

# Sunway (SWB MK)

## On track

### Profit and sales in line; U/G to BUY

Sunway's 4Q23 core net profit of MYR187.2m (-4% YoY, +4% QoQ) was in line. 2023 locked-in sales of MYR2.4b were 4% above its FY23 sales goal of MYR2.3b (+20% YoY) but in line with our sales assumption. Management has set a higher sales target of MYR2.6b (+8% YoY) for FY24. We raise our earnings forecasts by 2-6%. Our TP is raised to MYR3.03 TP (+101sen) based on 0.8x P/RNAV (from 0.9x FY24E PBV). Upgrade to BUY.

### Results review

Sunway's 4Q23 net profit of MYR187m lifted FY23 core net profit to MYR659m (+4.7% YoY), accounting for 96%/100% of our/consensus' FY23E - in line. All business divisions reported stronger earnings in FY23 except for healthcare and other business. Sunway has declared a second interim DPS of 3.5sen (YTD: 5.5sen [+0% YoY]). As at Dec 2023, net gearing was 0.49x (improved from 0.55x in end-3Q23).

### Sets MYR2.6b sales target for FY24

Sunway has locked in MYR2.4b property sales in FY23, or 4% above its FY23 property sales target. Of the MYR2.4b, 39% was from its JV projects in Singapore, 7% from China, 7% from Johor and the remaining from the Klang Valley. Sunway has set a higher sales target of MYR2.6b for FY24 (+8% YoY). Effective unbilled sales were MYR3.6b as at Dec 2023 (3.5x FY24E property revenue). Elsewhere, 64%-owned Sunway Construction Group (SCGB MK; SELL; CP: MYR2.61, TP: MYR2.30) has secured MYR2.5b worth of jobs in 2023, sustaining its outstanding orderbook of MYR5.3b as at Dec 2023.

### Earnings adjustments

We adjust FY24/25 earnings forecasts by +1.7%/+5.7% to factor in: i) FY24E sales assumption of MYR2.6b, ii) change in SCGB's earnings forecasts iii) the change in progress billing assumptions, and iv) actual FY23 results. We now value Sunway based on 0.8x P/RNAV. The change in valuation methodology is to better reflect the upcoming IPO listing of its healthcare business by 2025-2026, at the earliest.

FYE Dec (MYR m)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue	5,195	6,140	7,779	7,718	7,742
EBITDA	573	664	1,086	1,206	1,304
Core net profit	630	659	780	853	936
Core FDEPS (sen)	10.6	11.0	13.0	14.2	15.6
Core FDEPS growth(%)	71.0	3.6	18.3	9.3	9.7
Net DPS (sen)	5.5	5.5	5.5	5.5	5.5
Core FD P/E (x)	15.3	18.7	20.8	19.0	17.4
P/BV (x)	0.8	0.9	1.1	1.1	1.0
Net dividend yield (%)	3.4	2.7	2.0	2.0	2.0
ROAE (%)	5.4	5.6	5.5	5.9	6.2
ROAA (%)	2.5	2.4	2.7	2.8	3.1
EV/EBITDA (x)	30.8	31.0	22.1	20.6	18.9
Net gearing (%) (incl perps)	52.4	49.0	45.4	49.2	46.2
Consensus net profit	-	-	759	801	na
MIBG vs. Consensus (%)	-	-	2.8	6.6	na

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# BUY

[Prior:HOLD]

Share Price MYR 2.71  
12m Price Target MYR 3.03 (+12%)  
Previous Price Target MYR 2.02

### Company Description

Sunway Bhd is involved in property development, investment properties and construction businesses

### Statistics

52w high/low (MYR)	2.76/1.53
3m avg turnover (USDm)	5.7
Free float (%)	28.8
Issued shares (m)	5,537
Market capitalisation	MYR15.0B USD3.1B

### Major shareholders:

Active Equity Sdn. Bhd.	64.1%
Employees Provident Fund	5.3%
CHEAH FOOK LING	1.2%

### Price Performance



	-1M	-3M	-12M
Absolute (%)	11	37	67
Relative to index (%)	6	29	59

Source: FactSet

Fig. 1: Results summary table - Sunway

FY Dec (MYRm)	4Q23	4Q22	%YoY	3Q23	%QoQ	2023	2022	%YoY
<b>Revenue</b>	<b>1,868.8</b>	<b>1,531.6</b>	<b>22.0</b>	<b>1,539.1</b>	<b>21.4</b>	<b>6,139.8</b>	<b>5,194.9</b>	<b>18.2</b>
- Property dev	499.4	442.7	12.8	309.5	61.3	1,418.8	1,165.3	21.8
- Property inv	256.3	230.7	11.1	232.8	10.1	898.4	690.0	30.2
- Construction	532.8	291.0	83.1	424.0	25.7	1,688.9	1,281.6	31.8
- Trading	260.1	233.5	11.4	242.6	7.2	954.6	902.1	5.8
- Quarry	124.8	123.4	1.1	148.8	(16.1)	446.3	406.2	9.9
- Others	195.4	210.4	(7.1)	181.4	7.7	732.9	749.8	(2.3)
<b>PBIT</b>	<b>317.3</b>	<b>242.8</b>	<b>30.7</b>	<b>124.5</b>	<b>154.9</b>	<b>696.9</b>	<b>609.5</b>	<b>14.3</b>
Finance costs	(21.5)	(0.6)	>+100	(28.0)	23.5	(68.2)	(14.5)	>-100
Other income	80.0	82.0	(2.5)	156.7	(49.0)	397.0	351.1	13.1
<b>Pretax profit</b>	<b>350.4</b>	<b>296.4</b>	<b>18.2</b>	<b>247.8</b>	<b>41.4</b>	<b>993.2</b>	<b>909.2</b>	<b>9.2</b>
- Property dev	69.0	70.4	(1.9)	70.4	-2.0	211.6	155.3	36.3
- Property inv	136.8	51.7	>+100	55.2	>+100	293.0	235.8	24.3
- Construction	62.8	58.7	6.9	51.1	22.9	197.9	186.6	6.1
- Trading	12.0	9.2	30.3	13.4	(10.6)	45.1	41.6	8.6
- Quarry	9.4	5.1	83.5	10.2	(7.8)	27.5	13.7	>+100
- Healthcare	41.7	71.8	(41.9)	44.4	(6.2)	152.7	176.8	(13.6)
- Others	18.7	29.5	(36.4)	3.0	>+100	65.4	99.5	(34.3)
Taxation	(33.1)	(74.2)	(55.4)	(40.5)	(18.4)	(137.7)	(164.3)	(16.2)
Minority interest	(51.4)	(17.4)	>-100	(27.0)	(90.7)	(117.8)	(76.3)	54.5
<b>Net profit</b>	<b>265.9</b>	<b>204.8</b>	<b>29.8</b>	<b>180.3</b>	<b>47.5</b>	<b>737.8</b>	<b>668.6</b>	<b>10.3</b>
<b>Core net profit</b>	<b>187.2</b>	<b>194.7</b>	<b>(3.9)</b>	<b>180.3</b>	<b>3.8</b>	<b>659.4</b>	<b>629.7</b>	<b>4.7</b>
			<i>+/- ppt</i>		<i>+/- ppt</i>			
<b>Pretax margin (%)</b>	<b>18.8</b>	<b>19.4</b>	<b>(0.6)</b>	<b>16.1</b>	<b>2.7</b>	<b>14.8</b>	<b>16.5</b>	<b>(1.7)</b>
- Property dev	13.8	15.9	(2.1)	22.8	(8.9)	14.9	13.3	1.6
- Property inv	53.4	22.4	31.0	23.7	29.7	32.6	34.2	(1.6)
- Construction	11.8	20.2	(8.4)	12.1	(0.3)	11.7	14.6	(2.8)
- Trading	4.6	3.9	0.7	5.5	(0.9)	4.7	4.6	0.1
- Quarry	7.5	4.2	3.4	6.9	0.7	6.2	3.4	2.8
- Others	9.6	14.0	(4.4)	1.7	7.9	8.9	13.3	(4.4)
<b>Tax rate (%)</b>	<b>(12.6)</b>	<b>(26.3)</b>	<b>13.6</b>	<b>(16.4)</b>	<b>3.7</b>	<b>(15.2)</b>	<b>(19.1)</b>	<b>4.0</b>

Source: Maybank IBG Research

Fig 2: Our RNAV estimate

	Stake	Acres	MV (MYR m)	BV (MYR m)	Surplus (MYR m)
<b>1. Landbank - MARKET VALUE</b>					
Sunway Semenyih	70%	523.1	569.7	128.0	309.2
Suncity Ipoh	96%	324.1	84.7	58.7	24.9
Sunway Integrated Resort	100%	7.7	8.4	8.3	0.1
Sunway Tower KL 1	100%	0.9	100.2	28.3	71.9
Mont Putra Rawang	100%	158	48.2	35.1	13.1
Paya Terubong	100%	20	163.8	440.2	(276.4)
<b>Sub-total (1)</b>					<b>142.8</b>
<b>2. Active developments - WACC (9-12%)</b>					
	<b>Stake</b>				<b>(MYR m)</b>
<u><i>Klang Valley</i></u>					
Sunway Damansara	60%				117.1
Sunway South Quay	100%				282.4
Sunway Montereiz	60%				2.3
Sunway Cheras	100%				0.2
Jalan Cochrane	100%				160.4
Sunway Duta	60%				10.6
Sunway Velocity Extension	60%				92.3
Kelana Jaya	100%				142.8
Kajang	100%				31.2
Subang	100%				78.0
Dengkil	100%				52.0
Bukit Jalil	100%				25.1
Sri Hartamas	100%				57.0
Rawang	70%				82.9
<u><i>Penang</i></u>					
Penang projects	100%				90.4
<u><i>Johor</i></u>					
Sunway Lenang	80%				44.0
Medini	60%				384.2
Pendas	100%				851.1
<u><i>Ipoh</i></u>					
Sunway City Ipoh	96%				251.5
<u><i>Singapore</i></u>					
Tengah Plantation Close	35%				53.2
<u><i>China</i></u>					
Tianjin Eco City, China	60%				16.0
<b>Sub-total (2):</b>					<b>2,824.7</b>

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	Surplus (MYR m)
<b>3. Other businesses or assets</b>	
40.9% stake in SunREIT based on Maybank IB's MYR1.60 TP	378.2
54.6% stake in SCG based on Maybank IB's MYR2.30 TP	1,473.7
Healthcare (27x 2024 PER)	4,705.6
Building material (10x 2024 PER)	146.1
Trading (10x 2024 PER)	396.2
<b>Sub-total (4)</b>	<b>7,099.9</b>
<b>Grand total = (1) + (2) + (3)</b>	<b>10,067.3</b>
Shareholders' funds (MYR m) - Dec 2022	13,854.6
Proceeds from warrants (MYR1.56 exercise price; expiring in Oct 2024)	1,044.4
<b>RNAV (MYR m)</b>	<b>24,966.3</b>
Number of shares (m)	4,934.0
Number of warrants (m)	669.5
ICPS	977.8
<b>FD RNAV/share (MYR)</b>	<b>3.78</b>

Source: Maybank IBG Research

Fig 3: Sunway's 1-year forward PBV (2018-2023)



Source: Bloomberg, Company data, Maybank IBG Research

## Downside risks

There are several risk factors to our earnings estimates and TP for Sunway: 1) slower-than-expected property sales and longer-than-expected downturn in the property sector; 2) delay in obtaining necessary approvals for its property projects; 3) slower progress billings and construction work pace; 4) higher raw material costs; and 5) labour shortage that hit its construction and hotel operations.

FYE 31 Dec	FY22A	FY23A	FY24E	FY25E	FY26E
<b>Key Metrics</b>					
P/E (reported) (x)	14.6	13.9	20.4	18.6	17.0
Core P/E (x)	15.1	18.3	20.4	18.6	17.0
Core FD P/E (x)	15.3	18.7	20.8	19.0	17.4
P/BV (x)	0.8	0.9	1.1	1.1	1.0
P/NTA (x)	0.7	0.8	1.1	1.0	1.0
Net dividend yield (%)	3.4	2.7	2.0	2.0	2.0
FCF yield (%)	0.0	0.4	4.6	nm	3.7
EV/EBITDA (x)	30.8	31.0	22.1	20.6	18.9
EV/EBIT (x)	30.8	31.0	23.0	21.4	19.7

**INCOME STATEMENT (MYR m)**

Revenue	5,195.0	6,139.8	7,779.1	7,718.1	7,742.5
EBITDA	572.6	664.4	1,086.3	1,206.0	1,304.2
Depreciation	0.0	0.0	(42.1)	(46.4)	(50.7)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	572.6	664.4	1,044.2	1,159.7	1,253.5
Net interest income / (exp)	(14.5)	(68.2)	(188.1)	(204.5)	(200.3)
Associates & JV	351.1	397.0	284.0	291.4	298.2
Exceptionals	49.4	87.7	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	909.2	993.2	1,140.1	1,246.6	1,351.4
Income tax	(164.3)	(137.7)	(273.6)	(299.2)	(324.3)
Minorities	(76.3)	(117.8)	(86.3)	(94.3)	(91.5)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	668.6	737.8	780.1	853.0	935.6
Core net profit	629.7	659.4	780.1	853.0	935.6

**BALANCE SHEET (MYR m)**

Cash & Short Term Investments	1,958.1	2,300.4	2,659.0	1,837.2	2,048.7
Accounts receivable	1,969.3	2,790.3	3,535.3	3,507.5	3,518.6
Inventory	3,279.5	3,561.0	3,504.4	4,655.8	4,856.4
Reinsurance assets	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	1,265.1	1,357.7	1,545.2	1,691.5	1,842.3
Intangible assets	441.4	454.4	454.4	454.4	454.4
Investment in Associates & JVs	9,342.1	9,795.0	9,795.0	9,795.0	9,795.0
Other assets	7,808.0	8,354.2	8,354.2	8,354.2	8,354.2
<b>Total assets</b>	<b>26,063.4</b>	<b>28,612.9</b>	<b>29,847.4</b>	<b>30,295.6</b>	<b>30,869.5</b>
ST interest bearing debt	5,361.0	6,017.6	6,017.6	6,017.6	6,017.6
Accounts payable	2,518.2	3,102.7	3,931.1	3,900.3	3,912.6
Insurance contract liabilities	0.0	0.0	0.0	0.0	0.0
LT interest bearing debt	3,695.2	3,632.7	3,632.7	3,632.7	3,632.7
Other liabilities	938.0	862.0	862.0	862.0	862.0
<b>Total Liabilities</b>	<b>12,511.9</b>	<b>13,614.9</b>	<b>14,443.3</b>	<b>14,412.5</b>	<b>14,424.8</b>
Shareholders Equity	12,519.7	13,854.6	14,260.7	14,739.7	15,301.3
Minority Interest	1,031.8	1,143.4	1,143.4	1,143.4	1,143.4
<b>Total shareholder equity</b>	<b>13,551.5</b>	<b>14,998.0</b>	<b>15,404.1</b>	<b>15,883.1</b>	<b>16,444.7</b>
<b>Total liabilities and equity</b>	<b>26,063.4</b>	<b>28,612.9</b>	<b>29,847.4</b>	<b>30,295.6</b>	<b>30,869.5</b>

**CASH FLOW (MYR m)**

Pretax profit	909.2	993.2	1,140.1	1,246.6	1,351.4
Depreciation & amortisation	0.0	0.0	42.1	46.4	50.7
Adj net interest (income)/exp	204.1	323.9	(188.1)	(204.5)	(200.3)
Change in working capital	(471.2)	(631.0)	349.4	(899.7)	45.2
Cash taxes paid	(170.1)	(164.2)	(273.6)	(299.2)	(324.3)
Other operating cash flow	(135.1)	(131.6)	0.0	0.0	0.0
Cash flow from operations	336.8	390.3	1,069.9	(110.5)	922.8
Capex	(332.4)	(337.3)	(337.3)	(337.3)	(337.3)
Free cash flow	4.5	53.0	732.6	(447.8)	585.5
Dividends paid	(222.5)	(231.1)	(374.0)	(374.0)	(374.0)
Equity raised / (purchased)	0.0	79.8	0.0	0.0	0.0
Change in Debt	340.7	594.2	0.0	0.0	0.0
Other invest/financing cash flow	(980.3)	(657.5)	0.0	0.0	0.0
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	(857.6)	(161.7)	358.6	(821.8)	211.5

FYE 31 Dec	FY22A	FY23A	FY24E	FY25E	FY26E
<b>Key Ratios</b>					
<b>Growth ratios (%)</b>					
Revenue growth	39.8	18.2	26.7	(0.8)	0.3
EBITDA growth	74.7	16.0	63.5	11.0	8.1
EBIT growth	74.7	16.0	57.2	11.1	8.1
Pretax growth	96.0	9.2	14.8	9.3	8.4
Reported net profit growth	(74.9)	10.3	5.7	9.3	9.7
Core net profit growth	71.0	4.7	18.3	9.3	9.7
<b>Profitability ratios (%)</b>					
EBITDA margin	11.0	10.8	14.0	15.6	16.8
EBIT margin	11.0	10.8	13.4	15.0	16.2
Pretax profit margin	17.5	16.2	14.7	16.2	17.5
Payout ratio	48.3	43.7	41.4	37.8	34.5
<b>DuPont analysis</b>					
Net profit margin (%)	12.9	12.0	10.0	11.1	12.1
Revenue/Assets (x)	0.2	0.2	0.3	0.3	0.3
Assets/Equity (x)	2.1	2.1	2.1	2.1	2.0
ROAE (%)	5.4	5.6	5.5	5.9	6.2
ROAA (%)	2.5	2.4	2.7	2.8	3.1
<b>Leverage &amp; Expense Analysis</b>					
Asset/Liability (x)	2.1	2.1	2.1	2.1	2.1
Net gearing (%) (incl perps)	52.4	49.0	45.4	49.2	46.2
Net gearing (%) (excl. perps)	52.4	49.0	45.4	49.2	46.2
Net interest cover (x)	39.6	9.7	5.6	5.7	6.3
Debt/EBITDA (x)	15.8	14.5	8.9	8.0	7.4
Capex/revenue (%)	6.4	5.5	4.3	4.4	4.4
Net debt/ (net cash)	7,098.1	7,350.0	6,991.4	7,813.2	7,601.7

Source: Company; Maybank IBG Research

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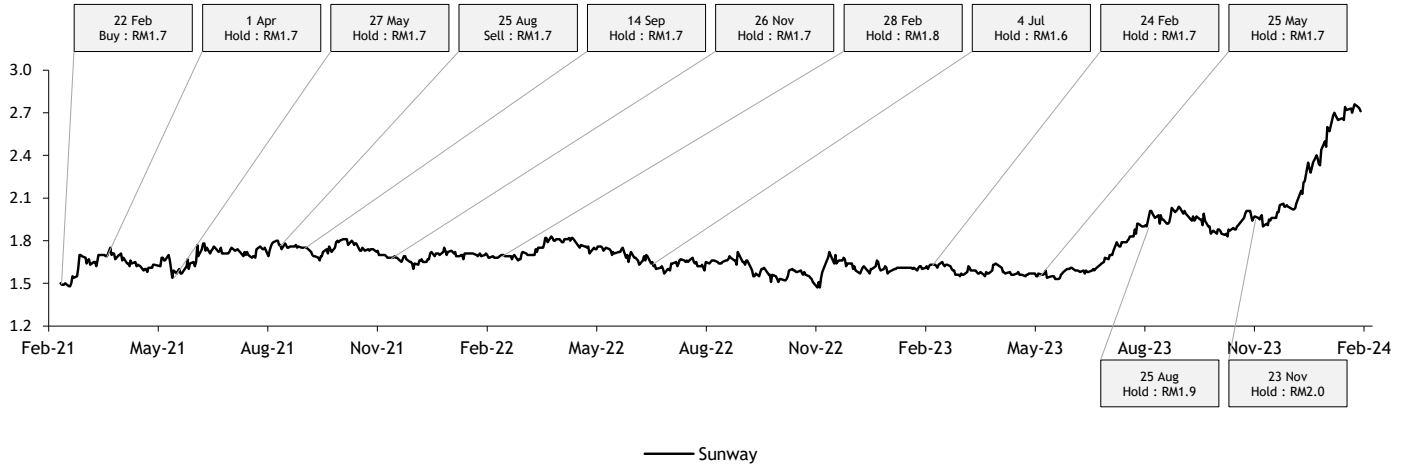
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