



Sunway (SWB MK) : HOLD

Mkt. Cap: US\$1,849m | 3m Avg. Daily Val: US\$1.2m

Last Traded Price (21 May 2018): RM1.51

Price Target 12-mth: RM1.60 (6% upside) (Prev RM1.70)

Analyst

QUAH He Wei, CFA +603 2604 3966; hewei@alliancedbs.com

Another steady quarter

- 1Q18 results met expectations
- Lifted by strong performance from property investment
- Maintain HOLD but lower SOP-derived TP to RM1.60 on lower valuation for construction arm

Forecasts and Valuation

FY Dec (RMm)	2016A	2017A	2018F	2019F
Revenue	4,726	5,375	5,437	5,554
EBITDA	994	971	1,017	991
Pre-tax Profit	859	882	809	783
Net Profit	586	640	586	598
Net Pft (Pre Ex.)	547	566	586	598
Net Pft Gth (Pre-ex) (%)	(7.3)	3.5	3.4	2.1
EPS (sen)	12.6	13.0	11.9	12.2
EPS Pre Ex. (sen)	11.8	11.5	11.9	12.2
EPS Gth Pre Ex (%)	(17)	(2)	3	2
Diluted EPS (sen)	12.6	13.0	11.9	12.2
Net DPS (sen)	5.39	5.99	5.95	6.08
BV Per Share (sen)	160	159	165	171
PE (X)	12.0	11.6	12.7	12.4
PE Pre Ex. (X)	12.8	13.1	12.7	12.4
P/Cash Flow (X)	13.0	9.9	64.8	11.5
EV/EBITDA (X)	11.2	11.9	12.0	12.5
Net Div Yield (%)	3.6	4.0	3.9	4.0
P/Book Value (X)	0.9	1.0	0.9	0.9
Net Debt/Equity (X)	0.4	0.4	0.4	0.4
ROAE (%)	8.4	8.4	7.4	7.3

Source of all data on this page: Company, AllianceDBS, Bloomberg Finance L.P.

What's New

In-line 1Q18 earnings: Sunway reported a 1Q18 profit of RM121.9m (-27% q-o-q, +14% y-o-y), which formed 21% of our full-year projection. This is deemed within expectation as 1Q is a seasonally weak quarter and its earnings are expected to be stronger in the subsequent quarters.

Weak property contribution: 1Q18 property segmental pretax profit grew dipped 5% y-o-y and 77% q-o-q to RM23.8m as a result of lower sales and progress billings from local development projects. Therefore, the property division pretax profit only contributed 15% of the group's overall pretax profit which is also the lowest in recent years, reflecting the subdued property market conditions.

Slow property sales. Sunway's 1Q18 property sales only came in at RM166m (+17% y-o-y) as the group has yet to ramp up its launches. It is targeting RM1.3bn sales in FY18, premised on a launch pipeline of RM2bn this year. Note that Sunway only achieved 12% of its full-year sales of RM1.16bn in 1Q17, which underlines the typically much stronger sales momentum in 2H.

Downtrend for unbilled sales. Unbilled sales have been on a declining trend, coming in at RM947m as at end-1Q18 compared to RM1.5bn in end-FY16. This is also the lowest in recent years, hence necessitating strong replenishment efforts to ensure earnings visibility going forward as the property development division remains a major earnings contributor.

Flash Note

Steady recurring income from investment properties. The property investment segment delivered impressive pretax earnings of RM55.6m (+79% y-o-y, +73% q-o-q), thanks to the better performance from Sunway Velocity Mall which was opened in Dec 2016. Its portfolio of quality investment property assets accounted for 35% of the group's 1Q18 core pretax profit which is an all-time high.

Construction continues to deliver. Its construction arm continued to deliver a commendable performance, as pretax profit came in at RM40.1m (+9% y-o-y, -26% q-o-q). This makes it the second largest earnings contributor with 25% share. Earnings visibility for its construction division remains positive, with an impressive order book of RM6.1bn.

TP revision. We revise down our SOP-derived TP to RM1.60 after incorporating the latest valuation of Sunway Construction. We reiterate our HOLD recommendation given the lack of catalysts.

Quarterly / Interim Income Statement (RMm)

FY Dec	1Q2017	4Q2017	1Q2018	% chg yoy	% chg qoq
Revenue	1,089	1,723	1,308	20.2	(24.1)
Cost of Goods Sold	(991)	(1,592)	(1,200)	21.1	(24.6)
Gross Profit	97.8	131	109	11.0	(17.0)
Other Oper. (Exp)/Inc	17.5	75.3	21.5	23.0	(71.4)
Operating Profit	115	206	130	12.8	(36.9)
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	nm	nm
Associates & JV Inc	43.1	29.3	38.5	(10.7)	31.4
Net Interest (Exp)/Inc	(6.7)	9.18	(7.6)	(13.2)	nm
Exceptional Gain/(Loss)	0.0	16.4	0.0	nm	(100.0)
Pre-tax Profit	152	261	161	6.1	(38.3)
Tax	(27.2)	(54.9)	(23.4)	(14.0)	(57.4)
Minority Interest	(17.5)	(22.2)	(15.6)	11.0	(29.8)
Net Profit	107	184	122	14.1	(33.7)
Net profit bef Except.	107	167	122	14.1	(27.2)
EBITDA	193	271	169	(12.6)	(37.7)
Margins (%)					
Gross Margins	9.0	7.6	8.3		
Opg Profit Margins	10.6	12.0	9.9		
Net Profit Margins	9.8	10.7	9.3		

Source of all data: Company, AllianceDBS

Target Price & Ratings History



Note: Share price and Target price are adjusted for corporate actions.

Source: AllianceDBS

Analyst: QUAH He Wei, CFA

DISCLOSURE

Stock rating definitions

STRONG BUY	-	> 20% total return over the next 3 months, with identifiable share price catalysts within this time frame
BUY	-	> 15% total return over the next 12 months for small caps, >10% for large caps
HOLD	-	-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps
FULLY VALUED	-	negative total return > -10% over the next 12 months
SELL	-	negative total return of > -20% over the next 3 months, with identifiable catalysts within this time frame

Commonly used abbreviations

Adex = advertising expenditure	EPS = earnings per share	PBT = profit before tax
bn = billion	EV = enterprise value	P/B = price / book ratio
BV = book value	FCF = free cash flow	P/E = price / earnings ratio
CF = cash flow	FV = fair value	PEG = P/E ratio to growth ratio
CAGR = compounded annual growth rate	FY = financial year	q-o-q = quarter-on-quarter
Capex = capital expenditure	m = million	RM = Ringgit
CY = calendar year	M-o-m = month-on-month	ROA = return on assets
Div yld = dividend yield	NAV = net assets value	ROE = return on equity
DCF = discounted cash flow	NM = not meaningful	TP = target price
DDM = dividend discount model	NTA = net tangible assets	trn = trillion
DPS = dividend per share	NR = not rated	WACC = weighted average cost of capital
EBIT = earnings before interest & tax	p.a. = per annum	y-o-y = year-on-year
EBITDA = EBIT before depreciation and amortisation	PAT = profit after tax	YTD = year-to-date

DISCLAIMER

This report has been prepared for information purposes only by AllianceDBS Research Sdn Bhd ("ADBSR"), a subsidiary of Alliance Investment Bank Berhad ("AIBB") and an associate of DBS Vickers Securities Holdings Pte Ltd ("DBSVH"). DBSVH is a wholly-owned subsidiary of DBS Bank Ltd. This report is strictly confidential and is meant for circulation to clients of ADBSR, AIBB and DBSVH only or such persons as may be deemed eligible to receive such research report, information or opinion contained herein. Receipt and review of this report indicate your agreement not to distribute, reproduce or disclose in any other form or medium (whether electronic or otherwise) the contents, views, information or opinions contained herein without the prior written consent of ADBSR.

This report is based on data and information obtained from various sources believed to be reliable at the time of issuance of this report and any opinion expressed herein is subject to change without prior notice and may differ or be contrary to opinions expressed by ADBSR's affiliates and/or related parties. ADBSR does not make any guarantee, representation or warranty (whether express or implied) as to the accuracy, completeness, reliability or fairness of the data and information obtained from such sources as may be contained in this report. As such, neither ADBSR nor its affiliates and/or related parties shall be held liable or responsible in any manner whatsoever arising out of or in connection with the reliance and usage of such data and information or third party references as may be made in this report (including, but not limited to any direct, indirect or consequential losses, loss of profits and damages).

The views expressed in this report reflect the personal views of the analyst(s) about the subject securities or issuers and no part of the compensation of the analyst(s) was, is, or will be directly or indirectly related to the inclusion of specific recommendation(s) or view(s) in this report. ADBSR prohibits the analyst(s) who prepared this report from receiving any compensation, incentive or bonus based on specific investment banking transactions or providing a specific recommendation for, or view of, a particular company.

This research report provides general information only and is not to be construed as an offer to sell or a solicitation to buy or sell any securities or other investments or any options, futures, derivatives or other instruments related to such securities or investments. In particular, it is highlighted that this report is not intended for nor does it have regard to the specific investment objectives, financial situation and particular needs of any specific person who may receive this report. Investors are therefore advised to make their own independent evaluation of the information contained in this report, consider their own individual investment objectives, financial situations and particular needs and consult their own professional advisers (including but not limited to financial, legal and tax advisers) regarding the appropriateness of investing in any securities or investments that may be featured in this report.

ADBSR, AIBB, DBSVH and DBS Bank Ltd, their directors, representatives and employees or any of their affiliates or their related parties may, from time to time, have an interest in the securities mentioned in this report. AIBB, DBSVH and DBS Bank Ltd, their affiliates and/or their related persons may do and/or seek to do business with the company(ies) covered in this report and may from time to time act as market maker or have assumed an underwriting commitment in securities of such company(ies), may sell or buy such securities from customers on a principal basis and may also perform or seek to perform significant investment banking, advisory or underwriting services for or relating to such company(ies) as well as solicit such investment, advisory or other services from any entity mentioned in this report.

AIBB, DBSVH, DBS Bank Ltd (which carries on, inter alia, corporate finance activities) and their activities are separate from ADBSR. AIBB, DBSVH and DBS Bank Ltd may have no input into company-specific coverage decisions (i.e. whether or not to initiate or terminate coverage of a particular company or securities in reports produced by ADBSR) and ADBSR does not take into account investment banking revenues or potential revenues when making company-specific coverage decisions.

ADBSR, AIBB, DBSVH, DBS Bank Ltd and/or other affiliates of DBS Vickers Securities (USA) Inc ("DBSVUSA"), a U.S.-registered broker-dealer, may beneficially own a total of 1% or more of any class of common equity securities of the subject company mentioned in this report. ADBSR, AIBB, DBSVH, DBS Bank Ltd and/or other affiliates of DBSVUSA may, within the past 12 months, have received compensation and/or within the next 3 months seek to obtain compensation for investment banking services from the subject company. DBSVUSA does not have its own investment banking or research department, nor has it participated in any investment banking transaction as a manager or co-manager in the past twelve months. Any US persons wishing to obtain further information, including any clarification on disclosures in this disclaimer, or to effect a transaction in any security discussed in this report should contact DBSVUSA exclusively. DBS Vickers Securities (UK) Ltd is an authorised person in the meaning of the Financial Services and Markets Act and is regulated by The Financial Services Authority. Research distributed in the UK is intended only for institutional clients.

In reviewing this report, an investor should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest. Additional information is, subject to the overriding issue of confidentiality, available upon request to enable an investor to make their own independent evaluation of the information contained herein.



Wong Ming Tek, Executive Director

Published by
AllianceDBS Research Sdn Bhd (128540 U)
19th Floor, Menara Multi-Purpose, Capital Square, 8 Jalan Munshi Abdullah, 50100 Kuala Lumpur, Malaysia.
Tel.: +603 2604 3333 Fax: +603 2604 3921 email : general@alliancedbs.com