

Sunway Bhd

Steady Performance

TP: RM2.40 (+23.7%)

Last Traded: RM1.94

BUY (ESG: ★★★★★)

Thiam Chiann Wen

Tel: +603-2167 9615

cwthiam@ta.com.my

www.taonline.com.my

Review

- Excluding the provision for impairment on investment in an associate, which amounted to RM3.1mn, Sunway reported a core net profit of RM475.0mn in 9M23. Results came within expectations, accounting for 71% of both our and consensus full-year estimates.
- YoY:** 9M23 revenue increased 17% YoY to RM4.3bn, primarily due to higher contributions from all business segments except for the other segment. However, net profit for the period exhibited a more moderate growth of 13% YoY to RM475.0mn, mainly due to higher finance costs and tax expenses. Notably, the property development segment saw substantial growth, with a 27% revenue increase and a 68% surge in PBT. These increases were supported by strong sales and increased progress billing from ongoing and new local development projects, in addition to recognising a share of development profit of RM46.3mn from Parc Canberra, an executive condominium project in Singapore.
- QoQ:** Sunway's 3Q23 core net profit grew 18% QoQ to RM180.3mn on the back of a 5% increase in revenue. With the exception of the "others" segment, all business segments reported stronger PBT, with property development segment performance boosted by the recognition of the share of development profit of Parc Canberra. The property investment segment also recorded stronger performance, driven by an increased number of visitors to its theme parks and higher contributions from Sunway REIT.
- Sunway's 3Q23 property sales grew 18% YoY but fell 41% QoQ to RM591mn. Year-to-date sales for 9M23 reached RM2.09bn, showcasing an impressive 46% increase YoY. Significantly, Singapore projects constituted 43% of the total sales in 9M23. The latest take-up rates for Terra Hills and the Continuum, launched in February and April, reached 39% and 33%, respectively, showing a slight increase from the 2Q23 figures of 36% and 27%. This subdued uptake aligns with expectations as the property market undergoes an adjustment period in response to the recent cooling measures implemented by the Singapore Government. Domestically, Sunway Flora Residence in Bukit Jalil (GDV: RM300mn) and Sunway Dora in Bayan Baru, Penang (GDV: RM70mn), both launched in March 2023 and February 2023 respectively, achieved robust take-up rates nearing 80% – see **Figure I**.

Impact

- No change to our FY23-25 earnings forecasts. Our FY23/24/25 sales assumptions are RM2.4bn/RM2.5bn/RM2.6bn, respectively.

Outlook

- Sunway maintains its new sales target of RM2.3bn this year, although it appears highly likely that the group will surpass this target, considering that 9M23 sales already constitute 91% of the target. The upcoming focus

Share Information

Bloomberg Code	SWB MK
Stock Code	5211
Listing	Main Market
Share Cap (mn)	4,960.0
Market Cap (RMmn)	9,622.4
52-wk Hi/Lo (RM)	2.07/1.45
12-mth Avg Daily Vol ('000 shrs)	4,850.2
Estimated Free Float (%)	25.6
Beta	0.7

Major Shareholders (%)

Sungei Way Corp (57.9)
EPF (5.0)

Forecast Revision

	FY23	FY24
Forecast Revision (%)	0.0	0.0
Net profit (RMmn)	664.3	750.9
Consensus	667.6	739.8
TA's / Consensus (%)	99.5	101.5
Previous Rating	Buy (Maintained)	
Consensus Target Price (RM)	2.33	

Financial Indicators

	FY23	FY24
Net gearing (%)	58.5	58.2
CFPS (sen)	(2.1)	3.0
P/CFPS (x)	(92.4)	65.1
ROE (%)	5.2	5.7
ROA (%)	2.5	2.7
NTA/Share (RM)	2.1	2.2
Price/NTA (x)	0.9	0.9

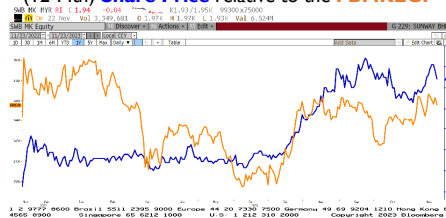
Scorecard

	% of FY	
vs TA	71.0	Within
vs Consensus	71.0	Within

Share Performance (%)

Price Change	SWB	FBM KLCI
1 mth	3.7	1.0
3 mth	2.1	0.3
6 mth	23.6	2.6
12 mth	28.5	1.0

(12-Mth) Share Price relative to the FBMKLCI



Source: Bloomberg

remains on enhancing take-up rates for ongoing and recently launched projects.

- With unbilled sales of RM4.6bn and an outstanding construction order book of RM3.7bn (external jobs only), Sunway has earnings visibility for the next 3-4 years.
- We believe the strengthening domestic economy augurs well for Sunway going forward. In particular, Sunway's leisure, hotel, and healthcare segments are expected to benefit from the improvement of the inbound leisure tourism and medical tourism sectors as international travel continues to normalise.
- In the coming years, we expect the completion of the Rapid Transit System (RTS) rail link and the potential establishment of the Johor-Singapore Special Economic Zone to bode positively for Sunway City Iskandar Puteri. Positioned strategically between Puteri Harbour and the Second Link to Singapore, this flagship township development is expected to thrive. The positive sentiment is already evident in the strong sales performance of Sunway Aviana, a landed development within Sunway City Iskandar Puteri, launched in October 2023, achieving an impressive 57% take-up rate.

Valuation

- We maintain Buy on Sunway with an unchanged TP of RM2.40, based on SOP valuation.

SOP Valuation Table

	Stake	Value (RM mn)	RM/share*	Valuation Methodology
Property Dev & Inv	100.0%	5,880.5	1.00	14x CY24 Earnings
SunCon	54.6%	1,221.2	0.21	TP of RM1.73
Sunway REIT	40.9%	2,451.3	0.42	TP of RM1.75
Healthcare	84.0%	3,937.5	0.67	Pegged to Effective Equity Value Based on GIC's Offer
Trading & Manufacturing	100.0%	352.9	0.06	10x CY24 Earnings
Quarry & Others	100.0%	239.6	0.04	10x CY24 Earnings
Total		14,083.1	2.40	

Note *: The calculation of value/share includes the ordinary shares that will issued upon the mandatory conversion of ICPS

Source: TA Research

Figure 1: 2022 & 2023 Launches & Sales Performance

Development	Location	Type	GDV (RM mn)	Launch date and take up
Jernih Residence	Kajang, Selangor	Service Apartments	313	Launched in May-22, 55% take up
Sunway Alishan Residences	Cheras, KL	Condominium & Superlinks	286	Launched in Sep-22, 42% take up
Sunway D' Hills	Kota Damansara, KL	Service Residences	359	Launched in Oct-22, 21% take up
Total Launches in 2022			958	
Sunway Flora Tower A	Bukit Jalil, KL	Service Apartments & Retail	306	Launched in Mar-23, 79% take up
Sunway Flora Tower B	Bukit Jalil, KL	Service Apartments & Retail	304	Launched in Sep-23
Sunway Lenang Heights	Taman Molek, Johor Bahru	Semi D Homes & Bungalows	90	Target launch in Nov-23
Sunway Maple	Sunway Iskandar Puteri, Johor	Landed Linked Homes	10	Likely defer to 2024
Sunway Aviana	Sunway Iskandar Puteri, Johor	Landed Linked Homes	150	Launched in Oct-23, 57% take up
Sunway Dora	Bayan Baru, Penang	Service Apartments	70	Launched in Feb-23, 74% take up
Terra Hills	Pasir Panjang, Singapore	Private Condominium	700	Launched in Feb-23, 39% take up
The Continuum	Thiam Siew Avenue, Singapore	Private Condominium	2000	Launched in Apr-23, 33% take up
Sunway Gardens Phase 3	Tianjin, China	Condominium	120	Launched in Aug-23
Total			3,750	

Source: Sunway, TA Research

Earnings Summary (RM mn)

YE Dec 31 (RM'mn)	2021 [^]	2022	2023F	2024F	2025F
Revenue	3,714.2	5,195.0	5,477.1	5,679.1	5,726.2
EBITDA	457.7	713.6	694.2	699.5	740.8
EBITDA margin (%)	12.3	13.7	12.7	12.3	12.9
Pretax profit	434.7	855.3	895.1	982.2	1,032.3
Reported Net profit	293.5	676.7	664.3	750.9	797.6
Net profit -adj	350.1	612.2	664.3	750.9	797.6
Net profit adjusted for preferential dividend	320.4	558.9	613.0	699.6	746.3
EPS (sen) #	4.5	10.6	10.4	11.9	12.7
EPS - adj (sen) #	6.0	9.5	10.4	11.9	12.7
EPS Growth (Core) (%)	(18.2)	59.6	9.7	14.1	6.7
PER (x)	32.2	20.2	18.4	16.1	15.1
GDPS (sen)	2.5	5.5	5.5	6.0	6.0
Div Yield (%)	1.3	2.9	2.9	3.1	3.1
ROE (%)	3.3	5.0	5.2	5.7	5.9

[^] Restated

EPS after preference dividend payment

Note: Following the partial divestment, Sunway Healthcare is presented as discontinued operations in FY20 & FY21. For FY22 onwards, Sunway will recognise its share of the profit or loss in Sunway Healthcare (84% stake on a fully converted basis) under the equity method of accounting.

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3Q23 Results Analysis (RM mn)

YE 31 Dec (RM' mn)	3Q22	2Q23	3Q23	QoQ (%)	YoY (%)	9MFY22	9MFY23	YoY (%)	
Revenue	1,270.5	1,468.2	1,539.1	4.8	21.1	3,663.4	4,271.0	16.6	
Property Development	278.1	362.1	309.5	(14.5)	11.3	722.7	919.4	27.2	
Property Investment	188.6	199.4	232.8	16.8	23.4	459.3	642.1	39.8	
Construction	305.1	404.1	424.0	4.9	39.0	990.6	1,156.0	16.7	
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	
Others	194.3	180.3	181.4	0.6	(6.7)	539.3	537.5	(0.3)	
Operating profits	132.4	140.0	119.1	(14.9)	(10.0)	366.0	372.5	1.8	
Finance income	47.8	63.8	61.7	(3.3)	29.1	126.1	183.9	45.9	
Finance costs	(49.3)	(78.4)	(89.8)	14.5	82.1	(139.9)	(230.6)	64.8	
Associates	37.4	29.6	39.0	31.4	4.0	116.2	110.3	(5.1)	
JV	55.5	47.9	117.8	145.7	112.4	152.8	206.8	35.3	
EI	16.6	(3.1)	0.0	(100.0)	(100.0)	50.7	(3.1)	(106.1)	
PBT	223.8	203.0	247.8	22.1	10.7	621.2	642.8	3.5	
Core PBT	207.2	206.1	247.6	20.1	19.5	575.2	645.7	12.3	
Property Development	35.8	49.1	70.4	43.5	96.8	84.9	142.6	67.9	
Property Investment	69.1	37.0	55.0	48.8	(20.4)	160.0	159.2	(0.5)	
Construction	35.6	44.5	51.1	14.7	43.5	127.8	135.1	5.7	
Trading & Manufacturing	12.4	10.1	13.4	32.9	8.5	32.4	33.1	2.4	
Quarry	1.9	4.4	10.2	131.7	439.5	8.6	18.1	111.5	
Healthcare*	41.4	37.7	44.4	17.9	7.2	105.0	111.0	5.7	
Others	11.0	23.3	3.0	(87.1)	(72.5)	56.5	46.6	(17.5)	
Tax	(41.6)	(30.8)	(40.5)	31.6	(2.5)	(92.1)	(104.6)	13.5	
MI	(17.5)	(22.3)	(30.0)	34.4	71.6	(58.9)	(69.4)	17.8	
Net profit	164.7	149.9	180.3	20.3	9.5	470.1	471.9	0.4	
Core net profit	148.1	153.0	180.3	17.8	21.7	419.4	475.0	13.2	
Prefential dividends on ICPS	(25.7)	0.0	(25.7)	nm	0.0	(51.3)	(51.3)	0.0	
Net profit less preferential dividend	139.1	149.9	154.6	3.1	11.2	418.8	420.5	0.4	
Core net profit less preferential dividend	122.5	153.0	154.6	1.0	26.3	368.1	423.6	15.1	
Reported EPS	(sen)	2.8	2.5	2.6	2.8	(6.8)	7.5	7.1	(5.1)
Adj EPS	(sen)	2.5	2.6	2.6	(0.1)	3.2	6.7	7.2	7.0
DPS	(sen)	0.0	2.0	0.0	nm	nm	2.0	2.0	0.0
Core PBT margin	(%)	16.3	14.0	16.1	2.1	0.2	15.7	15.1	(0.6)
Property Development	(%)	12.9	13.6	22.8	9.2	(9.9)	11.7	15.5	3.8
Property Investment	(%)	36.6	18.5	23.6	5.1	13.0	34.8	24.8	(10.0)
Construction	(%)	11.7	11.0	12.1	1.0	(0.4)	12.9	11.7	(1.2)
Trading & Manufacturing	(%)	6.2	4.4	5.5	1.1	0.7	4.8	4.8	(0.1)
Quarry	(%)	1.8	4.7	6.9	2.2	(5.1)	3.0	5.6	2.6
Others	(%)	5.6	12.9	1.7	(11.3)	4.0	19.5	20.6	1.2
Core net margin	(%)	11.7	10.4	11.7	1.3	(0.1)	15.4	12.5	(2.9)
Effective tax rate	(%)	(18.6)	(15.2)	(16.4)	(1.2)	(2.2)	(14.8)	(16.3)	(1.4)

^Restated

* healthcare's contribution from Continuing Operations is based on the Group's share of its net profit.

EPS after preference dividend payment

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Stock Recommendation Guideline

- BUY** : Total return within the next 12 months exceeds required rate of return by 5%-point.
HOLD : Total return within the next 12 months exceeds required rate of return by between 0-5%-point.
SELL : Total return is lower than the required rate of return.
Not Rated: The company is not under coverage. The report is for information only.

Total Return is defined as expected share price appreciation plus gross dividend over the next 12 months. Gross dividend is excluded from total return if dividend discount model valuation is used to avoid double counting.

Required Rate of Return of 7% is defined as the yield for one-year Malaysian government treasury plus assumed equity risk premium.

ESG Scoring & Guideline

	Environmental	Social	Governance	Average
Scoring	★★★★★	★★★★★	★★★★★	★★★★★
Remark	The group implements a comprehensive programme aiming to reduce to GHG emission, water & waste with relevant targets and deadlines. It implemented a Zero Single Plastic Use Policy in its property division's assets, venues, and events	The group provides a conducive work environment. Promoting diversity and equal opportunity, 58% of its non-executive workforce are women. The company has strict regulations concerning health and safety, collaborating with suppliers and subcontractors to enforce them.	Sunway upholds high standards of corporate governance and transparency to safeguard shareholders' interests. It has an in-house investor relations team that is easily contactable.	

- ★★★★★ (≥80%) : Displayed market leading capabilities in integrating ESG factors in all aspects of operations, management and future directions.
 ★★★★★ (60-79%) : Above adequate integration of ESG factors into most aspects of operations, management and future directions.
 ★★★ (40-59%) : Adequate integration of ESG factors into operations, management and future directions.
 ★★ (20-39%) : Have some integration of ESG factors in operations and management but are insufficient.
 ★ (<20%) : Minimal or no integration of ESG factors in operations and management.

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As of Thursday, November 23, 2023, the analyst, Thiam Chiann Wen, who prepared this report, has interest in the following securities covered in this report:
 (a) nil

Kaladher Govindan – Head of Research

TA SECURITIES HOLDINGS BERHAD 197301001467 (14948-M)
 A Participating Organisation of Bursa Malaysia Securities Berhad

Menara TA One | 22 Jalan P. Ramlee | 50250 Kuala Lumpur | Malaysia | Tel: 603 – 2072 1277 | Fax: 603 – 2032 5048
 www.ta.com.my