

Malaysia Flash Note

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DBS Group Research . Equity

23 May 2019

Sunway (SWB MK) : HOLD

Mkt. Cap: US\$1,973m | 3m Avg. Daily Val: US\$1.0m

Last Traded Price (21 May 2019): RM1.69

Price Target 12-mth: RM1.60 (5% downside) (Prev RM1.60)

Analyst

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

Solid conglomerate

- 1Q19 results met expectations
- Steady contribution across key business divisions
- Clear earnings visibility anchored by recurring income stream and strong order books
- Maintain HOLD and RM1.60 TP

Forecasts and Valuation

FY Dec (RMm)	2018A	2019F	2020F	2021F
Revenue	5,410	6,046	6,308	6,020
EBITDA	870	986	1,070	1,015
Pre-tax Profit	850	797	924	848
Net Profit	658	610	687	641
Net Pft (Pre Ex.)	591	610	687	641
Net Pft Gth (Pre-ex) (%)	6.6	3.3	12.7	(6.8)
EPS (sen)	13.4	12.4	14.0	13.0
EPS Pre Ex. (sen)	12.0	12.4	14.0	13.0
EPS Gth Pre Ex (%)	7	3	13	(7)
Diluted EPS (sen)	13.4	12.4	14.0	13.0
Net DPS (sen)	7.46	6.20	6.99	6.52
BV Per Share (sen)	164	170	177	184
PE (X)	12.6	13.6	12.1	13.0
PE Pre Ex. (X)	14.1	13.6	12.1	13.0
P/Cash Flow (X)	9.8	4.5	11.5	12.8
EV/EBITDA (X)	15.0	12.6	12.1	13.3
Net Div Yield (%)	4.4	3.7	4.1	3.9
P/Book Value (X)	1.0	1.0	1.0	0.9
Net Debt/Equity (X)	0.4	0.3	0.3	0.4
ROAE (%)	8.3	7.4	8.0	7.2

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

Company Guide



Summary of our point of view, and highlights the relevant data points, which are actively tracked

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What's New

In-line 1Q19 earnings: Sunway (SWB) reported 1Q19 profit of RM136m (-22% q-o-q, +24% y-o-y), which formed 22% of our full-year projection. This is deemed within expectation as 1Q is a seasonally weak quarter. We expect earnings to pick up in the subsequent quarters.

Strong property sales in 1Q19. In 1Q19, SWB's property segment EBIT grew 7% y-o-y to RM18.9m despite the 34% y-o-y decline in the segment's revenue, leading to an improved EBIT margin of 21.5% (vs 13.4% in 1Q18). As a result, segment EBIT from the property division was 16% of total EBIT for the quarter. SWB's 1Q19 property sales came in at RM263m, representing 58% y-o-y growth during a traditionally weak quarter. This is largely attributed to the strong response for its property projects in China and Velocity TWO. This is likely to put the company on track to achieve its FY19 sales target of RM1.3bn.

Steady income from investment properties. The property investment segment continued to deliver strong EBIT of RM52.8m (-4% y-o-y), contributing 45% of the group's EBIT. Segment EBIT margin remained healthy at 26.8%, compared to 28.4% in 1Q18. It would have been better if not for the lower contributions from the hospitality division during the quarter.

Construction continues to perform. SWB's construction arm continued to deliver a commendable performance with EBIT



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of RM40m (+3% y-o-y) on the back of RM346m revenue (-22% y-o-y). This makes it the second largest EBIT contributor with a 34% share. Earnings visibility for its construction division remains positive, with its elevated order book of RM5.7bn.

Growing Healthcare segment. Healthcare segmental contribution was disclosed for the first time with 1Q19 results as it has grown into a sizeable profit contributor within the SWB group. EBIT grew by 36% y-o-y to RM13.1m, on the back of RM127m revenue (+27% y-o-y) due to higher occupancy.

Outlook

RM2.2bn of unbilled sales. Unbilled sales have grown to RM2.2bn, the highest since 2015. However, in accordance with the adoption of the Malaysian Financial Reporting Standard 15 (MFRS 15), profit contribution from SWB's Singapore and China projects, which account for 50% of its unbilled sales, will only be recognised upon completion of the projects. Therefore, earnings contribution from property development division is expected to be muted in the near term.

Valuation and Recommendation

Maintain HOLD. We reiterate our HOLD recommendation on SWB given the absence of catalysts, although we like its superior and unrivalled 'build-own-operate' integrated business model. The persistently weak property market may continue to pose challenges to the group.

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Quarterly Income Statement (RMm)

FY Dec	1Q2018	4Q2018	1Q2019	% chg yoy	% chg qoq
Revenue	1,281	1,452	1,124	(12.3)	(22.6)
Cost of Goods Sold	(1,174)	(1,420)	(1,032)	(12.1)	(27.3)
Gross Profit	107	32.9	91.3	(15.0)	177.7
Other Oper. (Exp)/Inc	21.3	109	26.5	24.8	(75.7)
Operating Profit	129	142	118	(8.4)	(17.1)
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	nm	nm
Associates & JV Inc	38.2	61.5	41.7	9.2	(32.2)
Net Interest (Exp)/Inc	(7.6)	31.8	17.8	nm	(44.1)
Exceptional Gain/(Loss)	0.0	8.60	0.0	nm	(100.0)
Pre-tax Profit	159	244	177	11.4	(27.4)
Tax	(23.0)	(44.3)	(25.3)	10.3	(42.8)
Minority Interest	(16.3)	(17.0)	(15.5)	4.8	(8.5)
Net Profit	120	183	136	13.8	(25.4)
Net profit bef Except.	120	174	136	13.8	(21.7)
EBITDA	203	233	215	5.8	(7.6)
Margins (%)					
Gross Margins	8.4	2.3	8.1		
Opg Profit Margins	10.0	9.8	10.5		
Net Profit Margins	9.4	12.6	12.1		

Source of all data: Company, AllianceDBS

Target Price & Ratings History


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

S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	22 May 18	1.50	1.58	HOLD
2:	12 Jun 18	1.57	1.58	HOLD
3:	11 Jul 18	1.49	1.63	HOLD
4:	23 Aug 18	1.56	1.63	HOLD
5:	13 Sep 18	1.51	1.63	HOLD
6:	18 Sep 18	1.50	1.63	HOLD
7:	22 Nov 18	1.47	1.58	HOLD
8:	04 Jan 19	1.49	1.58	HOLD
9:	24 Jan 19	1.55	1.58	HOLD
10:	29 Jan 19	1.60	1.58	HOLD
11:	01 Mar 19	1.63	1.58	HOLD
12:	16 Apr 19	1.70	1.58	HOLD
13:	14 May 19	1.63	1.58	HOLD

Source: AllianceDBS

Analyst: QUAH He Wei, CFA

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AllianceDBS recommendations are based on an Absolute Total Return* Rating system, defined as follows:

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 i.e. > -10% over the next 12 months)

SELL (negative total return of > -20% over the next 3 months, with identifiable catalysts within this time frame)

Share price appreciation + dividends

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Sources for all charts and tables are AllianceDBS unless otherwise specified.

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Flash Note**DBS Regional Research Offices**

HONG KONG**DBS (Hong Kong) Ltd**

Contact: Carol Wu
13th Floor One Island East,
18 Westlands Road,
Quarry Bay, Hong Kong
Tel: 852 3668 4181
Fax: 852 2521 1812
e-mail: dbsvhk@dbs.com

THAILAND**DBS Vickers Securities (Thailand) Co Ltd**

Contact: Chanpen Sirithanarattanukul
989 Siam Piwat Tower Building,
9th, 14th-15th Floor
Rama 1 Road, Pathumwan,
Bangkok Thailand 10330
Tel: 66 2 857 7831
Fax: 66 2 658 1269
e-mail: research@th.dbs.com
Company Regn. No 0105539127012
Securities and Exchange Commission, Thailand

MALAYSIA**AllianceDBS Research Sdn Bhd**

Contact: Wong Ming Tek (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
e-mail: general@alliancedbs.com

INDONESIA**PT DBS Vickers Sekuritas (Indonesia)**

Contact: Maynard Priajaya Arif
DBS Bank Tower
Ciputra World 1, 32/F
Jl. Prof. Dr. Satrio Kav. 3-5
Jakarta 12940, Indonesia
Tel: 62 21 3003 4900
Fax: 6221 3003 4943
e-mail: research@id.dbsvickers.com

SINGAPORE**DBS Bank Ltd**

Contact: Janice Chua
12 Marina Boulevard,
Marina Bay Financial Centre Tower 3
Singapore 018982
Tel: 65 6878 8888
Fax: 65 65353 418
e-mail: equityresearch@dbs.com
Company Regn. No. 196800306E