*(2.2 ppt)*	*4.1 ppt*	*12.4*	*16.2*	*3.8 ppt*	
Minority interests	(22)	(17)	(22)	30.1	(0.3)	(41)	(39)	(4.9)	
Net profit	**169**	**142**	**150**	**5.9**	**(11.2)**	**298**	**292**	**(2.2)**	Below expectations.
EPS (sen)	3	2	3	28.3	(11.8)	5	5	(14.2)	
Core net profit	**139**	**143**	**161**	**12.4**	**15.4**	**256**	**302**	**18.0**	Below expectations. Exclude exceptional items.

Source: Affin Hwang, Company

Fig 2: Segmental revenue breakdown

FYE 31 Dec (RMm)	2Q22	1Q23	2Q23	QoQ % chg	YoY % chg	6M22	6M23	YoY % chg
Ppty dev	286	248	362	46.1	26.4	445	610	37.2
Ppty inv	150	210	199	(5.0)	33.3	271	409	51.2
Construction	317	328	404	23.2	27.5	685	732	6.8
Trading	265	224	228	1.7	(14.0)	470	452	(3.8)
Quarry	101	78	94	20.8	(6.5)	177	173	(2.5)
Other	162	176	180	2.6	11.5	345	356	3.2
Total	**1,280**	**1,264**	**1,468**	**16.2**	**14.7**	**2,393**	**2,732**	**14.2**

Source: Affin Hwang, Company

Fig 3: Segmental PBT breakdown

FYE 31 Dec (RMm)	2Q22	1Q23	2Q23	QoQ % chg	YoY % chg	6M22	6M23	YoY % chg
Ppty dev	26	23	49	112.7	90.9	49	72	46.9
Ppty inv	53	67	34	(49.7)	(36.6)	98	101	2.7
Construction	44	40	45	12.7	0.3	92	84	(8.9)
Trading	10	29	10	(64.9)	4.3	20	20	(1.4)
Quarry	2	10	4	(54.2)	143.0	7	8	18.5
Other	80	24	61	156.8	(23.7)	136	110	(18.8)
Total	**215**	**192**	**203**	**5.7**	**(5.6)**	**402**	**395**	**(1.8)**

Source: Affin Hwang, Company

Fig 4: Segmental PBT margin

FYE 31 Dec (RMm)	2Q22	1Q23	2Q23	QoQ ppt	YoY ppt	6M22	6M23	YoY ppt
Ppty dev	9.0	9.3	13.6	4.2	4.6	11.0	11.8	0.8
Ppty inv	35.7	32.0	17.0	(15.1)	(18.7)	36.4	24.7	(11.7)
Construction	14.0	12.0	11.0	(1.0)	(3.0)	13.5	11.5	(2.0)
Trading	3.7	12.9	4.4	(8.4)	0.8	4.3	4.4	0.1
Quarry	1.8	12.3	4.7	(7.6)	2.9	3.8	4.6	0.8
Other	49.5	13.5	33.9	20.3	(15.6)	39.3	30.9	(8.4)
Total	**16.8**	**15.2**	**13.8**	**(1.4)**	**(3.0)**	**16.8**	**14.5**	**(2.3)**

Source: Affin Hwang, Company

Fig 5: RNAV and target price

RNAV by business segments	PER (X)	New RNAV (RMm)	Old RNAV (RMm)	Change (%)
Property development		3,947	3,947	0
Property development JV		2,314	2,314	0
Property investment		4,591	5,074	(10)
Construction	16	1,843	1,843	0
Building materials	14	700	700	0
Quarry	14	420	420	0
Healthcare	94	4,688	4,688	0
Total		**18,503**	**18,986**	**(3)**
Co. net cash/(debt)		(589.3)	(589.3)	0
RNAV		**17,914**	**18,397**	**(3)**
Number of shares		4,955	4,955	0
RNAV/share (RM)		**3.62**	**3.71**	**(3)**
Fully-diluted no. of shares		6,602	6,602	0
Fully-diluted RNAV/share (RM)		**2.87**	**2.94**	**(2)**
Target price @ 20% discount to RNAV (RM)		**2.30**	**2.36**	**(2)**

Source: Affin Hwang estimates and forecasts

Important Disclosures and Disclaimer

Equity Rating Structure and Definitions

BUY	Total return is expected to exceed +10% over a 12-month period
HOLD	Total return is expected to be between -5% and +10% over a 12-month period
SELL	Total return is expected to be below -5% over a 12-month period
NOT RATED	Affin Hwang Investment Bank Berhad does not provide research coverage or rating for this company. Report is intended as information only and not as a recommendation

The total expected return is defined as the percentage upside/downside to our target price plus the net dividend yield over the next 12 months.

OVERWEIGHT	Industry, as defined by the analyst's coverage universe, is expected to outperform the KLCI benchmark over the next 12 months
NEUTRAL	Industry, as defined by the analyst's coverage universe, is expected to perform inline with the KLCI benchmark over the next 12 months
UNDERWEIGHT	Industry, as defined by the analyst's coverage universe is expected to under-perform the KLCI benchmark over the next 12 months

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