

COMPANY RESULTS

Sunway (SWB MK)

2023: Within Expectations; Sets RM2.6b Sales Target For 2024

Sunway saw 2023 revenue grow 18% while net profit rose 25% mainly due to strong performances from the property development (lumpy Singapore contribution) and healthcare (strong operational results from new hospitals) segments. For 2024, Sunway targets RM2.6b in sales on the back of RM2b of new launches. Maintain BUY with a higher target price of RM3.06 (previously: RM3.01).

4Q23 RESULTS

Year to 31 Dec (RMm)	4Q23	3Q23	qoq % chg	yoy % chg	2023	yoy % chg
Revenue	1868.8	1539.1	21.4	22.0	6139.8	18.2
Property Development	499.4	309.5	61.3	12.8	1418.8	21.8
Construction	532.8	424.0	25.7	83.1	1688.9	31.8
Property Investment	256.3	232.8	10.1	11.1	898.4	30.2
Pre-tax profit	350.4	247.8	41.4	18.2	993.2	9.2
Property Development	69.0	70.4	-2.0	-1.9	211.6	36.3
Construction	62.8	51.1	22.9	6.9	197.9	6.1
Property Investment	68.9	55.2	24.8	-7.7	225.1	-2.4
*Healthcare PAT (equity accounting)	41.7	44.4	-6.2	19.1	152.7	9.1
PATAMI	265.9	180.3	47.5	29.8	737.8	12.1
Core net profit	212.1	189.0	12.2	25.4	699.2	24.9
Pre-tax Margins (%)	%	%	+ppf	+ppf	%	+ppf
Property Development	13.8	22.8	(8.9)	4.8	14.9	1.6
Construction	11.8	12.1	(0.3)	(2.2)	11.7	(2.8)
Property Investment	26.9	23.7	3.2	(8.8)	25.1	(8.4)

Source: Sunway, UOB Kay Hian

RESULTS

- Within expectation.** Sunway Bhd (Sunway) reported 4Q23 core net profit of RM212m (+12% qoq, +25% yoy) on revenue of RM1.9b (+21% qoq, +22% yoy). Cumulatively, 2023 core net profit of RM699m (+25% yoy) accounts for 105% of both our and consensus' forecasts. We derived 2023 net profit after excluding exceptional items of -RM38.6m (mostly on fair value gain on investment property) from reported net profit of RM738m.
- Highest revenue since its listing in 2011.** 2023 revenue grew 18%, mostly due to higher contribution from the property development, property investment and construction segments. 2023 PBT grew 9% as the improvement in the property development and healthcare segments' margins was partly offset by the property investments' lower margin (from higher utilities costs).

KEY FINANCIALS

Year to 31 Dec (RMm)	2022	2023	2024F	2025F	2026F
Net turnover	5,195	6,140	6,375	6,664	6,976
EBITDA	713	768	877	950	1,039
Operating profit	583	664	766	819	887
Net profit (rep./act.)	677	738	746	800	867
Net profit (adj.)	559.6	699	746	800	867
EPS (sen)	12.8	11.8	12.6	13.5	14.6
PE (x)	21.1	23.0	21.5	20.1	18.5
P/B (x)	1.1	1.2	1.1	1.1	1.1
EV/EBITDA (x)	33.5	31.2	27.3	25.2	23.0
Dividend yield (%)	2.0	2.0	2.1	2.1	2.2
Net margin (%)	13.0	12.0	11.7	12.0	12.4
Net debt/(cash) to equity (%)	51.8	53.1	54.7	56.6	58.3
Interest cover (x)	7.1	7.3	7.5	7.8	7.9
ROE (%)	5.5	5.6	5.3	5.5	5.8
Consensus net profit	-	-	771	806	n.a
UOBKH/Consensus (x)	-	-	1.0	1.0	-

Source: Sunway Berhad, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	RM2.71
Target Price	RM3.06
Upside	+12.9%
(Previous TP)	RM3.01

COMPANY DESCRIPTION

A conglomerate in Malaysia with various diversified businesses in areas such as property development, property investment, leisure, hospitality, construction trading and manufacturing, quarry, building materials and healthcare.

STOCK DATA

GICS sector	Industrials
Bloomberg ticker:	SWB MK
Shares issued (m):	5,491.8
Market cap (RMm):	14,882.9
Market cap (US\$m):	3,104.3
3-mth avg daily t'over (US\$m):	5.8

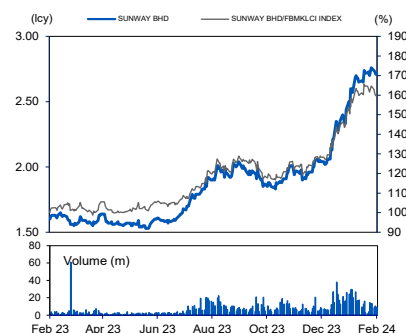
Price Performance (%)

52-week high/low	RM2.76/RM1.53			
1mth	3mth	6mth	1yr	YTD
11.1	36.9	42.6	67.3	31.6

Major Shareholders

Tan Sri Jeffrey Cheah and family	63.6
EPF	5.4
AIA	2.2
FY24 NAV/Share (RM)	2.40
FY24 Net Debt/Share (RM)	1.32

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- Property development: 2023 revenue and PBT saw strong growth** of 21% yoy and 36% yoy respectively, mainly due higher sales, progressive billings and lumpy contribution from Singapore (Parc Canberra) amounting to RM46.3m. 2023 recorded RM2.4b sales (+20% yoy) mainly contributed by Singapore projects (40% of total sales) with the rest mostly being local projects. For 2024, Sunway targets RM2.6b in sales on the back of RM2b of new launches. 2024 also will see more Johor launches in its Sunway Iskandar township with GDV of RM345m (2023 Johor launches: RM90m).
- We believe its sales target of RM2.6b is achievable** with possible upside from higher-than-expected sales of Singapore projects. Sunway's overall property segment is expected to remain resilient on higher sales (+8% yoy), strong unbilled sales of RM4.1b (2.7x cover ratio) and lumpy recognition from its Singapore projects (we estimate RM110m-130m for Parc Central in 1Q24).
- Healthcare: Substantial growth going forward.** The healthcare arm reported 4Q23 core PAT of RM42m (-6% qoq, +19% yoy). The yoy performance was strong, mainly on strong operational results from Sunway Medical Center (SMC) Sunway City and SMC Velocity which mitigated the start-up operational losses from Sunway Sanctuary. SMC Penang (which commenced operations in Nov 22) exceeded expectations and achieved breakeven at PAT level in 4Q23. This achievement sets a new record for the healthcare segment, as historically, it takes new hospitals two years to achieve breakeven at PBT level. 2023 EBITDA growth for healthcare segment was 33%, exceeding our expectation.
- Construction: Prime beneficiary of mega projects.** 2023 construction PBT came in at RM198m (+6% yoy) on the back of revenue of RM1.7b (+32%). PBT margin was slightly lower by 2.8ppts due to a high-base effect in 2022 on cost savings from completed projects. We expect higher earnings ahead from stronger progress billings on improved labour intake. Orderbook remained robust at RM5.3b (3.1x cover ratio).
- Property investment: Strong revenue from the leisure and hospitality businesses but margin was hit.** While 2023 saw property investment revenue grow 30% (mainly on higher hotel and theme park occupancy), PBT declined by 2% due to higher utility charges. Nonetheless, we expect a better performance in 2024 from a sharp recovery in tourism, especially from Chinese tourists on the back of the visa-free travel arrangement.

EARNINGS REVISION/RISK

- We raise 2024 and 2025 earnings by 2% and 3% respectively after incorporating higher construction earnings, and also introduce our 2026 earnings forecast.

VALUATION/RECOMMENDATION

- Maintain BUY with a higher target price of RM3.06** (from RM3.01) to reflect a new target price for Sunway Construction on its brighter earnings outlook. Our target price of RM3.06 is based on a 10% discount to our SOTP-based valuation of RM3.40/share, and implies a 2024-26F PE of 21-24x (+1SD above its 10-year mean of 13x). We believe the premium is justifiable given: a) Sunway's robust track record in township development (which we think will be implemented in its Iskandar Malaysia township), and b) promising healthcare growth.

ENVIRONMENTAL, SOCIAL, GOVERNANCE (ESG) UPDATES

Environmental <ul style="list-style-type: none"> Installed photovoltaic (PV) solar panels at most of its properties
Social <ul style="list-style-type: none"> Launched Sunway Cancer Support Fund worth RM2.5m in Oct 22.
Governance <ul style="list-style-type: none"> Good company transparency along with an anti-bribery and anti-corruption policy.

2024 LAUNCHES AND SALES TARGET



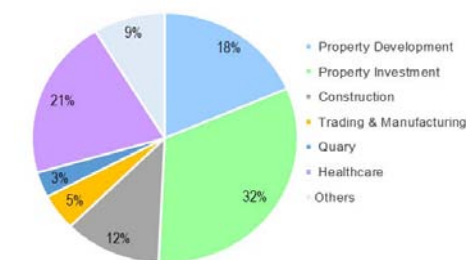
Source: Sunway, UOB Kay Hian

2024 LAUNCHES AND SALES TARGET

Project	Product Type	Location	GDV (RM mil)
Kelana Jaya Phase 2	Serviced Apartments & Super Link-house	Kelana Jaya, Selangor	455
Sunway Flora Plot 2 Tower A	Serviced Apartments	Bukit Jalil, Kuala Lumpur	232
Sunway V3 Tower A	Serviced Apartments	Taman Maluri, Kuala Lumpur	566
Sunway Bayu	Landed Homes	Sunway City Ipoh, Ipoh	85
Sunway Wellesley	Townhouses	Bukit Mertajam, Penang	129
Sunway Aviana	Landed Linked Homes	Sunway Iskandar Puteri, Johor	65
Sunway Sakura Phase 2	Landed Semi-D Homes	Sunway Iskandar Puteri, Johor	110
Sunway Maple	Townhouses & Linked Homes	Sunway Iskandar Puteri, Johor	170
Sunway Gardens Phase 3	Condominium	Tianjin, China	243
Total			2,055

Source: Sunway, UOB Kay Hian

2023 PAT BREAKDOWN



Source: Sunway, UOB Kay Hian

ASSUMPTIONS

	2024F	2025F	2026F
Property Sales (Rmb)	2.6	2.7	2.8
Overall Takeup rate (%)	70	70	70

Source: Sunway, UOB Kay Hian

SOTP-BASED VALUATION

Segment	(RMm)	% of SOTP Remarks
Property development	6,221	30% 15% discount to property RNAV
REIT (40.9% stake)	2,395	12% Valuation based on TP of RM1.71, based on DDM
Construction (54.4% stake)	2,061	10% Valuation based on TP of RM2.93, 15x 2024F PE
Quarry & building materials	240	1% 10x PE 2024F quarry profits
Trading	541	3% 10x PE 2024F trading profits
Investment Properties	2,664	13% Market Value
Healthcare (84% stake)	7,140	35% 20x EV/EBITDA 2024F; 2024F EBITDA RM450m
Less: Holding co (debt)/cash	-589	-3%
Total SOTP value (A)	20,672	
Share base (m) (B)	5,932	
Warrants proceeds (C)	57	
Total SOTP value post warrants proceeds (A+C)	20,728	
Enlarged share base (m)	6,098	
SOTP/share (RM)	3.40	
Discount	10%	
Target price (RM)	3.06	

Source: Sunway, UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (RMm)	2023	2024F	2025F	2026F
Net turnover	6,140	6,375	6,664	6,976
EBITDA	768	877	950	1,039
Deprec. & amort.	104	111	131	151
EBIT	664	766	819	887
Associate contributions	397	435	496	567
Net interest income/(expense)	(68)	(71)	(107)	(150)
Pre-tax profit	993	1,131	1,209	1,304
Tax	(138)	(283)	(302)	(326)
Minorities	(118)	(102)	(106)	(111)
Net profit	738	746	800	867
Net profit (adj.)	699	746	800	867

CASH FLOW

Year to 31 Dec (RMm)	2023	2024F	2025F	2026F
Operating	390	469	458	504
Pre-tax profit	993	1,131	1,209	1,304
Tax	(138)	(283)	(302)	(326)
Deprec. & amort.	104	111	131	151
Associates	(397)	(435)	(496)	(567)
Working capital changes	(482)	(125)	(190)	(208)
Non-cash items	310	71	107	150
Investing	(472)	(518)	(537)	(557)
Capex (growth)	(402)	(418)	(437)	(457)
Investments	(115)	(100)	(100)	(100)
Proceeds from sale of assets	208	0	0	0
Others	(163)	0	0	0
Financing	402	220	204	189
Dividend payments	(270)	(336)	(344)	(347)
Issue of shares	676	0	0	0
Proceeds from borrowings	479	627	655	686
Others/interest paid	(484)	(71)	(107)	(150)
Net cash inflow (outflow)	320	171	125	136
Beginning cash & cash equivalent	1,981	2,300	2,472	2,597
Changes due to forex impact	0	0	0	0
Ending cash & cash equivalent	2,300	2,472	2,597	2,733

BALANCE SHEET

Year to 31 Dec (RMm)	2023	2024F	2025F	2026F
Fixed assets	6,387	6,794	7,200	7,606
Other LT assets	12,146	12,581	13,077	13,644
Cash/ST investment	2,300	2,472	2,597	2,733
Other current assets	7,780	8,023	8,322	8,645
Total assets	28,613	29,870	31,196	32,627
ST debt	6,018	6,018	6,018	6,018
Other current liabilities	3,256	3,374	3,483	3,597
LT debt	3,633	4,259	4,915	5,600
Other LT liabilities	708	708	708	708
Shareholders' equity	13,855	14,265	14,721	15,241
Minority interest	1,143	1,245	1,351	1,463
Total liabilities & equity	28,613	29,870	31,196	32,627

KEY METRICS

Year to 31 Dec (%)	2023	2024F	2025F	2026F
Profitability				
EBITDA margin	12.5	13.8	14.3	14.9
Pre-tax margin	16.2	17.7	18.1	18.7
Net margin	12.0	11.7	12.0	12.4
ROA	2.7	2.6	2.6	2.7
ROE	5.6	5.3	5.5	5.8
Growth				
Turnover	18.2	3.8	4.5	4.7
EBITDA	7.7	14.2	8.3	9.3
Pre-tax profit	8.0	13.8	6.9	7.9
Net profit	9.0	1.2	7.3	8.3
Net profit (adj.)	24.9	6.7	7.3	8.3
EPS	24.9	6.7	7.3	8.3
Leverage				
Debt to total capital	39.2	39.9	40.5	41.0
Debt to equity	69.7	72.0	74.3	76.2
Net debt/(cash) to equity	53.1	54.7	56.6	58.3
Interest cover (x)	7.3	7.5	7.8	7.9

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