

Sunway Berhad

Delays in Recognition to Hurt FY23

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SUNWAY's 9MFY23 core net profit (+13% YoY) missed expectations as lumpy recognitions from the completion of a Singapore-based project is unlikely to materialise in 4QFY23. That said, this will translate to an enlarged 1QFY24. As such, our FY23F/FY24F forecasts are adjusted by -15%/+14%. We remain confident on its other key sectors driven by steady operating conditions supported by its solid brand equity. Maintain OUTPERFORM and SoP-TP of RM2.27. SUNWAY is one of our 4QCY23 Top Picks.

Below expectations. SUNWAY's 9MFY23 core net profit of RM420.5m was below expectations, making up 58% of our full-year forecast and 63% of consensus full-year estimate. We were awaiting a lumpy profit recognition from the completion of an executive condominium project in Singapore by 4QFY23, which has been delayed to 1QFY24. The expected profit contributions from here would have been c.RM90m.

YoY, 9MFY23 revenue rose by 17% on the back of better performance across all key business segments. Notably, its lion's share property development (+27%) and construction (+17%) divisions benefited from higher completion rates and progress billings. Meanwhile, the group's property investment segment (+40%) gained from greater spending towards its leisure and hospitality offerings. That said, operating profit only grew by 4% as margins were pressed by an overall higher cost environment (8.7%,-1.1ppt), likely dragged by wage hikes. While the group also sustained higher interest costs due to interest rate increases, joint venture performances improved thanks to lumpier property-related profit recognitions (albeit not in its entirety). All in, core net profit came in at RM420.5m (+13%) after accounting for preferential distributions.

Outlook. Overall, we anticipate SUNWAY to deliver sustained performances across the board. Its property development arm will likely be supported by strategic launches in matured townships while building up on existing ones. We also anticipate its Singapore projects to contribute well into FY24 with several key projects due for completion, making up more than half of its RM4.6b unbilled sales in 3QFY23. Its outstanding construction orderbook sits at RM5.8b and may be kept busier by more infrastructure projects going forward. While some may tout on inflationary pressures affecting consumer spending, we believe the group's diversified property investment portfolio will keep contributions steady, with a weakening MYR possibly able to draw tourists. On its healthcare joint venture, we expect results to see an expansion as more hospitals are due to open in the next two years.

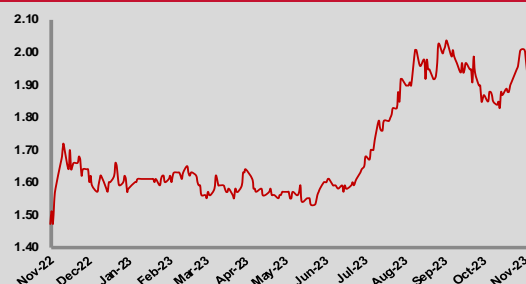
Forecast. Post results, we slash our FY23F earnings by 15% on the back of the delayed profit recognition for a Singaporean property development. However, as profit recognition spills over to FY24, we raise the earnings forecast by 14%.

Maintain OUTPERFORM and SoP-driven TP of RM2.27. We continue to like SUNWAY for: (i) its healthy pipeline of medical centres located within brownfield townships, (ii) quick turnaround model for its property development arm, and (iii) a diversified range of investment assets which provides stable earnings base. We opine that its strong brand equity could also enable demand for the group's products and services to be sustained. There is no adjustment to our TP based on ESG given a 3-star rating as appraised by us. **SUNWAY is one of our 4QCY23 Top Picks.**

OUTPERFORM ↔

Price : **RM1.94**
Target Price : **RM2.27** ↔

Share Price Performance



KLCI	1,455.89
YTD KLCI chg	-2.6%
YTD stock price chg	19.8%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	SWB MK Equity
Market Cap (RM m)	9,622.4
Shares Outstanding	4,960.0
52-week range (H)	2.04
52-week range (L)	1.47
3-mth avg. daily vol.	9,068,753
Free Float	26%
Beta	0.8

Major Shareholders

Sungei Way Corp SdnBhd	57.9%
Employees Provident Fund	5.0%
Active Equity SdnBhd	3.4%

Summary Earnings Table

FYE Dec (RM m)	2022A	2023F	2024F
Turnover	4,900	5,441	5,735
Operating Profit	436	551	619
Profit Before Tax	761	893	1,169
Net Profit	550	665	898
Core Net Profit*	499	613	847
Consensus (NP)	-	668	740
Earnings Revision	-	-15%	+14%
Core EPS (sen)	10.1	12.4	17.2
Core EPS growth (%)	52.2	22.9	38.1
NDPS (sen)	3.0	5.0	5.0
NTA per Share (RM)	2.51	2.58	2.71
Price to NTA (x)	0.77	0.75	0.72
PER (x)	19.2	15.6	11.3
Net Gearing ratio (x)	0.47	0.48	0.40
Return on Asset (%)	2.0	2.4	3.2
Return on Equity (%)	4.0	4.8	6.3
Net Div. Yield (%)	1.5	2.6	2.6

* Defined as core earnings attributable to ordinary shareholders excluding preferential dividends owing to ICPS issuances

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Risks to our call include: (i) a prolonged slowdown in the property, hospitality and MICE sectors, (ii) rising mortgage rates eroding affordability, and (iii) changes to urban development policies in the Klang Valley.

Results Highlight

	3Q	2Q	QoQ	3Q	YoY	9M	9M	YoY
FYE Dec (RM m)	FY23	FY23	Chg	FY22	Chg	FY23	FY22	Chg
Revenue	1,539.1	1,468.2	4.8%	1,270.5	21.1%	4,271.0	3,663.4	16.6%
Operating Expenses	-1,428.9	-1,349.8	5.9%	-1,176.2	21.5%	-3,965.9	-3,446.2	15.1%
Other Operating Income	14.3	21.8	-34.5%	42.5	-66.4%	74.4	149.6	-50.2%
Net Impairment Losses	-5.4	-0.2	N.M.	-3.1	74.1%	-7.1	-9.0	-21.9%
Operating Profit	119.1	140.0	-14.9%	133.8	-10.9%	372.5	357.7	4.1%
Net Interest Income/(Expense)	-28.0	-14.6	92.3%	-1.5	1781.2%	-46.7	-13.9	236.5%
Associates/Joint Ventures	156.7	77.6	102.0%	92.9	68.7%	317.0	269.0	17.9%
Profit before tax	247.8	203.0	22.1%	225.2	10.1%	642.8	612.8	4.9%
Taxation	-40.5	-30.8	31.6%	-41.9	-3.3%	-104.6	-90.1	16.0%
Minority Interest	-27.0	-22.3	21.0%	-17.5	54.4%	-66.4	-58.9	12.7%
Net Profit	180.3	149.9	20.3%	165.8	8.8%	471.9	463.8	1.7%
Core Net Profit	154.6	149.9	3.1%	113.5	36.3%	420.5	371.4	13.2%
Operating Margin	7.7%	9.5%		10.5%		8.7%	9.8%	
Pretax Margin	16.1%	13.8%		17.7%		15.1%	16.7%	
Net Margin	10.0%	10.2%		8.9%		9.8%	10.1%	
Effective Tax Rate	16.4%	15.2%		18.6%		16.3%	14.7%	
Net Gearing	0.54	0.50		0.45		0.54	0.45	

Source: Company, Kenanga Research

Segmental Breakdown

	3Q	2Q	QoQ	3Q	YoY	9M	9M	YoY
FYE Dec (RM m)	FY23	FY23	Chg	FY22	Chg	FY23	FY22	Chg
Revenue								
Property Development	309.5	362.1	-14.5%	278.1	11.3%	919.4	722.7	27.2%
Property Investment	232.8	199.4	16.8%	188.6	23.4%	642.1	459.3	39.8%
Construction	424.0	404.1	4.9%	305.1	39.0%	1,156.0	990.6	16.7%
Trading and Manufacturing	242.6	227.8	6.5%	198.8	22.0%	694.5	668.7	3.9%
Quarry	148.8	94.5	57.5%	105.6	40.9%	321.5	282.8	13.7%
Healthcare	0.0	0.0	N.M.	0.0	N.M.	0.0	0.0	N.M.
Investment Holdings	0.0	0.0	N.M.	0.0	N.M.	0.0	0.0	N.M.
Others	181.4	180.3	0.6%	194.3	-6.7%	537.5	539.3	-0.3%
Total Revenue	1,539.1	1,468.2	4.8%	1,270.5	21.1%	4,271.0	3,663.4	16.6%
Profit Before Tax								
Property Development	70.4	49.1	43.5%	35.8	96.8%	142.6	84.9	67.9%
Property Investment	55.2	33.9	63.0%	85.7	-35.6%	156.3	184.1	-15.1%
Construction	51.1	44.5	14.7%	35.6	43.5%	135.1	127.8	5.7%
Trading and Manufacturing	13.4	10.1	32.9%	12.4	8.5%	33.1	32.4	2.4%
Quarry	10.2	4.4	131.7%	1.9	439.5%	18.1	8.6	111.5%
Healthcare	44.4	37.7	17.8%	41.4	7.2%	111.0	105.0	5.7%
Investment Holdings	0.0	0.0	N.M.	0.0	N.M.	0.0	0.0	N.M.
Others	3.0	23.3	-87.1%	12.4	-75.6%	46.6	70.0	-33.4%
Total Profit Before Tax	247.8	203.0	22.1%	225.2	10.1%	642.8	612.8	4.9%
Pre-tax Margin								
Property Development	22.8%	13.6%		12.9%		15.5%	11.7%	
Property Investment	23.7%	17.0%		45.4%		24.3%	40.1%	
Construction	12.1%	11.0%		11.7%		11.7%	12.9%	
Trading and Manufacturing	5.5%	4.4%		6.2%		4.8%	4.8%	
Quarry	6.9%	4.7%		1.8%		5.6%	3.0%	
Healthcare	N.M.	N.M.		N.M.		N.M.	N.M.	
Investment Holdings	N.M.	N.M.		N.M.		N.M.	N.M.	
Others	1.7%	12.9%		6.4%		8.7%	13.0%	
Total Pre-tax Margin	16.1%	13.8%		17.7%		15.1%	16.7%	

Source: Company, Kenanga Research

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SUNWAY's SOP		
Segment	Value (RM m)	Valuation basis
Property Development	2,685.9	55% discount to RNAV
Property Investment (backed by 40.9%-owned associate Sunway REIT)	3,104.5	Kenanga's TP of RM1.93 for SREIT
Construction (via 54.4%-owned Sunway Construction)	1,487.0	Kenanga's TP of RM2.12 for SunCon
Trading & Manufacturing	315.0	P/E of 10x on FY22 earnings
Quarry	115.5	P/E of 12x on FY22 earnings
Healthcare	6,191.9	30x on FY22 EV/EBITDA
Investment Holdings & Others	147.0	P/E of 7x on FY22 earnings
Net cash / (debt) at holding company level	(589.3)	As at 31 Dec 2022
Aggregate Valuation	13,457.6	
No of shares (m)	5,932.4	
RNAV per share (RM)	2.27	

Source: Company, Kenanga Research

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Peer Table Comparison

Name	Rating	Last Price (RM)	Target Price (RM)	Upside (%)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x)-Core Earnings		PBV (x)	ROE (%)	Net Div. (sen)	Net Div Yld (%)
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
PROPERTY																	
ECO WORLD DEVELOPMENT GROUP	MP	1.05	1.03	-1.9%	3,091.6	Y	10/2023	8.3	8.4	2.1%	1.5%	12.7	12.5	0.6	5.0%	5.0	4.8%
IOI PROPERTIES GROUP BHD	OP	1.71	1.75	2.3%	9,415.5	N	06/2024	14.1	14.4	23.5%	2.0%	12.1	11.9	0.4	3.4%	4.5	2.6%
MAH SING GROUP BHD	OP	0.855	1.00	17.0%	2,075.7	Y	12/2023	8.0	8.2	13.2%	3.6%	10.7	10.4	0.6	5.3%	4.0	4.7%
MKH BHD	OP	1.42	2.15	51.4%	819.9	Y	09/2023	13.8	20.3	-27.9%	47.3%	10.3	7.0	0.4	4.1%	5.5	3.9%
S P SETIA BHD	UP	0.845	0.680	-19.5%	3,509.4	Y	12/2023	3.3	5.7	29.8%	73.9%	25.7	14.8	0.2	1.8%	2.0	2.4%
SIME DARBY PROPERTY BHD	MP	0.595	0.660	10.9%	4,046.5	Y	12/2023	4.1	4.6	-16.5%	11.3%	14.4	13.0	0.4	3.0%	2.0	3.4%
SUNWAY BHD	OP	1.94	2.27	17.0%	9,622.4	Y	12/2023	10.3	14.3	22.9%	38.1%	18.8	13.6	0.9	5.3%	5.0	2.6%
UOA DEVELOPMENT BHD	MP	1.75	1.77	1.1%	4,358.2	Y	12/2023	8.9	10.2	-2.7%	14.4%	19.6	17.1	0.8	3.8%	10.0	5.7%
SECTOR AGGREGATE					36,939.2					9.9%	18.1%	14.6	12.3	0.5	4.0%		3.7%

Source: Kenanga Research

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Stock ESG Ratings:

	Criterion	Rating				
GENERAL	Earnings Sustainability & Quality	★	★	★		
	Community Investment	★	★	★		
	Workers Safety & Wellbeing	★	★	★		
	Corporate Governance	★	★	☆		
	Anti-Corruption Policy	★	★	☆		
	Emissions Management	★	★	☆		
SPECIFIC	Product Quality & Safety	★	★	★	★	
	Effluent/Water Management	★	★	★		
	Waste Management	★	★	★		
	Biodiversity & Conservation	★	★	★	☆	
	Green Building	★	★	★		
	Supply Chain Management	★	★	★		
	OVERALL		★	★	★	

☆ denotes half-star
★ -10% discount to TP
★★ -5% discount to TP
★★★ TP unchanged
★★★★ +5% premium to TP
★★★★★ +10% premium to TP

Stock Ratings are defined as follows:**Stock Recommendations**

OUTPERFORM : A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM : A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM : A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT : A particular sector's Expected Total Return is MORE than 10%
NEUTRAL : A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT : A particular sector's Expected Total Return is LESS than -5%

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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