

HLIB Research

PP 9484/12/2012 (031413)

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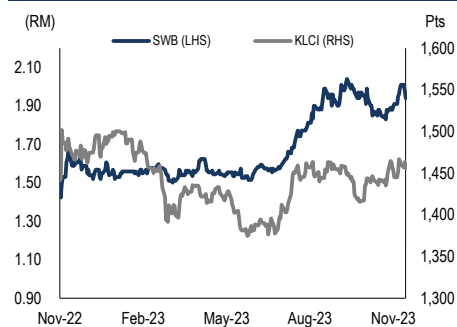
BUY (Maintain)

Target Price: RM2.76
Previously: RM2.76
Current Price: RM1.94

Capital upside	42.3%
Dividend yield	2.9%
Expected total return	45.2%

Sector coverage: Property

Company description: Sunway is a conglomerate that engages in property development, property investment, construction, leisure and hospitality, education, trading and manufacturing, building materials and healthcare.

Share price


Historical return (%)	1M	3M	12M
Absolute	3.7	2.1	28.5
Relative	2.5	1.0	27.4

Stock information

Bloomberg Ticker	SWB MK
Bursa Code	5211
Issued Shares (m)	4,960
Market cap (RM m)	9,622
3-mth avg. volume ('000)	9,069
SC Shariah-compliant	Yes
F4GBM Index member	Yes
ESG rating	★ ★ ★ ★

Major shareholders

Sungei Way Corp Sdn Bhd	57.9%
EPF	5.0%

Earnings summary

FYE (Dec)	FY22	FY23f	FY24f
PATMI – core (RM m)	575.0	595.3	638.1
EPS – core (sen)	11.6	12.0	12.9
P/E (x) – FD	16.7	16.2	15.1

Sunway

Solid quarter

Sunway reported 3Q23 core PATAMI of RM189m (+28.2% YoY), which brought 9M23 sum to RM465.2m (+19.7% YoY). The results were within our but below consensus expectations. The solid quarterly results were contributed by its property development (from lumpy profit recognition from its Singapore project), healthcare and quarry segments. We make no changes to our forecasts and maintain our BUY call with an unchanged TP of RM2.76 based on SOP-derived valuation. The group's prospects remain bright anchored by two main growth pillars, namely healthcare and property development segments.

Within ours but below consensus. Sunway reported 3Q23 core PATAMI of RM189m (+40.7% QoQ; +28.2% YoY), which brought 9M23 sum to RM465.2m (+19.7% YoY). The results were within our (78.1%) but below consensus (69.7%) full year forecasts.

Eis. 9M23 core PATAMI was arrived at after including payment to ICPS holders of RM25.7m (note that consensus figure may not include this) and excluding net Eis of -RM18.9m from provision for impairment of financial and contract assets (-RM7.1m), provision for impairment of investment in associate and inventories (-RM4.6m), write-off of trade receivables, inventories and PPE (-RM5.7m), PPE disposal gain (+RM3.9m), forex gain (+RM1.6m), net loss on derivatives and financial guarantee contracts (-RM7.1m).

Dividend. None (3Q22: none). 9M23: 2 sen (9M22: 2 sen).

QoQ. Core PATAMI increased by +42.9% due to payment to ICPS holders of RM25.7m in preceding quarter. Excluding this, core PATAMI increased by +19.3% mainly contributed by property development (+43.5% in PBT due to recognition of lumpy profit of RM46.3m from Singapore project); property investment (+63% in PBT due to higher number of visitors to theme parks and higher contribution from Sunway REIT); healthcare (+17.8% in share of net profit due to strong operational results from SMC SC and SMCV); and quarry (+1.32x in PBT due to higher sales and ASP of premix and aggregates).

YoY/YTD. Core PATAMI increased by +28.2% YoY and +19.7% YTD mainly contributed by improvement from property development segment (+96.8% YoY and +67.9% YTD in PBT due to recognition of lumpy profit of RM46.3m from Singapore project) and quarry (+4.4x YoY and +1.11x YTD in PBT due to higher sales and ASP of premix and aggregates).

Property development. In 3Q23, Sunway recorded effective new sales of RM490m (-46.7% QoQ; +18.6% YoY), which brought 9M23 sum to RM1.86bn (+52.5% YoY), making up 84.5% of its FY23 sales target of RM2.2bn. The group launched Sunway Flora Tower B, Bukit Jalil (GDV: RM304m) and Sunway Gardens Phase 3 new block (effective GDV: RM120m) in 3Q23, which brought 9M23 total effective launch amount to RM3.5bn (+5.46x YoY), matching (99.7%) its FY23 launch target of RM3.51bn.

Effective unbilled sales as at 3Q23 stood at RM4.17bn (-5.4% QoQ), representing a strong cover ratio of 3.6x of its FY22 property development revenue. The decline in unbilled sales was due to the lumpy recognition of Parc Canberra in 3Q23. As at 30 Sep 2023, the accumulated progressive profits from Parc Central Tampines amounts to RM94.7m, which is expected to be recognized in 1Q24.

Looking ahead, FY24 should see even higher contribution from the segment given lumpy recognition from Parc Central Tampines in Singapore while the progress billings from the group's newly launched Singapore projects namely Terra Hills and

The Continuum should also start contributing. Additionally, we also anticipate more launches from the group's Johor township in FY24.

Healthcare. Healthcare reported 3Q23 share of core net profit of RM44.4m (+17.8% QoQ; +7.2% YoY), which brought 9M23 sum to RM111m (+5.7% YoY). SMC SC and SMCV continue to record strong operational profits which more than mitigated the initial start-up losses from SMC Penang and Sunway Sanctuary. Operationally, the group will continue to progressively open the remaining facilities in Tower D & E from SMC SC, while SMCV Phase 2 expansion is target to open by end-FY23. The group targets to open its new hospitals SMC Damansara in 4Q24 and SMC Ipoh in 1Q25.

Property investment. Property investment segment 3Q23 core PBT declined by -20.1% YoY due to higher operating costs from (i) higher utility charges; (ii) higher manpower costs from implementation of minimum wage; and (iii) higher finance cost from increase in interest rates. We expect a seasonally stronger 4Q ahead due to year-end festivities and holidays which will benefit its theme park under the group as well as hotels and malls under SunREIT.

Construction. SunCon's current order book stands at RM5.79bn which implies a healthy cover of 2.7x on FY22 construction revenue. We expect a sequentially stronger 4Q ahead as we anticipate higher progress billings from some of its projects. For the remainder of FY23 and going into FY24, we expect the group will be able to sustain its strong contract flow stemming from potential job wins from LRT3, MRT3, Penang LRT (subcontractor), precast and data centres.

Forecast. Unchanged.

Maintain **BUY** with an unchanged **TP** of **RM2.76** based on SOP-derived valuation. The group's prospects remain bright anchored by two main growth pillars, namely healthcare and property development segments. Amid rising geopolitical tension and slowing growth globally, the stock offers a good proxy to the domestic economy which is expected to remain resilient.

Financial Forecast

All items in (RM m) unless otherwise stated

Balance Sheet

FYE Dec	FY21	FY22	FY23f	FY24f	FY25f
Cash	2,810.3	1,958.1	3,497.0	3,524.0	3,625.5
Placement in funds	98.8	535.5	535.5	535.5	535.5
Receivables	1,123.4	1,241.6	1,466.8	1,516.7	1,450.5
Inventories	670.5	697.6	872.1	901.8	862.5
Others	20,381.4	21,624.0	20,613.2	21,111.4	21,612.5
Assets	25,084.3	26,056.8	26,984.7	27,589.4	28,086.6
Payables	1,401.2	1,312.3	1,729.8	1,788.6	1,710.7
Debt	8,714.6	9,055.7	9,205.7	9,355.7	9,505.7
Others	1,846.2	2,116.2	2,116.2	2,116.2	2,116.2
Liabilities	11,962.0	12,484.2	13,051.7	13,260.6	13,332.6
Shareholder's equity	12,030.4	12,540.8	12,729.1	13,040.8	13,388.2
Minority interest	1,091.9	1,031.8	1,119.6	1,203.7	1,281.5
Perpetual bond	-	-	-	-	-
Equity	13,122.3	13,572.5	13,848.7	14,244.6	14,669.7

Cash Flow Statement

FYE Dec	FY21	FY22	FY23f	FY24f	FY25f
Profit before taxation	358.0	920.1	830.7	875.4	943.1
D&A	216.9	130.2	161.5	175.8	188.6
Working capital	(109.9)	(1,314.0)	1,483.4	(61.1)	(32.2)
Taxation	(105.3)	(170.1)	(96.3)	(101.8)	(117.6)
JV and Associates	70.0	(221.2)	(316.4)	(333.5)	(330.1)
Perpetual bond	-	-	(51.3)	(51.3)	(51.3)
Others	549.1	991.9	-	-	-
CFO	978.7	336.8	2,011.6	503.4	600.5
Capex	(580.2)	(332.0)	(300.0)	(300.0)	(300.0)
Others	(699.4)	(512.6)	-	-	-
CFI	(1,279.6)	(844.6)	(300.0)	(300.0)	(300.0)
Changes in debt	1,239.1	333.7	150.0	150.0	150.0
Shares issued	-	-	-	-	-
Dividends	(179.8)	(270.9)	(322.7)	(327.4)	(351.0)
Others	(214.4)	(387.3)	-	1.0	2.0
CFF	845.0	(324.5)	(172.7)	(176.4)	(199.0)
Net cash flow	544.1	(832.3)	1,538.9	27.0	101.5
Forex	5.3	(4.5)	-	-	-
Others	(117.7)	(133.1)	(133.1)	(133.1)	(133.1)
Beginning cash	2,378.6	2,928.0	2,091.2	3,630.1	3,657.1
Ending cash	2,810.3	1,958.1	3,497.0	3,524.0	3,625.5

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Income statement

FYE Dec	FY21	FY22	FY23f	FY24f	FY25f
Revenue	4529.3	5194.9	5040.9	5212.3	4985.1
Operating cost	(4090.3)	(4481.0)	(4393.3)	(4544.0)	(4288.0)
EBITDA	439.0	713.9	647.6	668.4	697.1
D&A	(217.1)	(130.5)	(161.5)	(175.8)	(188.6)
Net Interest	54.9	(14.5)	(84.8)	(68.6)	(18.6)
JV & Associates	81.2	351.1	429.5	451.4	453.1
Pretax profit	358.0	920.1	830.7	875.4	943.1
Taxation	(116.2)	(167.0)	(96.3)	(101.8)	(117.6)
Minority Interest	(73.7)	(76.3)	(87.8)	(84.1)	(77.8)
Holders of Perpetual	0.0	(51.3)	(51.3)	(51.3)	(51.3)
Reported PATAMI	2664.4	676.8	595.3	638.1	696.4
Exceptionals	(70.8)	50.5	0.0	0.0	0.0
Core Earning	370.3	575.0	595.3	638.1	696.4
Basic shares (m)	4960.0	4960.0	4960.0	4960.0	4960.0
Consensus core PATMI			667.6	739.8	792.7
HLIB/ Consensus			89%	86%	88%

Valuation ratios

FYE Dec	FY21	FY22	FY23f	FY24f	FY25f
Net DPS (sen)	2.5	5.5	5.6	6.0	6.5
Yield (%)	1.3	2.8	2.9	3.1	3.4
Core EPS (sen)	7.5	11.6	12.0	12.9	14.0
P/E (x)	26.0	16.7	16.2	15.1	13.8
Market capitalization (m)	9622.4	9622.4	9622.4	9622.4	9622.4
Net cash (m)	(5805.5)	(6562.2)	(5173.2)	(5296.2)	(5344.7)
Net gearing (%)	44.2%	48.3%	37.4%	37.2%	36.4%
BV / share	2.6	2.7	2.8	2.9	3.0
P/BV (x)	0.7	0.7	0.69	0.68	0.7
ROA (%)	1.5	2.2	2.2	2.3	2.5
ROE (%)	2.8	4.2	4.3	4.5	4.7
Enterprise value	15427.9	16184.5	14795.6	14918.5	14967.1
EV/ EBITDA (x)	35.1	22.7	22.8	22.3	21.5

Figure #1 Quarterly results comparison

FYE Dec (RM m)	3Q22	2Q23	3Q23	QoQ	YoY	9M22	9M23	YoY
Revenue	1,270.5	1,232.4	1,539.1	4.8%	21.1%	3,663.4	4,271.0	16.6%
Property Development	278.1	362.1	309.5	-14.5%	11.3%	722.7	919.4	27.2%
Property Investment	188.6	199.4	232.8	16.8%	23.4%	459.3	642.1	39.8%
Construction	305.1	404.1	424.0	4.9%	39.0%	990.6	1,156.0	16.7%
Trading/Manufacturing	198.8	227.8	242.6	6.5%	22.0%	668.7	694.5	3.9%
Quarry	105.6	94.5	148.8	57.5%	40.9%	282.8	321.5	13.7%
Investment	9.2	1.9	12.9	571.1%	41.0%	12.8	17.1	33.1%
Others	185.2	178.4	168.5	-5.5%	-9.0%	526.5	520.4	-1.2%
EBIT	132.4	140.0	119.1	-14.9%	-10.0%	370.8	372.5	0.5%
Net Interest	(1.5)	(14.6)	(28.0)	92.3%	1781.2%	(13.9)	(46.7)	236.5%
Share of Associates/JCE	92.9	77.6	156.7	102.0%	68.7%	269.0	317.0	17.9%
PBT	223.8	203.0	247.8	22.1%	10.7%	625.9	642.8	2.7%
Property Development	35.8	49.1	70.4	43.5%	96.8%	84.9	142.6	67.9%
Property Investment	85.7	33.9	55.2	63.0%	-35.6%	184.1	156.3	-15.1%
Construction	35.6	44.5	51.1	14.7%	43.5%	127.8	135.1	5.7%
Trading/Manufacturing	12.4	10.1	13.4	32.9%	8.5%	32.4	33.1	2.4%
Quarry	1.9	4.4	10.2	131.7%	439.5%	8.6	18.1	111.5%
Healthcare	41.4	37.7	44.4	17.8%	7.2%	105.0	111.0	5.7%
Investment	(6.1)	8.6	(1.5)	NM	NM	12.4	13.8	11.0%
Others	17.1	14.7	4.5	-69.2%	-73.6%	70.7	32.9	-53.5%
PAT	182.2	172.2	207.3	20.3%	13.8%	532.6	538.2	1.1%
MI	(17.5)	(22.3)	(27.0)	21.0%	54.4%	(58.9)	(66.4)	12.7%
Payment to ICPS holders	-	(25.7)	-	NM	NM	(25.7)	(25.7)	0.0%
PATAMI	164.7	149.9	180.3	20.3%	9.5%	473.7	471.9	-0.4%
EI	17.3	(10.5)	(8.7)	-17.7%	-150.2%	59.5	(18.9)	-131.9%
Core Earnings	147.5	134.8	189.0	40.2%	28.2%	388.6	465.2	19.7%

				ppts change	ppts change			ppts change
EBIT margin	10.4%	9.5%	7.7%	(1.8)	(2.7)	10%	9%	(1.4)
PBT margin	17.6%	13.8%	16.1%	2.3	(1.5)	17%	15%	(2.0)
PAT margin	11.6%	9.2%	12.3%	3.1	0.7	11%	11%	0.3

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Figure #2 SOP table

Division	Stake	Value (RM m)	RM/share	Methodology
Construction (SunCon)	54.56%	1,456	0.30	based on TP of RM 2.07
Sunway REIT	40.88%	2,646	0.54	based on TP of RM 1.89
Property Development & Investment	100%	5,150	1.06	based on 65% discount to RNAV
Healthcare	84%	4,471	0.92	25x FY24 P/E
Trading/Manufacturing	100%	260	0.05	8X trailing P/E
Quarry	100%	63	0.01	8X trailing P/E
		14,046	2.88	
Holding Company Net Debt		(589)	(0.12)	
Equity Value (RM)		13,457	2.76	

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Stock rating guide

BUY	Expected absolute return of +10% or more over the next 12 months.
HOLD	Expected absolute return of -10% to +10% over the next 12 months.
SELL	Expected absolute return of -10% or less over the next 12 months.
UNDER REVIEW	Rating on the stock is temporarily under review which may or may not result in a change from the previous rating.
NOT RATED	Stock is not or no longer within regular coverage.

Sector rating guide

OVERWEIGHT	Sector expected to outperform the market over the next 12 months.
NEUTRAL	Sector expected to perform in-line with the market over the next 12 months.
UNDERWEIGHT	Sector expected to underperform the market over the next 12 months.

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