

Flash Note



Refer to important disclosures at the end of this report

AllianceDBS Research, Malaysia Equity

1 Mar 2018

Sunway (SWB MK) : HOLD

Mkt. Cap: US\$2,059m | 3m Avg. Daily Val: US\$1.7m

Last Traded Price (28 Feb 2018): RM1.65

Price Target 12-mth: RM1.70 (3% upside) (Prev RM1.70)

Shariah Compliant: Yes

Analyst

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Solid quarter

- 4QFY17 results met expectations
- Resilient earnings underpinned by diversified business exposure
- 2nd interim DPS of 3 sen
- Maintain Hold and RM1.70 TP

Forecasts and Valuation

FY Dec (RMm)	2016A	2017A	2018F	2019F
Revenue	4,726	5,375	5,037	5,154
EBITDA	994	971	1,017	991
Pre-tax Profit	859	882	809	785
Net Profit	586	640	586	600
Net Pft (Pre Ex.)	547	566	586	600
Net Pft Gth (Pre-ex) (%)	(7.3)	3.5	3.4	2.4
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	6.10
BV Per Share (sen)	160	159	165	171
PE (X)	13.1	12.7	13.9	13.5
PE Pre Ex. (X)	14.0	14.3	13.9	13.5
P/Cash Flow (X)	14.3	10.9	43.7	12.5
EV/EBITDA (X)	11.9	12.7	12.7	13.1
Net Div Yield (%)	3.3	3.6	3.6	3.7
P/Book Value (X)	1.0	1.0	1.0	1.0
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

4Q17 earnings in line: Excluding RM16.4m fair value gain on investment properties, Sunway reported 4Q17 core profit of RM167.4m, representing an increase of 11% q-o-q and 3% y-o-y. This takes FY17 core profit to RM566m (+3% y-o-y), comprising 104% of our full-year projection.

Improved property contribution: 4Q17 property segmental pretax profit grew 197% q-o-q but dropped 22% y-o-y to RM105m as there were several completion and handover of local development projects during the quarter. This makes the property division the largest pretax profit contributor with a 35% share.

Strong end to FY17 property sales. Sunway's 4Q17 property sales jumped by 180% q-o-q and 87% y-o-y to RM579m, compared to its 9MFY17 collective sales of RM583m. This takes FY17 sales to RM1.2bn, exceeding its own target of RM1.1bn. The impressive 4Q17 property sales were mainly attributable to its Sunway Iskandar projects and Sunway Serene.

Downtrend for unbilled sales. Unbilled sales have been on a declining trend, coming in at RM976m as at end-FY17 compared to RM1.5bn in end-FY16. This is also the lowest in recent years, hence necessitating strong replenishment to ensure earnings visibility going forward as property development division remains its largest earnings



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contributor. Sunway has set FY18 sales target of RM1.3bn, backed by launch target of RM2bn.

Steady recurring income from investment properties. The property investment segment maintained its steady performance as its portfolio of quality assets achieved core pretax profit of RM32m, accounting for 13% of the group's 4Q17 core pretax profit.

Construction continues to deliver. Its construction arm continued with its commendable performance as pretax profit came in at RM54m (+32% q-o-q, +82% y-o-y). This

makes it the second largest earnings contributor with 22% share. Earnings visibility for its construction division remains positive with its impressive order book of RM6.1bn.

High dividend payout. Sunway declared a second interim DPS of 3 sen, taking FY17 DPS to 6 sen (adjusted for 4-for-3 bonus issue). This implies a high dividend payout of 52% against its core profit. Meanwhile, balance sheet remained healthy with 45% net gearing.

Quarterly / Interim Income Statement (RMm)

FY Dec	4Q2016	3Q2017	4Q2017	% chg yoy	% chg qoq
Revenue	1,364	1,320	1,723	26.3	30.6
Cost of Goods Sold	(1,213)	(1,192)	(1,592)	31.3	33.6
Gross Profit	151	128	131	(13.5)	2.4
Other Oper. (Exp)/Inc	76.3	25.9	75.3	(1.3)	190.3
Operating Profit	227	154	206	(9.4)	34.2
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	nm	nm
Associates & JV Inc	44.9	49.5	29.3	(34.7)	(40.8)
Net Interest (Exp)/Inc	(25.7)	(6.3)	9.18	nm	nm
Exceptional Gain/(Loss)	24.0	0.0	16.4	(31.7)	nm
Pre-tax Profit	271	197	261	(3.6)	32.6
Tax	(46.0)	(29.0)	(54.9)	19.5	89.6
Minority Interest	(38.8)	(16.9)	(22.2)	42.9	31.0
Net Profit	186	151	184	(1.1)	21.8
Net profit bef Except.	162	151	167	3.4	11.0
EBITDA	286	239	271	(5.5)	13.2
Margins (%)					
Gross Margins	11.1	9.7	7.6		
Opg Profit Margins	16.7	11.6	12.0		
Net Profit Margins	13.6	11.4	10.7		

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

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