

COMPANY RESULTS

Sunway Bhd (SWB MK)

1Q23: Within Expectation

Sunway saw 1Q23 core earnings easing by 17% qoq to RM139.6m driven by lower contribution from the property development and construction divisions, partially offsetting the higher contributions from property investment. 1Q23 earnings account for 23% of our full-year estimates. We expect stronger earnings ahead backed by target launches of RM3.5b and unbilled sales of RM4.3b. Property sales in 1Q23 stood at RM505m (FY23 target: RM2.3b). Maintain BUY. Target price: RM2.38.

1Q23 RESULTS

Year to 31 Dec (RMm)	1Q23	4Q22	qoq % chg	yoy % chg
Revenue	1,263.7	1,531.6	(17.5)	13.6
Property Development	247.8	442.7	(44.0)	56.6
Construction	327.9	291.0	12.7	(11.0)
Property Investment	209.9	230.7	(9.0)	73.3
Pre-tax profit	192.0	293.9	(34.7)	2.6
Property Development	23.1	70.4	(67.2)	(1.5)
Construction	39.5	58.7	(32.7)	(17.4)
Property Investment	67.2	52.8	27.5	49.4
Healthcare	28.8	35.0	(17.6)	2.1
PATAMI	141.6	203.0	(30.2)	6.9
Core net profit	139.6	167.3	(16.5)	11.7
Pre-tax Margins (%)	%	%	+/- ppt	+/- ppt
Property Development	9.3	15.9	(6.6)	(5.5)
Construction	12.0	20.2	(8.1)	(0.9)
Property Investment	32.0	22.9	9.2	(5.1)

Source: Sunway, UOB Kay Hian

RESULTS

- 1Q23 results within expectations.** Sunway Bhd (Sunway) reported a core net profit of RM139.6m (-16.5% qoq, +11.7% yoy) on revenue of RM1.2b (-17.5% qoq, +13.6% yoy). This accounts for around 23% of our and consensus full-year forecasts. The qoq decline was mainly due to lower contribution from both the property development and construction divisions, partially offsetting the higher contributions from property investment.
- 1Q23 property sales: Healthy start for the year.** Property sales in 1Q23 stood at around RM505m, accounting for around 22% of its full-year sales target of RM2.3b for 2023. This is mainly contributed by sales from local and Singapore projects. Sales are expected to pick up ahead on the back of target launches worth RM3.5b for this year.

KEY FINANCIALS

Year to 31 Dec (RMm)	2021	2022	2023F	2024F	2025F
Net turnover	3,714	5,195	6,239	6,593	6,922
EBITDA	543	714	961	1,093	1,147
Operating profit	327	583	781	847	890
Net profit (rep./act.)	264	669	664	696	731
Net profit (adj.)	292	571	664	696	731
EPS (sen)	6.0	10.6	13.6	14.2	15.0
PE (x)	27.8	15.3	12.8	12.4	11.9
P/B (x)	0.7	0.7	0.6	0.6	0.6
EV/EBITDA (x)	27.4	19.1	16.5	14.6	13.9
Dividend yield (%)	1.5	3.0	3.1	3.2	3.2
Net margin (%)	7.1	10.6	11.0	11.4	11.6
Net debt/(cash) to equity (%)	44.0	45.6	43.2	41.7	39.3
Interest cover (x)	6.0	8.2	8.9	9.2	9.8
ROE (%)	2.4	4.4	5.0	5.3	5.7
Consensus net profit	-	-	698	703	754
UOBKH/Consensus (x)	-	-	0.95	0.99	0.97

Source: Sunway Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	RM1.62
Target Price	RM2.38
Upside	+46.9%

COMPANY DESCRIPTION

A leading construction company and property developer in Malaysia

STOCK DATA

GICS sector	Industrials
Bloomberg ticker:	SWB MK
Shares issued (m):	4,889.1
Market cap (RMm):	8,115.9
Market cap (US\$m):	1,809.0
3-mth avg daily t'over (US\$m):	0.2

Price Performance (%)

52-week high/low RM1.83/RM1.57

1mth	3mth	6mth	1yr	YTD
1.2	(5.1)	(1.2)	(7.8)	(3.5)

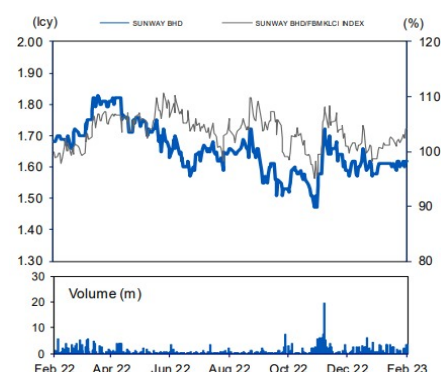
Major Shareholders

Shareholder	%
Sungei Way Corp Sdn Bhd	51.6
Skim Amanah Saham Bumiputera	5.7
Sharp Ventures Sdn Bhd	4.0

FY23 NAV/Share (RM) 2.53

FY23 Net Debt/Share (RM) 1.15

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- Property development: Stronger earnings ahead...** Its property arm reported lower 1Q23 profit before tax (PBT) of RM23m (-67% qoq, -1% yoy) on revenue of RM247m (-44% qoq, +57% yoy). The qoq weakness is due to lower progressive profit recognition from ongoing local development projects during 1Q23, which may be due to the ongoing labour shortage. The earnings were higher in previous quarters due to completion and handover of a local project. Nevertheless, Sunway's property division is expected to have better profit recognition going forward as most of its projects in Malaysia are entering advance development phases. Earnings from the Singapore projects (Parc Canberra and Parc Central Tampines) will only be recognised in 2023 upon project completion amid the adoption of MFRS15.
- ...leveraging on the existing projects.** In 1Q23, 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 50-70% so far. This brings 1Q23 total launch to around RM370m, representing 11% of its target launches of RM3.5b (77% Singapore, 20% Malaysia, 3% China). Among the upcoming key projects are The Continuum (GDV: RM2b), Terra Hills (GDV: RM700m) in Singapore, and Sunway Gardens in China (GDV: RM120m). Management is setting a higher full-year sales target of RM2.3b in 2023 after hitting RM2b last year. This will be supported by its strong unbilled sales of RM4.39b (4x 2022 property revenue).
- Healthcare: Spearing growth going forward.** The healthcare arm reported 1Q23 core PAT of RM28m (-17% qoq, +2% yoy). The qoq decline is largely due to higher operating cost, especially utility and staff costs, amid the ongoing inflation. Sunway will need to incur more staff costs as it will be hiring more headcounts for the opening of its new adjoining hospital towers in Subang. On the other hand, for its new hospital in Penang, the share of start-up losses has declined by 74% qoq to RM2.2m as there is a significant increase in operating revenue. On a yoy basis, the earnings continue to improve from a higher number of admissions and outpatient treatments.
- Construction: Prime beneficiary of mega projects.** Construction 1Q23 PAT came in lower at RM26m (-42% qoq) on revenue of RM522m (+4% qoq). The weaker performance is mainly due to lower contribution from completing projects and the existing active projects still being in the initial stage, where the progress has yet to pick up. We expect higher earnings ahead from stronger progress billings on the back of improved labour intake. Seasonality also plays a role as 1Q is typically the weakest quarter. The group has replenished RM1.2b worth of new contracts in 1Q23 (on track to hit its target of RM2b) with an outstanding orderbook of RM6b (over 3x of revenue cover) and tender book of >RM21b. It is among the frontrunners for the civil packages of the railway jobs given its strong track record and strong balance sheet.

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 RM2.63/share (after dilution of warrants). Our target price implies a 2023F PE of 21x and P/B of 0.9x (its five-year mean).

ENVIRONMENTAL, SOCIAL, GOVERNANCE (ESG) UPDATES

<ul style="list-style-type: none"> • Environmental
- In 2020, 3% of electricity was generated by solar panels.
<ul style="list-style-type: none"> • Social
- The group has donated RM1m to the National COVID-19 Fund.
<ul style="list-style-type: none"> • Governance
- Good company transparency along with an anti-bribery and anti-corruption policy.

SOTP-BASED VALUATION

	(RMm)	Remarks
Property development	3,843	20% discount to property RNAV
REIT (40.9% stake)	2,171	Valuation based on target price of RM1.55, based on DDM
Construction (54.4% stake)	1,101	Valuation based on target price of RM1.50, 16x 2022F PE
Quarry & building materials	290	8x PE 2022F quarry profits
Trading	388	8x PE 2022F trading profits
Investment Properties	1,497	
Healthcare	3,930	84% stake of RM4.67b
Less: Holding co (debt)/ cash	-121	Based on hold.co 2020's net debt plus RM0.75b stake sales proceeds
Total SOTP value (A)	13,099	
Share base (m) (B)	4,963	
Warrants proceeds (C)	964	Assume conversion price at RM1.44/share (expiring in Oct 24)
Total SOTP value post warrants proceeds (A+C)	14,063	
Enlarged share base (m)	5,633	
SOTP/share (RM)	2.63	
Discount	10%	
Target price (RM)	2.38	

Source: Sunway, UOB Kay Hian

EXPANSION PLAN FOR MEDICAL CENTRES

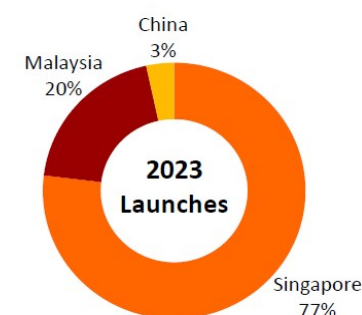
State	Location	Total Beds	Exp. Completion
Existing Medical Centre			
Kuala Lumpur	Sunway City - (Tower A,B,C)	616	Completed
	Velocity	240*	Completed
Expansion Plan			
Kuala Lumpur	Sunway City - (Tower D,E,F)	465	Q223
	Velocity (Phase 2)	110	Q323
Selangor	Damansara	336	Q323
Penang	Seberang Jaya	333	2023
	Paya Terubong	120**	Planning stage
Perak	Ipoh	260	Q124
Kelantan	Kota Bharu	200	Q325
Johor	Iskandar	200**	Planning stage
Total		2,880	

* Full capacity

** Estimates

Source: Sunway, UOB Kay Hian

2023 LAUNCHES BREAKDOWN



Source: Sunway

PROFIT & LOSS

Year to 31 Dec (RMm)	2022	2023F	2024F	2025F
Net turnover	5,195	6,239	6,593	6,922
EBITDA	714	961	1,093	1,147
Deprec. & amort.	130	175	238	251
EBIT	583	781	847	890
Associate contributions	351	364	373	392
Net interest income/(expense)	(15)	(38)	(77)	(81)
Pre-tax profit	920	1,047	1,081	1,135
Tax	(167)	(262)	(270)	(284)
Minorities	(76)	(121)	(123)	(129)
Net profit	669	664	696	731
Net profit (adj.)	571	664	696	731

CASH FLOW

Year to 31 Dec (RMm)	2022	2023F	2024F	2025F
Operating	395	433	753	791
Pre-tax profit	920	1,047	1,081	1,135
Tax	(167)	(262)	(270)	(284)
Deprec. & amort.	130	175	238	251
Associates	(351)	(323)	(373)	(392)
Working capital changes	61	(977)	401	421
Non-cash items	(59)	8	77	81
Investing	(1,069)	(1,197)	(1,261)	(1,324)
Capex (growth)	(1,069)	(1,197)	(1,261)	(1,324)
Investments	0	0	0	0
Proceeds from sale of assets	0	0	0	0
Others	0	0	0	0
Financing	(160)	(261)	(340)	(357)
Dividend payments	(190)	(253)	(263)	(276)
Issue of shares	0	0	0	0
Proceeds from borrowings	0	0	0	0
Others/interest paid	59	(8)	(77)	(81)
Net cash inflow (outflow)	(835)	(791)	(448)	(370)
Beginning cash & cash equivalent	2,732	1,895	1,104	656
Changes due to forex impact	0	0	0	0
Ending cash & cash equivalent	1,895	1,104	656	286

BALANCE SHEET

Year to 31 Dec (RMm)	2022	2023F	2024F	2025F
Fixed assets	5,676	6,698	7,721	8,107
Other LT assets	12,190	12,513	12,887	13,531
Cash/ST investment	2,482	691	243	255
Other current assets	5,300	7,028	7,390	7,760
Total assets	26,058	26,930	28,241	29,653
ST debt	4,093	4,093	4,093	4,298
Other current liabilities	2,785	3,536	4,299	4,514
LT debt	4,022	4,022	4,022	4,223
Other LT liabilities	1,236	1,236	1,236	1,298
Shareholders' equity	12,351	12,762	13,187	13,846
Minority interest	1,161	1,282	1,405	1,475
Total liabilities & equity	26,058	26,930	28,241	29,653

KEY METRICS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
Profitability				
EBITDA margin	13.2	15.1	16.2	17.0
Pre-tax margin	17.1	17.5	17.1	18.0
Net margin	10.7	10.6	10.4	10.9
ROA	1.9	2.4	2.4	2.5
ROE	3.9	5.0	5.1	5.4
Growth				
Turnover	19.9	34.4	5.4	5.7
EBITDA	8.5	53.8	12.9	13.5
Pre-tax profit	63.4	37.6	3.2	3.4
Net profit	80.3	33.3	3.6	3.8
Net profit (adj.)	62.9	33.3	3.6	3.8
EPS	62.9	33.3	3.6	3.8
Leverage				
Debt to total capital	37.5	36.6	35.7	37.5
Debt to equity	65.7	63.6	61.5	64.6
Net debt/(cash) to equity	45.6	58.2	59.7	62.7
Interest cover (x)	8.2	(97.1)	(10.2)	(10.7)

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