

22 February 2024

Sunway

Priced to Perfection

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SUNWAY's FY23 results beat our forecast but met market expectations. Its core net profit rose 19% YoY on stronger performances across the board. Its fundamentals are sound backed by a diverse portfolio of growing businesses but we believe have been priced to perfection. We tweak our FY24F earnings up by 2%, raise our TP by 11% to RM2.51 (from RM2.27) but maintain our UNDERPERFORM call.

Above expectations. SUNWAY's FY23 core net profit of RM686.4m beat our forecast by 12% but only met market expectations. The variance against our forecast primarily stemmed from stronger-than-anticipated performances in property development and property investment segments, as well as contributions from its associated entities.

YoY, its FY23 revenue rose 18% from enhanced performance across all primary business segments. Noteworthy are the construction (+32%) and property development (+22%) divisions which saw elevated progress billings and increased property sales. Additionally, the group's property investment segment (+30%) benefited from amplified spending in leisure and hospitality offerings. Meanwhile, operating profit only grew by 16%, as margins were squeezed by a heightened cost environment (10.8%, -0.2ppt), likely influenced by increased wages and utilities. While the group also sustained higher interest costs due to interest rate increases, joint venture and associate company performances improved thanks to lumpy property-related profit recognitions. All in, core net profit came in at RM686.4m (+19%) after accounting for ICPS payments.

QoQ, its 4QFY23 revenue surged by 21%, primarily driven by increased contributions from nearly all business segments. Operating profit saw a remarkable 145% rise, primarily attributed to a substantial increase in other operating income (+1,167%). Additionally, interest expenses decreased by 24% which led to 4QFY23 core net profit of RM265.9m (+71%).

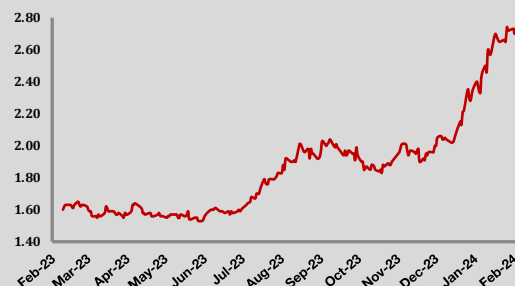
Outlook. We anticipate SUNWAY to maintain strong performance across its diverse portfolio. Strategic launching of projects in established townships and continued development in existing ones should bolster the property development arm. Despite concerns about inflationary pressures potentially impacting consumer spending, the group's diversified property investment portfolio is poised to maintain stability, with the possibility of a weakening MYR attracting tourists. Additionally, we foresee expansion in the results of its healthcare joint venture, particularly with the forthcoming opening of several new hospitals over the next two years and medical tourism sector.

Forecasts. Post results, we slightly raise our FY24F earnings by 2% which is mainly fuelled by stable property investment performances but with some possible easing in the property development arm. That said, its 26% EPS growth from FY23 is mostly attributable to better associate returns, namely from the handover of a Singaporean executive condominium project which will bring about lumpy profit contributions. Meanwhile, we introduce our FY25F numbers.

UNDERPERFORM ↔

Price : **RM2.71**
Target Price : **RM2.51** ↑

Share Price Performance



KLCI 1,552.40
YTD KLCI chg 6.7%
YTD stock price chg 31.6%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	SWB MK Equity
Market Cap (RM m)	14,882.9
Shares Outstanding	5,491.8
52-week range (H)	2.76
52-week range (L)	1.53
3-mth avg. daily vol.	11,747,510
Free Float	26%
Beta	0.9

Major Shareholders

Sungei Way Corp Sdn Bhd	49.5%
Employees Provident Fund	11.0%
Active Equity Sdn Bhd	5.4%

Summary Earnings Table

FYE Dec (RM m)	2023A	2024F	2025F
Turnover	6,139.8	5,959.8	6,262.1
Operating Profit	664.4	672.3	713.5
Profit Before Tax	993.2	1,197.5	1,268.0
Net Profit	737.8	916.1	926.2
Core Net Profit	686.4	864.8	874.8
Consensus (NP)	-	771.3	805.8
Earnings Revision	-	+2%	NEW
Core EPS (sen)	11.6	14.7	14.8
Core EPS Growth (%)	9.7	26.0	1.2
NDPS (sen)	5.5	6.0	6.5
BVPS (RM)	2.3	2.4	2.5
PER (x)	23.3	18.5	18.3
PBV (x)	1.2	1.1	1.1
Net Gearing (x)	0.5	0.4	0.4
Net Div. Yield (%)	2.0	2.2	2.4

* Defined as core earnings attributable to ordinary shareholders excluding preferential dividends owing to ICPS issuances

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Valuations. We raise our SoP-TP to RM2.51 (from RM2.27) following updates to our segment inputs with FY23A numbers. We applied a 55% discount to RNAV for SUNWAY's property development segment (in line with industry peers) as we reckon sentiment may pick up in the sector from higher interest in the space thanks to ongoing infrastructure projects. Besides this, the group's property development and healthcare segments remain as major contributors to SUNWAY's overall valuations. There is no adjustment to our TP based on ESG given a 3-star rating as appraised by us.

Investment case. SUNWAY could be favoured for: (i) its healthy pipeline of medical centres located within brownfield townships, (ii) quick turnaround model for its property development arm, and (iii) a diversified range of investment assets which provides stable earnings base. We opine that its strong brand equity could also enable sustained demand for the group's products and services. That said, valuation for the stock has become rich following the recent run-up in its share price. Maintain **UNDERPERFORM**.

Risks to our call include: (i) strong improvements in the property, hospitality, and MICE sectors, (ii) improved mortgage affordability, (iii) changes to urban development policies in the Klang Valley, (iv) stronger demand for industrial products.

Results Highlight

	4Q	3Q	QoQ	4Q	YoY	12M	12M	YoY
FYE Dec (RM m)	FY23	FY23	Chg	FY22	Chg	FY23	FY22	Chg
Revenue	1,868.8	1,539.1	21.4%	1,531.6	22.0%	6,139.8	5,194.9	18.2%
Operating Expenses	-1,732.2	-1,428.9	21.2%	-1,422.1	21.8%	-5,698.2	-4,868.3	17.0%
Other Operating Income	180.8	14.3	1166.8%	133.3	35.7%	255.2	282.8	-9.8%
Net Impairment Losses	-25.5	-5.4	374.9%	-27.8	-8.5%	-32.5	-36.9	-11.8%
Operating Profit	291.9	119.1	145.0%	214.9	35.8%	664.4	572.6	16.0%
Net Interest Income/(Expense)	-21.5	-28.0	-23.5%	-0.6	3495.0%	-68.2	-14.5	370.9%
Associates/Joint Ventures	80.0	156.7	-49.0%	82.0	-2.5%	397.0	351.1	13.1%
Profit before tax	350.4	247.8	41.4%	296.4	18.2%	993.2	909.2	9.2%
Taxation	-33.1	-40.5	-18.4%	-74.2	-55.4%	-137.7	-164.3	-16.2%
Minority Interest	-51.4	-27.0	90.7%	-17.4	196.3%	-117.8	-76.3	54.5%
Net Profit	265.9	180.3	47.5%	204.8	29.8%	737.8	668.6	10.3%
Core Net Profit	265.9	154.6	72.0%	204.8	29.8%	686.4	576.2	19.1%
Operating Margin								
Pretax Margin	15.6%	7.7%		14.0%		10.8%	11.0%	
Net Margin	18.8%	16.1%		19.4%		16.2%	17.5%	
Effective Tax Rate	14.2%	10.0%		13.4%		11.2%	11.1%	
Net Gearing	9.4%	16.4%		25.0%		13.9%	18.1%	

Source: Company, Kenanga Research

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Segmental Breakdown

FYE Dec (RM m)	4Q FY23	3Q FY23	QoQ Chg	4Q FY22	YoY Chg	12M FY23	12M FY22	YoY Chg
Revenue								
Property Development	499.4	309.5	61.3%	442.7	12.8%	1,418.8	1,165.3	21.8%
Property Investment	256.3	232.8	10.1%	230.7	11.1%	898.4	690.0	30.2%
Construction	532.8	424.0	25.7%	291.0	83.1%	1,688.9	1,281.6	31.8%
Trading and Manufacturing	260.1	242.6	7.2%	233.5	11.4%	954.6	902.1	5.8%
Quarry	124.8	148.8	-16.1%	123.4	1.1%	446.3	406.2	9.9%
Healthcare	0.0	0.0	N.M	0.0	N.M.	0.0	0.0	N.M
Investment Holdings	23.7	0.0	N.M	0.0	N.M.	23.7	0.0	N.M
Others	171.8	181.4	-5.3%	210.4	-18.4%	709.2	749.8	-5.4%
Total Revenue	1,868.8	1,539.1	21.4%	1,531.6	22.0%	6,139.8	5,195.0	18.2%
Profit Before Tax*								
Property Development	69.0	70.4	-2.0%	70.4	-1.9%	211.6	155.3	36.3%
Property Investment	136.8	55.2	147.8%	52.8	159.2%	293.0	236.9	23.7%
Construction	62.8	51.1	22.9%	58.7	6.9%	197.9	186.6	6.1%
Trading and Manufacturing	12.0	13.4	-10.6%	9.1	32.2%	45.1	41.4	8.9%
Quarry	9.4	10.2	-7.8%	5.1	83.5%	27.5	13.7	101.0%
Healthcare	41.7	44.4	-6.2%	71.7	-41.8%	152.7	176.7	-13.6%
Investment Holdings	-3.0	0.0	N.M	0.0	N.M.	-3.0	0.0	N.M
Others	21.8	3.0	620.5%	26.1	-16.7%	68.4	96.2	-28.9%
Total Profit Before Tax	350.4	247.8	41.4%	293.9	19.2%	993.2	906.7	9.5%
Pre-tax Margin								
Property Development	13.8%	22.8%		15.9%		14.9%	13.3%	
Property Investment	53.4%	23.7%		22.9%		32.6%	34.3%	
Construction	11.8%	12.1%		20.2%		11.7%	14.6%	
Trading and Manufacturing	4.6%	5.5%		3.9%		4.7%	4.6%	
Quarry	7.5%	6.9%		4.2%		6.2%	3.4%	
Healthcare	N.M	N.M		N.M		N.M	N.M	
Investment Holdings	-12.8%	N.M		N.M		-12.8%	N.M	
Others	12.7%	1.7%		12.4%		9.6%	12.8%	
Total Pre-tax Margin	18.8%	16.1%		19.2%		16.2%	17.5%	

* Discrepancies exist in the segmental breakdown as compared to group-level numbers due to the unavailability of its restated numbers

Source: Company, Kenanga Research

SUNWAY's SoP

Segment	Value (RMm)	Valuation basis
Property Development	3,743.7	55% discount to RNAV
Property Investment (backed by 40.9%-owned associate Sunway REIT)	3,112.8	Kenanga's TP of RM1.93 for SREIT
Construction (via 54.4%-owned Sunway Construction)	2,104.3	Kenanga's TP of RM3.00 for SunCon
Trading & Manufacturing	417.0	P/E of 10x on FY25 earnings
Quarry	117.0	P/E of 12x on FY25 earnings
Healthcare	5,760.0	15x on FY25 EV/EBITDA
Investment Holdings & Others	245.0	P/E of 7x on FY25 earnings
Net cash / (debt) at holding company level	-600	As at 31 Dec 2023
Aggregate Valuation	14,899.7	
No of shares (m)	5,941.4	
FV per share (RM)	2.51	

Source: Company, Kenanga Research

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Peer Table Comparison

Name	Rating	Last Price (RM)	Target Price (RM)	Upside (%)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) - Core Earnings		PBV (x)	ROE	Net Div. (sen)	Net Div Yld (%)
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
PROPERTY																	
ECO WORLD DEVELOPMENT GROUP	UP	1.30	1.00	-23.1%	3,827.7	Y	10/2024	9.7	10.0	5.1%	3.4%	13.4	13.0	0.8	5.7%	6.0	4.6%
IOI PROPERTIES GROUP BHD	MP	2.27	1.75	-22.9%	12,498.9	N	06/2024	14.1	14.4	23.5%	2.0%	16.1	15.7	0.5	3.4%	4.5	2.0%
MAH SING GROUP BHD	OP	0.910	1.00	9.9%	2,209.2	Y	12/2023	8.0	8.2	13.2%	3.6%	11.4	11.0	0.6	5.3%	4.0	4.4%
MKH BHD	OP	1.35	2.11	56.3%	779.5	Y	09/2024	18.0	20.1	41.8%	11.2%	7.5	6.7	0.4	5.3%	6.0	4.4%
S P SETIA BHD	UP	0.870	0.680	-21.8%	3,871.6	Y	12/2023	3.3	5.7	29.8%	73.9%	26.5	15.2	0.2	1.8%	2.0	2.3%
SIME DARBY PROPERTY BHD	OP	0.775	0.690	-11.0%	5,270.7	Y	12/2023	5.5	5.5	12.1%	-1.2%	14.0	14.2	0.6	4.0%	2.2	2.8%
SUNWAY BHD	UP	2.71	2.51	-7.4%	14,882.9	Y	12/2023	14.6	14.7	26.0%	1.2%	18.6	18.4	1.0	6.0%	6.0	2.2%
UOA DEVELOPMENT BHD	MP	1.84	1.77	-3.8%	4,582.4	Y	12/2023	8.9	10.2	-2.7%	14.4%	20.6	18.0	0.8	3.8%	10.0	5.4%
SECTOR AGGREGATE					47,922.9					18.4%	6.1%	16.2	15.3	0.6	4.4%		3.5%

Source: Kenanga Research

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Stock ESG Ratings:

	Criterion	Rating				
GENERAL	Earnings Sustainability & Quality	★	★	★		
	Community Investment	★	★	★		
	Workers Safety & Wellbeing	★	★	★		
	Corporate Governance	★	★	☆		
	Anti-Corruption Policy	★	★	☆		
	Emissions Management	★	★	☆		
SPECIFIC	Product Quality & Safety	★	★	★	★	
	Effluent/Water Management	★	★	★		
	Waste Management	★	★	★		
	Biodiversity & Conservation	★	★	★	☆	
	Green Building	★	★	★		
	Supply Chain Management	★	★	★		
OVERALL		★	★	★		

☆ denotes half-star
 ★ -10% discount to TP
 ★★ -5% discount to TP
 ★★★ TP unchanged
 ★★★★ +5% premium to TP
 ★★★★★ +10% premium to TP

Stock Ratings are defined as follows:

Stock Recommendations

OUTPERFORM : A particular stock’s Expected Total Return is MORE than 10%
 MARKET PERFORM : A particular stock’s Expected Total Return is WITHIN the range of -5% to 10%
 UNDERPERFORM : A particular stock’s Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT : A particular sector’s Expected Total Return is MORE than 10%
 NEUTRAL : A particular sector’s Expected Total Return is WITHIN the range of -5% to 10%
 UNDERWEIGHT : A particular sector’s Expected Total Return is LESS than -5%

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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