

COMPANY UPDATE

Sunway (SWB MK)

Inclusion In KLCI Index Soon?

Sunway's market cap has climbed to the 28th position in Bursa Malaysia, and is poised for a potential KLCI inclusion assuming sustained share price and trading volume. Enhanced by its Iskandar Malaysia projects and expanding healthcare segment, Sunway will likely continue its upward trajectory momentum. Maintain BUY with target price increased to RM3.01 (from RM2.38).

WHAT'S NEW

- **Sunway's market cap ranking has climbed to 28th largest in Bursa Malaysia.** The recent property rally and its recent placement have pushed Sunway's share price towards the RM2.72 level, translating to a market cap of RM15b (based on 9 Feb 24 closing), and surpassing that of a few KLCI constituents such as AMMB (RM14.2b), QL Resources (RM14b), and Mr DIY (RM13b). We estimate Sunway has passed the liquidity test for the past months. If Sunway's share price maintains at this level or higher, and if the company can maintain its median daily volume of at least 1m shares per day for the next two out of four months, we believe Sunway is likely to be included in the KLCI index.

SUNWAY MEDIAN DAILY VOLUME DETAILS

Month	Median Daily Volume	% of trade to its free float
May-23	1,202,867	0.06%
Jun-23	2,102,737	0.10%
Jul-23	2,504,114	0.12%
Aug-23	10,623,401	0.52%
Sep-23	6,723,953	0.33%
Oct-23	6,289,391	0.31%
Nov-23	7,253,713	0.35%
Dec-23	6,074,450	0.30%
Jan-24	16,681,372	0.81%

Source: Bloomberg, UOB Kay Hian

STOCK IMPACT

- **This potential inclusion in the KLCI index should further enhance Sunway's investibility and attractiveness.** We believe Sunway's share price momentum is expected to continue its upward trajectory, supported by the broader theme of potential index inclusion, as well as other themes such as being one of the beneficiaries of Iskandar Malaysia and the unlocking of its crown jewel healthcare assets.

KEY FINANCIALS

Year to 31 Dec (RMm)	2021	2022	2023F	2024F	2025F
Net turnover	3,717	5,195	5,668	5,988	6,234
EBITDA	544	713	830	885	925
Operating profit	328	583	703	744	770
Net profit (rep./act.)	293	677	665	733	794
Net profit (adj.)	321	626	665	733	794
EPS (sen)	6.6	12.8	11.2	12.4	13.4
PE (x)	41.4	21.2	24.2	22.0	20.3
P/B (x)	1.1	1.1	1.3	1.2	1.2
EV/EBITDA (x)	42.4	32.3	27.8	26.1	24.9
Dividend yield (%)	0.9	2.0	2.1	2.3	2.5
Net margin (%)	7.9	13.0	11.7	12.2	12.7
Net debt/(cash) to equity (%)	44.1	51.8	54.6	52.3	53.6
Interest cover (x)	6.0	6.5	7.3	7.5	7.8
ROE (%)	2.7	5.5	5.2	5.6	5.9
Consensus net profit	-	-	661	764	794
UOBKH/Consensus (x)	-	-	1.01	0.96	1.00

Source: Sunway Berhad, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	RM2.72
Target Price	RM3.01
Upside	+10.5%
(Previous TP)	RM2.38)

COMPANY DESCRIPTION

A leading construction company and property developer in Malaysia

STOCK DATA

GICS sector	Industrials
Bloomberg ticker:	SWB MK
Shares issued (m):	5,482.1
Market cap (RMm):	14,911.4
Market cap (US\$m):	3,129.4
3-mth avg daily t'over (US\$m):	5.8

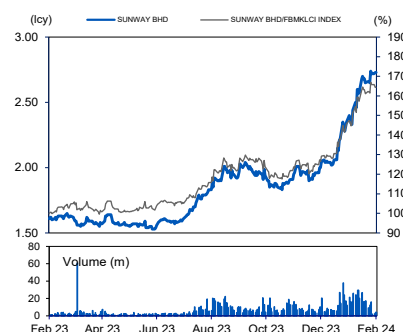
Price Performance (%)

52-week high/low	RM2.74/RM1.53				
1mth	3mth	6mth	1yr	YTD	
17.7	43.2	51.1	70.0	32.0	

Major Shareholders

	%
Tan Sri Jeffrey Cheah and family	63.6
EPF	5.1
AIA	2.2
FY24 NAV/Share (RM)	2.23
FY24 Net Debt/Share (RM)	1.17

PRICE CHART



Source: Bloomberg

ANALYST(S)

Nazira Abdullah
+603 2147 1934
nurulnazira@uobkayhian.com

ESSENTIALS

- Healthcare gaining prominence.** Sunway's healthcare unit is set to deliver strong earnings moving forward, underpinned by an increase in its bed capacity from 1,121 as at Sep 23 to about 1,300 by end-24. Historical five-year revenue and PBT have showed impressive CAGR of 20% and 37% respectively. We conservatively expect another revenue and PBT CAGR growth of 12% to 2028, underpinned by its expansion plan for medical centres. The healthcare segment's earnings contributed 24% to Sunway's 9M23 earnings, and we expect this proportion to increase in the future to around 30% as healthcare earnings strengthen further.
- Ramsay Sime Darby Healthcare deal set a floor valuation of 20x EV/EBITDA.** Based on this deal, we estimate Sunway's healthcare segment to be valued at around RM14b (100% basis) for its IPO in 2027 (assuming 12% annual growth to 2028F EBITDA of around RM700m and EV/EBITDA multiple of 20x), which is close to its market cap now. If Sunway intends to maintain its majority shareholding of around 55% (from 84% currently), potential cash proceeds from this IPO could amount to approximately RM4b to Sunway (representing 29% of RM14b). While Sunway has not historically declared special dividends from the IPOs of its other business units (Sunway Construction and Sunway REIT), the substantial cash proceeds expected from the healthcare IPO, which should exceed those of the other two units (Sunway Construction's cash proceeds from IPO was about RM500m while that of Sunway REIT was about RM2b), lead us to believe that a special dividend may be imminent.

EXPANSION PLAN FOR MEDICAL CENTRES

State	Location	Total beds	Exp. completion
Existing Medical Centre			
Kuala Lumpur	Sunway City (Tower A,B and C)	724	Completed
	Velocity	229	Completed
Penang	Seberang Jaya	168	Opened Nov 22
Kuala Lumpur	Sunway City (Tower D, E and F)	108	Opened in phases since May 23
Expansion plan			
Kuala Lumpur	Sunway City (Tower D, E and F)	524	TBD
	Velocity (Phase 2)	93	1H24
Selangor	Damansara	334	4Q24
Perak	Ipoh	260	1Q25
Kelantan	Kota Bharu	180	Beyond 2025
Penang	Paya Terubong	120**	Planning stage
Johor	Iskandar	200**	Planning stage
Total		2,940	

**Estimates

Source: Sunway, UOB Kay Hian

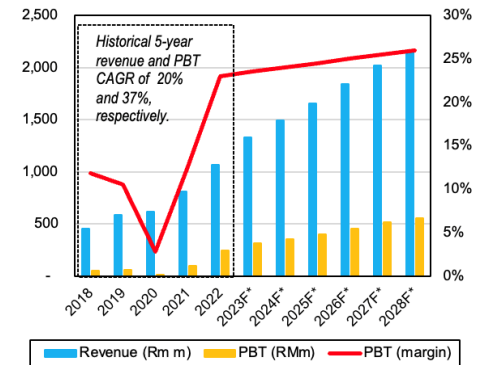
EARNINGS REVISION/RISK

- We keep our 2023 earnings forecast unchanged.** We increase 2024-25 earnings forecast by 5-9% as we input higher healthcare earnings contribution.

VALUATION/RECOMMENDATION

- Maintain BUY with a higher target price of RM3.01 (from RM2.38)** as we; a) roll over our valuation to 2024; b) input a higher stake of its Iskandar Malaysia project in Pendas from 60% to 100%, together with higher take-up rate assumption; and c) input a higher healthcare valuation based on 20x EV/EBITDA with 2024F EBITDA of RM450m vs 13x EV/EBITDA with 2024F EBITDA of RM400m previously.
- Our target price of RM3.01 is based on a 10% discount to our SOTP-based valuation of RM3.34/share, and also implies a 2024-25F PE of 22-24x (above its 10-year mean of 13x).** We believe the premium is justified given Sunway's robust track record in township development (which we think will be implemented in its Iskandar Malaysia township) and promising healthcare growth. About one-third of our SOTP valuation comes from its property segment while another one-third is from its healthcare segment. Hence, we believe our target price is still undemanding compared with industry mean benchmarks, with property peers currently trading at around 18x PE (10-year mean PE of 30x) and healthcare peers such as IHH and KPJ averaging 23x PE and 28x PE respectively over the past 10 years.

SUNWAY HEALTHCARE GROWTH TRAJECTORY



*Estimates

Source: Sunway, UOB Kay Hian

SENSITIVITY ANALYSIS ON HEALTHCARE VALUATION

2024F Estimated EBITDA (RmM)	450
Years to 2028F	4
Net Debt (RmM)	500
Our Current Valuation @ 20x 2024F EV/EBITDA (RmM)	8,500

Potential Healthcare Equity Valuation During IPO (RmM)

EBITDA (%)	Healthcare Annual EBITDA Growth								
	2%	3%	5%	8%	10%	12%	15%	18%	20%
12	5,345	5,578	6,064	6,847	7,406	7,997	8,945	9,969	10,697
15	6,806	7,097	7,705	8,683	9,383	10,121	11,306	12,587	13,497
18	8,268	8,617	9,346	10,520	11,359	12,246	13,667	15,204	16,296
20	9,242	9,630	10,440	11,744	12,677	13,662	15,241	16,949	18,162
22	10,216	10,643	11,534	12,969	13,995	15,078	16,815	18,694	20,029
25	11,677	12,162	13,174	14,806	15,971	17,202	19,176	21,311	22,828
30	14,113	14,694	15,909	17,867	19,265	20,743	23,112	25,673	27,494

2028F EBITDA	487.1	506.5	547.0	612.2	658.8	708.1	787.1	872.4	933.1
*Potential TP during Healthcare IPO in 2027 holding other segment constant (RM)	3.18	3.23	3.33	3.49	3.61	3.73	3.93	4.14	4.29

Ideal valuation based on latest Ramsay-Sime Darby transaction of 20x EV/EBITDA
*Based on 20x EV/EBITDA 2028F

Source: Sunway, UOB Kay Hian

REMAINING LANDBANK



Source: Sunway

SOTP-BASED VALUATION

Segment	(RmM)	% of SOTP	Remarks
Property development	6,221	31%	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)	1,913	9%	Valuation based on TP of RM2.72, 19x 2024F PE
Quarry & building materials	289	1%	10x PE 2024F quarry profits
Trading	431	2%	10x PE 2024F trading profits
Investment Properties	2,514	12%	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)	20,314		
Share base (m) (B)	5,932		
Warrants proceeds (C)	57		
Total SOTP value post warrants proceeds (A+C)	20,370		
Enlarged share base (m)	6,098		
SOTP/share (RM)	3.34		
Discount	10%		
Target price (RM)	3.01		

Source: Sunway, UOB Kay Hian

ENVIRONMENTAL, SOCIAL, GOVERNANCE (ESG) UPDATES

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

PROFIT & LOSS

Year to 31 Dec (RMm)	2022	2023F	2024F	2025F
Net turnover	5,195	5,668	5,988	6,234
EBITDA	713	830	885	925
Deprec. & amort.	130	127	141	155
EBIT	583	703	744	770
Associate contributions	351	380	435	496
Net interest income/(expense)	(14)	(66)	(66)	(66)
Pre-tax profit	920	1,017	1,113	1,200
Tax	(167)	(254)	(278)	(300)
Minorities	(76)	(97)	(102)	(106)
Net profit	677	665	733	794
Net profit (adj.)	626	665	733	794

CASH FLOW

Year to 31 Dec (RMm)	2022	2023F	2024F	2025F
Operating	337	266	939	492
Pre-tax profit	920	1,017	1,113	1,200
Tax	(167)	(254)	(278)	(300)
Deprec. & amort.	130	127	141	155
Associates	(351)	(380)	(435)	(496)
Working capital changes	(482)	(310)	333	(133)
Non-cash items	287	66	66	66
Investing	(845)	(398)	(399)	(412)
Capex (growth)	(324)	(283)	(299)	(312)
Investments	(8)	(115)	(100)	(100)
Proceeds from sale of assets	249	0	0	0
Others	(762)	0	0	0
Financing	(325)	(399)	(432)	(463)
Dividend payments	(271)	(333)	(366)	(397)
Issue of shares	0	0	0	0
Proceeds from borrowings	334	0	0	0
Others/interest paid	(387)	(66)	(66)	(66)
Net cash inflow (outflow)	(832)	(531)	107	(382)
Beginning cash & cash equivalent	2,795	1,958	1,427	1,534
Changes due to forex impact	(5)	0	0	0
Ending cash & cash equivalent	1,958	1,427	1,534	1,152

BALANCE SHEET

Year to 31 Dec (RMm)	2022	2023F	2024F	2025F
Fixed assets	5,548	5,820	6,078	6,335
Other LT assets	12,167	12,547	12,982	13,479
Cash/ST investment	1,958	1,427	1,534	1,152
Other current assets	6,383	6,922	7,266	7,531
Total assets	26,057	26,715	27,860	28,495
ST debt	5,361	5,361	5,361	5,361
Other current liabilities	2,644	2,873	3,550	3,682
LT debt	3,095	3,095	3,095	3,095
Other LT liabilities	1,384	1,384	1,384	1,384
Shareholders' equity	12,541	12,873	13,240	13,637
Minority interest	1,032	1,129	1,231	1,337
Total liabilities & equity	26,057	26,715	27,860	28,495

KEY METRICS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
Profitability				
EBITDA margin	13.7	14.6	14.8	14.8
Pre-tax margin	17.7	17.9	18.6	19.3
Net margin	13.0	11.7	12.2	12.7
ROA	2.6	2.5	2.7	2.8
ROE	5.5	5.2	5.6	5.9
Growth				
Turnover	39.8	9.1	5.6	4.1
EBITDA	31.1	16.3	6.6	4.6
Pre-tax profit	98.3	10.5	9.4	7.9
Net profit	131.4	(1.7)	10.1	8.4
Net profit (adj.)	95.2	6.2	10.1	8.4
EPS	95.2	6.2	10.1	8.4
Leverage				
Debt to total capital	38.4	37.7	36.9	36.1
Debt to equity	67.4	65.7	63.9	62.0
Net debt/(cash) to equity	51.8	54.6	52.3	53.6
Interest cover (x)	6.5	7.3	7.5	7.8

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