

### COMPANY RESULTS

## Sunway Bhd (SWB MK)

2Q23: In Line: Expect 2H23 To Be Better

Sunway saw its 1H23 revenue grow 14% while net profit rose 18% mainly due to strong performance from the property development (higher progressive billings), property investment (higher leisure and hospitality contribution), and healthcare segments (strong operational results from SMC Sunway City). 1H23 effective property sales stood at RM1.37b (62% of target). Maintain BUY. Target price: RM2.38.

### 2Q23 RESULTS

Year to 31 Dec (RMm)	2Q23	1Q23	qoq % chg	yoy % chg	1H23	yoy % chg
Revenue	1468.2	1,263.7	16.2	14.7	2731.9	14.2
Property Development	362.1	247.8	46.1	26.4	609.9	37.2
Construction	404.1	327.9	23.2	27.5	732.0	6.8
Property Investment	199.4	209.9	-5.0	33.3	409.3	51.2
<b>Pre-tax profit</b>	<b>203.0</b>	<b>192.0</b>	<b>5.7</b>	<b>-1.1</b>	<b>395.0</b>	<b>0.7</b>
Property Development	49.1	23.1	112.7	90.9	72.1	46.9
Construction	44.5	39.5	12.7	0.3	84.0	-8.9
Property Investment	33.9	67.2	-49.7	-36.6	101.1	2.7
Healthcare PAT (equity accounting)	37.7	28.8	30.8	6.9	66.6	4.7
<b>PATAMI</b>	<b>149.9</b>	<b>141.6</b>	<b>5.9</b>	<b>-7.2</b>	<b>291.6</b>	<b>-0.8</b>
<b>Core net profit</b>	<b>158.5</b>	<b>139.6</b>	<b>13.5</b>	<b>23.7</b>	<b>298.1</b>	<b>17.7</b>
<b>Pre-tax Margins (%)</b>	<b>%</b>	<b>%</b>	<b>+ppt</b>	<b>+ppt</b>	<b>%</b>	<b>+ppt</b>
Property Development	13.6	9.3	4.2	(1.2)	11.8	0.8
Construction	11.0	12.0	(1.0)	(2.0)	11.5	(2.0)
Property Investment	17.0	32.0	(15.1)	(20.2)	24.7	(11.7)

Source: Sunway, UOB Kay Hian

### RESULTS

- 2Q23 results within expectations.** Sunway Bhd (Sunway) reported a 2Q23 core net profit of RM158.5m (+13.5% qoq, +23.7% yoy) on revenue of RM1.47b (+16.2% qoq, +14.7% yoy). Cumulatively, 1H23 core net profit of RM298.1 (+17.7% yoy) accounts for around 45% of our and 43% of consensus' full-year forecasts. The improvements in 1H23 revenue and earnings were mainly due to strong performance from the property development, property investment and healthcare segments.
- 1H23 core net profit was derived after excluding exceptional items amounting to -RM6.5m (mostly on net loss on derivatives) from reported net profit of RM291.6m.
- Declares 2 sen dividend for 1H23 (1H22: 2 sen).** This represents an annualised yield of 2%.

### KEY FINANCIALS

Year to 31 Dec (RMm)	2021	2022	2023F	2024F	2025F
Net turnover	3,717	5,195	5,348	5,502	5,675
EBITDA	544	702	712	740	776
Operating profit	328	583	598	614	638
Net profit (rep./act.)	293	677	664	696	730
Net profit (adj.)	321	626	664	696	730
EPS (sen)	6.6	12.8	13.6	14.2	14.9
PE (x)	28.9	14.8	14.0	13.3	12.7
P/B (x)	0.8	0.7	0.7	0.7	0.7
EV/EBITDA (x)	30.1	23.3	23.0	22.1	21.1
Dividend yield (%)	1.3	2.9	2.8	3.0	3.1
Net margin (%)	7.9	13.0	12.4	12.7	12.9
Net debt/(cash) to equity (%)	44.1	51.8	45.1	39.5	39.2
Interest cover (x)	6.0	(40.3)	7.3	7.5	7.8
ROE (%)	2.7	5.5	5.2	5.3	5.4
Consensus net profit	-	-	699	747	799
UOBKH/Consensus (x)	-	-	0.95	0.93	0.91

Source: Sunway Bhd, Bloomberg, UOB Kay Hian

## BUY

(Maintained)

Share Price	RM1.91
Target Price	RM2.38
Upside	+24.6%

### COMPANY DESCRIPTION

A leading construction company and property developer in Malaysia

### STOCK DATA

GICS sector	Industrials
Bloomberg ticker:	SWB MK
Shares issued (m):	4,954.6
Market cap (RMm):	9,463.4
Market cap (US\$m):	2,020.5
3-mth avg daily t'over (US\$m):	1.7

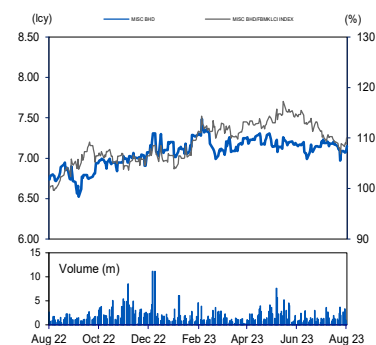
### Price Performance (%)

52-week high/low	RM1.92/RM1.47			
<b>1mth</b>	<b>3mth</b>	<b>6mth</b>	<b>1yr</b>	<b>YTD</b>
13.1	21.0	17.3	15.2	17.3

### Major Shareholders

Sungei Way Corp Sdn Bhd	57.9
EPF	7.8
Active Equity Sdn Bhd	3.4
FY23 NAV/Share (RM)	2.65
FY23 Net Debt/Share (RM)	1.19

### PRICE CHART



Source: Bloomberg

### ANALYST(S)

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### STOCK IMPACT

- Property development: 1H23 revenue saw strong growth** of 37% yoy and 47% yoy mainly due higher sales and progress billings from local projects. Effective property sales in 1H23 stood at RM1.37b, accounting for 62% of its full-year sales target of RM2.2b for 2023. This was mainly contributed by sales from Singapore projects (51% of total sales) with the rest mostly being local projects.
- RM3.07b worth of launches in 1H23, representing 88% of its target launches of RM3.5b.** Locally, the company launched: a) Sunway Flora at Bukit Jalil (GDV: RM300m) in March, and b) Sunway Dora in Penang with GDV of RM70m in February, with take-up rate of 74% for both projects. Meanwhile, Sunway launched The Continuum (GDV: RM2b) and Terra Hills (GDV: RM700m) in Singapore and both saw take-up rates of 30-40% within a few months of launches. The property segment is expected to remain resilient on higher sales (+22% yoy), strong unbilled sales of RM4.86b (4.2x cover ratio) and lumpy recognition from its Singapore projects (we estimate RM40m-60m for Parc Canberra in 3Q23 and RM110m-130m for Parc Central in 1Q24).
- Healthcare: Spearing growth going forward.** The healthcare arm reported 2Q23 core PAT of RM38m (+30% qoq, +7% yoy). Qoq performance was strong, mainly on strong operational results from SMC Sunway City and SMC Velocity which mitigated the start-up operational losses from SMC Penang and Sunway Sanctuary. Note that the start-up losses of SMC Penang has been reduced to -RM1.3m in 2Q23 (vs -RM2.2m in 1Q23) on a higher number of patients treated. 2H23 expected to be better on the back of the availability of new beds (+108) on the opening of Tower D and E of SMC Sunway City.
- Construction: Prime beneficiary of mega projects.** 1H23 PBT of the construction segment came in lower at RM84m (-9% qoq) despite higher revenue of RM732m (+7%) due to lower operating margin (high-base effect during the same period last year on cost savings from completed projects). We expect higher earnings ahead from stronger progress billings on the back of improved labour intake. Orderbook remained robust at RM5.8b (2.7x cover ratio) while tender book stood at >RM27b. Its construction arm is among the frontrunners for the civil packages of the railway jobs given its strong track record.
- Property Investment: Strong revenue from the leisure and hospitality businesses.** While 1H23 saw property investment revenue grow 51% (mainly on higher hotel and theme park occupancy), PBT grew slower at 3% due to higher utility charges and finance costs. Nonetheless, we expect a better performance in 2H23 as utility charges eases.

### EARNINGS REVISION/RISK

- None.

### VALUATION/RECOMMENDATION

- **Maintain BUY with an unchanged target price of RM2.38**, based on a 10% discount to our SOTP-based valuation of RM2.64/share. Our target price implies a 2023F PE of 17.8x and P/B of 0.9x (both within its five-year mean). Sunway's 1,632 acres of landbank in Johor with GDV of RM29b (57% of its remaining total GDV of RM51.4b) may stand to benefit from the positive prospects of Johor's property landscape in light of developments such as the Rapid Transit System and special economic zone.

### ENVIRONMENTAL, SOCIAL, GOVERNANCE (ESG) UPDATES

<ul style="list-style-type: none"> <li>• <b>Environmental</b></li> </ul>
- Installed photovoltaic (PV) solar panels at most of its properties, the latest being Sunway Carnival Mall
<ul style="list-style-type: none"> <li>• <b>Social</b></li> </ul>
- Launched Sunway Cancer Support Fund worth RM2.5 million in October 2022.
<ul style="list-style-type: none"> <li>• <b>Governance</b></li> </ul>
- Good company transparency along with an anti-bribery and anti-corruption policy.

### SOTP-BASED VALUATION

	(RMm)	Remarks
Property development	4,270	20% discount to property RNAV
REIT (40.9% stake)	2,325	Valuation based on target price of RM1.66, based on DDM
Construction (54.4% stake)	1,189	Valuation based on target price of RM1.69, 14x 2024F PE
Quarry & building materials	218	8x PE 2023F quarry profits
Trading	374	8x PE 2023F trading profits
Investment Properties	1,777	Valuation based on DDM
Healthcare	4,346	25x PE 2023F healthcare profit
Less: Holding co (debt)/ cash	-589	
<b>Total SOTP value (A)</b>	<b>13,909</b>	
Share base (m) (B)	4,955	
Warrants proceeds (C)	951	Assume conversion price at RM1.42/share (expiring in Oct 24)
<b>Total SOTP value post warrants proceeds (A+C)</b>	<b>14,859</b>	
Enlarged share base (m)	5,624	
<b>SOTP/share (RM)</b>	<b>2.64</b>	
Discount	10%	
<b>Target price (RM)</b>	<b>2.38</b>	

Source: Sunway, UOB Kay Hian

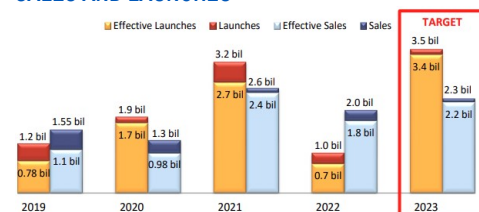
### EXPANSION PLAN FOR MEDICAL CENTRES

State	Location	Total beds	Exp. completion
<b>Existing Medical Centre</b>			
Kuala Lumpur	Sunway City (Tower A,B,C)	616	Completed
	Velocity	121	Completed
Penang	Seberang Jaya	333	Opened Nov 22
Kuala Lumpur	Sunway City (Tower D and E)	108	Opened May 23
<b>Expansion plan</b>			
Kuala Lumpur	Sunway City (Tower F)	357	3Q23
	Velocity (Phase 2)	229	4Q23
Selangor	Damansara	336	1Q24
Perak	Ipoh	260	2Q24
Kelantan	Kota Bharu	200	TBD
Penang	Paya Terubong	120**	Planning stage
Johor	Iskandar	200**	Planning stage
<b>Total</b>		<b>2,880</b>	

\*\*Estimates

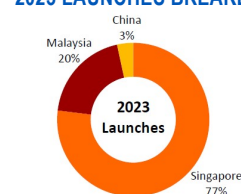
Source: Sunway, UOB Kay Hian

### SALES AND LAUNCHES



Source: Sunway

### 2023 LAUNCHES BREAKDOWN



Source: Sunway

### PROFIT & LOSS

Year to 31 Dec (RMm)	2022	2023F	2024F	2025F
<b>Net turnover</b>	<b>5,195</b>	<b>5,348</b>	<b>5,502</b>	<b>5,675</b>
EBITDA	702	712	740	776
Deprec. & amort.	118	114	126	138
EBIT	583	598	614	638
Associate contributions	351	309	339	371
Net interest income/(expense)	(14)	81	81	81
<b>Pre-tax profit</b>	<b>920</b>	<b>988</b>	<b>1,034</b>	<b>1,090</b>
Tax	(167)	(247)	(259)	(273)
Minorities	(76)	(77)	(79)	(87)
<b>Net profit</b>	<b>677</b>	<b>664</b>	<b>696</b>	<b>730</b>
Net profit (adj.)	626	664	696	730

### BALANCE SHEET

Year to 31 Dec (RMm)	2022	2023F	2024F	2025F
Fixed assets	5,548	5,816	6,065	6,310
Other LT assets	12,167	12,476	12,815	13,186
Cash/ST investment	1,958	2,277	2,834	2,702
Other current assets	6,383	6,577	6,743	6,929
<b>Total assets</b>	<b>26,057</b>	<b>27,146</b>	<b>28,456</b>	<b>29,128</b>
ST debt	5,361	4,093	4,093	4,093
Other current liabilities	2,644	3,598	4,409	4,553
LT debt	3,095	4,021	4,021	4,021
Other LT liabilities	1,384	1,384	1,384	1,384
Shareholders' equity	12,541	12,941	13,361	13,801
Minority interest	1,032	1,109	1,188	1,276
<b>Total liabilities &amp; equity</b>	<b>26,057</b>	<b>27,146</b>	<b>28,456</b>	<b>29,128</b>

### CASH FLOW

Year to 31 Dec (RMm)	2022	2023F	2024F	2025F
<b>Operating</b>	<b>337</b>	<b>1,225</b>	<b>1,127</b>	<b>461</b>
Pre-tax profit	920	988	1,034	1,090
Tax	(167)	(247)	(259)	(273)
Deprec. & amort.	118	114	126	138
Associates	(351)	(309)	(339)	(371)
Working capital changes	(482)	759	645	(43)
Non-cash items	298	(81)	(81)	(81)
<b>Investing</b>	<b>(845)</b>	<b>(382)</b>	<b>(375)</b>	<b>(384)</b>
Capex (growth)	(324)	(267)	(275)	(284)
Investments	(8)	(115)	(100)	(100)
Proceeds from sale of assets	249	0	0	0
Others	(762)	0	0	0
<b>Financing</b>	<b>(325)</b>	<b>(523)</b>	<b>(195)</b>	<b>(209)</b>
Dividend payments	(271)	(264)	(277)	(290)
Issue of shares	0	0	0	0
Proceeds from borrowings	334	(341)	0	0
Others/interest paid	(387)	81	81	81
<b>Net cash inflow (outflow)</b>	<b>(832)</b>	<b>319</b>	<b>557</b>	<b>(131)</b>
<b>Beginning cash &amp; cash equivalent</b>	<b>2,795</b>	<b>1,958</b>	<b>2,277</b>	<b>2,834</b>
Changes due to forex impact	(5)	0	0	0
<b>Ending cash &amp; cash equivalent</b>	<b>1,958</b>	<b>2,277</b>	<b>2,834</b>	<b>2,702</b>

### KEY METRICS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
<b>Profitability</b>				
EBITDA margin	13.5	13.3	13.5	13.7
Pre-tax margin	17.7	18.5	18.8	19.2
Net margin	13.0	12.4	12.7	12.9
ROA	2.6	2.5	2.5	2.5
ROE	5.5	5.2	5.3	5.4
<b>Growth</b>				
Turnover	19.9	2.9	2.9	3.1
EBITDA	8.5	1.5	3.9	4.9
Pre-tax profit	63.4	7.4	4.7	5.4
Net profit	80.3	(1.9)	4.9	4.9
Net profit (adj.)	62.9	6.0	4.9	4.9
EPS	62.9	6.0	4.9	4.9
<b>Leverage</b>				
Debt to total capital	38.4	36.6	35.8	35.0
Debt to equity	67.4	62.7	60.7	58.8
Net debt/(cash) to equity	51.8	45.1	39.5	39.2
Interest cover (x)	7.2	7.3	7.5	7.8

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