

**HLIB Research**

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Tan Kai Shuen, CFA

[kstan@hlib.hongleong.com.my](mailto:kstan@hlib.hongleong.com.my)

(603) 2083 1714

**BUY** (Maintain)

**Target Price: RM2.65**

**Previously: RM2.65**

**Current Price: RM1.55**

Capital upside 71.0%

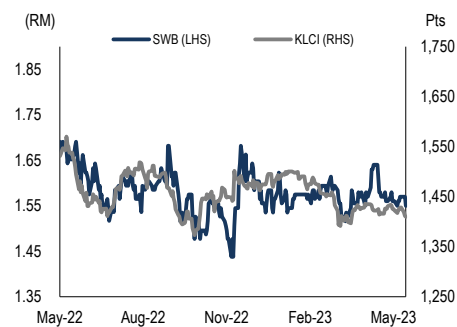
Dividend yield 3.6%

Expected total return 74.6%

**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	-5.5	-4.9	-11.4
Relative	-4.4	-1.7	-3.5

**Stock information**

Bloomberg Ticker	SWB MK
Bursa Code	5211
Issued Shares (m)	4,955
Market cap (RM m)	7,680
3-mth avg. volume ('000)	3,326
SC Shariah-compliant	Yes
F4GBM Index member	Yes
ESG rating	★★★

**Major shareholders**

Sungei Way Corp Sdn Bhd	57.9%
EPF	8.7%

**Earnings summary**

FYE (Dec)	FY22	FY23f	FY24f
PATMI – core (RM m)	575.0	595.3	636.8
EPS – core (sen)	11.6	12.0	12.9
P/E (x) – FD	13.4	12.9	12.1

# Sunway

## An encouraging start

Sunway reported 1Q23 core PATAMI of RM141.8m (-23.8% QoQ; +14.3% YoY), which were within expectations. In FY23, the group is scaling up growth through higher launches in property development and expanding its hospital capacity. Post annual report update, we tweaked our FY23/24 forecasts by -1.8%/+1.5% and introduce FY25 forecast. Maintain BUY with TP of RM2.65 based on SOP-derived valuation. The group has multi levers of growth, particularly with its fast expanding crown jewel, healthcare segment. Sunway remains our top pick given its synergistic business model with well-integrated property, construction and building material operations.

**Within expectations.** Sunway reported 1Q23 core PATAMI of RM141.8m (-23.8% QoQ; +14.3% YoY). The results were within our (23.4%) and consensus (21.4%) expectations. 1Q23 core PATAMI was arrived at after excluding net EIs of -RM0.2m from provision for impairment of financial & contract assets (-RM1.5m), provision for impairment of inventories (-RM673k), write-off of trade receivables, inventories and PPE (-RM313k), PPE disposal gain (+RM2.0m) and forex gain (+RM354k).

**Dividend.** None (1Q22: none).

**QoQ.** Core PATAMI declined by -23.8% mainly due to property development (-67.2% in PBT) and construction (-32.7% in PBT). The decline in property development was due to (i) higher revenue recognition in preceding quarter from the acceleration of progress billings during the completion of Sunway Serene; and (ii) higher EBIT margin in preceding quarter as there were cost-savings realized upon completion of Sunway Serene. Additionally, the group also incurred higher marketing expenses during 1Q23 to drive sales for its ongoing local projects. The decline in construction was due to higher EBIT margin in preceding quarter as there were some upward margin recalibration for projects nearing completion.

**YoY.** Core PATAMI increased by +14.3% mainly due to improvement in property investment (+49.4% in PBT), which more than offset the decline in construction (-17.4% in PBT). The improvement in property investment was due to higher number of visitors to its theme park and higher occupancy rates for its hotel assets. The decline in construction was due to lower progress billings as some local projects are in the initial stage of construction schedules.

**Property development.** In 1Q23, Sunway recorded effective new sales of RM450m (-16.7% QoQ; +12.5% YoY), representing 20.5% of its initial FY23 sales target of RM2.2bn. The group launched RM1.07bn of products in 1Q23, including (i) Sunway Flora, KL (GDV: RM300m); (ii) Sunway Dora, Penang (GDV: RM70m); and (iii) Terra Hills, Singapore (effective GDV: RM700m). Collectively, this made up 30.5% of its FY23 launch target of RM3.51bn. The group recently launched The Continuum in Singapore with effective GDV of RM2bn in Apr 2023.

Unbilled sales as at 1Q23 stood at RM3.91bn (+2.4% QoQ), representing a strong cover ratio of 3.4x of its FY22 property development revenue. 60.9% of its unbilled sales came from its Singapore projects (Parc Canberra and Parc Central Tampines), which we expect will be recognized towards end-FY23 or early-FY24 with an estimated sizeable collective net profit contribution of RM150-160m. Excluding these two projects, unbilled sales stood at RM1.53bn (1.3x cover). The property development segment should return in focus for FY23 given the scale up in launches and the upcoming lumpy contribution from its Singapore EC projects.

**Healthcare.** Healthcare reported 1Q23 share of core net profit of RM28.8m (-17.7% QoQ; +2.1% YoY). The lower QoQ performance was due to higher utility and staff

costs, whereby the latter was due to additional headcounts hired in preparation for the opening of new hospital towers in SMC SCKL. Particularly noteworthy is that SMC Penang's losses narrowed sharply to -RM2.2m (from -RM8.4m in preceding quarter), despite the fact that the hospital was newly opened in Nov 2022. The group attributed the impressive performance to the sharp increase in operating revenue for the hospital.

Operationally, the group recently opened its paediatric facilities in SMC SCKL housed under the new towers – Tower D & E. The group will be progressively opening the remaining facilities in the new towers. The new senior living Sunway Sanctuary in Tower D is also expected to be opened soon, while SMCV Phase 2 construction is expected to be completed by end-FY23.

**Property investment.** We expect the segment to remain steady supported by domestic demand and inbound tourist arrivals. For SunREIT, it should see further improvement in upcoming quarters stemming from (i) reopening of the remaining room inventory in Sunway Resort; and (ii) positive rental reversion from its retail malls.

**Construction.** SunCon current order book stands at RM6bn which implies a healthy cover of 2.8x on FY22 construction revenue. We expect stronger performance in 2H23 as recognition from its data centre project scales up. We believe SunCon is on the brink of converting its massive ~RM6bn VN power plant job into active orderbook (possibly in late 3QCY23 – pending financial close). The project owner recently received indicative terms & conditions for its syndicated loan and could achieve financial close once signed and finalised.

**Forecast.** Post annual report update, we tweaked our FY23/24 forecasts by -1.8%/+1.5% and we introduce FY25 forecast.

Maintain **BUY** with an unchanged **TP** of **RM2.65** based on SOP-derived valuation. The group has multi levers of growth, particularly with its fast expanding crown jewel, healthcare segment. By investing in the stock, investors could take advantage to gain an early exposure to its healthcare segment prior to its value unlocking exercise through IPO listing. The segment at this juncture continues to be undervalued but we believe it should be re-rated in due time as it increasingly draw investor's focus given strong healthcare demand and as the earnings from this segment filters through. Sunway remains our top pick given its synergistic business model with well-integrated property, construction and building material operations.

## 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	3,447.4	3,473.1	3,572.6
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
<b>Assets</b>	<b>25,084.3</b>	<b>26,056.8</b>	<b>26,935.1</b>	<b>27,538.5</b>	<b>28,033.7</b>
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
<b>Liabilities</b>	<b>11,962.0</b>	<b>12,484.2</b>	<b>13,051.7</b>	<b>13,260.6</b>	<b>13,332.6</b>
Shareholder's equity	12,030.4	12,540.8	12,679.5	12,989.9	13,335.4
Minority interest	1,091.9	1,031.8	1,119.6	1,203.7	1,281.5
Perpetual bond	-	-	-	-	-
<b>Equity</b>	<b>13,122.3</b>	<b>13,572.5</b>	<b>13,799.1</b>	<b>14,193.6</b>	<b>14,616.9</b>

### Cash Flow Statement

FYE Dec	FY21	FY22	FY23f	FY24f	FY25f
Profit before taxation	358.0	920.1	830.7	873.6	-
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)	(101.3)	(116.7)
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	-	-	939.6
<b>CFO</b>	<b>978.7</b>	<b>336.8</b>	<b>2,011.6</b>	<b>502.1</b>	<b>597.8</b>
Capex	(580.2)	(332.0)	(300.0)	(300.0)	(300.0)
Others	(699.4)	(512.6)	-	-	-
<b>CFI</b>	<b>(1,279.6)</b>	<b>(844.6)</b>	<b>(300.0)</b>	<b>(300.0)</b>	<b>(300.0)</b>
Changes in debt	1,239.1	333.7	150.0	150.0	150.0
Shares issued	-	-	-	-	-
Dividends	(179.8)	(270.9)	(372.3)	(327.4)	(350.3)
Others	(214.4)	(387.3)	-	1.0	2.0
<b>CFF</b>	<b>845.0</b>	<b>(324.5)</b>	<b>(222.3)</b>	<b>(176.4)</b>	<b>(198.3)</b>
<b>Net cash flow</b>	<b>544.1</b>	<b>(832.3)</b>	<b>1,489.4</b>	<b>25.7</b>	<b>99.5</b>
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	3,580.5	3,606.2
Ending cash	2,810.3	1,958.1	3,447.4	3,473.1	3,572.6

### Income statement

FYE Dec	FY21	FY22	FY23f	FY24f	FY25f
<b>Revenue</b>	<b>4529.3</b>	<b>5194.9</b>	<b>5040.9</b>	<b>5212.3</b>	<b>4985.1</b>
Operating cost	(4090.3)	(4481.0)	(4393.3)	(4544.0)	(4288.0)
<b>EBITDA</b>	<b>439.0</b>	<b>713.9</b>	<b>647.6</b>	<b>668.4</b>	<b>697.1</b>
D&A	(217.1)	(130.5)	(161.5)	(175.8)	(188.6)
Net Interest	54.9	(14.5)	(84.8)	(70.3)	(22.1)
JV & Associates	81.2	351.1	429.5	451.4	453.1
<b>Pretax profit</b>	<b>358.0</b>	<b>920.1</b>	<b>830.7</b>	<b>873.6</b>	<b>939.6</b>
Taxation	(116.2)	(167.0)	(96.3)	(101.3)	(116.7)
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	636.8	693.7
Exceptionals	(70.8)	50.5	0.0	0.0	0.0
<b>Core Earning</b>	<b>370.3</b>	<b>575.0</b>	<b>595.3</b>	<b>636.8</b>	<b>693.7</b>
Basic shares (m)	4954.6	4954.6	4954.6	4954.6	4954.6
Consensus core PATMI			661.3	697.9	746.4
HLIB/ Consensus			90%	91%	93%

### Valuation ratios

FYE Dec	FY21	FY22	FY23f	FY24f	FY25f
Net DPS (sen)	2.5	6.3	5.6	6.0	6.5
Yield (%)	1.6	4.1	3.6	3.9	4.2
Core EPS (sen)	7.5	11.6	12.0	12.9	14.0
P/E (x)	20.7	13.4	12.9	12.1	11.1
Market capitalization (m)	7679.7	7679.7	7679.7	7679.7	7679.7
Net cash (m)	(5805.5)	(6562.2)	(5222.8)	(5347.1)	(5397.6)
Net gearing (%)	44.2%	48.3%	37.8%	37.7%	36.9%
BV / share	2.6	2.7	2.8	2.9	3.0
P/BV (x)	0.6	0.6	0.6	0.5	0.5
ROA (%)	1.5	2.2	2.2	2.3	2.5
ROE (%)	2.8	4.2	4.3	4.5	4.7
Enterprise value	13485.2	14241.8	12902.5	13026.8	13077.3
EV/ EBITDA (x)	30.7	19.9	19.9	19.5	18.8

**Figure #1** Quarterly results comparison

FYE Dec (RM m)	1Q22	4Q22	1Q23	QoQ	YoY
Revenue	1,112.5	1,295.8	1,263.7	-17.5%	13.6%
Property Development	158.2	442.7	247.8	-44.0%	56.6%
Property Investment	121.1	230.7	209.9	-9.0%	73.3%
Construction	368.6	291.0	327.9	12.7%	-11.0%
Trading/Manufacturing	205.0	233.5	224.1	-4.0%	9.3%
Quarry	76.2	123.4	78.2	-36.6%	2.7%
Investment	1.9	6.5	2.3	-64.9%	20.4%
Others	181.5	204.0	173.5	-14.9%	-4.4%
EBIT	67.4	212.7	113.4	-46.7%	68.2%
Net Interest	15.8	(0.6)	(4.1)	NM	NM
Share of Associates/JCE	99.2	81.8	82.7	1.1%	-16.6%
PBT	182.4	293.9	192.0	-34.7%	5.3%
Property Development	23.4	70.4	23.1	-67.2%	-1.5%
Property Investment	45.0	52.8	67.2	27.5%	49.4%
Construction	47.8	58.7	39.5	-32.7%	-17.4%
Trading/Manufacturing	10.3	9.1	9.6	5.7%	-6.8%
Quarry	4.9	5.1	3.5	-31.8%	-28.0%
Healthcare	28.2	35.0	28.8	-17.7%	2.1%
Investment	11.3	11.4	6.6	-41.9%	-41.3%
Others	16.2	14.7	13.7	-7.2%	-15.5%
PAT	155.6	220.2	158.8	-27.9%	2.0%
MI	(19.1)	(17.2)	(17.1)	-0.7%	-10.2%
Payment to ICPS holders	-	(25.7)	-	NM	NM
PATAMI	136.5	203.0	141.6	-30.2%	3.8%
EI	12.4	(8.9)	(0.2)	NM	NM
<b>Core Earnings</b>	124.1	186.2	141.8	-23.8%	14.3%
				<i>ppts change</i>	<i>ppts change</i>
EBIT margin	6.1%	13.9%	9.0%	(4.9)	2.9
PBT margin	16.4%	19.2%	15.2%	(4.0)	(1.2)
PAT margin	11.2%	12.2%	11.2%	(0.9)	0.1

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**Figure #2** SOP table

Division	Stake	Value (RM m)	RM/share	Methodology
Construction (SunCon)	54.56%	1,365	0.28	Based on TP of RM 1.94
Sunway REIT	40.88%	2,618	0.54	Based on TP of RM 1.87
Property Development & Investment	100%	4,720	0.97	Discounted 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
		13,496	2.77	
Holding Company Net Debt		(589)	(0.12)	
<b>Equity Value (RM)</b>		<b>12,907</b>	<b>2.65</b>	

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**Published & printed by:**

**Hong Leong Investment Bank Berhad (10209-W)**

Level 28, Menara Hong Leong,

No. 6, Jalan Damanlela,

Bukit Damansara,

50490 Kuala Lumpur

Tel: (603) 2083 1800

Fax: (603) 2083 1766

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

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

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