

Within expectations

Core net profit of RM303m (+19% yoy) in 1H17 was within expectations. For 1H17, all business segments saw revenue growth except property development (-25% yoy) and quarry (-0.4% yoy). We maintain our FY17E earnings but revised up FY18-19E to account for new projects to be launched in FY18. We raised our TP to RM4.90 (20% discount to RNAV) after introducing healthcare segment valuation at PER 28x and to account for 5 newly acquired lands in FY17. Sunway's CY18E core PER of 13x is attractive compared to WCT's 14x and MRCB's 21x.

Within expectations

Sunway's 1H17 result was in line with consensus and our expectations. Core net profit of RM303m (+19% yoy) in 1H17 accounts for 50-54% of consensus and our full-year forecasts of RM563-609m. Revenue grew 5% yoy to RM2.3bn in 1H17, contributed by all its business divisions except property development and quarry, which saw revenue contraction of 25% and 0.4% yoy respectively. For 2Q17, all business segments except quarry contributed to the group's pre-tax profit of RM271.4m (+77% yoy), which also includes Sunway REIT's fair value gains of RM33.1m.

Weak property development and quarry business

For 1H17, revenue and pretax profit for property development shrank by 25% and 23% yoy respectively. This is mainly due to lower sales and progress billings for local development projects and no contribution from Avant Parc, Singapore as the project was fully sold in 2Q16. Quarry's pretax profit has dropped by 76% yoy to RM4.2m in 1H17 due to lower operating margin and higher depreciation expense for additional fixed assets.

Tweak our forecasts

We maintain our FY17E earnings but revised up FY18-19E by 5.5-6.6% to account for newly acquired lands (i.e. Wangsa Maju land) to be launched in 2018 onwards. The current property unbilled sales of RM1.2bn and construction order book of RM4.3bn supports our projected core EPS growth 11% in FY18E. New contracts secured ytd was RM991m and property sales achieved was RM376m in 1H17.

Raised our TP to RM4.90

We raised our TP to RM4.90 from RM4.22 (based on 20% discount to RNAV) after including the estimated value of its healthcare division (PER of 28x, 20% discount to local peers) and 5 newly acquired lands (total land bank: 3.3bn acres with total effective gross development value of RM3.6bn). We reaffirm our BUY call and continue to like Sunway its integrated business model with healthcare and education segments complimenting its property business.

Earnings & Valuation Summary

FYE 31 Dec	2015	2016	2017E	2018E	2019E
Revenue (RMm)	4,558.1	4,448.4	5,171.3	5,621.8	5,938.7
EBITDA (RMm)	871.1	797.1	807.2	874.7	914.3
Pretax profit (RMm)	960.2	930.4	804.7	908.2	926.5
Net profit (RMm)	734.0	732.4	587.1	654.7	667.6
EPS (sen)	40.7	39.2	30.0	33.5	34.2
PER (x)	10.7	11.1	14.5	13.0	12.7
Core net profit	630.4	717.8	590.4	654.7	667.6
Core EPS (sen)	36.5	40.9	30.2	33.5	34.2
Core EPS growth (%)	(63.5)	12.0	(26.2)	10.9	2.0
Core PER (x)	11.9	10.6	14.4	13.0	12.7
Net DPS (sen)		11.0	10.5	12.0	14.5
Dividend Yield (%)		2.5	2.4	2.8	3.3
EV/EBITDA (x)	10.7	13.7	15.5	14.6	14.3
Chg in EPS (%)			0.0	5.5	6.6
Affin core/Consensus (x)			1.0	1.1	1.0

Source: Company, Bloomberg, Affin Hwang forecasts

Affin Hwang Investment Bank Bhd (14389-U)

Results Note

Sunway

SWB MK
Sector: Property

RM4.35 @ 29 August 2017

BUY (maintain)

Upside 13%

Price Target: RM4.90

Previous Target: RM4.22



Price Performance

	1M	3M	12M
Absolute	+2.1%	+21.2%	+46.0%
Rel to KLCI	+2.5%	+21.4%	+39.4%

Stock Data

Issued shares (m)	2,053.9
Mkt cap (RMm)/(US\$m)	8934.4/2093.4
Avg daily vol - 6mth (m)	2.7
52-wk range (RM)	2.89-4.4
Est free float	29.7%
BV per share (RM)	3.70
P/BV (x)	1.2
Net cash/ (debt) (RMm)	(3,570.4)
ROE (2017E)	7.3%
Derivatives	Nil
Shariah Compliant	Yes

Key Shareholders

Sungei Way Corp Sdn Bhd	56.2%
EPF	5.5%
Amanah Saham	3.7%

Source: Affin Hwang, Bloomberg

Loong Chee Wei, CFA
(603) 2146 7548
cheewei.loong@affinhwang.com

Cassandra Ooi
(603) 2146 7481
cassandra.ooi@affinhwang.com

Outthink. Outperform.

Key risks

Key risks to our positive call are 1) prolonged property market weakness; 2) execution risks for construction projects; and 3) rising building material and labour costs.

Fig 1: Result summary

FYE 31 Dec (RMm)	2Q17	% QoQ	% YoY	1H17	% YoY	Comment
Revenue	1,241.0	13.7	7.4	2,332.3	4.8	All business divisions saw higher revenue except property development and quarry, which saw revenues falling of 25% and 0.4% yoy respectively.
Op costs	(1,013.8)	7.8	5.3	(1,953.8)	5.4	
EBITDA	227.2	50.1	17.8	378.5	1.9	
<i>EBITDA margin (%)</i>	18.3	4.4	1.6	16.2	(0.5)	
Depn and amort	(33.3)	3.7	(6.1)	(67.8)	12.4	
EBIT	193.9	66.1	20.1	310.7	(0.1)	
<i>EBIT margin (%)</i>	15.6	4.9	1.7	4.9	NA	
Interest income	43.7	1.9	66.8	86.5	73.9	
Interest expense	(62.4)	25.8	49.5	(112.0)	(37.6)	
Associates	96.3	>100	66.3	139.4	38.7	
Forex gain (losses)	0.3	(73.1)	NA	1.2	NA	
Exceptional items	5.5	NA	55.8	0.6	(94.4)	
Pre-tax profit	271.4	77.3	33.2	424.6	11.8	Boosted by Sunway REIT's fair value gains of RM33.1m.
Core pre-tax	265.7	69.8	30.5	422.7	11.9	
Tax	(38.2)	39.6	59.8	(65.5)	15.5	
<i>Tax rate (%)</i>	21.8	(3.1)	5.4	23.0	2.7	
Net profit	196.9	82.5	27.6	304.9	18.9	
Core net profit	191.2	71.9	24.0	303.0	19.2	In line with consensus and our expectations. Accounts for 50-54% of consensus and our full-year forecasts of RM563-609m.
EPS (sen)	9.6	80.5	23.0	15.0	9.8	

Source: Company, Affin Hwang

Fig 2: RNAV

RNAV by business segments	PER	RNAV (RMm)
Property development		5,407
Property investment		4,756
Construction	16	1,961
Building materials	14	882
Quarry	14	476
Healthcare	28	1,820
Total		15,302
Net cash/(debt)		(3,330)
RNAV		11,971
Number of shares		1,954
RNAV/share (RM)		6.13
Target price @ 20% discount to RNAV (RM)		4.90

Source: Affin Hwang estimates

Equity Rating Structure and Definitions

BUY	Total return is expected to exceed +10% over a 12-month period
HOLD	Total return is expected to be between -5% and +10% over a 12-month period
SELL	Total return is expected to be below -5% over a 12-month period
NOT RATED	Affin Hwang Investment Bank Berhad does not provide research coverage or rating for this company. Report is intended as information only and not as a recommendation

The total expected return is defined as the percentage upside/downside to our target price plus the net dividend yield over the next 12 months.

OVERWEIGHT	Industry, as defined by the analyst's coverage universe, is expected to outperform the KLCI benchmark over the next 12 months
NEUTRAL	Industry, as defined by the analyst's coverage universe, is expected to perform inline with the KLCI benchmark over the next 12 months
UNDERWEIGHT	Industry, as defined by the analyst's coverage universe is expected to under-perform the KLCI benchmark over the next 12 months

This report is intended for information purposes only and has been prepared by Affin Hwang Investment Bank Berhad (14389-U) ("the Company") based on sources believed to be reliable. However, such sources have not been independently verified by the Company, and as such the Company does not give any guarantee, representation or warranty (express or implied) as to the adequacy, accuracy, reliability or completeness of the information and/or opinion provided or rendered in this report. Facts, information, views and/or opinion presented in this report have not been reviewed by, may not reflect information known to, and may present a differing view expressed by other business units within the Company, including investment banking personnel. Reports issued by the Company, are prepared in accordance with the Company's policies for managing conflicts of interest arising as a result of publication and distribution of investment research reports. Under no circumstances shall the Company, its associates and/or any person related to it be liable in any manner whatsoever for any consequences (including but are not limited to any direct, indirect or consequential losses, loss of profit and damages) arising from the use of or reliance on the information and/or opinion provided or rendered in this report. Any opinions or estimates in this report are that of the Company, as of this date and subject to change without prior notice. Under no circumstances shall this report be construed as an offer to sell or a solicitation of an offer to buy any securities. The Company and/or any of its directors and/or employees may have an interest in the securities mentioned therein. The Company may also make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report.

Comments and recommendations stated here rely on the individual opinions of the ones providing these comments and recommendations. These opinions may not fit to your financial status, risk and return preferences and hence an independent evaluation is essential. Investors are advised to independently evaluate particular investments and strategies and to seek independent financial, legal and other advice on the information and/or opinion contained in this report before investing or participating in any of the securities or investment strategies or transactions discussed in this report.

Third-party data providers make no warranties or representations of any kind relating to the accuracy, completeness, or timeliness of the data they provide and shall not have liability for any damages of any kind relating to such data.

The Company's research, or any portion thereof may not be reprinted, sold or redistributed without the consent of the Company.

The Company, is a participant of the Capital Market Development Fund-Bursa Research Scheme, and will receive compensation for the participation.

This report is printed and published by:
 Affin Hwang Investment Bank Berhad (14389-U)
 A Participating Organisation of Bursa Malaysia Securities Berhad

22nd Floor, Menara Boustead,
 69, Jalan Raja Chulan,
 50200 Kuala Lumpur, Malaysia.

T : + 603 2146 3700
 F : + 603 2146 7630
 research@affinhwang.com

www.affinhwang.com