

23 November 2023

Property | Real Estate

## Sunway (SWB MK)

**Buy** (Maintained)

### Strong JV Income In 3Q23; BUY

Target Price (Return): MYR2.65 (+37%)  
 Price (Market Cap): MYR1.94 (USD2,068m)  
 ESG score: 3.4 (out of 4)  
 Avg Daily Turnover (MYR/USD) 16.5m/3.54m

- Maintain BUY, with new TP of MYR2.65 from MYR2.67, 37% upside and c.3% yield.** Sunway's 3Q23 results were below our, but within Street estimates. 3Q23 earnings saw the recognition of development profit as Parc Canberra in Singapore was completed. Meanwhile, 9M23 property sales hit MYR2.09bn, well on track to achieve management's MYR2.3bn target by December. Note, our TP is slightly lower as we removed the incremental value from Batu Kawan Industrial Park 2 in our RNAV estimate as the project has been called off.
- 3Q23 results.** While property development division saw weaker EBIT as progress billings were slower among the local projects, other divisions all reported stronger earnings. We also highlight that, JV income during the quarter was much stronger, mainly due to the recognition of MYR46.3m development profit as Parc Canberra in Singapore was completed, as well as higher growth from the healthcare segment. Income from both Sunway Medical Centre (SMC) Sunway City and SMC Velocity was sufficiently strong and able to mitigate the start-up operational losses from SMC Penang and Sunway Sanctuary. Note, the share of start-up losses of SMC Penang has increased to MYR1.6m from MYR1.3m in 2Q23 (MYR2.2m loss in 1Q23), due to higher staff cost and depreciation charges.
- Singapore project driving FY23 sales.** New property sales achieved MYR590m, vs MYR1bn in 2Q23. Of the 9M total sales of MYR2.09bn, projects in Singapore contributed MYR908m. Take-up rates for Terra Hills and The Continuum, launched in Feb and Apr this year, improved slightly to 39% and 33% (from 36% and 27% in 2Q23), possibly due to the tightening measures announced in 2Q23. For Malaysia, the key contributors were Velocity TWO (MYR229m) and Sunway Flora Residences in Bukit Jalil (MYR226m). Sales for a few projects launched this year saw encouraging demand. Take up rate (inclusive of bookings) for Sunway Flora, Sunway Dora in Bayan Baru, and Sunway Aviana in Iskandar Puteri reached 79%, 74% and 57%. Sales for Jernih Residence in Kajang and Sunway Alishan in Cheras, however, saw some marginal improvement, they are now 55% and 42% sold, vs 48% and 39% in 2Q23.
- Forecasts.** We lower our FY23F-25F earnings by 3-7%. In the pipeline, Parc Central is expected to be completed in 1Q24, and the accumulated progressive profit from this project is now at MYR94.7m. Unbilled sales and outstanding construction orderbook stood at MYR4.64bn and MYR5.8bn vs MYR4.86bn and MYR5.8bn in 2Q23.
- Lower TP.** Our TP, derived from a lower SOP valuation, includes a 8% ESG premium given our 3.4 ESG score for the company.

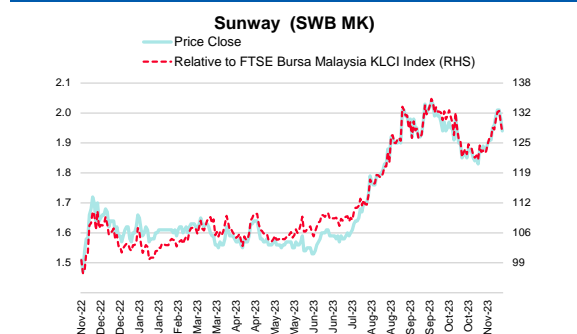
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#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	19.8	3.7	2.1	23.6	28.5
Relative	22.5	2.7	1.8	21.0	27.5
52-wk Price low/high (MYR)	1.47 – 2.04				



Source: Bloomberg

Forecasts and Valuation	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Total turnover (MYRm)	3,714	5,195	5,766	6,149	6,583
Recurring net profit (MYRm)	265	677	699	747	787
Recurring net profit growth (%)	(42.5)	155.1	3.3	6.9	5.4
Recurring EPS (MYR)	0.05	0.12	0.12	0.12	0.13
DPS (MYR)	0.03	0.06	0.05	0.06	0.06
Recurring P/E (x)	42.91	16.82	16.44	15.54	14.89
P/B (x)	0.95	0.91	0.89	0.87	0.85
Dividend Yield (%)	1.4	2.8	2.6	2.8	3.1
Return on average equity (%)	2.7	5.5	5.5	5.7	5.8
Net debt to equity (%)	44.9	52.3	53.3	52.1	50.6

Source: Company data, RHB

#### Overall ESG Score: 3.4 (out of 4)

##### E: EXCELLENT

Sunway City is a Green Building Index (GBI) certified township. The company managed to avoid 40,131 tonnes of CO2e from 2015-2019, and 1% of its electricity is from renewable sources (in 2019). Its main townships also have more than 40% open space, with greenscapes and bluescapes.

##### S: EXCELLENT

Sunway has made donations to aid the underserved communities in the B40 group, people with disabilities, youth, women, children and senior citizens. The Good Run in Oct 2019 managed to raise MYR275k to support medical treatment costs for cancer patients of the B40 group.

##### G: EXCELLENT

56% of board members are independent. Sunway has an in-house investor relations team that is easily accessible, and holds investor meetings, embodying good transparency and disclosure practices.

## Financial Exhibits

Asia	Financial summary (MYR)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Malaysia	Recurring EPS	0.05	0.12	0.12	0.12	0.13
Property	EPS	0.05	0.12	0.12	0.12	0.13
<b>Sunway</b>	DPS	0.03	0.06	0.05	0.06	0.06
SWB MK	BVPS	2.05	2.14	2.18	2.23	2.28
Buy	Return on average equity (%)	2.7	5.5	5.5	5.7	5.8
	Return on average assets (%)	1.3	2.6	2.6	2.7	2.8
<b>Valuation basis</b>						
40% discount to property RNAV, 12x P/E for trading/building material division, 18.5x EV/EBITDA for healthcare division, and 10% holding co discount						
<b>Key drivers</b>						
New property sales, disposal of investment properties						
<b>Key risks</b>						
Weaker-than-expected market conditions						
<b>Company Profile</b>						
Sunway is a well-known developer in the Klang Valley. Its flagship project - Bandar Sunway is a well-established integrated township. The company has successfully transformed a mining land to a matured residential and commercial cluster						
	<b>Valuation metrics</b>	<b>Dec-21</b>	<b>Dec-22</b>	<b>Dec-23F</b>	<b>Dec-24F</b>	<b>Dec-25F</b>
	Recurring P/E (x)	42.91	16.82	16.44	15.54	14.89
	P/B (x)	0.9	0.9	0.9	0.9	0.9
	Dividend Yield (%)	1.4	2.8	2.6	2.8	3.1
	EV/EBITDA (x)	40.13	26.06	29.23	25.30	23.38
	<b>Income statement (MYRm)</b>	<b>Dec-21</b>	<b>Dec-22</b>	<b>Dec-23F</b>	<b>Dec-24F</b>	<b>Dec-25F</b>
	Total turnover	3,714	5,195	5,766	6,149	6,583
	Gross profit	798	1,353	1,370	1,489	1,584
	EBITDA	458	749	687	806	882
	Depreciation and amortisation	(131)	(130)	(123)	(130)	(137)
	Operating profit	327	618	564	675	745
	Net interest	55	(14)	(32)	(52)	(69)
	Pre-tax profit	466	920	971	1,038	1,094
	Taxation	(116)	(167)	(194)	(208)	(219)
	Reported net profit	294	677	699	747	787
	Recurring net profit	265	677	699	747	787
	<b>Cash flow (MYRm)</b>	<b>Dec-21</b>	<b>Dec-22</b>	<b>Dec-23F</b>	<b>Dec-24F</b>	<b>Dec-25F</b>
	Change in working capital	(468)	(661)	(255)	(31)	(214)
	Cash flow from operations	202	180	481	792	657
	Capex	0	(373)	(513)	(519)	(305)
	Cash flow from investing activities	(2,891)	(929)	(394)	(321)	(37)
	Dividends paid	(163)	(323)	(296)	(329)	(363)
	Cash flow from financing activities	3,318	62	(391)	(423)	(456)
	Cash at beginning of period	2,269	2,817	1,959	1,716	1,745
	Net change in cash	628	(687)	(304)	47	164
	Ending balance cash	2,897	2,130	1,655	1,763	1,909
	<b>Balance sheet (MYRm)</b>	<b>Dec-21</b>	<b>Dec-22</b>	<b>Dec-23F</b>	<b>Dec-24F</b>	<b>Dec-25F</b>
	Total cash and equivalents	2,817	1,959	1,716	1,745	1,786
	Tangible fixed assets	16,592	17,677	18,067	18,455	18,623
	Intangible assets	433	441	441	441	441
	Total other assets	60	61	278	461	626
	Total assets	25,087	26,058	27,346	28,187	29,013
	Short-term debt	4,094	4,919	4,919	4,919	4,919
	Total long-term debt	4,622	4,137	4,276	4,406	4,481
	Total liabilities	11,963	12,496	13,303	13,643	13,957
	Shareholders' equity	12,035	12,529	12,932	13,350	13,775
	Minority interests	1,089	1,033	1,111	1,194	1,281
	Total equity	13,123	13,562	14,043	14,544	15,056
	Total liabilities & equity	25,087	26,058	27,346	28,187	29,013
	<b>Key metrics</b>	<b>Dec-21</b>	<b>Dec-22</b>	<b>Dec-23F</b>	<b>Dec-24F</b>	<b>Dec-25F</b>
	Revenue growth (%)	(3.1)	39.9	11.0	6.6	7.1
	Recurring net profit growth (%)	(42.5)	155.1	3.3	6.9	5.4
	Recurrent EPS growth (%)	(49.6)	155.1	2.3	5.8	4.3
	Gross margin (%)	21.5	26.0	23.8	24.2	24.1
	Recurring net profit margin (%)	7.1	13.0	12.1	12.2	12.0
	Dividend payout ratio (%)	55.3	47.7	42.4	44.0	46.1

Source: Company data, RHB

## Results At A Glance

Figure 1: Quarterly results

FYE Dec (MYR mil)	3Q22	2Q23	3Q23	QoQ (%)	YoY (%)	9M22	9M23	YoY (%)	Comments
<b>Turnover</b>	<b>1,270.5</b>	<b>1,468.2</b>	<b>1,539.1</b>	<b>4.8</b>	<b>21.1</b>	<b>3,663.4</b>	<b>4,271.0</b>	<b>16.6</b>	
Prop dev	278.1	362.1	309.5	(14.5)	11.3	722.7	919.4	27.2	Revenue was higher QoQ due to higher sales and progress billings from new and ongoing local projects..
Prop invt	188.6	199.4	232.8	16.8	23.4	459.3	642.1	39.8	The stronger revenue QoQ was mainly due to higher number of visitors to the theme parks.
Construction	305.1	404.1	424.0	4.9	39.0	990.6	1,156.0	16.7	The higher sequential revenue was mainly due to higher progress billings from local projects.
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 holdings	9.2	1.9	12.9	n.m.	n.m.	12.8	17.1	33.1	
Others	185.2	178.4	168.5	(5.5)	(9.0)	526.5	520.4	(1.2)	
<b>EBIT</b>	<b>132.4</b>	<b>140.0</b>	<b>119.1</b>	<b>(14.9)</b>	<b>(10.0)</b>	<b>370.8</b>	<b>372.5</b>	<b>0.5</b>	
<b>EBIT Margin (%)</b>	<b>10.4%</b>	<b>9.5%</b>	<b>7.7%</b>			<b>10.1%</b>	<b>8.7%</b>		
Prop dev	25.2	44.7	2.8	(93.6)	(88.7)	54.2	61.7	13.9	The lower EBIT was mainly due to lower progress billings from ongoing local projects.
Prop invt	64.0	28.2	42.5	50.4	(33.6)	132.8	116.4	(12.3)	EBIT was lower YoY due to higher operating costs, as well as a one-off gain from disposal of an investment property asset worth MYR16.6m in FY23.
Construction	35.3	48.8	57.4	17.5	62.4	122.8	150.0	22.2	
Trading & Manufacturing	14.0	12.4	14.4	16.3	3.3	35.7	37.8	5.7	
Quarry	2.8	5.2	10.3	99.3	270.7	10.2	19.9	95.2	
Investment holdings	(25.5)	(13.4)	(9.2)	n.m.	(63.9)	(54.3)	(40.5)	(25.5)	
Others	16.6	14.1	0.9	(93.7)	(94.7)	69.5	27.3	(60.8)	
Exceptional items	15.0	(3.1)	0.0	n.m.	n.m.	7.5	(3.1)	n.m.	
Finance cost	(1.5)	(14.6)	(28.0)	92.3	1781.2	(13.9)	(46.7)	236.5	
Asso & JV	92.9	77.6	156.7	102.0	68.7	269.0	317.0	17.9	The higher JV income was attributed to the recognition of development profit of MYR46.3m as Parc Canberra in Singapore was completed in 3Q23.
Other Income	0.0	0.0	0.0	n.m.	n.m.	0.0	0.0	0.0	
Pretax profit	223.8	203.0	247.8	22.1	10.7	625.9	642.8	2.7	
<b>PBT margin (%)</b>	<b>17.6%</b>	<b>13.8%</b>	<b>16.1%</b>			<b>17.1%</b>	<b>15.1%</b>		
Tax	(41.6)	(30.8)	(40.5)	31.6	(2.5)	(93.3)	(104.6)	12.1	
<b>Tax (%)</b>	<b>18.6%</b>	<b>15.2%</b>	<b>16.4%</b>			<b>14.9%</b>	<b>16.3%</b>		
PAT	182.2	172.2	207.3	20.3	13.8	532.6	538.2	1.1	
MI	(17.5)	(22.3)	(27.0)	-	n.m.	(36.5)	(66.4)	81.6	
<b>Net profit</b>	<b>164.7</b>	<b>149.9</b>	<b>180.3</b>	<b>20.3</b>	<b>9.5</b>	<b>496.1</b>	<b>471.9</b>	<b>(4.9)</b>	
<b>Core net profit</b>	<b>179.7</b>	<b>146.8</b>	<b>180.3</b>	<b>22.8</b>	<b>0.3</b>	<b>503.6</b>	<b>468.8</b>	<b>(6.9)</b>	Below our expectation.
<b>Net margin (%)</b>	<b>14.1</b>	<b>10.0</b>	<b>11.7</b>						
EPS (sen)	2.8	2.5	2.6			8.1	8.1		
NTA (RM)	2.12	2.15	2.19			2.12	2.12		
DPS (sen)	0.0	2.0	0.0			2.0	2.0		
EBIT margin:									
Prop dev	9.0%	12.3%	0.9%			7.5%	7.5%		
Prop invt	34.0%	14.2%	18.3%			28.9%	28.9%		
Construction	11.6%	12.1%	13.5%			12.4%	12.4%		
Trading & Manufacturing	7.0%	5.5%	6.0%			5.3%	5.3%		
Quarry	2.6%	5.5%	6.9%			3.6%	3.6%		
Investment holdings	n.m.	n.m.	n.m.			n.m.	n.m.		
Others	9.0%	7.9%	0.5%			13.2%	13.2%		

Source: Company data, RHB

Figure 2: SOP valuation

Developments	Remaining Landbank (acre)	Remaining GDV (MYR m)	Effective stake	NPV @ 10%	
<b>Selangor/KL</b>					
Sunway Damansara	13.19	938.30	60%	94.3	
Sunway South Quay	32.90	2,486.70	100%	347.0	
Sunway Monterez	4.40	38.00	60%	3.0	
Sunway Semenyih	523.11	728.59	70%	58.1	
Sunway Cheras	2.92	4.50	100%	0.5	
Sunway Duta	3.16	120.00	60%	7.3	
Sunway Resort City	7.7	660	100%	104.8	
Sunway Living Space (Sri Hartamas)	5.09	850.00	100%	103.4	
Sunway Velocity 2	1.01	80.00	60%	3.3	
Sunway Velocity 3	5.50	1,200.00	60%	65.1	
New land in Cochrane	5.52	1,150.00	100%	108.6	
Sunway Tower KL 1	0.92	240.00	100%	21.5	
Sunway Termuning	31.20	13.59	80%	0.8	
Mont Putra, Rawang	158.00	156.00	100%	13.9	
Kelana Jaya	13.96	860.00	100%	67.4	
Sunway Belfield	1.65	-	100%	-	
Jernih Residence, Kajang	2.44	264.00	60%	14.2	
USJ 1	14.80	1,400.00	100%	110.5	
Mutiara Bukit Jalil	8.02	697.00	100%	52.3	
Kuang land	245.00	2,000.00	100%	122.6	
Dengkil (Emerald Tycoon)	61.23	813.90	100%	46.3	
<b>Perak</b>					
Sunway City Ipoh	324.1	3,746.38	96%	492.1	
<b>Penang</b>					
Sunway Hills	80.70	-	100%	-	
Sunway Wellesley, Bukit Mertajam	50.66	710.47	100%	73.4	
Paya Terubong	19.79	1,500.00	100%	143.0	
Sunway Tunas, Balik Pulau	9.37	20.60	100%	2.1	
Sunway Betong, Balik Pulau	19.87	16.80	100%	1.8	
<b>S'pore</b>					
Terra Hills Pasir Panjang	4.79	2,873.00	30%	87.2	
The Continuum Tanjong Katong	6.06	7,480.00	30%	129.6	
Tengah Plantation Close	4.06	2,470.00	35%	44.2	
<b>Johor</b>					
Bukit Lenang	30.48	850.00	80%	64.8	
Medini	530.44	10,505.00	60%	505.6	
Pendas	1,071.47	18,000.00	100%	1,073.1	
<b>China</b>					
Tianjin Phase 3	5.87	688.80	60%	33.5	
Unbilled sales				586.5	
<b>TOTAL</b>	<b>4,081.03</b>	<b>73,870.09</b>		<b>4,617.55</b>	
<b>Investment properties</b>					
	Est. market value (MYR m)	Book value (MYR m)	Equity interest	Net surplus (MYR m)	
Monash University Campus	375.0	375.0	100%	0	
Monash U Residence	465.0	465.0	100%	0	
Sunway Geo Tower	168.0	112.0	100%	56.0	
Sunway Hotel Georgetown	60.0	37.6	100%	22.4	
Sunway Hotel Phnom Penh	17.0	17.0	53%	0	
Sunway Hotel Hanoi	1.0	1.0	100%	0	
Sunway Giza	52.0	52.0	60%	0	
Sunway Velocity Mall	1,900.0	908.5	59%	585.0	
Sunway Velocity Hotel	112.0	112.0	39%	0	
Sunway Citrine Hub	42.0	42.0	60%	0.0	
Sunway Geo Avenue	94.0	47.0	100%	47.0	
Sunway Big Box retail hub	220.0	220.0	100%	0.0	
Sunway Visio Tower	100.0	100.0	100%	0.0	
Sunway V Office	160.0	160.0	100%	0.0	
Subtotal				5,280.91	
Shareholders' equity (ex cons. & healthcare)				12,872.54	
Total				18,153.45	
Discount to Property RNAV				40%	
Discounted Property RNAV				10,892.07	
<b>Other divisions</b>					
	Market value (MYR m)	Book value (MYR m)	Est. FY24 earnings (MYR m)	PE target (x)	Equity value surplus (MYR m)
40.9% Sunway REIT	2,241.2	1,479.0			762.19
54.6% Sunway Construction	1,468.4	844.1			624.36
Others			70	12	840.00
84% Sunway Healthcare			Est. FY24 EBITDA 225.1	EV/EBITDA (x) 18.5	Equity value 3,497.83
Total					16,616.46
ESOS proceeds					151.21
Warrants conversion @ MYR1.56					1,044.44
Total RNAV					17,812.11
Holding company discount					10%
Discounted RNAV					16,030.90
Share base (mil) incl. warrants & ICPS					6,525.86
Intrinsic value					2.46
ESG premium					8%
TP (MYR)					2.65

Source: RHB

## Emissions And ESG

### Trend analysis

In FY22, Scope 1 emissions: Increased to 65,329 tonnes of CO2 equivalents (FY21: 53,765 tonnes of CO2 equivalents) and Scope 2 increased to 55,813tn (FY21: 42,307 tonnes of CO2 equivalents).

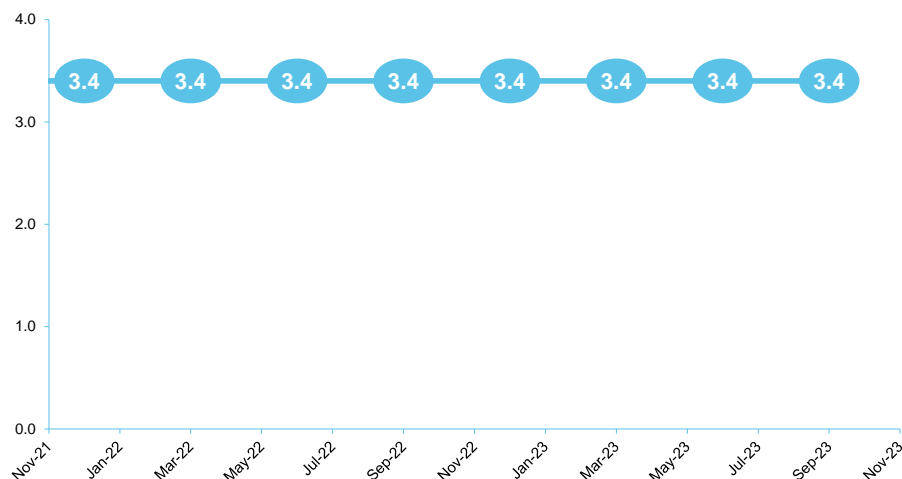
Emissions (tCO2e)	Dec-20	Dec-21	Dec-22
Scope 1	na	53,765	65,329
Scope 2	na	42,307	55,813
Scope 3	na	41,432	64,603
Total emissions	na	137,504	185,745

Source: Company data, RHB

## Latest ESG-Related Developments

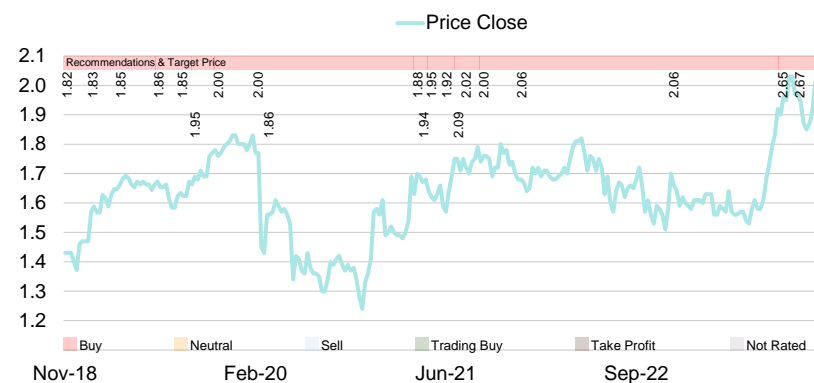
- Sunway is a constituent of FTSE4Good Bursa Malaysia Index
- It aims to be carbon neutral by 2050

## ESG Rating History



Source: RHB

## Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2023-09-28	Buy	2.67	1.99
2023-08-17	Buy	2.65	1.92
2023-01-12	Buy	2.06	1.61
2022-11-28	Buy	2.06	1.58
2022-08-24	Buy	2.06	1.66
2022-05-26	Buy	2.06	1.74
2021-11-25	Buy	2.06	1.68
2021-08-25	Buy	2.00	1.77
2021-07-13	Buy	2.02	1.71
2021-06-24	Buy	2.09	1.73
2021-05-26	Buy	1.92	1.66
2021-04-19	Buy	1.95	1.64
2021-04-01	Buy	1.94	1.69
2021-03-16	Buy	1.88	1.64
2020-03-23	Buy	1.86	1.41

Source: RHB, Bloomberg

## RHB Guide to Investment Ratings

<b>Buy:</b>	Share price may exceed 10% over the next 12 months
<b>Trading Buy:</b>	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
<b>Neutral:</b>	Share price may fall within the range of +/- 10% over the next 12 months
<b>Take Profit:</b>	Target price has been attained. Look to accumulate at lower levels
<b>Sell:</b>	Share price may fall by more than 10% over the next 12 months
<b>Not Rated:</b>	Stock is not within regular research coverage

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