

Sunway Berhad

(5211 | SWB MK) Main | Industrial Products & Services

Brighter Outlook

KEY INVESTMENT HIGHLIGHTS

- **9MFY23 earnings above our expectation**
- **Decent earnings growth**
- **Higher earnings on yearly basis**
- **9MFY23 new sales at RM2.09b**
- **Earnings forecast revised upwards**
- **Upgrade to BUY with a revised TP of RM2.25**

9MFY23 earnings above our expectation. Sunway Berhad 9MFY23 core net income of RM507.4m came in within consensus expectations but above ours, making up 76% and 85% of consensus and our full year estimates respectively. The positive variance could be attributed to the higher than expected earnings from property development and healthcare division. Note that we have excluded one-off items and distribution for Perpetual Sukuk holders in our core net income calculations.

Decent earnings growth. Sequentially, 3QFY23 core net income was higher at RM191.8m (+14.5%qoq) mainly due to better contribution from property development, property investment and healthcare divisions. Notably, profit before tax (PBT) of property development division was higher (+43.5%qoq) due to earnings recognition from Singapore project. Meanwhile, PBT of property investment division was higher (+63%qoq) due to higher income from its investment properties. Similarly, healthcare division posted higher PBT (+17.8%qoq), underpinned by strong performance of SMC Sunway City and SMC Velocity.

Higher earnings on yearly basis. On yearly basis, 3QFY23 core net income grew by 35%yoy, bringing cumulative earnings in 9MFY23 higher at RM507.4m (+22.6%yoy). The higher earnings were mainly underpinned by property development division, healthcare division and construction division. PBT of property development was higher (+67.9%yoy) mainly due to higher progress billing of ongoing projects as well as earnings recognition from Singapore project. Meanwhile, PBT of healthcare division posted healthy growth of +5.7%yoy as higher contribution from SMC Sunway City and SMC Velocity mitigated start-up losses of SMC Penang and Sunway Sanctuary. On the other hand, construction division posted higher PBT (+5.7%yoy) due to higher progress billing from local construction projects.

9MFY23 new sales at RM2.09b. Sunway Berhad recorded new sales of RM590m in 3QFY23, bringing total new sales to RM2.09b in 9MFY23 which is close to management new sales target of RM2.3b for FY23. New sales momentum was strong, driven mainly by project in Singapore which made up 43% of total new sales in 9MFY23. Looking ahead, new sales momentum is expected to sustain by its local projects and residential Singapore projects namely Terra Hills and The Continuum. On the other hand, unbilled sales stood at RM4.64b in 3QFY23.

Upgrade to BUY

(Previously NEUTRAL)

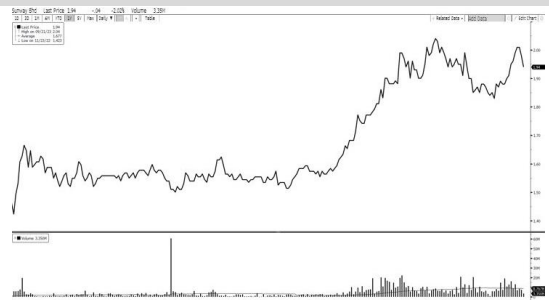
Revised Target Price: RM2.25

(Previously RM1.84)

RETURN STATISTICS

Price @ 22 Nov 2023 (RM)	1.94
Expected share price return (%)	15.4
Expected dividend yield (%)	3.3
Expected total return (%)	18.7

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	3.7	2.7
3 months	-1.5	1.8
12 months	28.5	27.2

INVESTMENT STATISTICS

FYE Dec	2023E	2024F	2025F
Revenue	5,749	6,131	6,578
Operating Profit	758	686	727
Profit Before Tax	991	713	761
Core PATAMI	680	718	767
Core EPS	11.59	12.24	13.07
DPS	6.50	6.50	7.00
Dividend Yield	3.3%	3.3%	3.6%


KEY STATISTICS

FBM KLCI	1,455.89
Issue shares (m)	4,889.07
Estimated free float (%)	25.58
Market Capitalisation (RM'm)	9,622.36
52-wk price range	RM1.45-RM2.07
3-mth average daily volume (m)	9.07
3-mth average daily value (RM'm)	17.56
Top Shareholders (%)	
Sungei Way Corp Sdn Bhd	57.85

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Stronger earnings outlook ahead. Earnings outlook for Sunway Berhad is expected to be stronger in FY24 due to lumpy earnings recognition from Singapore projects namely Parc Central. Besides, earnings from healthcare division should remain resilient, driven by organic growth of Sunway Medical Centre Sunway City and contribution from Sunway Medical Centre Penang. The opening of new hospitals namely Sunway Medical Centre Damansara in 4QFY24 and Sunway Medical Centre Ipoh in 1QFY25 will further drive earnings growth of healthcare division. On the other hand, its property investment division should see better earnings going forward due to higher tourist arrival and recovery in domestic tourism.

Upgrade to BUY with a revised TP of RM2.25. We revise our FY23F/24F/25F earnings by +13.5%/+16.6%/+18.5% to factor in the higher contribution from healthcare and property development division. Our **TP** is revised to **RM2.25** from RM1.84 as we update our Sum-of-parts valuation. We upgrade Sunway to **BUY** from NEUTRAL as we see brighter outlook for Sunway Berhad ahead due to (i) strong new sales momentum, (ii) improved property outlook for its Sunway Iskandar in Johor and (iii) better earnings outlook underpinning by various business divisions. Besides, listing of its healthcare division by 2027 will unlock value of its healthcare division. The recent disposal of Ramsay Sime Darby Healthcare by Sime Darby Berhad to Columbia Asia Healthcare Sdn Bhd at price tag of RM5.7b implied Enterprise Value (EV)/EBITDA of 20.1x. Based on similar valuation, we estimate healthcare division of Sunway Berhad to worth at least RM7b-RM8b or RM1.40-RM1.60 per share based on our EBITDA projection for FY24. Hence, we think the deep value in healthcare division should provide catalyst in the medium term. 

SUNWAY BERHAD: 3QFY23 RESULTS SUMMARY

FYE Dec (RM'm, unless otherwise stated)	Quarterly Results			Cumulative	
	3QFY23	%YoY	%QoQ	FY23	%YoY
Revenue	1539.1	21.1%	4.8%	4,271.0	16.6%
EBIT	119.1	-10.0%	-14.9%	372.5	1.8%
Core PBT	259.3	29.0%	17.6%	678.3	24.5%
Net Income	180.3	9.5%	20.3%	471.9	0.3%
Core Net Income	191.8	35.0%	14.5%	507.4	22.6%
EPS (sen)	3.04	8.2%	19.7%	8.0	-0.3%
Core EPS (sen)	3.23	33.6%	14.0%	8.6	27.8%
Net DPS (sen)	0.00	0%	-100.0%	2.0	0%
NTA/share (RM)	2.13	3%	1%	2.1	3.2%
Net Gearing (x)	0.54	NA	NA	0.54	NA
EBIT Margin	7.7%	NA	NA	8.7%	NA
Core PBT Margin	16.8%	NA	NA	15.9%	NA

Sum-of-Parts

Division	Methodology	PER (x)	Stake	Discount	Value (RM m)
Property Development	NPV of profits	n/a	100%	20%	3,479.2
Property Investment	Net Book Value	n/a	100%	n/a	2,443.0
Construction	15x FY24E PER	15	54%	n/a	656.0
Sunway REIT	Target Price of RM1.70	n/a	35%	n/a	2,008.2
Healthcare	22x FY24 PER	22	84%	n/a	3,949.3

Trading and manufacturing	10x FY24E PER	10	100%	n/a	303.5
Quarry & Others	10x FY24E PER	10	100%	n/a	340.8
Total SOP					13,180.0
Number of shares					5,866.0
Target Price (RM)					2.25

FINANCIAL SUMMARY

Income Statement (RM'm)	2021A	2022A	2023E	2024F	2025F
Revenue	3,714	5,195	5,749	6,131	6,578
EBIT	539	579	758	686	727
PBT	539	867	991	713	761
Net Income	2,665	673	680	718	767
Core Net Income	452	632	680	718	767
Core EPS (sen)	7.7	10.8	11.6	12.2	13.1
Core PER (x)	25.2	18.0	16.7	15.8	14.8
NTA/share	1.99	2.14	2.37	2.43	2.48
P/NTA	0.98	0.91	0.82	0.80	0.78

Balance Sheet (RM'm)	2021A	2022A	2023E	2024F	2025F
Property, plant and equipment	1,262	1,264	1,283	1,334	1,348
Investment properties	2,186	2,443	2,497	2,173	2,129
Investment in JV	6,192	6,653	6,799	7,010	7,165
Total non-current assets	17,086	18,179	18,561	19,025	19,443
Inventories	2,422	3,280	3,345	3,512	3,590
Cash and bank balances	2,810	1,957	2,302	2,356	2,408
Other assets	2,766	2,642	2,455	2,487	2,459
Total Assets	25,084	26,058	26,663	27,381	27,901
LT Term Loans	4,021	3,537	3,856	4,049	4,332
ST Borrowings	4,093	4,919	5,017	5,293	5,399
Other Liabilities	3,847	4,040	3,901	3,777	3,623
Total Liability	11,962	12,496	12,774	13,118	13,354
Share capital	5,394	5,394	5,394	5,394	5,394
Other Equity	7,728	8,168	8,495	8,869	9,152
Total Equity	13,122	13,562	13,889	14,263	14,546
Equity + Liability	25,084	26,058	26,663	27,381	27,901

Cash Flow (RM'm)	2021A	2022A	2023E	2024F	2025F
Cash flows from operating activities					
Net income before taxation	2852	920	886	906	954
Net cash from operating activities	979	395	391	396	388
Cash flows from investing activities					
Acquisition of property, plant and equipment	-344	-111	-112	-119	-103
Net cash used in investing activities	-1280	-1069	-1090	-971	-738
Cash flows from financing activities					
Net cash from/(used in) financing activities	845	-160	342	368	355
Net increase/(decrease) in cash and cash equivalents	544	-835	-357	-207	5
Cash and cash equivalent at 1 January	2183	2732	1895	1537	1331
Cash and cash equivalent at 1 December	2732	1895	1537	1331	1336

Profitability Margins	2021A	2022A	2023E	2024F	2025F
EBIT margin	14.5%	11.1%	13.2%	11.2%	11.1%
PBT margin	14.5%	16.7%	17.2%	11.6%	11.6%
PAT margin	71.8%	13.0%	11.8%	11.7%	11.7%
Core PATAMI margin	12.2%	12.2%	11.8%	11.7%	11.7%
ROE	3.8%	5.0%	4.9%	5.0%	5.3%
ROA	1.8%	2.4%	2.6%	2.6%	2.7%

Source: Bloomberg, MIDFR

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MIDF AMANAH INVESTMENT BANK: GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <-10% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.

ESG RECOMMENDATIONS* - source Bursa Malaysia and FTSE Russell

☆☆☆	Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆	Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆	Top 51%- 75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆	Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell

* ESG Ratings of PLCs in FBM EMAS that have been assessed by FTSE Russell in accordance with FTSE Russell ESG Ratings Methodology