



AmInvestment Bank

Company report

SUNWAY

(SWB MK EQUITY, SWAY.KL)

25 August 2023

On track to achieve FY23F sales target

BUY

(Maintained)

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Rationale for Report: Company Results

Price	RM1.91
Fair Value	RM2.40
52-week High/Low	RM1.94/RM1.45

Key Changes

Fair value	↔
EPS	↔

YE to Dec	FY22	FY23F	FY24F	FY25F
Revenue (RM mil)	5,194.9	5,593.6	5,787.8	6,023.6
Core net profit (RM mil)	600.0	610.3	711.7	752.5
FD Core EPS (sen)	12.1	12.2	14.4	15.2
FD Core EPS growth (%)	53.9	1.7	16.6	5.7
Consensus Net Profit (RM mil)	-	699.4	746.7	798.8
DPS (sen)	5.4	6.2	7.0	7.4
PE (x)	15.7	15.4	13.2	12.5
EV/EBITDA (x)	27.4	21.6	20.3	19.4
Div yield (%)	2.8	3.2	3.7	3.9
ROE (%)	5.5	5.6	5.9	6.0
Net Gearing (%)	52.5	53.3	53.9	54.3

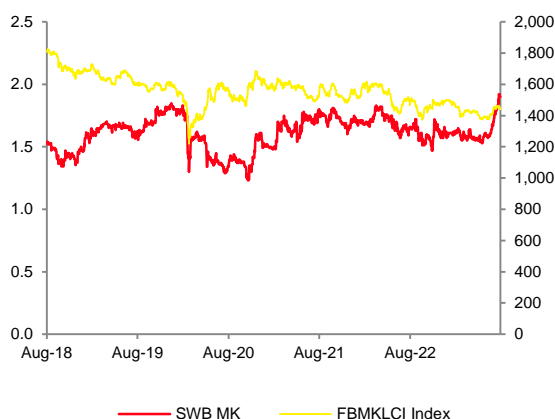
Stock and Financial Data

Shares Outstanding (million)	4,999.6*
Market Cap (RM mil)	9,549.3
Book Value (RM/share)	2.53
P/BV (x)	0.8
ROE (%)	5.5
Net Gearing (%)	52.5

*before conversion of ICPS and warrants

Major Shareholders	Sungei Way (57.9%) EPF (7.8%) Active Equity (3.4%)
Free Float	30.9
Avg Daily Value (RM mil)	7.7

Price performance	3mth	6mth	12mth
Absolute (%)	21.0	17.3	15.2
Relative (%)	18.6	18.7	18.5



Investment Highlights

- We maintain BUY on Sunway with an unchanged SOP-based fair value (FV) of RM2.40/share, which implies an FY24F PE of 17x, 1 standard deviation above its 3-year median of 12x. Our FV also reflects a 3% premium for our 4-star ESG rating (Exhibits 5 & 6).
- We made no changes to our earnings forecasts as Sunway's 1HFY23 core net profit (CNP) of RM295mil came in within our expectation, accounting for 48% of our FY23F earnings and 42% of street's.
- In 1HFY23, Sunway's property development revenue rose by 37% YoY while PBT grew 47% YoY. This was driven by higher property sales and stronger progress billings from new and ongoing local projects. Its current strong unbilled sales of RM4.9bil are expected to be recognised progressively in FY23F-25F.
- Sunway's 1HFY23 new sales surged 61% YoY to RM1.5bil, attaining 65% of its FY23F sales target of RM2.3bil (Exhibit 3). The major sales contributors are its projects from Singapore (51%), and Velocity TWO (11%) and Sunway Flora Residences (10%) from Malaysia.
- Sunway's 1HFY23 launches of RM3bil (9.9x YoY) made up 88% of its FY23F targeted launch of RM3.5bil. The major projects are The Continuum (RM2bil) and Terra Hills (RM700mil) in Singapore (Exhibit 4). In 2HFY23, we expect Sunway to launch the remaining RM500mil worth of projects in Malaysia and China.
- 1HFY23 property investment's revenue earnings improved 51% YoY as a result of increased visitors to its theme parks and improved hotel occupancy rates. However, PBT grew by only 3% due to elevated utility charges and increased manpower costs.
- 1HFY23 PBT of the construction segment dropped by 9% YoY despite a 7% YoY increase in revenue. This was mainly attributed to higher cost savings realised from completed projects in the prior year (1HFY22).
- Healthcare's 1HFY23 share of net profit grew 5% YoY to RM67mil as a result of the improvement in hospital activities, particularly at Sunway Medical Centre (SMC), Sunway City and SMC Velocity, which mitigated the share of start-up operational losses from SMC Penang and Sunway Sanctuary as well as higher utility costs.

- On a QoQ comparison, all segments except property investment posted stronger PBT in 2QFY23. In 2QFY23, property development PBT surged 2.1x QoQ due to higher property sales (+97% QoQ) and improving progress billings from new and on-going local development projects. Meanwhile, the construction segment's 2QFY23 PBT was 13% higher QoQ due to stronger progress billings from local construction projects.
- However, 2QFY23 PBT of its property investments halved QoQ due to lower contributions from the leisure segment as a result of lower visitorship during the fasting month in April coupled with lesser number of school and public holidays in 2QFY23.
- Nevertheless, we believe the long-term outlook for Sunway remains bright premised on its:
 - (i) strong unbilled sales of RM4.9bil (3.6x FY23F property development revenue);
 - (ii) robust outstanding order book of RM5.8bil (4x FY23F construction revenue); and
 - (iii) expansion plans for healthcare business (which could increase FY23F capacity by 82%).
- The stock currently trades at a compelling FY24F PE of 13x vs. its 5-year peak of over 20x.

EXHIBIT 1: EARNINGS SUMMARY

YE to Dec (RM mil)	2QFY22	1QFY23	2QFY23	QoQ %	YoY %	1HFY22	1HFY23	YTD %
Revenue	1,280.4	1,263.7	1,468.2	16.2	14.7	2,392.8	2,731.9	14.2
Operating costs	(1,151.3)	(1,156.7)	(1,318.4)	14.0	14.5	(2,196.0)	(2,475.1)	12.7
EBITDA	129.0	107.0	149.8	39.9	16.1	196.9	256.8	30.5
Other income	70.0	38.4	21.8	(43.2)	(68.9)	107.1	60.2	(43.8)
Depreciation	(32.8)	(32.1)	(31.5)	(1.6)	(3.7)	(65.5)	(63.6)	(2.9)
Net finance income	(28.2)	(4.1)	(14.6)	>100	(48.2)	(12.4)	(18.6)	50.5
JV/Associate contributions	76.9	82.7	77.6	(6.2)	0.8	176.1	160.3	(9.0)
Profit before tax	215.0	192.0	203.0	5.7	(5.6)	402.1	395.0	(1.8)
Taxation	(23.8)	(33.3)	(30.8)	(7.4)	29.4	(51.7)	(64.1)	23.9
MI	(22.4)	(17.1)	(22.3)	30.1	(0.3)	(41.4)	(39.4)	(4.9)
Profit after tax	168.9	141.6	149.9	5.9	(11.2)	309.0	291.6	(5.6)
Exceptional item	(11.0)	(1.0)	4.2	>100	>100	(13.0)	3.2	>100
Core PATMI	157.9	140.6	154.1	9.6	(2.4)	296.0	294.8	(0.4)
EPS (sen)	3.2	2.9	3.1	9.6	(2.4)	6.0	6.0	(0.4)
EBIT margin (%)	10.1	8.5	10.2	1.7	0.1	8.2	9.4	1.2
Effective tax rate (%)	11.1	17.3	15.2	(2.2)	4.1	12.9	16.2	3.4
Core PATMI margin (%)	12.3	11.1	10.5	(0.6)	(1.8)	12.4	10.8	(1.6)

Source: AmlInvestment Bank Bhd

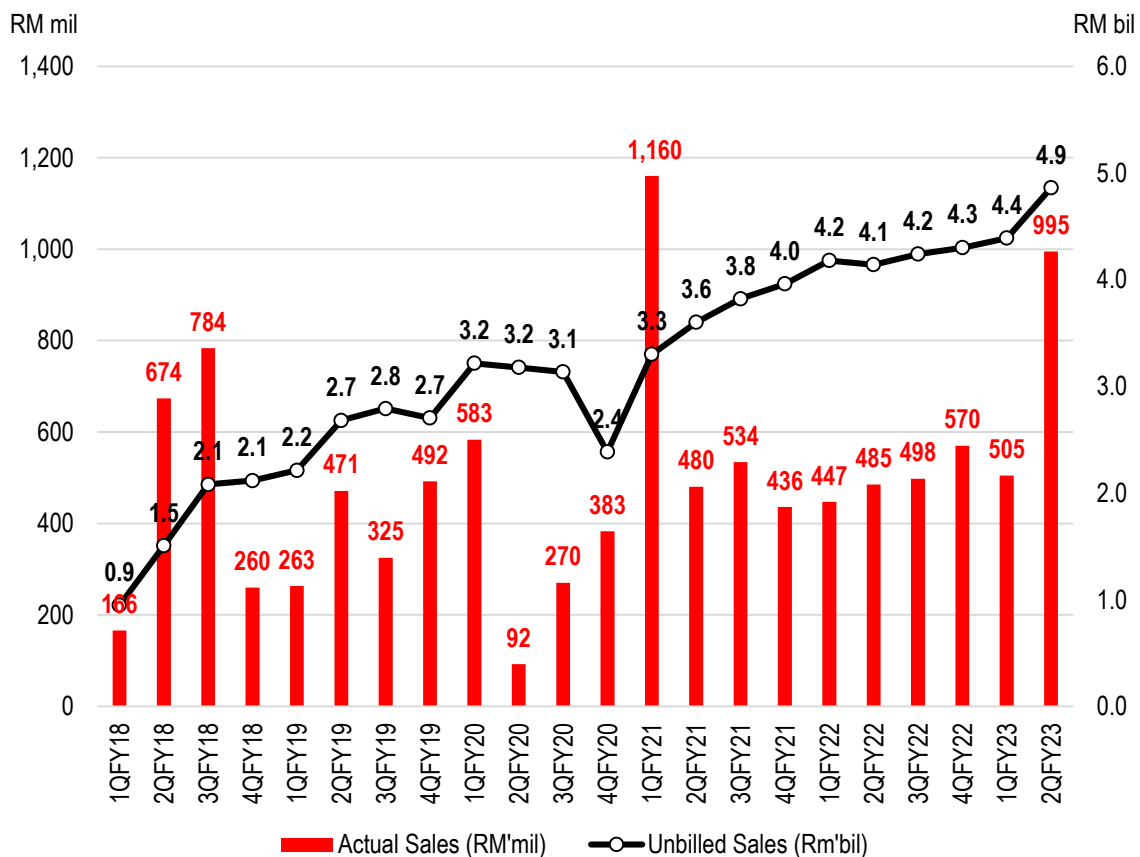
EXHIBIT 2: SEGMENTAL BREAKDOWN

FY31 Dec (RM mil)	2QFY22	1QFY23	2QFY23	QoQ %	YoY %	1HFY22	1HFY23	YTD %
Property development	286.4	247.8	362.1	46.1	26.4	444.6	609.9	37.2
Property investment	149.6	209.9	199.4	(5.0)	33.3	270.7	409.3	51.2
Construction	316.8	327.9	404.1	23.2	27.5	685.5	732.0	6.8
Others*	527.5	478.1	502.6	5.1	(4.7)	992.1	980.7	(1.1)
Revenue	1,280.4	1,263.7	1,468.2	16.2	14.7	2,392.8	2,731.9	14.2
Property development	25.7	23.1	49.1	>100	90.9	49.1	72.1	46.9
Property investment	53.4	67.2	33.9	(49.7)	(36.6)	98.4	101.1	2.7
Construction	44.4	39.5	44.5	12.7	0.3	92.2	84.0	(8.9)
Others*	81.8	62.2	75.6	21.5	(7.6)	147.9	137.8	(6.8)
PBT/(LBT)	205.3	192.0	203.0	5.7	(1.1)	387.7	395.0	1.9
Pretax margin (%)								
Property development	9.0	9.3	13.6	4.2	4.6	11.0	11.8	0.8
Property investment	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)
Others*	15.5	13.0	15.0	2.0	(0.5)	14.9	14.0	(0.9)

*Including building materials, community pharmacy business and other segments

Source: AmlInvestment Bank Bhd

EXHIBIT 3: ACTUAL SALES AND UNBILLED SALES



Source: AmlInvestment Bank Bhd

EXHIBIT 4: PLANNED LAUNCHES IN 2023

Project	Product Type	Location	GDV (RM'mil)	Percentage (%)	Launch?
Sunway Flora	Serviced Apartments & Retail	Bukit Jalil, Kuala Lumpur	300	9	✓
Sunway Bayu	Landed Apartments	Sunway City Ipoh, Ipoh	70	2	
Sunway Lenang Heights	Semi - D and bungalows	Taman Molek, Johor Bahru	90	3	
Sunway Maple	Landed linked homes	Sunway Iskandar Puteri, Johor	10	0.3	
Sunway Aviana	Landed linked homes	Sunway Iskandar Puteri, Johor	150	4	
Sunway Dora	Serviced Apartments	Bayan Baru, Penang	70	2	✓
Terra Hills	Private Condominium	Pasir Panjang, Singapore	700	20	✓
The Continuum	Private Condominium	Thiam Siew Avenue, Singapore	2,000	57	✓
Sunway Gardens Phase 3	Condominium	Tianjin, China	120	3	
Total			3,510	100	

Source: Sunway, AmlInvestment Bank Bhd

EXHIBIT 5: RNAV CALCULATIONS

DEVELOPMENT PROPERTIES	Outstanding GDV (RMmil)	NPV @8% (RMmil)	Stake (%)
Selangor/KL			
Sunway Damansara	1,953.3	96.9	60.0
Sunway South Quay	2,486.7	241.1	100.0
Sunway Monterez	38.0	2.2	60.0
Sunway Semenyih	728.6	49.7	70.0
Sunway Cheras	241.8	23.5	100.0
Sunway Duta	120.0	6.5	60.0
Sunway Resort City	660.1	59.4	100.0
Sunway Velocity	1,984.0	151.7	85.0
Sunway Velocity TWO	600.0	32.4	60.0
Sunway Velocity 3	1,200.0	64.4	60.0
Sunway Tower KL 1	240.0	21.6	100.0
Sunway Termuning	265.2	19.1	80.0
Mont Putra, Rawang	156.0	14.0	100.0
Kelana Jaya	1,450.0	130.4	100.0
Jalan Belfield	450.0	40.5	100.0
Lot One, Kajang	236.0	21.2	100.0
USJ 1, Subang Jaya	1,400.0	125.9	100.0
Sri Hartamas	220.0	19.4	70.0
Wangsa Maju-1	40.0	2.0	55.0
Bukit Jalil (Sterling Paradise)	800.0	98.0	100.0
Dengkil (Emerald Tycoon)	813.2	73.1	100.0
Jalan Cochrane	1,150.0	80.8	70.0
Kuang, Rawang	2,000.0	134.7	70.0
Perak			
Sunway City Ipoh	928.4	74.8	96.0
Penang			
Sunway Hills	849.0	70.6	100.0
Sunway Wellesley, Bukit Mertajam	710.5	59.1	100.0
Paya Terubong	1,500.0	124.3	100.0
Sunway Tunas, Balik Pulau	60.0	5.0	100.0
Sunway Betong, Balik Pulau	110.0	9.2	100.0
Johor			
Bukit Lenang	568.4	23.8	80.0
Medini	10,616.0	333.3	60.0
Pendas	18,000.0	565.2	60.0
Singapore			
Flynn Park, Pasir Panjang	2,300.0	68.0	30.0
Thiam Siam Avenue, Tanjong Katong	6,150.0	182.0	30.0
China			
Tianjin Eco-City	688.8	42.1	60.0
Unbilled sales		1,045.0	
Subtotal		4,110.9	
Property (40% discount to RNAV)		2,466.5	
Investment properties		2,443.1	
Sunway Construction (54.4% stake @ AmlInvestment Valuation)		1,297.9	
Sunway REIT (40.9% stake @ AmlInvestment Valuation)		2,464.7	
Healthcare (84% stake @30x FY24 earnings)		4,265.9	
Quarry & building materials (6x FY24 earnings)		142.8	
Trading & manufacturing (6x FY24 earnings)		325.5	
Total SOP		13,406.5	
NAV @ Property development		1,648.8	
Fair value		15,055.3	
Enlarged share base (mil shares)		6,516.6	
Fair value/share (RM)		2.32	
(+) 3% premium for 4-star ESG rating		0.08	
Fair value/share (RM)+ ESG Premium		2.40	

Source: AmlInvestment Bank Bhd

EXHIBIT 6: ESG RATING

Overall	★	★	★	★	
Eco-landscaping	★	★	★		
Progress of digitalization	★	★	★		
Employee welfare	★	★	★	★	
Corporate social responsibility	★	★	★	★	★
Strategic direction	★	★	★	★	
Gender diversity	★	★			
Earnings sustainability	★	★	★	★	
Accessibility & transparency	★	★	★		

We accord a discount/premium of -6%, -3%, 0%, +3% and +6% on fundamental fair value based on the overall ESG rating as appraised by us, from 1-star to 5-star

Source: AmlInvestment Bank Bhd

EXHIBIT 7: PB BAND CHART

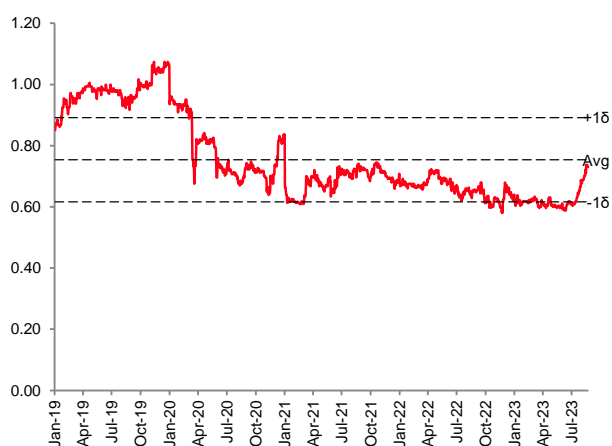


EXHIBIT 8: PE BAND CHART

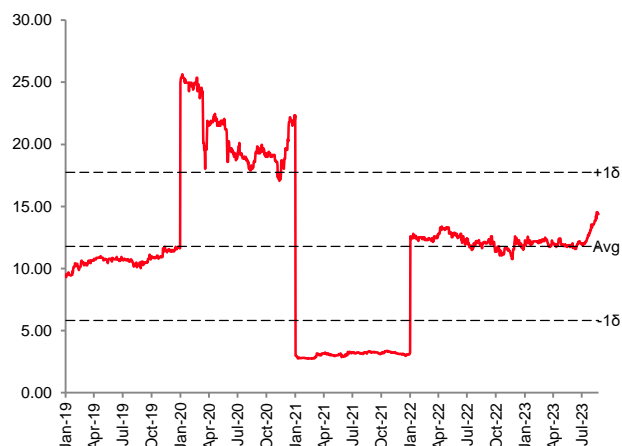


EXHIBIT 9: FINANCIAL DATA

Income Statement (RM mil, YE 31 Dec)	FY21	FY22	FY23F	FY24F	FY25F
Revenue	3,717.3	5,194.9	5,593.6	5,787.8	6,023.6
EBITDA	544.7	583.5	754.8	818.0	868.8
Depreciation/Amortisation	(216.9)	(130.2)	(87.3)	(90.4)	(94.1)
Operating income (EBIT)	327.8	583.5	667.4	727.6	774.8
Other income & associates	81.2	351.1	195.9	299.6	309.7
Net interest	54.9	(14.5)	50.0	49.7	47.1
Exceptional items	2,390.5	-	-	-	-
Pretax profit	2,854.4	920.1	913.3	1,076.9	1,131.5
Taxation	(116.2)	(167.0)	(127.6)	(161.5)	(169.7)
Minorities/pref dividends	(73.7)	(76.3)	(131.2)	(137.7)	(143.3)
Net profit	2,664.4	676.8	654.5	777.7	818.5
Core net profit	389.9	600.0	610.3	711.7	752.5
Balance Sheet (RM mil, YE 31 Dec)	FY21	FY22	FY23F	FY24F	FY25F
Fixed assets	1,262.8	1,265.1	1,576.2	1,630.9	1,697.3
Intangible assets	432.8	441.4	441.4	441.4	441.4
Other long-term assets	15,389.1	16,008.9	16,063.6	16,158.0	16,253.3
Total non-current assets	17,084.7	17,715.4	18,081.2	18,230.2	18,392.0
Cash & equivalent	2,814.0	1,958.1	2,575.8	2,664.9	2,754.6
Stock	2,423.0	3,279.5	3,702.9	3,589.3	3,720.6
Trade debtors	2,483.8	1,754.1	2,644.2	2,180.6	2,365.7
Other current assets	281.3	1,349.7	1,579.0	1,587.0	1,597.3
Total current assets	8,002.2	8,341.4	10,502.0	10,021.7	10,438.2
Trade creditors	2,470.6	2,406.5	2,430.5	2,439.8	2,772.4
Short-term borrowings	4,093.8	5,360.8	5,956.9	6,153.7	6,394.4
Other current liabilities	141.2	238.0	1,416.7	212.4	(427.4)
Total current liabilities	6,705.6	8,005.3	9,804.1	8,805.9	8,739.3
Long-term borrowings	4,114.2	3,186.2	3,488.9	3,687.4	3,833.9
Other long-term liabilities	1,143.7	1,292.7	1,292.7	1,292.7	1,292.7
Total long-term liabilities	5,257.9	4,478.9	4,781.7	4,980.1	5,126.6
Shareholders' funds	12,034.8	12,540.8	12,891.3	13,321.5	13,773.1
Minority interests	1,088.7	1,031.8	1,106.0	1,144.4	1,191.1
BV/share (RM)	2.43	2.53	2.60	2.69	2.78
Cash Flow (RM mil, YE 31 Dec)	FY21	FY22	FY23F	FY24F	FY25F
Pretax profit	2,854.4	920.1	913.3	1,076.9	1,131.5
Depreciation/Amortisation	216.9	130.2	87.3	90.4	94.1
Net change in working capital	107.4	(443.2)	(361.8)	(517.9)	(483.1)
Others	(2,199.9)	(212.1)	974.7	308.5	239.4
Cash flow from operations	978.7	394.9	1,613.5	957.9	981.9
Capital expenditure	(343.9)	(110.8)	(311.1)	(54.7)	(66.4)
Net investments & sale of fixed assets	(13.5)	(204.4)	-	-	-
Others	(922.2)	(870.5)	(54.7)	(94.4)	(95.3)
Cash flow from investing	(1,279.6)	(1,069.1)	(365.8)	(149.1)	(161.7)
Debt raised/(repaid)	1,290.4	370.6	(281.1)	(306.2)	(297.5)
Equity raised/(repaid)	-	-	-	-	-
Dividends paid	(152.0)	(222.5)	(241.4)	(347.5)	(366.9)
Others	(293.5)	(76.9)	(44.2)	(66.0)	(66.0)
Cash flow from financing	845.0	(160.4)	(566.6)	(719.8)	(730.4)
Net cash flow	544.1	(834.6)	681.2	89.0	89.8
Net cash/(debt) b/f	2,182.8	2,732.2	1,894.7	2,575.8	2,664.9
Net cash/(debt) c/f	2,732.2	1,894.7	2,575.8	2,664.9	2,754.6
Key Ratios (YE 31 Dec)	FY21	FY22	FY23F	FY24F	FY25F
Revenue growth (%)	15.8	39.8	7.7	3.5	4.1
EBITDA growth (%)	83.3	7.1	29.4	8.4	6.2
Pretax margin (%)	76.8	17.7	16.3	18.6	18.8
Net profit margin (%)	71.7	13.0	11.7	13.4	13.6
Interest cover (x)	nm	40.3	nm	nm	nm
Effective tax rate (%)	4.1	18.1	14.0	15.0	15.0
Dividend payout (%)	4.5	39.2	36.9	44.7	44.8
Debtors turnover (days)	244	123	173	138	143
Stock turnover (days)	222	200	228	230	221
Creditors turnover (days)	242	171	158	154	158

Source: Company, AmlInvestment Bank Bhd estimates

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