

25 August 2023

Property | Real Estate

Sunway (SWB MK)

Buy (Maintained)

Completion Of Parc Canberra To Lift 3Q23 Earnings

Target Price (Return):	MYR2.65 (+39%)
Price (Market Cap):	MYR1.91 (USD2,031m)
ESG score:	3.4 (out of 4)
Avg Daily Turnover (MYR/USD)	8.07m/1.72m

- Maintain BUY and MYR2.65 TP, 39% upside with c.3% FY23F yield.** Sunway's 2Q23 results are in line. The company's earnings should strengthen in 3Q23, given the completion of Parc Canberra in Singapore. Meanwhile, 1H23 property sales came up to MYR1.5bn, which is on track to achieve management's MYR2.3bn full-year target. We continue to like Sunway. Given its sizeable landbank exposure to Iskandar Malaysia, the company stands to gain from the favourable impact of the Rapid Transit System link and the Johor-Singapore special economic zone.
- 2Q23 results.** Among all the divisions, the property development segment recorded the highest QoQ growth, mainly due to higher sales and billings from new and ongoing projects. The property investment unit, however, recorded weaker earnings due to *Ramadan* (in April), as well as higher utility charges and manpower costs. On an annual basis, EBIT in 2Q22 was lifted by a MYR26.6m gain on disposal of a start-up investment. The healthcare segment, meanwhile, saw stronger contributions from SMC Sunway City and SMC Velocity, mitigating the share of start-up losses of SMC Penang and Sunway Sanctuary. Note that the share of start-up losses of SMC Penang decreased to MYR1.3m, from MYR2.2m in the previous quarter. Just like 2Q22, a single-tier first interim DPS of 2 sen was declared.
- Singapore project contributed to stronger sales in 2Q23.** New property sales came up to MYR1bn (1Q23: MYR505m), bringing the 1H23 total to MYR1.5bn. Despite the recent tightening measures, take-up rates in Terra Hills and The Continuum, launched in February and April, were still rather decent at 36% and 27%. Projects in Singapore contributed MYR763m. For Malaysia, the key contributors were Velocity TWO (MYR161m) and Sunway Flora Residences in Bukit Jalil (MYR151m). Sales for Sunway Flora and Sunway Dora in Bayan Baru – launched in 1Q23 – were encouraging, with 74% of units taken up (including bookings) for both projects. However, sales for Jernih Residence in Kajang and Sunway Alishan in Cheras were slower (48%- and 35%-sold, vs 39%- and 30%-sold in 1Q23). Launches for the rest of the year (total GDV: MYR320m) will mostly be in Iskandar Malaysia, including semi-detached houses and bungalows at Lenang Heights, and landed linked homes in Sunway Iskandar. As more contractual sales kick in, Sunway should be able to hit its MYR2.3bn sales target by year-end.
- We maintain our earnings forecasts.** Parc Canberra and Parc Central are expected to be completed in 3Q23 and 1Q24, and the accumulated progressive profits from both projects are now worth MYR131m. Sunway's unbilled sales and outstanding construction orderbook stood at MYR4.86bn and MYR5.8bn, vs MYR4.39bn and MYR6bn in 1Q23.
- ESG.** Our SOP valuation includes an 8% ESG premium on its intrinsic value, given our 3.4 ESG score (out of 4) for the company.

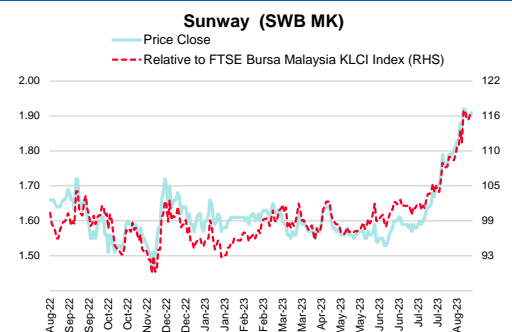
Analyst

Loong Kok Wen, CFA
 +603 9280 8861
loong.kok.wen@rhbgroup.com



Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	17.9	14.4	23.2	17.2	15.1
Relative	21.3	13.0	20.7	18.0	16.6
52-wk Price low/high (MYR)	1.47 – 1.92				



Source: Bloomberg

Forecasts and Valuation	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Total turnover (MYRm)	3,714	5,195	5,417	5,831	6,388
Recurring net profit (MYRm)	265	677	721	785	847
Recurring net profit growth (%)	(42.5)	155.1	6.5	8.8	8.0
Recurring EPS (MYR)	0.05	0.12	0.12	0.13	0.14
DPS (MYR)	0.03	0.06	0.05	0.06	0.06
Recurring P/E (x)	42.25	16.56	15.70	14.57	13.63
P/B (x)	0.93	0.89	0.87	0.85	0.83
Dividend Yield (%)	1.5	2.9	2.6	2.9	3.1
Return on average equity (%)	2.7	5.5	5.7	6.0	6.2
Net debt to equity (%)	44.9	52.3	53.0	51.0	49.7

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 emitted over 2015-2019, and 1% of its electricity consumed is from renewable sources (in 2019). Its main townships also have more than 40% open space, with greenscapes and bluescapes incorporated.

S: EXCELLENT

Sunway has given donations to aid the underserved communities in the B40 group, the disabled, youth, women, children and senior citizens. The Good Run in Oct 2019 raised MYR275k to support medical treatment costs for cancer patients in the B40 group.

G: EXCELLENT

56% of Board members are independent directors. 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	0.13	0.14
Property	EPS	0.05	0.12	0.12	0.13	0.14
Sunway	DPS	0.03	0.06	0.05	0.06	0.06
SWB MK	BVPS	2.05	2.14	2.19	2.24	2.30
Buy	Return on average equity (%)	2.7	5.5	5.7	6.0	6.2
	Return on average assets (%)	1.3	2.6	2.7	2.8	3.0
Valuation basis						
Our SOP valuation comprises:	Valuation metrics	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
i. 40% discount to its property RNAV;	Recurring P/E (x)	42.25	16.56	15.70	14.57	13.63
ii. 12x FY23F P/E for the trading and building materials division;	P/B (x)	0.9	0.9	0.9	0.9	0.8
iii. 18.5x EV/EBITDA for the healthcare segment; with	Dividend Yield (%)	1.5	2.9	2.6	2.9	3.1
iv. A 10% holding company discount applied.	EV/EBITDA (x)	39.75	25.83	27.65	23.34	21.06
Key drivers	Income statement (MYRm)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
i. New property sales;	Total turnover	3,714	5,195	5,417	5,831	6,388
ii. Disposal of investment properties.	Gross profit	798	1,353	1,346	1,495	1,642
	EBITDA	458	749	719	860	968
	Depreciation and amortisation	(131)	(130)	(124)	(133)	(139)
	Operating profit	327	618	595	728	829
	Net interest	55	(14)	(32)	(52)	(70)
	Pre-tax profit	466	920	1,001	1,090	1,177
	Taxation	(116)	(167)	(200)	(218)	(235)
	Reported net profit	294	677	721	785	847
	Recurring net profit	265	677	721	785	847
Key risks	Cash flow (MYRm)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Weaker-than-expected market conditions.	Change in working capital	(468)	(661)	(73)	(56)	(274)
	Cash flow from operations	202	180	688	810	665
	Capex	0	(373)	(692)	(430)	(375)
	Cash flow from investing activities	(2,891)	(929)	(573)	(232)	(107)
	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	1,785	1,900
	Net change in cash	628	(687)	(276)	154	102
	Ending balance cash	2,897	2,130	1,683	1,939	2,002
Company Profile	Balance sheet (MYRm)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Sunway is a well-known developer in the Klang Valley. Its flagship project Bandar Sunway is a well-established integrated township. It has successfully transformed mining land into a matured residential and commercial real estate cluster.	Total cash and equivalents	2,817	1,959	1,785	1,900	1,894
	Tangible fixed assets	16,592	17,677	18,244	18,542	18,779
	Intangible assets	433	441	441	441	441
	Total other assets	60	61	278	461	626
	Total assets	25,087	26,058	27,219	28,098	29,073
	Short-term debt	4,094	4,919	4,919	4,919	4,919
	Total long-term debt	4,622	4,137	4,316	4,426	4,517
	Total liabilities	11,963	12,496	13,152	13,489	13,885
	Shareholders' equity	12,035	12,529	12,954	13,409	13,894
	Minority interests	1,089	1,033	1,113	1,200	1,294
	Total equity	13,123	13,562	14,067	14,609	15,188
	Total liabilities & equity	25,087	26,058	27,219	28,098	29,073
	Key metrics	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
	Revenue growth (%)	(3.1)	39.9	4.3	7.6	9.5
	Recurring net profit growth (%)	(42.5)	155.1	6.5	8.8	8.0
	Recurrent EPS growth (%)	(49.6)	155.1	5.5	7.8	6.9
	Gross margin (%)	21.5	26.0	24.9	25.6	25.7
	Recurring net profit margin (%)	7.1	13.0	13.3	13.5	13.3
	Dividend payout ratio (%)	55.3	47.7	41.1	42.0	42.8

Source: Company data, RHB

Results At a Glance

Figure 1: Quarterly results

FYE Dec (MYR mil)	2Q22	1Q23	2Q23	QoQ (%)	YoY (%)	1H22	1H23	YoY (%)	Comments
Turnover	1,280.4	1,263.7	1,468.2	16.2	14.7	2,392.8	2,731.9	14.2	
Prop dev	286.4	247.8	362.1	46.1	26.4	444.6	609.9	37.2	Revenue was higher QoQ due to higher sales and progress billings from new and ongoing local projects..
Prop invt	149.6	209.9	199.4	(5.0)	33.3	270.7	409.3	51.2	The slower revenue QoQ was due to lower visitorship during the fasting month in April and fewer number of school and public holidays during the quarter.
Construction	316.8	327.9	404.1	23.2	27.5	685.5	732.0	6.8	The higher sequential revenue was mainly due to higher progress billings from local projects.
Trading & Manufacturing	264.8	224.1	227.8	1.7	(14.0)	469.8	451.9	(3.8)	
Quarry	101.1	78.2	94.5	20.8	(6.5)	177.2	172.7	(2.5)	
Investment holdings	1.8	2.3	1.9	n.m.	n.m.	3.7	4.2	13.5	
Others	159.8	173.5	178.4	2.8	11.6	341.3	351.9	3.1	
EBIT	166.3	113.4	140.0	23.5	(15.8)	238.4	253.4	6.3	2Q22 EBIT was lifted by MYR26.6m gain on disposal of a start-up investment.
<i>EBIT Margin (%)</i>	<i>13.0%</i>	<i>9.0%</i>	<i>9.5%</i>			<i>10.0%</i>	<i>9.3%</i>		
Prop dev	24.7	14.2	44.7	215.0	81.3	29.0	58.9	102.8	
Prop invt	53.9	45.6	28.2	(38.1)	(47.6)	68.7	73.9	7.5	EBIT was weaker as operating costs were higher from higher utility charges and manpower costs given the implementation of minimum wage by the government.
Construction	43.9	43.7	48.8	11.6	11.3	87.4	92.6	5.9	
Trading & Manufacturing	10.8	10.9	12.4	14.0	15.0	21.7	23.3	7.3	
Quarry	2.4	4.4	5.2	16.2	114.6	7.4	9.6	29.5	
Investment holdings	(6.6)	(17.9)	(13.4)	n.m.	102.9	(28.8)	(31.3)	8.5	
Others	37.2	12.3	14.1	14.3	(62.2)	52.9	26.4	(50.1)	
Exceptional items	0.0	0.0	(3.1)	n.m.	n.m.	(7.5)	(3.1)	n.m.	
Finance cost	(28.2)	(4.1)	(14.6)	259.7	(48.2)	(12.4)	(18.6)	50.5	
Asso & JV	76.9	82.7	77.6	(6.2)	0.8	176.1	160.3	(9.0)	
Other Income	0.0	0.0	0.0	n.m.	n.m.	0.0	0.0	0.0	
Pretax profit	215.0	192.0	203.0	5.7	(5.6)	402.1	395.0	(1.8)	
<i>PBT margin (%)</i>	<i>16.8%</i>	<i>15.2%</i>	<i>13.8%</i>			<i>16.8%</i>	<i>14.5%</i>		
Tax	(23.8)	(33.3)	(30.8)	(7.4)	29.4	(51.7)	(64.1)	23.9	
<i>Tax (%)</i>	<i>11.1%</i>	<i>17.3%</i>	<i>15.2%</i>			<i>12.9%</i>	<i>16.2%</i>		
PAT	191.2	158.8	172.2	8.5	(9.9)	350.4	331.0	(5.5)	
MI	0.0	(17.1)	(22.3)	-	n.m.	(19.1)	(39.4)	106.6	
Net profit	191.2	141.6	149.9	5.9	(21.6)	331.3	291.6	(12.0)	
Core net profit	191.2	141.6	146.8	3.7	(23.2)	323.8	288.5	(10.9)	Within expectations.
<i>Net margin (%)</i>	<i>14.9</i>	<i>11.2</i>	<i>10.0</i>						
EPS (sen)	2.9	2.0	2.5			5.3	5.3		
NTA (RM)	2.10	2.16	2.15			2.10	2.10		
DPS (sen)	2.0	0.0	2.0			2.0	2.0		
EBIT margin:									
Prop dev	8.6%	5.7%	12.3%			6.5%	6.5%		
Prop invt	36.0%	21.7%	14.2%			25.4%	25.4%		
Construction	13.8%	13.3%	12.1%			12.8%	12.8%		
Trading & Manufacturing	4.1%	4.9%	5.5%			4.6%	4.6%		
Quarry	2.4%	5.7%	5.5%			4.2%	4.2%		
Investment holdings	n.m.	n.m.	n.m.			n.m.	n.m.		
Others	23.3%	7.1%	7.9%			15.5%	15.5%		

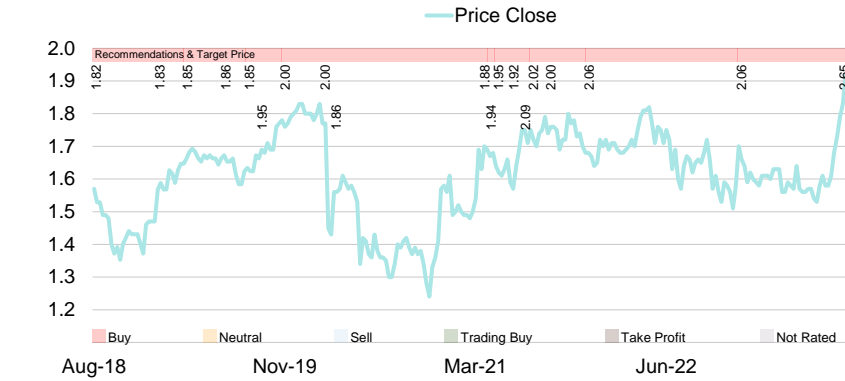
Source: Company data, RHB

Figure 2: RNAV estimate

Developments	Remaining Landbank (acre)	Remaining GDV (MYR m)	Effective stake	NPV @ 10%	
Selangor/KL					
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%	-	
Jermih 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	
Perak					
Sunway City Ipoh	324.1	3,746.38	96%	492.1	
Penang					
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	
S'pore					
Terra Hills Pasir Panjang	4.79	2,873.00	30%	87.2	
The Continuum Tanjong Katong	6.06	7,480.00	30%	129.6	
Johor					
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	
China					
Tianjin Phase 3	5.87	688.80	60%	33.5	
Unbilled sales				586.5	
TOTAL	3,517.97	67,900.09		4,573.39	
Investment properties					
	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%		
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				5,236.75	
Shareholders' equity (ex cons. & healthcare)				12,872.54	
Total				18,109.29	
Discount to Property RNAV				40%	
Discounted Property RNAV				10,865.57	
Other divisions					
	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
			Est. FY24 EBITDA	EV/EBITDA (x)	Equity value
84% Sunway Healthcare			225.1	18.5	3,497.83
Total					16,589.96
ESOS proceeds					151.21
Warrants conversion @ MYR1.56					1,044.44
Total RNAV					17,785.62
Holding company discount					10%
Discounted RNAV					16,007.06
Share base (mil) incl. warrants & ICPS					6,525.86
Intrinsic value					2.45
ESG premium					8%
TP (MYR)					2.65

Source: RHB

Recommendation Chart

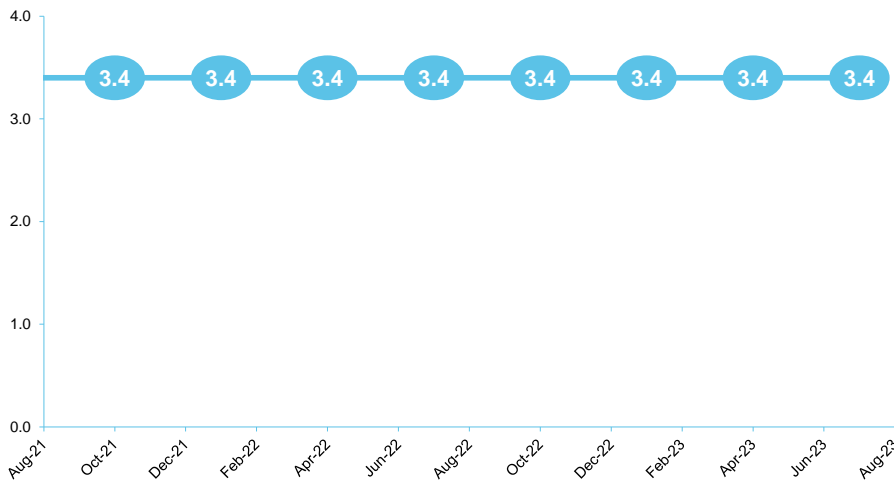


Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
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
2020-02-26	Buy	2.00	1.79

Source: RHB, Bloomberg

ESG Rating History



Source: RHB

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Buy:	Share price may exceed 10% over the next 12 months
Trading Buy:	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
Neutral:	Share price may fall within the range of +/- 10% over the next 12 months
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Not Rated:	Stock is not within regular research coverage

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KUALA LUMPUR

RHB Investment Bank Bhd
Level 3A, Tower One, RHB Centre
Jalan Tun Razak
Kuala Lumpur 50400
Malaysia
Tel : +603 9280 8888
Fax : +603 9200 2216

JAKARTA

PT RHB Sekuritas Indonesia
Revenue Tower, 11th Floor, District 8 - SCBD
Jl. Jendral Sudirman Kav 52-53
Jakarta 12190
Indonesia
Tel : +6221 509 39 888
Fax : +6221 509 39 777

BANGKOK

RHB Securities (Thailand) PCL
10th Floor, Sathorn Square Office Tower
98, North Sathorn Road, Silom
Bangrak, Bangkok 10500
Thailand
Tel: +66 2088 9999
Fax :+66 2088 9799

SINGAPORE

RHB Bank Berhad (Singapore branch)
90 Cecil Street
#04-00 RHB Bank Building
Singapore 069531
Fax: +65 6509 0470