

3Q19 results: Sustained growth momentum

Sunway sustained the earnings momentum with 22% yoy growth in net profit to RM566m in 9M19. This was above market and our expectations. Most divisions saw better performance except its construction and trading arms. The bottom line was also boosted by an exceptional gain of RM38m from the disposal of Sunway University to Sunway REIT and fair value gain of RM43.6m for Sunway REIT's assets. Sunway remains our top large-cap property BUY.

Above expectations

Net profit of RM566m (+22% yoy) in 9M19 accounted for 91% of our full-year consensus forecast of RM622m and 80% of our previous estimate of RM704m. We were surprised by the low effective tax rate of 5.7% in 9M19. We raise our 2019E net profit to RM752m from RM704m previously to reflect a reduction in effective tax rate to 10% from 16% previously.

Lower revenue but higher profit

Revenue contracted by 13% yoy to RM3.4bn in 9M19 as most divisions saw lower revenues, ie, property development (-21% yoy), property investment (-2% yoy), construction (-30% yoy), and trading and manufacturing (-16% yoy). The quarry (+29% yoy) and healthcare (+29% yoy) segments saw higher revenue. Group PBT was up 10% yoy to RM654m in 9M19, mainly driven by its property development (+6% yoy), property investment (+15% yoy) and healthcare (+35% yoy) divisions. The construction (-6% yoy), trading (-38% yoy) and quarry (-13% yoy) segments saw lower PBT. Higher property investment PBT was mainly due to the disposal gain from Sunway University assets and fair value gain for Sunway REIT.

High unbilled sales and order book

Effective property sales of RM720m in 9M19, on track to meet its RM1bn target in 2019, were lower than the RM1.4m achieved in 9M18. We expect high property unbilled sales of RM2.1bn and a construction order book of RM5.6bn to support earnings growth in 4Q19 and 2020.

Maintain BUY with TP of RM2.05

We reiterate our BUY call on Sunway with 12-month target price of RM2.05, based on 20% discount to RNAV. We see prospects to embark on strategic acquisitions of property investment assets, such as the recent UK student accommodation acquisitions, to expand its property investment income. The expansion of its hospital operations should also generate construction earnings in the immediate term and boost long-term healthcare earnings. Key downside risk: prolonged weak property market.

Earnings & Valuation Summary

FYE 31 Dec	2017	2018	2019E	2020E	2021E
Revenue (RMm)	5,239.3	5,410.3	5,744.1	5,862.3	6,749.7
EBITDA (RMm)	667.5	612.6	801.5	858.5	1,055.7
Pretax profit (RMm)	872.2	850.6	918.1	991.5	1,202.1
Net profit (RMm)	620.6	659.0	751.5	749.8	914.9
EPS (sen)	12.9	13.5	15.4	15.4	18.8
PER (x)	13.7	13.1	11.5	11.5	9.4
Core net profit (RMm)	496.0	588.5	722.3	749.8	914.9
Core EPS (sen)	10.2	12.1	14.8	15.4	18.8
Core EPS growth (%)	(57.4)	18.6	22.7	3.8	22.0
Core PER (x)	17.4	14.7	11.9	11.5	9.4
Net DPS (sen)	6.0	5.5	6.0	6.0	6.0
Dividend Yield (%)	3.4	3.1	3.4	3.4	3.4
EV/EBITDA (x)	18.0	20.2	15.4	14.3	11.6
Chg in EPS (%)			7.0	0.2	0.2
Affin/Consensus (x)			1.2	1.1	1.2

Source: Company, Bloomberg, Affin Hwang forecasts

Affin Hwang Investment Bank Bhd (14389-U)

Results Note

Sunway Berhad

SWB MK

Sector: Property

RM1.77 @ 21 November 2019

BUY (maintain)

Upside: 16%

Price Target: RM2.05

Previous Target: RM2.05



Price Performance

	1M	3M	12M
Absolute	4.7%	11.7%	24.5%
Rel to KLCI	3.3%	11.9%	32.6%

Stock Data

Issued shares (m)	4,908.4
Mkt cap (RMm)/(US\$m)	8687.9/2083.7
Avg daily vol - 6mth (m)	3.7
52-wk range (RM)	1.33-1.84
Est free float	24.9%
BV per share (RM)	1.91
P/BV (x)	0.93
Net cash/ (debt) (RMm) (3Q19)	(3,215)
ROE (2019E)	8.0%
Derivatives	Yes
(Warr 17/24, WP RM0.33, EP RM1.79)	
Shariah Compliant	Yes

Key Shareholders

Sungei Way Corp Sdn Bhd	56.7%
KWAP	7.2%
Cheah Fook Ling	4.2%
Active Equity Sdn Bhd	3.2%

Source: Affin Hwang, Bloomberg

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Outthink. Outperform.

Fig 1: Results comparison

FYE 31 Dec (RMm)	3Q18	2Q19	3Q19	QoQ % chg	YoY % chg	9M18	9M19	YoY % chg	9M19 Comment
Revenue	1,416.1	1,077.2	1,226.5	13.9	(13.4)	3,957.8	3,427.3	(13.4)	Lower revenue for property development (-21% yoy), property investment (-2% yoy), construction (-30% yoy) and trading (-16% yoy). But higher quarry (+29% yoy) and healthcare (+29% yoy) revenue.
Op costs	(1,227.3)	(880.9)	(996.4)	13.1	(18.8)	(3,423.3)	(2,824.7)	(17.5)	
EBITDA	188.9	196.3	230.1	17.2	21.8	534.5	602.5	12.7	
<i>EBITDA margin (%)</i>	<i>13.3</i>	<i>18.2</i>	<i>18.8</i>	<i>0.5ppt</i>	<i>5.4ppt</i>	<i>13.5</i>	<i>17.6</i>	<i>4.1ppt</i>	
Depn and amort	(40.0)	(61.1)	(57.3)	(6.2)	43.1	(113.9)	(174.0)	52.9	
EBIT	148.8	135.2	172.8	27.8	16.1	420.6	428.5	1.9	
<i>EBIT margin (%)</i>	<i>10.5</i>	<i>12.5</i>	<i>14.1</i>	<i>1.5ppt</i>	<i>3.6ppt</i>	<i>10.6</i>	<i>12.5</i>	<i>1.9ppt</i>	
Interest income	73.4	70.6	67.0	(5.0)	(8.6)	197.6	216.4	9.5	
Interest expense	(70.0)	(66.8)	(66.0)	(1.2)	(5.7)	(216.2)	(193.7)	(10.4)	
Associates	41.7	82.1	48.1	(41.5)	15.4	167.8	171.9	2.5	Higher Sunway REIT earnings.
Forex gain (losses)	(1.1)	(0.3)	(1.5)	476.8	37.4	26.9	(3.1)	NA	
Exceptional items	(1.9)	32.4	2.9	(91.1)	NA	(3.6)	33.8	NA	Gain on disposal of Sunway University to Sunway REIT
Pretax profit	190.9	253.2	223.3	(11.8)	17.0	593.1	653.8	10.2	Higher PBT for property development (+6% yoy), property investments (+15% yoy) and healthcare (+35% yoy) segments. Lower PBT for construction (-6% yoy), trading (-38% yoy) and quarry (-13% yoy) segments.
Core pretax	193.9	221.1	221.9	0.4	14.4	569.8	623.1	9.3	
Tax	(27.0)	9.4	(21.1)	NA	(21.9)	(75.9)	(37.0)	(51.3)	
<i>Tax rate (%)</i>	<i>18.1</i>	<i>(5.5)</i>	<i>12.0</i>	<i>17.5ppt</i>	<i>(6.1ppt)</i>	<i>17.9</i>	<i>7.7</i>	<i>(10.2ppt)</i>	
Minority interests	(19.0)	(16.2)	(18.8)	16.7	(0.8)	(52.9)	(50.5)	(4.4)	
Net profit	144.9	246.5	183.4	(25.6)	26.6	464.3	566.3	22.0	Above expectations.
EPS (sen)	3.0	4.7	3.4	(27.3)	15.1	9.5	10.9	14.5	
Core net profit	147.9	214.4	182.0	(15.1)	23.0	441.0	535.6	21.4	Exclude exceptional items.

Source: Affin Hwang, Company data

Out think. Out perform.

Fig 2: Segmental revenue

FYE 31 Dec (RMm)	3Q18	2Q19	3Q19	QoQ % chg	YoY % chg	9M18	9M19	YoY % chg
Ppty dev	194.8	113.6	126.2	11.1	(35.2)	415.8	327.7	(21.2)
Ppty inv	209.3	176.1	209.7	19.1	0.2	592.2	582.5	(1.6)
Construction	465.4	293.5	315.6	7.5	(32.2)	1,358.8	955.2	(29.7)
Trading	296.9	230.0	246.2	7.0	(17.1)	861.6	727.6	(15.5)
Quarry	56.3	52.6	114.9	118.2	104.2	164.2	211.7	29.0
Other	193.5	211.4	213.9	1.2	10.5	565.4	622.6	10.1
Total	1,416.1	1,077.2	1,226.5	13.9	(13.4)	3,957.8	3,427.3	(13.4)

Source: Affin Hwang, Company data

Fig 3: Segmental PBT

FYE 31 Dec (%)	3Q18	2Q19	3Q19	QoQ % chg	YoY % chg	9M18	9M19	YoY % chg
Ppty dev	44.6	37.3	59.0	58.3	32.3	122.2	129.1	5.7
Ppty inv	52.6	122.3	67.0	(45.3)	27.3	214.4	246.7	15.1
Construction	40.2	47.4	33.1	(30.1)	(17.6)	132.5	124.2	(6.3)
Trading	15.5	6.6	13.8	109.5	(11.2)	43.0	26.9	(37.5)
Quarry	2.9	2.1	4.9	129.9	67.1	10.0	8.7	(13.0)
Others	35.1	37.5	45.6	21.4	30.0	71.0	118.2	66.5
Total	190.9	253.2	223.3	(11.8)	17.0	593.1	653.8	10.2

Source: Affin Hwang, Company data

Fig 4: Segmental PBT margin

FYE 31 Dec (%)	3Q18	2Q19	3Q19	QoQ ppt	YoY ppt	9M18	9M19	YoY ppt
Ppty dev	22.9	32.8	46.7	13.9	23.8	29.4	39.4	10.0
Ppty inv	25.1	69.5	31.9	(37.5)	6.8	36.2	42.3	6.2
Construction	8.6	16.2	10.5	(5.7)	1.9	9.8	13.0	3.3
Trading	5.2	2.9	5.6	2.7	0.4	5.0	3.7	(1.3)
Quarry	5.2	4.0	4.2	0.2	(0.9)	6.1	4.1	(2.0)
Others	18.1	17.8	21.3	3.6	3.2	12.6	19.0	6.4
Total	13.5	23.5	18.2	(5.3)	4.7	15.0	19.1	4.1

Source: Affin Hwang, Company data

Fig 4: RNAV and target price

RNAV by business segments	PER (x)	RNAV (RMm)
Property development		5,330
Property development JV		1,435
Property investment		4,665
Construction	16	1,805
Building materials	14	700
Quarry	14	210
Healthcare	30	1,800
Total		15,945
Net cash/(debt)		(2,968)
RNAV		12,977
Number of shares		4,877
RNAV/share (RM)		2.66
Fully-diluted no. of shares		5,507
Fully-diluted RNAV/share (RM)		2.56
Target price @ 20% discount to RNAV (RM)		2.05

Source: Affin Hwang, Company data

Important Disclosures and Disclaimer

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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

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