

## Sunway Berhad

(5211 | SWB MK) Main | Industrial Products &amp; Services

### Solid Earnings


#### KEY INVESTMENT HIGHLIGHTS

- **1HFY23 earnings within expectations**
- **Solid earnings**
- **1HFY23 new sales at RM1.5b**
- **Earnings forecast maintained**
- **Maintain NEUTRAL with an unchanged TP of RM1.71**

**1HFY23 earnings within expectations.** Sunway Berhad 1HFY23 core net income of RM315.4m came in within expectations, making up 53% and 45% of our and consensus full year forecast respectively. Note that we have excluded one-off items and distribution for Perpetual Sukuk holders in our core net income calculations. Sunway Berhad announced first interim dividend of 2sen per share.

**Solid earnings.** Sequentially, 2QFY23 core net earnings was higher at RM167.5m (+13.5%qoq) as most business divisions recorded stronger earnings except for property investment division which dragged by seasonally factor. On yearly basis, 2QFY23 core net earnings was solid (+23.6%yoy), bringing cumulative earnings in 1HFY23 to RM315.4m (+16%yoy). The higher earnings were driven by higher contribution from property development division, property investment division and healthcare segment. Profit before tax (PBT) of property development division grew by 47%yoy due to higher earnings recognition from its ongoing and new development projects. Meanwhile, PBT of property investment division was marginally higher (+2.7%yoy) as performance of investment assets improved following reopening of international borders. Similarly, PBT of healthcare division was higher (+4.7%yoy) due to better performance of SMC Sunway City and SMC Velocity.

**1HFY23 new sales at RM1.5b.** Sunway Berhad chalked up new property sales of RM995m in 2QFY23, higher than new sales of RM505m in 1QFY23. That brought total new sales to RM1.5b in 1HFY23. Half of total new sales were contributed by project in Singapore, followed by Velocity TWO (11%) and Sunway Flora (10%). Meanwhile, new sales in 1HFY23 is well on track to hit management new sales target of RM2.3b for FY23. Looking ahead, new sales momentum is expected to sustain by its residential Singapore projects namely Terra Hills and The Continuum. On the other hand, unbilled sales were flattish at RM4.86b in 2QFY23.

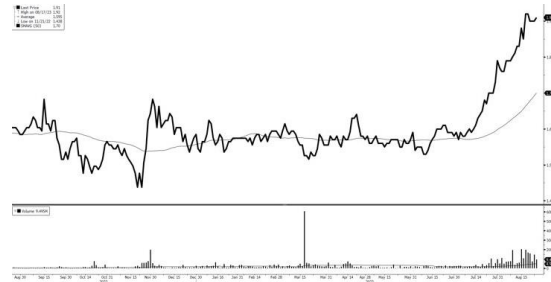
**Maintain NEUTRAL with an unchanged TP of RM1.71.** We maintain our earnings forecast for FY23F/24F/25F. We also maintain our **TP** for Sunway Berhad at **RM1.71**, based on Sum-of-parts valuation. We see brighter earnings outlook for Sunway Berhad on the back of stable new sales outlook. Nevertheless, we maintain our **NEUTRAL** call on Sunway Berhad due to limited upside. 

**Maintain NEUTRAL**
**Unchanged Target Price: RM1.71**

#### RETURN STATISTICS

|  |       |
|--|-------|
| Price @ 24 <sup>th</sup> Aug 2023 (RM) | 1.91  |
| Expected share price return (%)        | -10.5 |
| Expected dividend yield (%)            | 2.9   |
| Expected total return (%)              | -7.6  |

#### SHARE PRICE CHART



| Price performance (%) | Absolute | Relative |
|-----------------------|----------|----------|
| 1 month               | 14.4     | 11.9     |
| 3 months              | 20.9     | 20.4     |
| 12 months             | 15.1     | 18.1     |

#### INVESTMENT STATISTICS

| FYE Dec           | 2023E | 2024F | 2025F |
|-------------------|-------|-------|-------|
| Revenue           | 5,523 | 5,884 | 6,381 |
| Operating Profit  | 683   | 690   | 726   |
| Profit Before Tax | 886   | 906   | 954   |
| Core PATAMI       | 599   | 616   | 647   |
| Core EPS          | 10.21 | 10.51 | 11.03 |
| DPS               | 5.50  | 5.50  | 6.00  |
| Dividend Yield    | 2.9%  | 2.9%  | 3.1%  |

#### KEY STATISTICS

|                                  |               |
|----------------------------------|---------------|
| FBM KLCI                         | 1,444.67      |
| Issue shares (m)                 | 4,889.07      |
| Estimated free float (%)         | 22.73         |
| Market Capitalisation (RM'm)     | 9,463.37      |
| 52-wk price range                | RM1.45-RM1.94 |
| 3-mth average daily volume (m)   | 4.62          |
| 3-mth average daily value (RM'm) | 7.75          |
| Top Shareholders (%)             |               |
| Sungei Way Corp Sdn Bhd          | 57.92         |
| EPF                              | 7.75          |

#### Analyst

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**SUNWAY BERHAD: 2QFY23 RESULTS SUMMARY**

| FYE Dec (RM'm, unless otherwise stated) | Quarterly Results |        |       | Cumulative |       |
|---|-------------------|--------|-------|------------|-------|
|   | 2QFY23            | %YoY   | %QoQ  | FY23       | %YoY  |
| Revenue                                 | 1468.2            | 14.7%  | 16.2% | 2,731.9    | 14.2% |
| EBIT                                    | 140.0             | -15.8% | 23.5% | 253.4      | 8.4%  |
| Core PBT                                | 220.5             | 21.4%  | 11.4% | 418.9      | 21.8% |
| Net Income                              | 149.9             | -11.2% | 5.9%  | 291.6      | -4.6% |
| Core Net Income                         | 167.5             | 23.6%  | 13.5% | 315.4      | 16.0% |
| EPS (sen)                               | 2.54              | -11.8% | 5.2%  | 5.0        | -4.9% |
| Core EPS (sen)                          | 2.84              | 22.7%  | 12.7% | 5.4        | 24.6% |
| Net DPS (sen)                           | 2.00              | 0.0%   | NA    | 2.0        | 0.0%  |
| NTA/share (RM)                          | 2.10              | 3%     | 0%    | 2.1        | 3.2%  |
| Net Gearing (x)                         | 0.55              | NA     | NA    | 0.55       | NA    |
| EBIT Margin                             | 9.5%              | NA     | NA    | 9.3%       | NA    |
| Core PBT Margin                         | 15.0%             | NA     | NA    | 15.3%      | NA    |

**Sum-of-Parts**

| Division                  | Methodology            | PER (x) | Stake | Discount | Value (RM m)   |
|---------------------------|------------------------|---------|-------|----------|----------------|
| Property Development      | NPV of profits         | n/a     | 100%  | 25%      | 2759.2         |
| Property Investment       | Net Book Value         | n/a     | 100%  | n/a      | 2186.3         |
| Construction              | 18x FY23E PER          | 18      | 54%   | n/a      | 1332.7         |
| Sunway REIT               | Target Price of RM1.73 | n/a     | 35%   | n/a      | 2043.6         |
| Healthcare                | 23x FY23 PER           | 23      | 84%   | n/a      | 985.2          |
| Trading and manufacturing | 12x FY23E PER          | 12      | 100%  | n/a      | 125.2          |
| Quarry                    | 12x FY23E PER          | 12      | 100%  | n/a      | 575.2          |
| <b>Total SOP</b>          |                        |         |       |          | <b>10007.5</b> |
| Number of shares          |                        |         |       |          | 5866.0         |
| <b>Target Price (RM)</b>  |                        |         |       |          | <b>1.71</b>    |

**FINANCIAL SUMMARY**

| <b>Income Statement (RM'm)</b> | <b>2021A</b> | <b>2022A</b> | <b>2023E</b> | <b>2024F</b> | <b>2025F</b> |
|--------------------------------|--------------|--------------|--------------|--------------|--------------|
| Revenue                        | 3,714        | 5,195        | 5,523        | 5,884        | 6,381        |
| EBIT                           | 539          | 583          | 683          | 690          | 726          |
| PBT                            | 539          | 871          | 886          | 906          | 954          |
| Net Income                     | 2,665        | 677          | 599          | 616          | 647          |
| Core Net Income                | 452          | 635          | 599          | 616          | 647          |
| Core EPS (sen)                 | 7.7          | 10.8         | 10.2         | 10.5         | 11.0         |
| Core PER (x)                   | 24.8         | 17.7         | 18.7         | 18.2         | 17.3         |
| NTA/share                      | 1.99         | 2.14         | 2.36         | 2.42         | 2.47         |
| P/NTA                          | 0.96         | 0.89         | 0.81         | 0.79         | 0.77         |

| <b>Balance Sheet (RM'm)</b>   | <b>2021A</b>  | <b>2022A</b>  | <b>2023E</b>  | <b>2024F</b>  | <b>2025F</b>  |
|-------------------------------|---------------|---------------|---------------|---------------|---------------|
| Property, plant and equipment | 1,262         | 1,264         | 1,283         | 1,334         | 1,348         |
| Investment properties         | 2,186         | 2,443         | 2,497         | 2,173         | 2,129         |
| Investment in JV              | 6,192         | 6,653         | 6,799         | 7,010         | 7,165         |
| Total non-current assets      | 17,086        | 18,179        | 18,561        | 19,025        | 19,443        |
| Inventories                   | 2,422         | 3,280         | 3,345         | 3,512         | 3,590         |
| Cash and bank balances        | 2,810         | 1,957         | 2,302         | 2,356         | 2,408         |
| Other assets                  | 2,766         | 2,642         | 2,414         | 2,445         | 2,415         |
| <b>Total Assets</b>           | <b>25,084</b> | <b>26,058</b> | <b>26,622</b> | <b>27,338</b> | <b>27,857</b> |
| LT Term Loans                 | 4,021         | 3,537         | 3,856         | 4,049         | 4,332         |
| ST Borrowings                 | 4,093         | 4,919         | 5,017         | 5,293         | 5,399         |
| Other Liabilities             | 3,847         | 4,040         | 3,901         | 3,777         | 3,623         |
| Total Liability               | 11,962        | 12,496        | 12,774        | 13,118        | 13,354        |
| Share capital                 | 5,394         | 5,394         | 5,394         | 5,394         | 5,394         |
| Other Equity                  | 7,728         | 8,168         | 8,454         | 8,826         | 9,108         |
| Total Equity                  | 13,122        | 13,562        | 13,848        | 14,220        | 14,502        |
| <b>Equity + Liability</b>     | <b>25,084</b> | <b>26,058</b> | <b>26,622</b> | <b>27,338</b> | <b>27,857</b> |

| <b>Cash Flow (RM'm)</b>                              | <b>2021A</b> | <b>2022A</b> | <b>2023E</b> | <b>2024F</b> | <b>2025F</b> |
|--|--------------|--------------|--------------|--------------|--------------|
| <b>Cash flows from operating activities</b>          |              |              |              |              |              |
| Net income before taxation                           | 2852         | 920          | 886          | 906          | 954          |
| Net cash from operating activities                   | 979          | 395          | 391          | 396          | 388          |
| <b>Cash flows from investing activities</b>          |              |              |              |              |              |
| Acquisition of property, plant and equipment         | -344         | -111         | -112         | -119         | -103         |
| Net cash used in investing activities                | -1280        | -1069        | -1090        | -971         | -738         |
| <b>Cash flows from financing activities</b>          |              |              |              |              |              |
| Net cash from/(used in) financing activities         | 845          | -160         | 342          | 368          | 355          |
| Net increase/(decrease) in cash and cash equivalents | 544          | -835         | -357         | -207         | 5            |
| Cash and cash equivalent at 1 January                | 2183         | 2732         | 1895         | 1537         | 1331         |
| Cash and cash equivalent at 1 December               | 2732         | 1895         | 1537         | 1331         | 1336         |

| <b>Profitability Margins</b> | <b>2021A</b> | <b>2022A</b> | <b>2023E</b> | <b>2024F</b> | <b>2025F</b> |
|------------------------------|--------------|--------------|--------------|--------------|--------------|
| EBIT margin                  | 14.5%        | 11.2%        | 12.4%        | 11.7%        | 11.4%        |
| PBT margin                   | 14.5%        | 16.8%        | 16.0%        | 15.4%        | 14.9%        |
| PAT margin                   | 71.8%        | 13.0%        | 10.8%        | 10.5%        | 10.1%        |
| Core PATAMI margin           | 12.2%        | 12.2%        | 10.8%        | 10.5%        | 10.1%        |
| ROE                          | 3.8%         | 5.1%         | 4.3%         | 4.3%         | 4.5%         |
| ROA                          | 1.8%         | 2.4%         | 2.3%         | 2.3%         | 2.3%         |

Source: Bloomberg, MIDFR

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### MIDF AMANAH INVESTMENT BANK: GUIDE TO RECOMMENDATIONS

#### STOCK RECOMMENDATIONS

|              |  |
|--------------|--|
| BUY          | Total return is expected to be >10% over the next 12 months.   |
| TRADING BUY  | Stock price is expected to <i>rise</i> by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.  |
| NEUTRAL      | Total return is expected to be between -10% and +10% over the next 12 months.  |
| SELL         | Total return is expected to be <-10% over the next 12 months.  |
| TRADING SELL | Stock price is expected to <i>fall</i> by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow. |

#### SECTOR RECOMMENDATIONS

|          |  |
|----------|--|
| POSITIVE | The sector is expected to outperform the overall market over the next 12 months.   |
| NEUTRAL  | The sector is to perform in line with the overall market over the next 12 months.  |
| NEGATIVE | The sector is expected to underperform the overall market over the next 12 months. |

#### ESG RECOMMENDATIONS\* - source Bursa Malaysia and FTSE Russell

|     |  |
|-----|--|
| ☆☆☆ | Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell      |
| ☆☆  | Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell   |
| ☆   | Top 51%- 75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell |
|     | Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell   |

\* ESG Ratings of PLCs in FBM EMAS that have been assessed by FTSE Russell in accordance with FTSE Russell ESG Ratings Methodology