

23 May 2024

Property | Real Estate

Sunway (SWB MK)

Buy (Maintained)

Expect Stronger Earnings In Upcoming Quarters; BUY

Target Price (Return): MYR4.00 (+9%)
 Price (Market Cap): MYR3.66 (USD4,387m)
 ESG score: 3.4 (out of 4)
 Avg Daily Turnover (MYR/USD) 50.0m/10.5m

- **Maintain BUY, with new MYR4.00 TP from MYR3.53, 9% upside and c.2% yield.** Sunway's 1Q24 results missed estimates. However, we expect earnings in the coming quarters to be stronger driven by the handover of Parc Central in Singapore as well as higher progress billings from the construction segment. Earnings visibility is good given its higher unbilled sales and construction orderbook. Our higher TP reflects our latest TP for Sunway Construction (SCGB MK, BUY, TP: MYR3.81) and we also roll-over our valuation to FY25F for Sunway Healthcare Group.
- **1Q24 results.** Revenue dropped QoQ as 4Q is typically the strongest quarter for the company. Meanwhile, the healthcare segment saw a drop in PBT margin (from 17% in FY23 and 14% in 1Q23 to 13% in 1Q24), as patients delayed elective surgeries due to festivities, while operating cost related to expansion (including new recruitments and interest expense) was also higher. Note that Sunway Medical Centre (SMC) Penang already achieved breakeven at the PAT level in 4Q23. Meanwhile, SMC Damansara and SMC Ipoh are targeted to open in 4Q24 and 1Q25, adding 600 beds to the current capacity of 1,158 beds.
- **Decent sales in 1Q24.** New property sales reached MYR498m vs MYR350m in 4Q23. Sales during the quarter was mainly contributed by Belfield (MYR72m), Aviana (MYR62m), Lenang (MYR62m) as well as two projects in Singapore (MYR117m). Sales for Terra Hills and The Continuum in Singapore picked up slightly, from 39% in 4Q23 to 42% and from 37% to 42%. Projects in Johor continued to see encouraging sales. The bungalow and semi-d units in Sunway Lenang Heights launched in Nov 2023 are now 61% and 17% sold (from 58% in 4Q23 for the bungalows). Sunway Aviana terraces have also achieved 100% and 91% sales for Phases 1 and 2 (from 99% and 83%). Sales at Jernih Residence in Kajang also improved from 59% and 29% to 71% and 55% for Tower A and B. In the pipeline, major launches include Kelana Jaya Phase 2 (GDV: MYR455m), Sunway V3 Tower A (GDV: MYR566m) and landed homes in Sunway Iskandar Puteri (GDV: MYR280m). Sunway should be able to hit its MYR2.6bn sales target by year end. The executive condominium project at Tengah Plantation Close Singapore is slated for launch in FY25.
- **Forecast.** We make no changes to our earnings forecast. We expect 2Q24 earnings to be stronger as Parc Central is expected to be completed in 2Q, and the accumulated progressive profits from this project is now amounted to MYR120m. 1Q24 unbilled sales and outstanding construction orderbook stood at MYR4.2bn and MYR6.3bn (vs MYR4.06bn and MYR5.3bn in 4Q23).
- **Higher TP.** Our SOP valuation includes a 8% ESG premium.

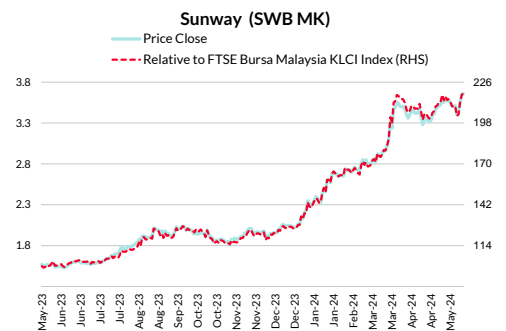
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	77.7	9.9	35.1	84.8	133.1
Relative	66.2	5.1	30.6	74.0	119.6
52-wk Price low/high (MYR)				1.53	-3.66



Source: Bloomberg

Forecasts and Valuation	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Total turnover (MYRm)	5,195	6,140	6,409	6,724	7,041
Recurring net profit (MYRm)	677	816	850	886	924
Recurring net profit growth (%)	155.1	20.6	4.1	4.2	4.3
Recurring EPS (MYR)	0.12	0.14	0.14	0.14	0.15
DPS (MYR)	0.06	0.05	0.06	0.06	0.07
Recurring P/E (x)	31.73	26.64	26.36	25.54	24.73
P/B (x)	1.71	1.57	1.56	1.52	1.48
Dividend Yield (%)	1.5	1.4	1.5	1.6	1.8
Return on average equity (%)	5.5	5.6	6.0	6.1	6.1
Net debt to equity (%)	52.3	43.4	41.7	39.3	35.6

Source: Company data, RHB

Overall ESG Score: 3.4 (out of 4)

E: EXCELLENT

Sunway City is a Green Building Index (GBI) certified township. The company managed to avoid 40,131 tonnes of CO₂e from 2015-2019, and 1% of its electricity is from renewable sources (in 2019). Its main townships also have more than 40% open space, with greenescapes and bluescapes.

S: EXCELLENT

Sunway has made donations to aid the underserved communities in the B40 group, people with disabilities, youth, women, children and senior citizens. The Good Run in Oct 2019 managed to raise MYR275k to support medical treatment costs for cancer patients of the B40 group.

G: EXCELLENT

56% of board members are independent. Sunway has an in-house investor relations team that is easily accessible, and holds investor meetings, embodying good transparency and disclosure practices.

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Financial Exhibits

Asia	Financial summary (MYR)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Malaysia	Recurring EPS	0.12	0.14	0.14	0.14	0.15
Property	EPS	0.12	0.12	0.14	0.14	0.15
Sunway	DPS	0.06	0.05	0.06	0.06	0.07
SWB MK	BVPS	2.14	2.33	2.35	2.41	2.47
Buy	Return on average equity (%)	5.5	5.6	6.0	6.1	6.1
	Return on average assets (%)	2.6	2.7	2.9	3.0	3.0
Valuation basis						
30% discount to property RNAV, 13x P/E for trading/building material division, 20x EV/EBITDA for healthcare division, and 10% holding co discount						
Key drivers						
i. New property sales;						
ii. Disposal of investment properties.						
Key risks						
Weaker-than-expected market conditions						
Company Profile						
Sunway is a well-known developer in the Klang Valley. Its flagship project - Bandar Sunway is a well-established integrated township. The company has successfully transformed a mining land to a matured residential and commercial cluster						
	Valuation metrics	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Recurring P/E (x)	31.73	26.64	26.36	25.54	24.73
	P/B (x)	1.7	1.6	1.6	1.5	1.5
	Dividend Yield (%)	1.5	1.4	1.5	1.6	1.8
	EV/EBITDA (x)	41.48	36.49	36.06	33.02	31.99
	Income statement (MYRm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Total turnover	5,195	6,140	6,409	6,724	7,041
	Gross profit	1,353	1,514	1,574	1,704	1,780
	EBITDA	714	806	836	918	947
	Depreciation and amortisation	(130)	(141)	(130)	(136)	(138)
	Operating profit	583	664	706	783	809
	Net interest	(14)	(68)	18	(8)	(2)
	Pre-tax profit	920	993	1,148	1,247	1,301
	Taxation	(167)	(138)	(207)	(262)	(273)
	Reported net profit	677	738	850	886	924
	Recurring net profit	677	816	850	886	924
	Cash flow (MYRm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Change in working capital	(661)	(449)	36	(155)	(156)
	Cash flow from operations	145	426	959	771	793
	Capex	(373)	(455)	(532)	(257)	(44)
	Cash flow from investing activities	(929)	(159)	(388)	(27)	264
	Dividends paid	(323)	(295)	(337)	(371)	(406)
	Cash flow from financing activities	62	1,087	(431)	(464)	(498)
	Cash at beginning of period	2,817	1,959	2,314	2,441	2,640
	Net change in cash	(722)	1,353	140	280	559
	Ending balance cash	2,095	3,312	2,454	2,721	3,199
	Balance sheet (MYRm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Total cash and equivalents	1,959	3,140	3,266	3,465	3,860
	Tangible fixed assets	17,677	17,980	18,382	18,503	18,410
	Intangible assets	441	454	454	454	454
	Total other assets	61	99	336	538	720
	Total assets	26,058	28,613	29,491	30,341	31,155
	Short-term debt	4,919	6,018	6,018	6,018	6,018
	Total long-term debt	4,137	3,633	3,758	3,822	3,839
	Total liabilities	12,496	13,615	13,888	14,124	14,315
	Shareholders' equity	12,529	13,855	14,368	14,883	15,401
	Minority interests	1,033	1,143	1,235	1,335	1,439
	Total equity	13,562	14,998	15,603	16,218	16,840
	Total liabilities & equity	26,058	28,613	29,491	30,341	31,155
	Key metrics	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Revenue growth (%)	39.9	18.2	4.4	4.9	4.7
	Recurring net profit growth (%)	155.1	20.6	4.1	4.2	4.3
	Recurrent EPS growth (%)	155.1	19.1	1.1	3.2	3.3
	Gross margin (%)	26.0	24.7	24.6	25.3	25.3
	Recurring net profit margin (%)	13.0	13.3	13.3	13.2	13.1
	Dividend payout ratio (%)	47.7	40.0	39.6	41.9	43.9

Source: Company data, RHB

Results At a Glance

Figure 1: Quarterly results

FYE Dec (MYR mil)	1Q23	4Q23	1Q24	QoQ (%)	YoY (%)	Comments
Turnover	1,263.7	1,868.8	1,419.0	(24.1)	12.3	
Prop dev	247.8	499.4	287.7	(42.4)	16.1	Revenue was lower QoQ due to lower sales and billings from local and overseas projects.
Prop invt	209.9	256.3	231.2	(9.8)	10.1	Revenue was higher in 4Q23 due to year-end festive season and hence higher visitorship and occupancy.
Construction	327.9	532.8	372.5	(30.1)	13.6	Revenue was lower QoQ as billings from local and overseas construction projects were slower.
Trading & Manufacturing	224.1	260.1	241.4	(7.2)	7.7	
Quarry	78.2	124.8	104.8	(16.0)	34.0	
Investment holdings	2.3	6.6	2.4	n.m.	n.m.	
Others	173.5	188.9	179.0	(5.2)	3.1	
EBIT	113.4	291.9	158.4	(45.7)	39.8	
EBIT Margin (%)	9.0%	15.6%	11.2%			
Prop dev	14.2	55.1	33.6	(39.0)	136.7	The higher EBIT in 4Q23 was largely due to the completion and handover of a local project and higher number of property launches.
Prop invt	45.6	124.4	54.1	(56.5)	18.5	EBIT in 4Q23 was boosted by net fair value gains from revaluation of investment properties of MYR67.9m in 4Q23.
Construction	43.7	81.9	49.8	(39.2)	13.8	
Trading & Manufacturing	10.9	13.9	11.5	(17.0)	5.5	
Quarry	4.4	8.6	10.9	25.6	144.7	
Investment holdings	(17.9)	(24.3)	(10.8)	n.m.	(39.6)	
Others	12.3	32.3	9.4	(70.9)	(23.6)	
Exceptional items	0.0	78.3	0.0	n.m.	n.m.	
Finance cost	(4.1)	(21.5)	(26.0)	21.2	541.4	
Asso & jv	82.7	80.0	94.3	17.9	13.9	
Other Income	0.0	0.0	0.0	n.m.	n.m.	
Pretax profit	192.0	350.4	226.7	(35.3)	18.0	
PBT margin (%)	15.2%	18.8%	16.0%			
Tax	(33.3)	(33.1)	(35.7)	8.0	7.5	
Tax (%)	17.3%	9.4%	15.8%			
PAT	158.8	317.3	190.9	(39.8)	20.3	
MI	(17.1)	(51.4)	(18.7)	-	n.m.	
Net profit	141.6	265.9	172.2	(35.2)	21.6	
Core net profit	141.6	344.2	172.2	(50.0)	21.6	Below expectations.
Net margin (%)	11.2	18.4	12.1			
EPS (sen)	2.0	4.4	2.3			
NTA (RM)	2.16	2.15	2.18			
DPS (sen)	0.0	3.5	0.0			
EBIT margin:						
Prop dev	5.7%	11.0%	11.7%			
Prop invt	21.7%	48.5%	23.4%			
Construction	13.3%	15.4%	13.4%			
Trading & Manufacturing	4.9%	5.3%	4.8%			
Quarry	5.7%	6.9%	10.4%			
Investment holdings	n.m.	n.m.	n.m.			
Others	7.1%	17.1%	5.3%			

Source: Company data, RHB

Figure 2: RNAV estimate

Developments	Remaining Landbank (acre)	Remaining GDV (MYR m)	Effective stake	NPV @ 10%	
Selangor/KL					
Sunway Damansara	13.19	938.30	60%	74.9	
Sunway South Quay	32.90	2,486.70	100%	317.7	
Sunway Monterez	4.40	38.00	60%	2.8	
Sunway Semenyih	523.11	728.59	70%	47.1	
Sunway Cheras	2.92	4.50	100%	0.4	
Sunway Duta	3.16	120.00	60%	6.3	
Sunway Resort City	7.7	660	100%	95.4	
Sunway Living Space (Sri Hartamas)	5.09	850.00	100%	85.1	
Sunway Velocity 2	1.01	80.00	60%	4.2	
Sunway Velocity 3	5.50	1,200.00	60%	75.6	
New land in Cochrane	5.52	1,150.00	100%	118.4	
Sunway Tower KL 1	0.92	240.00	100%	20.2	
Sunway Termuning	31.20	13.59	80%	0.8	
Mont Putra, Rawang	158.00	156.00	100%	13.1	
Kelana Jaya	13.96	860.00	100%	69.0	
Sunway Belfield	1.65		100%	-	
Jernih Residence, Kajang	2.44	264.00	60%	12.3	
USJ 1	14.80	1,400.00	100%	112.7	
Mutiara Bukit Jalil	8.02	697.00	100%	53.7	
Kuang land	245.00	2,000.00	100%	137.1	
Dengkil (Emerald Tycoon)	61.23	813.90	100%	40.0	
Perak					
Sunway City Ipoh	324.1	3,746.38	96%	498.6	
Penang					
Sunway Hills	80.70		100%	-	
Sunway Wellesley, Bukit Mertajam	50.66	710.47	100%	57.1	
Paya Terubong	19.79	1,500.00	100%	108.4	
Sunway Tunas, Balik Pulau	9.37	20.60	100%	1.6	
Sunway Betong, Balik Pulau	19.87	16.80	100%	1.3	
S'pore					
Terra Hills Pasir Panjang	4.79	2,873.00	30%	75.9	
The Continuum Tanjong Katong	6.06	7,480.00	30%	113.1	
Tengah Plantation Close 1	4.06	2,591.50	35%	68.8	
Tengah Plantation Close 2	5.00	2,982.00	35%	72.4	
Johor					
Bukit Lenang	30.48	850.00	80%	87.4	
Medini	530.44	10,505.00	60%	516.9	
Pendas	1,071.47	18,000.00	100%	1,109.2	
China					
Tianjin Phase 3	5.87	688.80	60%	26.4	
Unbilled sales				420.0	
TOTAL	4,086.03	76,973.59		4,480.67	
Investment properties					
	Est. market value (MYR m)	Book value (MYR m)	Equity interest	Net surplus (MYR m)	
Monash University Campus	375.0	375.0	100%	0	
Monash U Residence	465.0	465.0	100%	0	
Sunway Geo Tower	180.0	112.0	100%	68.0	
Sunway Hotel Georgetown	60.0	37.6	100%	22.4	
Sunway Hotel Phnom Penh	17.0	17.0	53%	0	
Sunway Hotel Hanoi	1.0	1.0	100%	0	
Sunway Giza	52.0	52.0	60%	0	
Sunway Velocity Mall	2,660.0	908.5	59%	1,033.4	
Sunway Velocity Hotel	112.0	112.0	39%		
Sunway Citrine Hub	42.0	42.0	60%	0.0	
Sunway Geo Avenue	100.0	47.0	100%	53.0	
Sunway Big Box retail hub	220.0	220.0	100%	0.0	
Sunway Visio Tower	100.0	100.0	100%	0.0	
Sunway V Office	160.0	160.0	100%	0.0	
Subtotal				5,604.44	
Shareholders' equity (ex cons. & healthcare)				13,854.57	
Total				19,459.00	
Discount to Property RNAV				30%	
Discounted Property RNAV				13,621.30	
Other divisions					
	Market value (MYR m)	Book value (MYR m)	Est. FY25 earnings (MYR m)	PE target (x)	Equity value surplus (MYR m)
40.9% Sunway REIT	2,437.3	1,479.0			958.30
54.6% Sunway Construction	2,689.6	844.0			1,845.56
Others			110	13	1,430.00
			Est. FY25 EBITDA	EV/EBITDA (x)	Equity value
84% Sunway Healthcare			558.6	20.1	8,590.92
Total					26,446.08
ESOS proceeds					151.21
Warrants conversion @ MYR1.35					227.26
Total RNAV					26,824.56
Holding company discount					10%
Discounted RNAV					24,142.10
Share base (mil) incl. warrants & ICPS					6,525.86
Intrinsic value					3.70
ESG premium					8%
TP (MYR)					4.00

Source: RHB

Emissions And ESG

Trend analysis

In FY22, Scope 1 emissions increased to 65,329 tonnes of CO2 equivalents (FY21: 53,765 tonnes of CO2 equivalents) and Scope 2 increased to 55,813tn (FY21: 42,307 tonnes of CO2 equivalents).

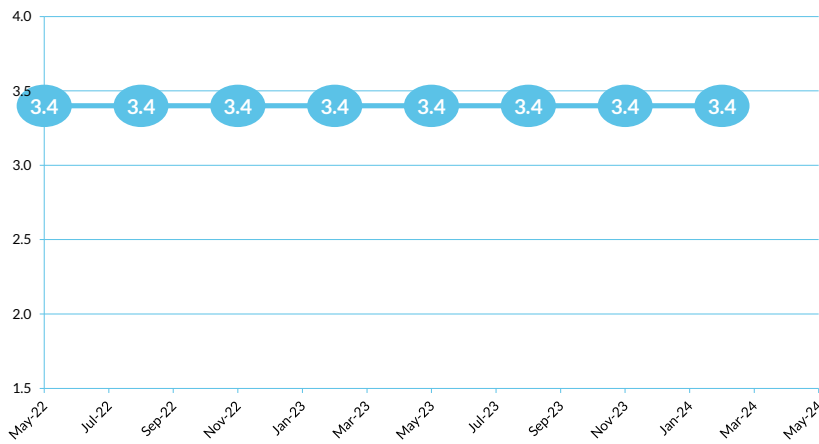
Emissions (tCO2e)	Dec-21	Dec-22	Dec-23
Scope 1	53,765	65,329	na
Scope 2	42,307	55,813	na
Scope 3	41,432	64,603	na
Total emissions	137,504	185,745	na

Source: Company data, RHB

Latest ESG-Related Developments

- Sunway is a constituent of FTSE4Good Bursa Malaysia Index.
- It aims to be carbon neutral by 2050.

ESG Rating History



Source: RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2024-02-22	Buy	3.53	2.80
2024-02-16	Buy	3.45	2.76
2024-01-07	Buy	3.00	2.22
2023-11-22	Buy	2.65	1.94
2023-09-28	Buy	2.67	1.99
2023-08-17	Buy	2.65	1.92
2023-01-12	Buy	2.06	1.61
2022-11-28	Buy	2.06	1.58
2022-08-24	Buy	2.06	1.66
2022-05-26	Buy	2.06	1.74
2021-11-25	Buy	2.06	1.68
2021-08-25	Buy	2.00	1.77
2021-07-13	Buy	2.02	1.71
2021-06-24	Buy	2.09	1.73
2021-05-26	Buy	1.92	1.66

Source: RHB, Bloomberg

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