

Malaysia

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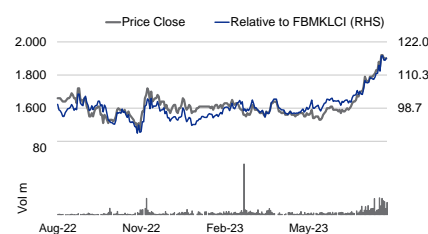
Consensus ratings*: Buy 9 Hold 2 Sell 0

Current price:	RM1.90
Target price:	RM2.21
Previous target:	RM2.21
Up/downside:	16.1%
CGS-CIMB / Consensus:	-1.2%
Reuters:	SWAY.KL
Bloomberg:	SWB MK
Market cap:	US\$2,020m
	RM9,414m
Average daily turnover:	US\$1.69m
	RM7.80m
Current shares o/s	4,934m
Free float:	30.6%

*Source: Bloomberg

Key financial forecasts

	Dec-23F	Dec-24F	Dec-25F
Net Profit (RMm)	715.3	773.1	856.2
Core EPS (RM)	0.14	0.16	0.17
Core EPS Growth	10.8%	8.1%	10.7%
FD Core P/E (x)	17.48	16.17	13.86
Recurring ROE	5.59%	5.80%	6.15%
P/BV (x)	0.72	0.69	0.66
DPS (RM)	0.039	0.042	0.047
Dividend Yield	2.06%	2.23%	2.47%



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	13.1	21	15.2
Relative (%)	11.2	19	18.1

Major shareholders	% held
Tan Sri Dato' Seri Dr. Jeffrey Cheah & EPF	60.5
	9.0

Analyst(s)

CHONG Tjen-San, CFA

T (60) 3 2635 9298

E tjen-san.chong@cgs-cimb.com

Sunway Bhd

Rising healthcare profit contribution

- 2QFY23 core net profit driven by property development and healthcare
- Unlocking the value of healthcare unit on track; may increase launches in Johor which should benefit from RTS and HSR
- Reiterate Add and RM2.21 TP based on 10% discount to SOP valuation

2Q23 results in line; expect momentum to pick up in 2H23F

- 2Q23 core net profit of RM153m (-9% yoy, +8% qoq) brought 1H23 to RM295m (-2% yoy), driven by higher contribution from property development and healthcare. This was at 41% of our and 42% of Bloomberg consensus full-year estimates, deemed line as we project 2H23F earnings to be buoyed by lumpy profit recognition from two executive condominium projects in Singapore which have been fully sold.
- The key highlight in 2Q23 is the 95% yoy surge in property development pretax profit to RM49m due to higher progress billings from local projects and one of its Singapore property projects. Property presales was RM1bn in 2Q23 (1Q23: RM505m) bringing 1H23 to RM1.5bn; it looks like Sunway may exceed its RM2.3bn guidance for FY23F.
- Sunway Healthcare Group's (SHG) 2Q23 pretax profit increased 7% yoy and 31% qoq to RM38m due to strong performance from Sunway Medical Centre (SMC) Sunway City and SMC Velocity. This offset the share of start-up losses from SMC Penang and Sunway Sanctuary of RM5m. In spite of this, SHG contributed a higher 19% of Sunway's total 2Q23 pretax profit vs. 16% in 2QFY22.

Property – More land banking and stepping up launches

- Sunway is being more aggressive with launches in FY23F, targeting launches worth a total of RM3.5bn (vs. RM1bn in FY22), driven by two new private condominium projects in Singapore.
- The take up rates for its launches this year have been decent up till Jul 2023, with Sunway Flora Residences Bukit Jalil (RM300m gross development value, GDV) achieving a 68% take up, Terra Hills Pasir Panjang in Singapore (S\$845m GDV) 38%, and Continuum in Singapore (RM2bn GDV) 32%, it said.
- Its most recent land purchase was a 245-acre freehold land plot in Kuang Selangor for RM115m. Including the premium to convert the land use to industrial, this works out to be c.RM16psf. Sunway said the estimated GDV for the land's development is RM2bn, with a development duration of 10 years and the project will be launched in early 2026.
- Sunway's landbank of 1,770 acres in Johor (Pendas and Medini) may be a prime beneficiary of more economic activity such as the Johor-Singapore special economic zone, the Johor Bahru-Singapore Rapid Transit System (RTS) Link (due to open in 2026) and possible revival of the Kuala Lumpur-Singapore High Speed Rail (HSR). Its land bank in Johor, owned by a 60:40 JV with Khazanah, forms 11% of our SOP valuation of Sunway. Sunway announced in mid-Aug 2023 it is taking over Khazanah's stake in the Pendas land (total land area of 1,079 acres) for RM169m.

SHG prepping up for a potential IPO

- In our view, the growing contribution from SHG may see its IPO brought forward to 2025F from 2028F. SHG contributed 19% to group pretax profit in FY22 (FY16: 4%) and has a clear expansion plan. We do not discount possible M&As prior to the listing. In our SOP valuation, we value SHG at RM7.2bn, based on an EV/ EBITDA of 15.8x, a 15% discount to its key peer IHH's (Add, TP: RM7.70) 5-year average of 18.6x.

Reiterate Add, TP of RM2.21

- We like Sunway as a diversified investment proxy for a robust domestic economy with its strong property and construction franchise and growing exposure to healthcare (including medical tourism). Key downside risks: a slowing economy which will impact most of its divisions and rising raw materials costs. Key catalysts are stronger property sales, higher construction new wins which may come from a Vietnam power plant project, and faster-than-expected IPO of its healthcare unit.

Figure 1 :2QFY23 vs. 2QFY22 and 1QFY23 results comparison and segmental breakdown

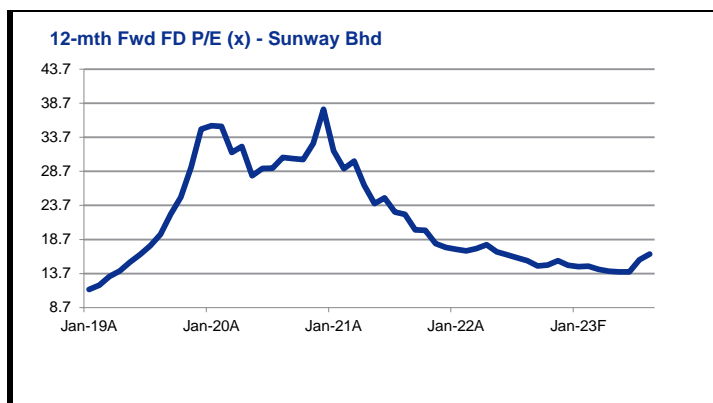
	2QFY23 RMm	2QFY22 RMm	% Change yoy	1QFY23 RMm	% Change qoq
Sales	1468.2	1280.4	15%	1263.7	16%
Cost of Goods Sold	-1349.8	-1354.3	0%	-1187.2	14%
Gross Profit	118.4	-74.0	-260%	76.5	55%
Other Operating Income	24.7	240.2	-90%	36.8	-33%
EBIT	143.1	166.3	-14%	113.4	26%
Interest Income	63.8	32.8	95%	58.4	9%
Interest Expense	-78.4	-61.0	29%	-62.4	26%
Share of Associates' or JV Income	77.6	76.9	1%	82.7	-6%
Exceptional Gains/(Losses)	-3.1	0.0	nm	0.0	nm
Pretax Profit	203.0	215.0	-6%	192.0	6%
Tax	-30.8	-23.8	29%	-33.3	-7%
Minority Interests	-22.3	-22.4	0%	-17.1	30%
Net Profit	149.9	168.9	-11%	141.6	6%
Core net profit	153.0	168.9	-9%	141.6	8%
Segmentals	2QFY23	2QFY22	% Change yoy	1QFY23	% Change qoq
Sales	RMm	RMm		RMm	
Property development	362.1	286.4	26%	247.8	46%
Property investment	199.4	149.6	33%	209.9	-5%
Construction	404.1	316.8	28%	327.9	23%
Trading & manufacturing	227.8	264.8	-14%	224.1	2%
Quarry	94.5	101.1	-7%	78.2	21%
Investment holding	0.0	1.8	-100%	2.3	-100%
Others	180.3	159.8	13%	173.5	4%
Total sales	1468.2	1280.4	15%	1263.7	16%
Pretax	RMm	RMm		RMm	
Property development	49.1	25.7	91%	23.1	113%
Property investment	33.9	53.4	-37%	67.2	-50%
Construction	44.5	44.4	0%	39.5	13%
Trading & manufacturing	10.1	9.7	4%	9.6	5%
Quarry	4.4	1.8	143%	3.5	26%
Healthcare	37.7	35.3	7%	28.8	31%
Investment holding	0.0	7.3	-100%	20.3	-100%
Others	23.3	37.5	-38%	0.0	nm
Total pretax profit	203.0	215.0		192.0	

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

BY THE NUMBERS

Profit & Loss				
(RMm)	Dec-22A	Dec-23F	Dec-24F	Dec-25F
Total Net Revenues	5,195	6,931	7,204	7,452
Gross Profit	379	2,165	2,256	2,345
Operating EBITDA	675	925	959	996
Depreciation And Amortisation	-130	-207	-207	-207
Operating EBIT	545	718	752	789
Financial Income/(Expense)	-14	-118	-110	-91
Pretax Income/(Loss) from Assoc.	351	330	364	407
Non-Operating Income/(Expense)	0	0	0	0
Profit Before Tax (pre-EI)	881	930	1,006	1,105
Exceptional Items	39	0	0	0
Pre-tax Profit	920	930	1,006	1,105
Taxation	-167	-149	-161	-177
Exceptional Income - post-tax				
Profit After Tax	753	781	845	929
Minority Interests	-76	-66	-72	-72
Preferred Dividends	0	0	0	0
FX Gain/(Loss) - post tax				
Other Adjustments - post-tax				
Net Profit	677	715	773	856
Recurring Net Profit	645	715	773	856
Fully Diluted Recurring Net Profit	645	715	773	856

Cash Flow				
(RMm)	Dec-22A	Dec-23F	Dec-24F	Dec-25F
EBITDA	675	925	959	996
Cash Flow from Invnt. & Assoc.	-351	-330	-364	-407
Change In Working Capital	-443	-162	82	-97
(Incr)/Decr in Total Provisions				
Other Non-Cash (Income)/Expense	130	207	207	207
Other Operating Cashflow	774	5	47	109
Net Interest (Paid)/Received	-202	-235	-233	-230
Tax Paid	-188	-66	-149	-161
Cashflow From Operations	395	345	550	418
Capex	-315	-200	-200	-200
Disposals Of FAs/subsidiaries	0	0	0	0
Acq. Of Subsidiaries/investments	-8	0	0	0
Other Investing Cashflow	-746	0	0	0
Cash Flow From Investing	-1,069	-200	-200	-200
Debt Raised/(repaid)	338	-100	-100	-100
Proceeds From Issue Of Shares	0	0	0	0
Shares Repurchased				
Dividends Paid	-271	-193	-209	-232
Preferred Dividends		0	0	0
Other Financing Cashflow	-250	235	233	230
Cash Flow From Financing	-183	-58	-77	-102
Total Cash Generated	-857	86	273	116
Free Cashflow To Equity	-336	45	250	118
Free Cashflow To Firm	-472	380	582	448



Balance Sheet				
(RMm)	Dec-22A	Dec-23F	Dec-24F	Dec-25F
Total Cash And Equivalents	1,957	2,044	2,317	2,433
Total Debtors	1,958	2,567	2,668	2,760
Inventories	3,280	3,191	3,319	3,430
Total Other Current Assets	685	685	685	685
Total Current Assets	7,879	8,486	8,989	9,307
Fixed Assets	1,237	1,230	1,223	1,216
Total Investments	9,344	9,673	10,037	10,444
Intangible Assets	63	63	63	63
Total Other Non-Current Assets	7,535	7,535	7,535	7,535
Total Non-current Assets	18,179	18,501	18,858	19,258
Short-term Debt	4,919	4,919	4,919	4,919
Current Portion of Long-Term Debt				
Total Creditors	2,491	2,849	3,161	3,267
Other Current Liabilities	194	278	290	306
Total Current Liabilities	7,604	8,045	8,369	8,491
Total Long-term Debt	3,537	3,437	3,337	3,237
Hybrid Debt - Debt Component				
Total Other Non-Current Liabilities	1,169	1,169	1,169	1,169
Total Non-current Liabilities	4,707	4,607	4,507	4,407
Total Provisions	186	186	186	186
Total Liabilities	12,496	12,838	13,062	13,084
Shareholders' Equity	12,529	13,051	13,615	14,240
Minority Interests	1,033	1,098	1,170	1,242
Total Equity	13,562	14,150	14,785	15,482

Key Ratios				
	Dec-22A	Dec-23F	Dec-24F	Dec-25F
Revenue Growth	39.9%	33.4%	3.9%	3.4%
Operating EBITDA Growth	31.0%	37.1%	3.6%	3.9%
Operating EBITDA Margin	13.0%	13.3%	13.3%	13.4%
Net Cash Per Share (RM)	-1.32	-1.28	-1.20	-1.16
BVPS (RM)	2.54	2.65	2.76	2.89
Gross Interest Cover	2.69	3.05	3.23	3.43
Effective Tax Rate	18.2%	16.0%	16.0%	16.0%
Net Dividend Payout Ratio	42.5%	27.0%	27.0%	27.0%
Accounts Receivables Days	156.0	119.1	133.0	132.9
Inventory Days	216.1	247.8	240.7	241.1
Accounts Payables Days	188.0	204.5	222.3	229.7
ROIC (%)	3.74%	4.40%	4.58%	4.85%
ROCE (%)	3.36%	3.72%	3.81%	3.94%
Return On Average Assets	2.83%	3.27%	3.38%	3.53%

Key Drivers				
	Dec-22A	Dec-23F	Dec-24F	Dec-25F
Property launches	N/A	3,510.0	2,500.0	2,800.0
Number of hospital beds	N/A	1,077.5	1,330.5	1,431.0
Property EBIT Margins	N/A	11.7	11.8	11.7

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

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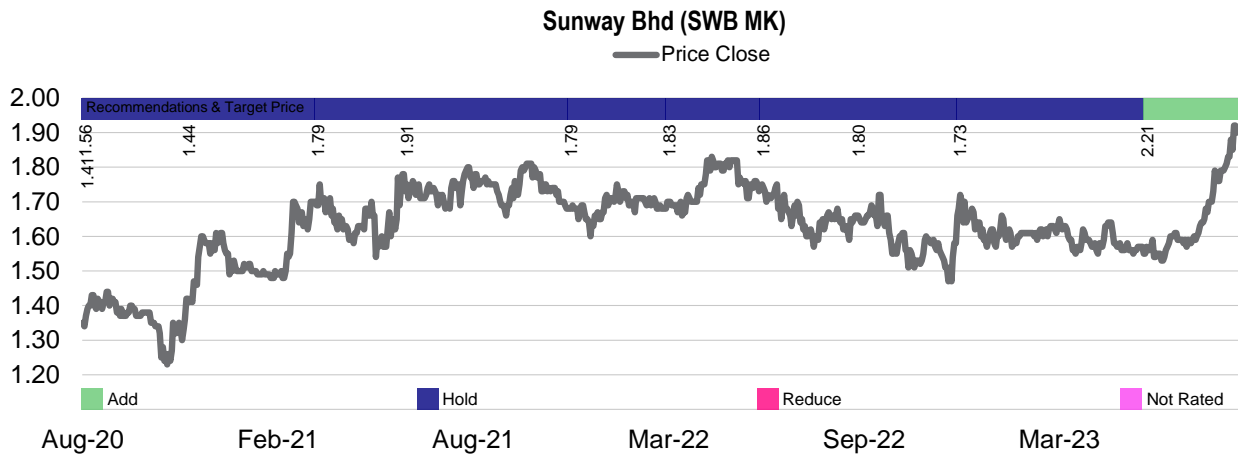
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Distribution of stock ratings and investment banking clients for quarter ended on 30 June 2023		
632 companies under coverage for quarter ended on 30 June 2023		
	Rating Distribution (%)	Investment Banking clients (%)
Add	65.3%	0.9%
Hold	25.8%	0.3%
Reduce	8.9%	0.0%

Spitzer Chart for stock being researched (2 year data)



Recommendation Framework

Stock Ratings

Definition:

Add The stock's total return is expected to exceed 10% over the next 12 months.

Hold The stock's total return is expected to be between 0% and positive 10% over the next 12 months.

Reduce The stock's total return is expected to fall below 0% or more over the next 12 months.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

Sector Ratings

Definition:

Overweight An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.

Neutral A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.

Underweight An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

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Definition:

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Underweight An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.