

HLIB Research

PP 9484/12/2012 (031413)

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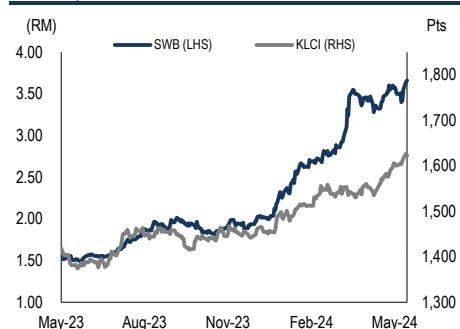
BUY (Maintain)

Target Price: RM4.30
Previously: RM3.76
Current Price: RM3.66

Capital upside	17.5%
Dividend yield	1.7%
Expected total return	19.2%

Sector coverage: Property

Company description: Sunway is a conglomerate that engages in property development, property investment, construction, leisure and hospitality, education, trading and manufacturing, building materials and healthcare.

Share price


Historical return (%)	1M	3M	12M
Absolute	9.9	28.4	133.1
Relative	5.7	22.4	103.9

Stock information

Bloomberg Ticker	SWB MK
Bursa Code	5211
Issued Shares (m)	5,630
Market cap (RM m)	20,607
3-mth avg. volume ('000)	16,112
SC Shariah-compliant	Yes
F4GBM Index member	Yes
ESG rating	★ ★ ★ ★

Major shareholders

Sungei Way Corp Sdn Bhd	49.0%
Tan Sri Jeffrey Cheah	11.0%
EPF	5.5%

Earnings summary

FYE (Dec)	FY23	FY24f	FY25f
PATMI – core (RM m)	648.0	727.4	736.8
EPS – core (sen)	11.5	12.9	13.1
P/E (x) – FD	31.8	28.3	28.0

Sunway

Good start and on track for a record year

Sunway reported 1Q24 core PATAMI of RM170.3m (-6.8% QoQ; +20.5% YoY), making up 25.1% of our and 21.6% of consensus full-year forecasts. We deem the results to be above our expectation as we expect lumpy profit recognition from Singapore property project amounting to around RM130-140m to be recognized in 2Q24. The positive results deviation was due to stronger than expected contribution from property development and healthcare segments. We revise upwards our FY24/FY25 forecasts by +7.3%/+2.6% to account for higher contribution from property development and healthcare segments, and introduce FY26 forecast. Maintain BUY with a higher TP of RM4.30 (from RM3.76) based on SOP-derived valuation following our earnings revision, rollover of valuation base year as well as narrower RNAV discount for property at 40% (from 50% previously). The group's prospects remain bright anchored by healthcare, property development and construction.

Above ours but within consensus. Sunway reported 1Q24 core PATAMI of RM170.3m (-6.8% QoQ; +20.5% YoY), making up 25.1% of our and 21.6% of consensus full-year forecasts. We deem the results to be above our expectation but within consensus as we expect lumpy profit recognition from its Singapore property project amounting to around RM130-140m to be recognized in 2Q24. The positive results deviation was due to stronger than expected contribution from property development and healthcare segments. 1Q24 core PATAMI was arrived at after subtracting net EIs amounting to +RM1.9m.

Dividend. None (1Q23: none).

QoQ. Core PATAMI declined by -6.8% as a result of lower contribution from property development (-43.8% in PBT), construction (-32.5% in PBT) and healthcare (-11.8% in PBT). The weaker property development PBT was due to lower progress billings from local development projects as well as higher profit recognition in the preceding quarter from completion and handover of projects. Lower construction PBT was a result of high base in 4Q23 driven by accelerated progress in building & LSS projects while some precast projects nearing completion also contributed.

YoY. Core PATAMI recorded a strong growth of +20.5% mainly contributed by property development (+68.2% in PBT due to higher progress billings) and healthcare (+27.6% in PBT due to higher bed capacity of 1,158 vs. 866 SPLY and turnaround in SMC Penang which was opened in Nov 2022).

Property development. In 1Q24, Sunway recorded effective new sales of RM414m (+42.8% QoQ; -8.0% YoY), making up 19.7% of its FY24 effective sales target of RM2.1bn. The group did not launch any products in 1Q24. It launched Sunway Aviana Phase 3 from Johor in Apr 2024 (effective GDV: RM39m; current take-up rate: 86%) and Sunway Velocity 3 in May 2024 (effective GDV: RM340m; current take-up rate: 51%). Effective unbilled sales as at 1Q24 stood at RM3.7bn (+1.9% QoQ), representing 2.61x of its FY23 property development revenue. As at 31 Mar 2024, the accumulated progressive profits from Parc Central Tampines amounts to RM120m, expected to be recognized in 2Q24, with estimated share of net profit amounting to RM130-140m.

Healthcare. Healthcare reported 1Q24 share of net profit of RM36.8m (-11.8% QoQ; +27.6% YoY). The lower QoQ results was due to lower contribution from SMC SC as a result of (i) lower patient volumes due to CNY and school holiday period; as well as (ii) higher operating costs related to hospital expansion such as staff cost. Operationally, SMCV Phase 2 had started opening progressively since Feb-24. The

target opening date for SMC Damansara and SMC Ipoh are 4Q24 and 1Q25 respectively.

Construction. SunCon's current order book stands at RM6.3bn (2.4x cover on FY23 revenue). Earnings are expected to accelerate in 2H24 as billings from its key DC project (JHB1X0) will only pick up starting in June 2024 when NTP2 is given. On a positive note, SunCon has been invited to potentially participate in advance technology facilities projects in ASEAN region, opening up possibilities of regional penetration into a rapidly growing sector.

Forecast. We revise upwards our FY24/FY25 forecasts by +7.3%/+2.6% mainly to account for higher contribution from property development and healthcare segments. We introduce FY26 earnings forecast at RM960.3m (+30.3% YoY). The strong YoY growth mainly stems from healthcare (as two of its new hospitals are in gestation period in FY25), property development (advanced progress billings from Singapore projects) and absence of ICPS payment.

Maintain **BUY** with a higher **TP** of **RM4.30** (from RM3.76) based on SOP-derived valuation following our earnings revision, rollover of valuation base year as well as narrower RNAV discount for property at 40% (from 50% previously). We lower the RNAV discount as we anticipate the group to scale up pace in activating its Sunway Iskandar development. The group's prospects remain bright anchored by three main growth pillars, namely healthcare, property development and construction. With the group's widening exposure in the Malaysian economy, investing in the stock is tantamount to owning a piece of the domestic economy which is at the cusp of entering a new phase of growth.

Financial Forecast

All items in (RM m) unless otherwise stated

Balance Sheet

FYE Dec	FY22	FY23	FY24f	FY25f	FY26f
Cash	1,958.1	2,297.0	3,879.7	3,940.3	3,699.8
Placement in funds	535.5	825.3	825.3	825.3	825.3
Receivables	1,241.6	1,900.2	1,882.5	1,845.5	2,001.7
Inventories	697.6	765.8	863.2	846.2	917.8
Others	21,630.6	22,795.5	21,904.0	22,495.9	23,504.2
Assets	26,063.4	28,583.8	29,354.7	29,953.1	30,948.9
Payables	1,312.3	1,565.3	1,697.3	1,664.0	1,804.8
Debt	9,055.7	9,650.1	9,800.1	9,950.1	10,100.1
Others	2,143.9	2,368.0	2,368.0	2,368.0	2,368.0
Liabilities	12,511.9	13,583.5	13,865.5	13,982.1	14,272.9
Shareholder's equity	12,519.7	13,850.4	14,255.1	14,628.2	15,220.1
Minority interest	1,031.8	1,149.9	1,234.1	1,342.8	1,455.8
Perpetual bond	-	-	-	-	-
Equity	13,551.5	15,000.3	15,489.2	15,971.0	16,675.9

Cash Flow Statement

FYE Dec	FY22	FY23	FY24f	FY25f	FY26f
Profit before taxation	909.2	993.3	972.4	1,005.7	1,238.6
D&A	130.2	141.4	179.0	192.1	203.8
Working capital	(1,314.0)	(777.8)	1,453.8	(150.2)	(584.2)
Taxation	(170.1)	(164.2)	(109.5)	(134.5)	(165.3)
JV and Associates	(221.2)	(226.1)	(389.0)	(313.1)	(414.9)
Perpetual bond	-	-	(51.3)	(25.7)	-
Others	1,002.7	492.3	-	-	-
CFO	336.8	459.0	2,055.4	574.3	278.0
Capex	(329.6)	(335.5)	(300.0)	(300.0)	(300.0)
Others	(253.6)	(222.9)	-	-	-
CFI	(583.2)	(558.4)	(300.0)	(300.0)	(300.0)
Changes in debt	333.7	1,037.2	150.0	150.0	150.0
Shares issued	-	-	-	-	-
Dividends	(270.9)	(322.7)	(322.7)	(363.7)	(368.4)
Others	(648.7)	(298.6)	-	-	-
CFF	(585.9)	415.9	(172.7)	(213.7)	(218.4)
Net cash flow	(832.3)	316.4	1,582.7	60.6	(240.4)
Forex	(4.5)	14.7	-	-	-
Others	(133.1)	(125.3)	(125.3)	(125.3)	(125.3)
Beginning cash	2,928.0	2,091.2	2,422.3	4,005.0	4,065.5
Ending cash	1,958.1	2,297.0	3,879.7	3,940.3	3,699.8

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Income statement

FYE Dec	FY22	FY23	FY24f	FY25f	FY26f
Revenue	5194.9	6136.2	5415.1	5308.6	5757.9
Operating cost	(4491.9)	(5327.9)	(4578.7)	(4415.7)	(4768.7)
EBITDA	703.1	808.3	836.3	892.9	989.3
D&A	(130.5)	(141.7)	(179.0)	(192.1)	(203.8)
Net Interest	(14.5)	(70.9)	(201.1)	(140.4)	(96.8)
JV & Associates	351.1	397.7	516.2	445.3	549.9
Pretax profit	909.2	993.3	972.4	1005.7	1238.6
Taxation	(164.3)	(137.7)	(109.5)	(134.5)	(165.3)
Minority Interest	(76.3)	(117.8)	(84.2)	(108.7)	(113.0)
ICPS payment	(51.3)	(51.3)	(51.3)	(25.7)	0.0
Reported PATAMI	668.6	737.9	727.4	736.8	960.3
Exceptionals	50.5	38.6	0.0	0.0	0.0
Core Earning	566.7	648.0	727.4	736.8	960.3
Basic shares (m)	5630.2	5630.2	5630.2	5630.2	5630.2
Consensus core PATMI			786.8	859.1	946.3
HLIB/ Consensus			92%	86%	101%

Valuation ratios

FYE Dec	FY22	FY23	FY24f	FY25f	FY26f
Net DPS (sen)	5.5	5.5	6.2	6.3	4.1
Yield (%)	1.5	1.5	1.7	1.7	1.1
Core EPS (sen)	10.1	11.5	12.9	13.1	17.1
P/E (x)	36.4	31.8	28.3	28.0	21.5
Market capitalization (m)	20606.7	20606.7	20606.7	20606.7	20606.7
Net cash (m)	(6562.2)	(6527.8)	(5095.1)	(5184.5)	(5575.0)
Net gearing (%)	48.4%	43.5%	32.9%	32.5%	33.4%
BV / share	2.4	2.7	2.8	2.8	3.0
P/BV (x)	1.5	1.4	1.3	1.3	1.2
ROA (%)	2.2	2.3	2.5	2.5	3.1
ROE (%)	4.2	4.3	4.7	4.6	5.8
Enterprise value	27168.9	27134.5	25701.8	25791.2	26181.7
EV/ EBITDA (x)	38.6	33.6	30.7	28.9	26.5

Figure #1 Quarterly results comparison

FYE Dec (RM m)	1Q23	4Q23	1Q24	QoQ	YoY
Revenue	1,263.7	1,633.0	1,419.0	-24.1%	12.3%
Property Development	247.8	499.4	287.7	-42.4%	16.1%
Property Investment	209.9	256.3	231.2	-9.8%	10.1%
Construction	327.9	532.8	372.5	-30.1%	13.6%
Trading/Manufacturing	224.1	260.1	241.4	-7.2%	7.7%
Quarry	78.2	124.8	104.8	-16.0%	34.0%
Investment	2.3	6.6	2.4	-62.8%	7.8%
Others	173.5	188.9	179.0	-5.2%	3.1%
EBIT	113.4	291.9	158.4	-45.7%	39.8%
Net Interest	(4.1)	(21.5)	(26.0)	21.2%	541.4%
Share of Associates/JCE	82.7	80.0	94.3	17.9%	13.9%
PBT	192.0	350.4	226.7	-35.3%	18.0%
Property Development	23.1	69.0	38.8	-43.8%	68.2%
Property Investment	67.2	136.8	69.4	-49.2%	3.2%
Construction	39.5	62.8	42.4	-32.5%	7.2%
Trading/Manufacturing	9.6	12.0	9.0	-25.2%	-6.4%
Quarry	3.5	9.4	11.1	18.2%	218.1%
Healthcare	28.8	41.7	36.8	-11.8%	27.6%
Investment	6.6	(16.8)	6.6	-139.6%	0.3%
Others	13.7	35.5	12.6	-64.6%	-7.8%
PAT	158.8	317.3	190.9	-39.8%	20.3%
MI	(17.1)	(51.4)	(18.7)	-63.6%	9.3%
Payment to ICPS holders	-	(25.7)	-	NM	NM
PATAMI	141.6	265.9	172.2	-35.2%	21.6%
EI	0.3	57.5	1.9	-96.6%	645.9%
Core Earnings	141.4	182.7	170.3	-6.8%	20.5%

				<i>ppts change</i>	<i>ppts change</i>
EBIT margin	9.0%	15.6%	11.2%	(4.5)	2.2
PBT margin	15.2%	18.8%	16.0%	(2.8)	0.8
PAT margin	11.2%	9.8%	12.0%	2.2	0.8

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Figure #2 SOP table

Division	Stake	Value (RM m)	RM/share	Methodology
Construction (SunCon)	54.56%	2,638	0.44	based on TP of RM3.75
Sunway REIT	40.88%	2,716	0.45	based on TP of RM1.94
Property Development & Investment	100%	8,404	1.39	based on 40% discount to RNAV
Healthcare	84%	11,641	1.92	based on 22x of FY25 EV/EBITDA
Trading/Manufacturing	100%	344	0.06	10X trailing P/E
Quarry	100%	242	0.04	10X trailing P/E
		25,985	4.30	

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Stock rating guide

BUY	Expected absolute return of +10% or more over the next 12 months.
HOLD	Expected absolute return of -10% to +10% over the next 12 months.
SELL	Expected absolute return of -10% or less over the next 12 months.
UNDER REVIEW	Rating on the stock is temporarily under review which may or may not result in a change from the previous rating.
NOT RATED	Stock is not or no longer within regular coverage.

Sector rating guide

OVERWEIGHT	Sector expected to outperform the market over the next 12 months.
NEUTRAL	Sector expected to perform in-line with the market over the next 12 months.
UNDERWEIGHT	Sector expected to underperform the market over the next 12 months.

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