

27 November 2024

# Sunway

## On Track and Rejigging Valuations

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SUNWAY's 9MFY24 results met expectations with earnings growth seen across all business segments. We reckon SUNWAY will continue to be in the limelight following the heightened sentiment in the property development space as well as the pending spin-off of its healthcare unit. Meanwhile, we take this opportunity to increase our TP to RM3.35 (from RM2.66) to realign with our higher TPs ascribed to SUNCON and SUNREIT while reviewing our valuations and assumptions for its healthcare segment. Maintain our UNDERPERFORM call as current valuations still appear pricey.

SUNWAY's 9MFY24 core net profit of RM671.4m came within our expectations, making up 78% of our full-year forecast. This is also likely within consensus at 82% of full-year estimate, given a lumpy profit recognition of RM124m for Parc Central Residence, Singapore, possibly indicating a softer 4QFY24 reporting.

**YoY**, its 9MFY24 revenue rose 18%, driven largely by property development (+26%) which was also supported by the abovementioned Singapore project which was completed in July 2024. The construction (+18%) and property investment (+14%) segments also benefited from accelerated progress in data centre projects, and higher occupancy rates and visitors at its theme parks. Its core net profit rose by 66% from better operating performance across all business segments.

**QoQ**, its 2QFY24 revenue increased 29% from the above-mentioned reasons. This led to its core net profit doubling to RM376.1m. Excluding the lumpy property development recognition for Parc Central Residence, core earnings would have gained 45% on supportive construction and healthcare contributions

**Outlook.** Sunway maintains a positive outlook across its business segments, with the property division focusing on new launches in established townships. As of 9MFY24, the group has achieved 70% of its total launch target and 71% of its RM2.1b sales target, with 56% of sales originating from the Klang Valley.

Its construction unit has revised its CY24 order book replenishment target to RM4.0b – RM5.0b (from RM2.5b – RM3.0b) and is anticipating more public sector projects and data centre development. Its healthcare unit is poised to benefit from medical tourism and two new hospitals under its stable, i.e. Sunway Medical Centre Damansara and Sunway Medical Centre Ipoh are on track for opening in 4QFY24 and 1QFY25, respectively.

**Forecasts.** We slightly tweak our FY24F earnings by 1% from model housekeeping but raise our FY25F earnings by 5% following updates to our revised earnings for SUNCON and the healthcare segment.

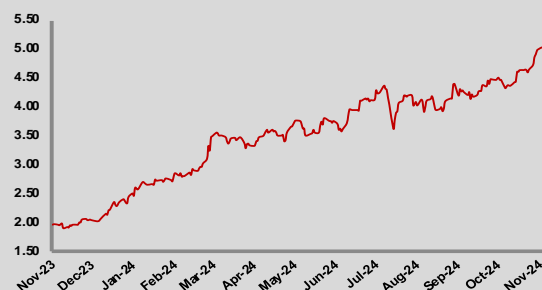
**Valuations.** We increase our SoP-TP of RM3.35 (from RM2.66) as we update our valuations for: (i) SUNREIT's revised TP of RM2.01, (ii) SUNCON's revised TP of RM4.52, and (iii) raising our healthcare valuations to 20x EV/EBITDA with a higher EBITDA assumption of RM615m (from RM430m) for FY25F, premised on higher expectations following its strong traction reported. We believe a 20x valuation is reasonable, in line with previous transactions with valuations ranging up to 25x forward EV/EBITDA.

Meanwhile we maintain our 55% discount to RNAV for SUNWAY's property development segment (in line with industry peers) (see Page 3). There is no adjustment to our TP based on ESG given a 3-star rating as appraised by us (see Page 5).

## UNDERPERFORM ↔

Price : RM4.94  
Target Price : RM3.35 ↑

### Share Price Performance



KLCI	1,603.15
YTD KLCI chg	10.2%
YTD stock price chg	139.8%

### Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	SWB MK Equity
Market Cap (RM m)	28,104.0
Shares Outstanding	5,689.1
52-week range (H)	5.02
52-week range (L)	1.90
3-mth avg. daily vol.	16,415,870
Free Float	37%
Beta	1.1

### Major Shareholders

Sungei Way Corp SdnBhd	45.0%
Cheah Fook Ling	10.9%
Employees Provident Fund	6.3%

### Summary Earnings Table

FYE Dec (RM m)	2023A	2024F	2025F
Turnover	6,139.8	6,721.1	8,024.1
Operating Profit	664.4	828.3	851.7
Profit Before Tax	993.2	1,334.1	1,326.2
<b>Net Profit</b>	<b>737.8</b>	<b>1,020.6</b>	<b>968.6</b>
<b>Core Net Profit</b>	<b>686.4</b>	<b>873.3</b>	<b>917.3</b>
Consensus (NP)	-	814.6	932.4
Earnings Revision	-	1%	+5%
Core EPS (sen)	11.6	14.8	15.6
Core EPS Grwth (%)	9.7	27.2	5.0
NDPS (sen)	5.5	6.0	6.5
BVPS (RM)	2.3	2.5	2.6
PER (x)	42.4	33.4	31.8
PBV (x)	2.1	2.0	1.9
Net Gearing (x)	0.5	0.4	0.4
Net Div. Yield (%)	1.1	1.2	1.3

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

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**Investment case.** We like SUNWAY for: (i) having an eye for good land parcels, enabling it to execute quick turnaround for its property projects, (ii) its growing private healthy business backed by a pipeline of new medical centres within brownfield townships, (iii) a diversified range of investment assets that provides recurring incomes, and (iv) its well-established *Sunway* brand. However, its valuations appear excessive following the run-up in its share prices. A strong re-rating could be a higher-than-expected listing valuation for its healthcare unit. Maintain **UNDERPERFORM**.

**Giving some benefit for higher value.** Amid the recent run up in share price, we opine that it is driven by: (i) better sentiment in property developers, and (ii) higher expectations for Sunway Healthcare.

In an attempt to mirror market sentiment, we reckon that: (i) lowering our discount to property RNAV by every 5% (from 55%) would add RM0.07/share; while (ii) raising our EV/EBITDA multiple by 5x would add another RM0.44/share to our TP, respectively.

Assuming a refreshed discount to RNAV of 30% to property development and EV/EBITDA of 20x to our healthcare segment, we would derive a TP of RM3.70, which is still heavily discounted from current price levels.

**Risks to our call include:** (i) a strong pick-up in the property, hospitality, and MICE sectors, (ii) a decline in mortgage rates boosting affordability, and (iii) improved spending confidence, prompting consumers to buy big-ticket items including properties.

### Results Highlight

	3Q	2Q	QoQ	3Q	YoY	9M	9M	YoY
FYE Dec (RM m)	FY24	FY24	Chg	FY23	Chg	FY24	FY23	Chg
<b>Revenue</b>	<b>2,029.0</b>	<b>1,579.9</b>	<b>28.4%</b>	<b>1,539.1</b>	<b>31.8%</b>	<b>5,027.8</b>	<b>4,271.0</b>	<b>17.7%</b>
Operating Expenses	-1,867.3	-1,445.9	29.1%	-1,428.9	30.7%	-4,613.9	-3,965.9	16.3%
Other Operating Income	64.1	86.2	-25.6%	14.3	349.4%	192.2	74.4	158.2%
Net Impairment Losses	-3.4	-15.3	-77.8%	-5.4	-36.7%	-20.4	-7.1	188.5%
<b>Operating Profit</b>	<b>222.4</b>	<b>205.0</b>	<b>8.5%</b>	<b>119.1</b>	<b>86.7%</b>	<b>585.8</b>	<b>372.5</b>	<b>57.3%</b>
Net Interest Income/(Expense)	4.6	-9.6	-147.6%	-28.0	-116.3%	-31.0	-46.7	-33.5%
Associates/Joint Ventures	235.7	139.1	69.5%	156.7	50.4%	469.0	317.0	47.9%
Extraordinary Items	0.0	96.0	-100.0%	0.0	N.M.	96.0	0.0	N.M
<b>Profit before tax</b>	<b>462.7</b>	<b>430.4</b>	<b>7.5%</b>	<b>247.8</b>	<b>86.7%</b>	<b>1,119.8</b>	<b>642.8</b>	<b>74.2%</b>
Taxation	-54.2	-44.6	21.5%	-40.5	33.7%	-134.5	-104.6	28.6%
Minority Interest	-32.4	-26.0	24.7%	-27.0	20.2%	-77.1	-66.4	16.2%
<b>Net Profit</b>	<b>376.1</b>	<b>359.9</b>	<b>4.5%</b>	<b>180.3</b>	<b>108.6%</b>	<b>908.2</b>	<b>471.9</b>	<b>92.5%</b>
<b>Core Net Profit</b>	<b>350.4</b>	<b>174.5</b>	<b>100.8%</b>	<b>154.6</b>	<b>126.6%</b>	<b>671.4</b>	<b>420.5</b>	<b>59.7%</b>
Operating Margin	11.0%	13.0%		7.7%		11.7%	8.7%	
Pretax Margin	22.8%	27.2%		16.1%		22.3%	15.1%	
Net Margin	17.3%	11.0%		10.0%		13.4%	9.8%	
Effective Tax Rate	11.7%	10.4%		16.4%		12.0%	16.3%	
Net Gearing (x)	0.44	0.49		0.53		0.50	0.46	

Source: Company, Kenanga Research

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**Segmental Breakdown**

FYE Dec (RM m)	3Q FY24	2Q FY24	QoQ Chg	3Q FY23	YoY Chg	9M FY24	9M FY23	YoY Chg
<b>Revenue</b>								
Property Development	495.7	371.9	33.3%	309.5	60.1%	1,155.3	919.4	25.7%
Property Investment	271.7	231.0	17.6%	232.8	16.7%	733.9	642.1	14.3%
Construction	610.7	381.1	60.2%	424.0	44.0%	1,364.3	1,156.0	18.0%
Trading and Manufacturing	284.5	255.2	11.5%	242.6	17.3%	781.1	694.5	12.5%
Quarry	140.6	111.9	25.6%	148.8	-5.5%	357.4	321.5	11.2%
Healthcare	0.0	0.0	N.M	0.0	N.M.	0.0	0.0	N.M
Investment Holdings	2.7	2.3	19.2%	0.0	N.M.	7.4	0.0	N.M
Others	223.0	226.5	-1.5%	181.4	23.0%	628.5	537.5	16.9%
<b>Total Revenue</b>	<b>2,029.0</b>	<b>1,579.9</b>	<b>28.4%</b>	<b>1,539.1</b>	<b>31.8%</b>	<b>5,027.8</b>	<b>4,271.0</b>	<b>17.7%</b>
<b>Profit Before Tax</b>								
Property Development	185.1	70.1	164.0%	70.4	162.9%	294.1	142.6	106.3%
Property Investment	76.2	86.2	-11.6%	55.2	38.1%	231.8	156.3	48.3%
Construction	69.8	52.4	33.0%	51.1	36.6%	164.6	135.1	21.8%
Trading and Manufacturing	13.1	10.5	25.2%	13.4	-2.6%	32.5	33.1	-1.9%
Quarry	12.5	11.2	11.7%	10.2	22.7%	34.8	18.1	92.5%
Healthcare	63.0	49.3	27.8%	44.4	41.8%	149.2	111.0	34.4%
Investment Holdings	18.9	39.8	-52.6%	0.0	N.M.	65.3	0.0	N.M
Others	24.1	21.6	11.6%	3.0	696.6%	58.2	46.6	24.8%
<b>Total Profit Before Tax</b>	<b>462.7</b>	<b>341.0</b>	<b>35.7%</b>	<b>247.8</b>	<b>86.7%</b>	<b>1,030.4</b>	<b>642.8</b>	<b>60.3%</b>
<b>Pre-tax Margin</b>								
Property Development	37.3%	18.9%		22.8%		25.5%	15.5%	
Property Investment	28.0%	37.3%		23.7%		31.6%	24.3%	
Construction	11.4%	13.8%		12.1%		12.1%	11.7%	
Trading and Manufacturing	4.6%	4.1%		5.5%		4.2%	4.8%	
Quarry	8.9%	10.0%		6.9%		9.7%	5.6%	
Healthcare	N.M	N.M		N.M		N.M	N.M	
Investment Holdings	702.3%	1765.2%		N.M		884.0%	N.M	
Others	10.8%	9.5%		1.7%		9.3%	8.7%	
<b>Total Pre-tax Margin</b>	<b>22.8%</b>	<b>21.6%</b>		<b>16.1%</b>		<b>20.5%</b>	<b>15.1%</b>	

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

^ excluding extraordinary items

Source: Company, Kenanga Research

**SUNWAY's SoP**

Segment	Value (RM m)	Valuation basis
Property Development	4,067.7	55% discount to RNAV
Property Investment (backed by 40.9%-owned associate Sunway REIT)	3,209.1	Kenanga's TP of RM2.01 for SREIT
Construction (via 54.4%-owned Sunway Construction)	3,170.5	Kenanga's TP of RM4.52 for SunCon
Trading & Manufacturing	417.0	P/E of 10x on FY25 earnings
Quarry	117.0	P/E of 12x on FY25 earnings
Healthcare	9,248.4	20x on FY25 EV/EBITDA @ 84% stake
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
<b>Aggregate Valuation</b>	<b>19,874.7</b>	
No of shares (m)	5,941.4	
<b>FV per share (RM)</b>	<b>3.35</b>	

Source: Company, Kenanga Research

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## Peer Table Comparison

Name	Rating	Last Price (RM)	Target Price (RM)	Upside	Market Cap (RMm)	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.
<b>PROPERTY</b>																	
IOI PROPERTIES GROUP BHD	UP	2.00	1.67	-16.5%	11,012.3	N	06/2025	9.8	10.5	5.1%	8.0%	20.5	19.0	0.5	2.2%	4.5	2.3%
MAH SING GROUP BHD	OP	1.73	2.32	34.1%	4,429.0	Y	12/2024	10.2	11.0	14.6%	8.5%	17.0	15.7	1.1	6.5%	4.0	2.3%
MALAYSIAN RESOURCES CORP BHD	MP	0.515	0.620	20.4%	2,300.8	Y	12/2024	1.8	1.4	19.2%	-18.9%	72.5	39.0	0.5	1.7%	1.0	1.9%
MKH BHD	OP	1.19	1.81	52.1%	686.8	Y	09/2024	13.8	16.2	8.8%	16.7%	8.6	7.4	0.3	4.1%	6.0	5.0%
S P SETIA BHD	UP	1.34	1.25	-6.7%	6,703.3	Y	12/2024	8.8	5.8	97.5%	-34.2%	15.2	23.1	0.4	3.5%	5.0	3.7%
SIME DARBY PROPERTY BHD	OP	1.46	1.58	8.2%	9,929.2	Y	12/2024	8.0	8.1	36.7%	1.4%	18.2	18.0	0.9	5.2%	2.8	1.9%
SUNWAY BHD	UP	4.94	3.35	-32.2%	28,104.0	Y	12/2024	14.7	15.4	27.2%	5.0%	33.6	32.0	1.9	6.7%	6.0	1.2%
UOA DEVELOPMENT BHD	MP	1.85	1.79	-3.2%	4,854.0	Y	12/2024	9.1	9.2	2.2%	1.3%	20.3	20.1	0.8	3.9%	10.0	5.4%
<b>SECTOR AGGREGATE</b>					<b>68,019.5</b>					<b>33.5%</b>	<b>-0.8%</b>	<b>22.7</b>	<b>22.9</b>	<b>0.8</b>	<b>4.2%</b>		<b>3.0%</b>

Source: Kenanga Research

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**Stock ESG Ratings:**

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

☆ 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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