

Outthink. Outperform.

## 4Q19 results: Sequential growth

Sunway's net profit grew 19% yoy to RM767m in 2019. This was above market expectation but in line with ours. Core net profit of RM694m (+21% yoy) in 2019 was also within our expectation. Most divisions saw better performance except its construction and trading arms. The bottom line was 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. We cut our EPS by 1-6% in 2020-21E to reflect lower SunCon earnings and slower property sales. Maintain BUY call with lower TP of RM1.92, based on 20% discount to RNAV.

### Within our expectation

Net profit of RM767m (+19% yoy) in 2019 was 19% above consensus forecast of RM646m but close to our estimate of RM752m. There were unrealised forex gain of RM25m and net exceptional gain of RM47m (mainly due to fair value gain for its Sunway REIT associate and investment property disposal gain), which boosted the headline profit.

### Lower revenue but higher profit

Revenue contracted by 12% yoy to RM4.78bn in 2019 as most divisions saw lower revenues, ie, property development (-12% yoy), property investment (-1% yoy), construction (-31% yoy), and trading and manufacturing (-13% yoy). The quarry (+56% yoy) and healthcare (+27% yoy) segments saw higher revenue. Group PBT was up 9% yoy to RM914m in 2019, mainly driven by its property development (+42% yoy), property investment (+13% yoy), quarry (+23% yoy) and healthcare (+14% yoy) divisions. The construction (-10% yoy) and trading (-41% 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 RM1.1bn in 2019 exceeded its RM1bn target. But this was lower than the RM1.6m achieved in 2018. We expect its high property unbilled sales of RM2.1bn and a construction order book of RM5.2bn to support earnings growth in 2020. There is also lumpy PBT of RM160m for its Singapore and China property sales to be recognised on completion in 2020.

### Maintain BUY with lower TP of RM1.92

We reiterate our BUY call on Sunway. We revised down our fully-diluted RNAV/share to RM2.40 from RM2.47 to reflect higher net debt as at end-2019. Based on the same 20% discount to RNAV, we trim our 12-month TP to RM1.92 from RM2.05.

### Earnings & Valuation Summary

FYE 31 Dec	2018	2019	2020E	2021E	2022E
Revenue (RMm)	5,410.2	4,780.4	5,674.2	6,311.3	7,213.7
EBITDA (RMm)	706.7	771.2	813.9	956.0	1,203.2
Pretax profit (RMm)	836.8	914.2	979.2	1,132.4	1,347.8
Net profit (RMm)	645.5	766.6	739.4	857.3	1,035.7
EPS (sen)	13.2	15.7	15.2	17.6	21.2
PER (x)	13.4	11.3	11.7	10.1	8.4
Core net profit (RMm)	575.0	693.9	739.4	857.3	1,035.7
Core EPS (sen)	11.8	14.2	15.2	17.6	21.2
Core EPS growth (%)	15.9	20.6	6.6	15.9	20.8
Core PER (x)	15.1	12.5	11.7	10.1	8.4
Net DPS (sen)	7.1	9.1	9.0	10.0	11.0
Dividend Yield (%)	4.0	5.1	5.1	5.6	6.2
EV/EBITDA (x)	17.6	16.0	15.4	13.4	10.9
Chg in EPS (%)			(1.4)	(6.3)	New
Affin/Consensus (x)			1.1	1.1	NA

Source: Company, Bloomberg, Affin Hwang forecasts

Affin Hwang Investment Bank Bhd (14389-U)

### Results Note

## Sunway Berhad

SWB MK  
Sector: Property

RM1.78 @ 25 February 2020

BUY (maintain)

Upside: 8%

Price Target: RM1.92

Previous Target: RM2.05



### Price Performance

	1M	3M	12M
Absolute	-1.1%	0.6%	9.4%
Rel to KLCI	3.6%	6.6%	25.7%

### Stock Data

Issued shares (m)	4,902.7
Mkt cap (RMm)/(US\$m)	8726.8/2061.2
Avg daily vol - 6mth (m)	3.3
52-wk range (RM)	1.54-1.87
Est free float	28.8%
BV per share (RM)	1.93
P/BV (x)	0.92
Net cash/ (debt) (RMm) (4Q19)	(3,682)
ROE (2019E)	7.2%
Derivatives	Yes
(Warr 17/24, WP RM0.38, EP RM1.79)	
Shariah Compliant	Yes

### Key Shareholders

Sungei Way Corp Sdn Bhd	56.8%
KWAP	7.4%
Active Equity Sdn Bhd	3.2%
Cheah Fook Ling	2.0%

Source: Affin Hwang, Bloomberg

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Fig 1: Results comparison

FYE 31 Dec (RMm)	4Q18	3Q19	4Q19	QoQ % chg	YoY % chg	2018	2019	YoY % chg	2019 Comment
Revenue	1,452.4	1,226.5	1,353.2	10.3	(6.8)	5,410.2	4,780.4	(11.6)	Lower revenue for property development (-12% yoy), property investment (-1% yoy), construction (-31% yoy) and trading (-13% yoy). But higher quarry (+56% yoy) and healthcare (+27% yoy) revenue.
Op costs	(1,280.3)	(996.4)	(1,172.2)	17.6	(8.4)	(4,703.5)	(4,009.3)	(14.8)	
<b>EBITDA</b>	<b>172.1</b>	<b>230.1</b>	<b>181.0</b>	<b>(21.3)</b>	<b>5.2</b>	<b>706.7</b>	<b>771.2</b>	<b>9.1</b>	
<i>EBITDA margin (%)</i>	<i>11.8</i>	<i>18.8</i>	<i>13.4</i>	<i>0.5ppt</i>	<i>5.4ppt</i>	<i>13.1</i>	<i>16.1</i>	<i>3.1ppt</i>	
Depn and amort	(29.3)	(57.3)	(61.1)	6.6	108.4	(143.2)	(235.1)	64.2	
<b>EBIT</b>	<b>142.8</b>	<b>172.8</b>	<b>119.9</b>	<b>(30.6)</b>	<b>(16.0)</b>	<b>563.5</b>	<b>536.1</b>	<b>(4.9)</b>	
<i>EBIT margin (%)</i>	<i>9.8</i>	<i>14.1</i>	<i>8.9</i>	<i>1.5ppt</i>	<i>3.6ppt</i>	<i>10.4</i>	<i>11.2</i>	<i>0.8ppt</i>	
Interest income	78.6	67.0	104.9	56.5	33.5	276.1	321.3	16.3	
Interest expense	(47.2)	(66.0)	(39.8)	(39.7)	(15.7)	(263.3)	(233.4)	(11.4)	
Associates	61.5	48.1	89.3	85.9	45.3	170.0	217.6	28.0	Higher Sunway REIT earnings.
Forex gain (losses)	4.6	(1.5)	16.2	(1,208.6)	251.2	(7.8)	25.3	(425.5)	
Exceptional items	3.4	2.9	(30.2)	(1,146.2)	(984.7)	98.3	47.4	(51.8)	Gain on disposal of Sunway University to Sunway REIT
<b>Pretax profit</b>	<b>243.7</b>	<b>223.3</b>	<b>260.4</b>	<b>16.6</b>	<b>6.8</b>	<b>836.8</b>	<b>914.2</b>	<b>9.3</b>	Higher PBT for property development (+42% yoy), property investments (+13% yoy), quarry (+23% yoy) and healthcare (+14% yoy) segments. Lower PBT for construction (-10% yoy) and trading (-41% yoy) segments.
<b>Core pretax</b>	<b>235.7</b>	<b>221.9</b>	<b>274.4</b>	<b>23.6</b>	<b>16.4</b>	<b>746.3</b>	<b>841.5</b>	<b>12.8</b>	
Tax	(45.5)	(21.1)	(41.3)	96.2	(9.2)	(121.4)	(78.3)	(35.5)	
<i>Tax rate (%)</i>	<i>25.0</i>	<i>12.0</i>	<i>24.1</i>	<i>17.5ppt</i>	<i>(6.1ppt)</i>	<i>18.2</i>	<i>11.2</i>	<i>(7.0ppt)</i>	
Minority interests	(17.0)	(18.8)	(18.8)	(0.3)	10.5	(69.9)	(69.3)	(0.8)	
<b>Net profit</b>	<b>181.2</b>	<b>183.4</b>	<b>200.3</b>	<b>9.2</b>	<b>10.5</b>	<b>645.5</b>	<b>766.6</b>	<b>18.8</b>	Within expectations.
EPS (sen)	3.5	3.4	3.8	10.5	7.4	12.1	14.6	21.2	
<b>Core net profit</b>	<b>173.2</b>	<b>182.0</b>	<b>214.3</b>	<b>17.7</b>	<b>23.7</b>	<b>575.0</b>	<b>693.9</b>	<b>20.7</b>	Exclude exceptional items. Within expectations

Source: Affin Hwang, Company data

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Fig 2: Segmental revenue

FYE 31 Dec (RMm)	4Q18	3Q19	4Q19	QoQ % chg	YoY % chg	2018	2019	YoY % chg
Ppty dev	203.8	126.2	218.2	72.8	7.0	619.6	545.9	(11.9)
Ppty inv	222.6	209.7	220.9	5.4	(0.8)	814.8	803.5	(1.4)
Construction	489.1	315.6	318.0	0.8	(35.0)	1,847.9	1,273.3	(31.1)
Trading	241.8	246.2	232.2	(5.7)	(4.0)	1,103.4	959.8	(13.0)
Quarry	59.2	114.9	136.4	18.8	130.5	223.4	348.1	55.9
Other	235.9	213.9	227.4	6.3	(3.6)	801.3	850.0	6.1
<b>Total</b>	<b>1,452.5</b>	<b>1,226.5</b>	<b>1,353.2</b>	<b>10.3</b>	<b>(6.8)</b>	<b>5,410.3</b>	<b>4,780.4</b>	<b>(11.6)</b>

Source: Affin Hwang, Company data

Fig 3: Segmental PBT

FYE 31 Dec (%)	4Q18	3Q19	4Q19	QoQ % chg	YoY % chg	2018	2019	YoY % chg
Ppty dev	51.0	59.0	117.2	98.6	129.8	173.2	246.3	42.2
Ppty inv	84.3	67.0	89.6	33.8	6.4	298.6	336.3	12.6
Construction	48.4	33.1	38.1	15.1	(21.2)	180.9	162.3	(10.3)
Trading	10.1	13.8	4.5	(67.1)	(55.1)	53.1	31.4	(40.8)
Quarry	3.6	4.9	8.0	64.5	122.8	13.6	16.7	22.8
Others	46.4	45.6	2.9	(93.7)	(93.8)	117.4	121.1	3.2
<b>Total</b>	<b>243.7</b>	<b>223.3</b>	<b>260.4</b>	<b>16.6</b>	<b>6.8</b>	<b>836.8</b>	<b>914.2</b>	<b>9.2</b>

Source: Affin Hwang, Company data

Fig 4: Segmental PBT margin

FYE 31 Dec (%)	4Q18	3Q19	4Q19	QoQ ppt	YoY ppt	2018	2019	YoY ppt
Ppty dev	25.0	46.7	53.7	13.9	23.8	28.0	45.1	17.2
Ppty inv	37.9	31.9	40.6	(37.5)	6.8	36.7	41.9	5.2
Construction	9.9	10.5	12.0	(5.7)	1.9	9.8	12.7	3.0
Trading	4.2	5.6	1.9	2.7	0.4	4.8	3.3	(1.5)
Quarry	6.1	4.2	5.9	0.2	(0.9)	6.1	4.8	(1.3)
Others	19.7	21.3	1.3	3.6	3.2	14.6	14.2	(0.4)
<b>Total</b>	<b>16.8</b>	<b>18.2</b>	<b>19.2</b>	<b>(5.3)</b>	<b>4.7</b>	<b>15.5</b>	<b>19.1</b>	<b>3.7</b>

Source: Affin Hwang, Company data

Fig 4: RNAV and target price

RNAV by business segments	PER (x)	New RNAV (RMm)	Old RNAV (RMm)	Change (%)
Property development		5,236	5,330	(2)
Property development JV		1,628	1,435	13
Property investment		4,582	4,665	(2)
Construction	16	1,741	1,805	(4)
Building materials	14	700	700	0
Quarry	14	210	210	0
Healthcare	30	1,800	1,800	0
<b>Total</b>		<b>15,898</b>	<b>15,945</b>	<b>(0)</b>
Net cash/(debt)		(3,682)	(2,968)	24
<b>RNAV</b>		<b>12,216</b>	<b>12,977</b>	<b>(6)</b>
Number of shares		4,934	4,877	1
<b>RNAV/share (RM)</b>		<b>2.48</b>	<b>2.66</b>	<b>(7)</b>
Fully-diluted no. of shares		5,564	5,507	1
<b>Fully-diluted RNAV/share (RM)</b>		<b>2.40</b>	<b>2.56</b>	<b>(6)</b>
<b>Target price @ 20% discount to RNAV (RM)</b>		<b>1.92</b>	<b>2.05</b>	<b>(6)</b>

Source: Affin Hwang, Company data

## Important Disclosures and Disclaimer

### Equity Rating Structure and Definitions

<b>BUY</b>	Total return is expected to exceed +10% over a 12-month period
<b>HOLD</b>	Total return is expected to be between -5% and +10% over a 12-month period
<b>SELL</b>	Total return is expected to be below -5% over a 12-month period
<b>NOT RATED</b>	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.*

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