

03 July 2024

Sunway

Selling Johor Land for RM380m

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SUNWAY is selling 64 acres of land in Sunway City Iskandar Puteri (SCIP) to Singapore-based Equalbase Pte Ltd (Equalbase) for about RM380m. We estimate that the sale will result in a gain of RM324m (or 5.7sen/share). We maintain our forecasts but raise our TP by 8% to RM2.66 (from RM2.47). Maintain UNDERPERFORM given its rich valuations.

SUNWAY is selling 64 acres of land in Sunway City Iskandar Puteri (SCIP) to Singapore-based Equalbase for about RM380m. Equalbase plans to build data centres on the land. SUNWAY is currently jointly developing a RM8b sustainable free commercial zone with Equalbase in SCIP.

At RM136 psf, we believe the deal was priced fairly with asking prices for Iskandar Puteri data centre land ranging between RM135 psf to RM140 psf.

Based on our back-of-the-envelope calculations, at a book value of the land of c.RM55.4m (RM866k/acre or RM20 psf) in CY12, we estimate the gain to be at RM324m (or 5.7sen/share). Nonetheless, the RM380m proceeds will have little impact on its net debt and gearing of RM7.6b and 0.5x, respectively.

Forecasts. Maintained as our forecasts exclude one-off land sales.

Valuations. However, we raise our SoP-TP by 8% to RM2.66 (from RM2.47), having reflected the gain. We maintain a 55% discount to RNAV for SUNWAY's property development segment (in line with industry peers) (see Page 2). We also update our TP for **SUNCON (OP; TP: RM4.28 from RM3.16)**. There is no adjustment to our TP based on ESG given a 3-star rating as appraised by us (see Page 5).

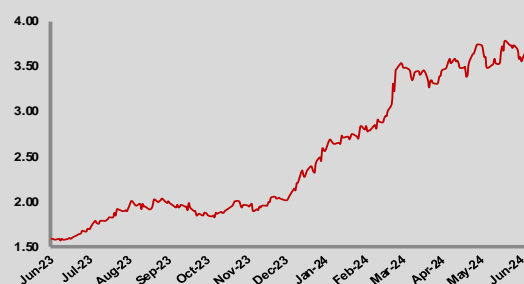
Investment case. We like SUNWAY for: (i) having an eye for good land parcels, enabling it to execute quick turnaround for its property projects, (ii) it growing private healthy business backed by a pipeline of new medical centres within brown field townships, (iii) a diversified range of investment assets that provides recurring incomes, and (iv) a trusted Sunway brand. However, its valuations are fair following the recent run-up in its share price. Maintain **UNDERPERFORM**.

Risks to our call include: (i) a strong pickup 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.

UNDERPERFORM ↔

Price : **RM3.83**
Target Price : **RM2.66** ↑

Share Price Performance



KLCI	1,597.96
YTD KLCI chg	9.9%
YTD stock price chg	85.9%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	SWB MK Equity
Market Cap (RM m)	21,604.2
Shares Outstanding (m)	5,640.8
52-week range (H)	3.83
52-week range (L)	1.57
3-mth avg. daily vol.	15,075,080
Free Float	31%
Beta	0.9

Major Shareholders

Sungei Way Corp Sdn Bhd	45.3%
Cheah Fook Ling	11.0%
Employee Provident Fund	6.1%

Summary Earnings Table

FY Dec (RM m)	2023A	2024F	2025F
Turnover	6,139.8	5,959.8	6,262.1
Operating Profit	664.4	672.3	713.5
Profit Before Tax	993.2	1,197.5	1,268.0
Net Profit	737.8	916.1	926.2
Core Net Profit	686.4	864.8	874.8
Consensus (NP)	-	792.2	865.1
Earnings Revision	-	-	-
Core EPS (sen)	11.6	14.7	14.8
Core EPS Growth (%)	9.7	26.0	1.2
NDPS (sen)	5.5	6.0	6.5
BVPS (RM)	2.3	2.4	2.5
PER (x)	32.9	26.1	25.8
PBV (x)	1.6	1.6	1.5
Net Gearing (x)	0.5	0.4	0.4
Net Div. Yield (%)	1.4	1.6	1.7

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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)	2,775.5	Kenanga's TP of RM1.65 for SUNREIT
Construction (via 54.4%-owned Sunway Construction)	3,002.1	Kenanga's TP of RM4.28 (from RM3.16) for SUNCON
Trading & Manufacturing	417.0	P/E of 10x on FY25 earnings
Quarry	117.0	P/E of 12x on FY25 earnings
Healthcare	5,760.0	15x on FY25 EV/EBITDA
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
Aggregate Valuation	15,784.3	
No of shares (m)	5,941.4	
RNAV per share (RM)	2.66	

Source: Company, Kenanga Research

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Income Statement

FY Dec (RM m)	2021A	2022A	2023A	2024F	2025F
Revenue	3717	5195	6140	5960	6262
Operating Profit	328	583	664	672	713
Depreciation	-217	-130	-141	-134	-133
Interest Inc/(Exp)	55	-14	-68	50	135
Associate Earnings	81	351	397	476	419
Profit Before Tax	464	920	993	1198	1268
Taxation	-116	-167	-138	-180	-216
Minority Interest	-54	-76	-118	-102	-126
Net Profit	294	677	738	916	926
Core Net Profit	294	626	686	865	875

Balance Sheet

FY Dec (RM m)	2021A	2022A	2023A	2024F	2025F
Fixed Assets	1,262	1,265	1,358	1,270	1,183
Intangible Assets	376	378	388	388	388
Other Fixed Assets	15,447	16,079	16,787	16,787	16,787
Inventories	2,422	3,280	3,561	3,739	3,838
Receivables	1,123	1,969	2,790	2,366	2,569
Other Current Assets	1,643	1,135	1,429	1,429	1,429
Cash	2,810	1,958	2,300	4,385	4,272
Total Assets	25,084	26,063	28,613	30,364	30,466
Payables	1,401	1,312	593	1,785	1,347
ST Borrowings	4,093	5,361	6,018	6,018	6,018
Other ST Liability	1,212	1,360	2,663	2,663	2,663
LT Borrowings	4,021	3,095	3,633	3,633	3,633
Other LT Liability	1,234	1,384	708	708	708
Net Assets	13,122	13,551	14,998	15,558	16,098
Shareholders' Equity	12,030	12,520	13,855	14,414	14,954
Minority Interests	1,092	1,032	1,143	1,143	1,143
Total Equity	13,122	13,551	14,998	15,558	16,098

Cashflow Statement

FY Dec (RM m)	2021A	2022A	2023A	2024F	2025F
Operating CF	979	337	390	1962	-236
Investing CF	-1280	-845	-472	430	373
Financing CF	845	-325	402	-307	-251
Change In Cash	544	-832	320	2085	-113
Free CF	1443	245	344	1916	-282

Financial Data & Ratios

FY Dec	2021A	2022A	2023A	2024F	2025F
Growth					
Turnover	15.8%	39.8%	18.2%	-2.9%	5.1%
EBITDA	16.5%	31.0%	12.9%	0.0%	5.0%
Operating Profit	41.9%	78.0%	13.9%	1.2%	6.1%
PBT	-5.4%	98.3%	8.0%	20.6%	5.9%
Core Net Profit	-13.7%	113.1%	9.7%	26.0%	1.2%
Profitability					
Operating Margin	8.8%	11.2%	10.8%	11.3%	11.4%
PBT Margin	12.5%	17.7%	16.2%	20.1%	20.2%
Core Net Margin	7.9%	12.0%	11.2%	14.5%	14.0%
Effective Tax Rate	25.1%	18.1%	13.9%	15.0%	17.0%
ROA	1.3%	2.6%	2.7%	3.1%	3.0%
ROE	2.7%	5.5%	5.6%	6.5%	6.3%
DuPont Analysis					
Net Margin	7.9%	12.0%	11.2%	14.5%	14.0%
Assets Turnover (x)	0.1	0.2	0.2	0.2	0.2
Leverage Factor (x)	2.1	2.1	2.1	2.1	2.0
ROE	2.7%	5.5%	5.6%	6.5%	6.0%
Leverage					
Debt/Asset (x)	0.3	0.3	0.3	0.3	0.3
Debt/Equity (x)	0.7	0.7	0.7	0.7	0.6
Net (Cash)/Debt	5,304	6,498	7,350	5,265	5,378
Net Debt/Equity (x)	0.4	0.5	0.5	0.4	0.4
Valuations					
Core EPS (sen)	5.0	10.6	11.6	14.7	14.8
NDPS (sen)	2.5	5.0	5.5	6.0	6.5
BV/share (RM)	2.0	2.1	2.3	2.4	2.5
PER (x)	76.9	36.1	32.9	26.1	25.8
Div. Yield (%)	0.7%	1.3%	1.4%	1.6%	1.7%
PBV (x)	1.9	1.8	1.6	1.6	1.5
EV/EBITDA (x)	10.9	5.7	69.3	82.7	80.6

Source: Kenanga Research

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Peer Table Comparison

Name	Rating	Last Price (RM)	Target Price (RM)	Upside	Market Cap (RM m)	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.
PROPERTY DEVELOPERS																	
ECO WORLD DEVELOPMENT GROUP	UP	1.55	1.41	-9.0%	4,570.5	Y	10/2024	9.7	10.0	5.2%	3.6%	16.0	15.4	0.9	5.9%	6.0	3.9%
IOI PROPERTIES GROUP BHD	UP	2.18	1.75	-19.7%	12,003.4	N	06/2024	14.1	14.4	23.4%	2.1%	15.4	15.1	0.3	2.3%	4.5	2.1%
MAH SING GROUP BHD	MP	1.79	1.87	4.5%	4,582.6	Y	12/2024	10.2	11.0	14.6%	8.5%	17.6	16.2	1.1	6.5%	4.0	2.2%
MKH BHD	OP	1.32	1.83	38.6%	762.2	Y	09/2024	18.0	20.1	41.8%	11.2%	7.3	6.6	0.4	5.3%	6.0	4.5%
S P SETIA BHD	UP	1.43	0.850	-40.6%	6,808.9	Y	12/2024	5.9	6.1	17.0%	2.5%	24.0	23.5	0.4	1.9%	4.5	3.1%
SIME DARBY PROPERTY BHD	UP	1.45	1.08	-25.5%	9,861.2	Y	12/2024	6.3	6.5	7.1%	3.8%	23.1	22.3	0.9	4.1%	3.0	2.1%
SUNWAY BHD	UP	3.83	2.66	-30.5%	21,604.2	Y	12/2024	14.6	14.7	26.0%	1.2%	26.3	26.0	1.5	6.0%	6.0	1.6%
UOA DEVELOPMENT BHD	UP	1.88	1.79	-4.8%	4,682.0	Y	12/2024	10.6	10.4	19.3%	-2.1%	17.7	18.1	0.8	4.5%	6.5	3.5%
SECTOR AGGREGATE					64,875.0					18.8%	2.7%	20.2	19.7	0.8	4.6%		2.9%

Source: Kenanga Research

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Stock ESG Ratings:

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

☆ 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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