

Malaysia Flash Note

Refer to important disclosures at the end of this report

DBS Group Research . Equity

22 Nov 2019

Sunway (SWB MK) : BUY

Mkt. Cap: US\$2,095m | 3m Avg. Daily Val: US\$1.4m

Last Traded Price (21 Nov 2019): RM1.77

Price Target 12-mth: RM2.20 (24% upside) (Prev RM2.20)

Analyst

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Solid outperformer

- 3Q19 results met expectations
- Superior 'build-own-operate' business model to sustain growth momentum
- Clear earnings visibility anchored by recurring income stream and strong orderbook
- Maintain BUY and RM2.20 TP

Forecasts and Valuation

FY Dec (RMm)	2018A	2019F	2020F	2021F
Revenue	5,410	6,784	6,686	7,190
EBITDA	870	1,038	1,112	1,113
Pre-tax Profit	850	845	941	930
Net Profit	658	622	695	705
Net Pft (Pre Ex.)	591	622	695	705
Net Pft Gth (Pre-ex) (%)	6.6	5.3	11.7	1.5
EPS (sen)	13.4	12.7	14.1	14.3
EPS Pre Ex. (sen)	12.0	12.7	14.1	14.3
EPS Gth Pre Ex (%)	7	5	12	2
Diluted EPS (sen)	13.4	12.7	14.1	14.3
Net DPS (sen)	7.46	6.33	7.06	7.17
BV Per Share (sen)	164	171	178	185
PE (X)	13.2	14.0	12.5	12.3
PE Pre Ex. (X)	14.7	14.0	12.5	12.3
P/Cash Flow (X)	10.3	16.1	11.6	12.7
EV/EBITDA (X)	15.5	13.6	13.1	13.6
Net Div Yield (%)	4.2	3.6	4.0	4.1
P/Book Value (X)	1.1	1.0	1.0	1.0
Net Debt/Equity (X)	0.4	0.5	0.5	0.5
ROAE (%)	8.3	7.6	8.1	7.9

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

Stellar 3Q19 earnings: Sunway (SWB) reported a solid 3Q19 core profit of RM183m (+11% q-o-q, +27% y-o-y). This takes 9M19 core profit to RM485m, which formed 78% of our full-year projection – within expectations.

Strong property business. In 3Q19, SWB's property segment EBIT rose 33% y-o-y to RM45m despite the 35% y-o-y decrease in property revenue, leading to a higher EBIT margin of 35.7% due to higher progressive profit recognition from local development projects. Segment EBIT from the property division constituted 26% of total EBIT for the quarter. Meanwhile, SWB's 3Q19 property sales came in at RM325m, taking 9M19 sales to RM1.1bn (-35% y-o-y).

Steady income from investment properties. Despite the disposal of Sunway University assets in Apr 2019, the property investment segment booked a strong core EBIT of RM52m (+10% y-o-y), contributing 30% of the group's EBIT. This is largely due to improved occupancy rates for its hospitality properties.

Slow quarter for construction. SWB's construction arm slipped during the quarter with a weaker EBIT of RM35m (-15% y-o-y), as most of its new projects are still in the initial stages while its LRT 3 project is still undergoing cost-optimisation measures. This makes it the third largest EBIT contributor with a 20% share. Nevertheless, earnings visibility for its construction division remains positive, with its elevated orderbook of RM5.6bn.



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Growing healthcare business. Healthcare segmental contribution continued to see strong growth momentum from its flagship hospital, Sunway Medical Centre, despite the start-up operating losses (RM6.8m) from its newly-opened Sunway Medical Centre Velocity. Overall, its segment EBIT grew 10% y-o-y to RM14.7m, on the back of RM154 revenue (+32% y-o-y).

Outlook

RM2.8bn of unbilled sales. Unbilled sales have grown to RM2.8bn, the highest in recent years. 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 accounted for 42% of its unbilled sales, will only be recognised upon completion of the projects. Therefore, lumpy earnings contribution from property development division is expected in the near term.

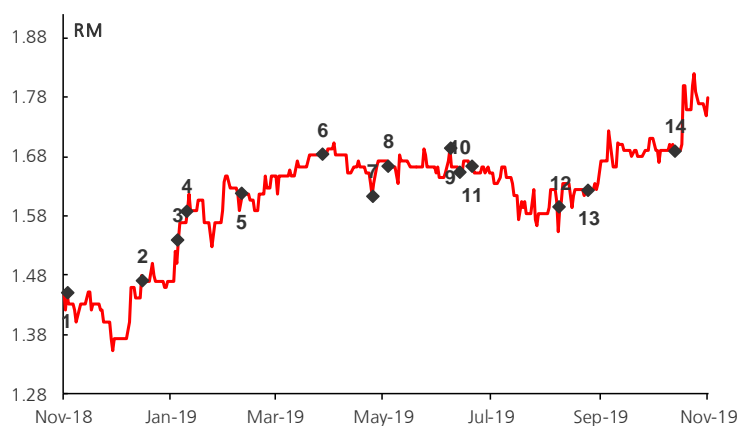
Valuation and Recommendation

Maintain BUY. We reiterate our BUY recommendation on SWB given its underlying strength as an all-round integrated real estate player with strong brand equity which will ensure its long-term earnings sustainability. We believe it is set to resume its growth trajectory with projected earnings CAGR of 8% over FY18-20F.

Flash Note
Quarterly Income Statement (RMm)

FY Dec	3Q2018	2Q2019	3Q2019	% chg yoy	% chg qoq
Revenue	1,416	1,077	1,226	(13.4)	13.9
Cost of Goods Sold	(1,289)	(980)	(1,067)	(17.3)	8.8
Gross Profit	127	96.9	160	26.1	65.0
Other Oper. (Exp)/Inc	23.2	32.7	14.3	(38.4)	(56.3)
Operating Profit	150	130	174	16.1	34.4
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	nm	nm
Associates & JV Inc	41.7	38.6	48.1	15.4	24.7
Net Interest (Exp)/Inc	(0.8)	3.82	1.07	nm	(72.0)
Exceptional Gain/(Loss)	0.0	81.3	0.0	nm	nm
Pre-tax Profit	191	253	223	17.0	(11.8)
Tax	(27.0)	9.40	(21.1)	(21.9)	nm
Minority Interest	(19.0)	(16.2)	(18.8)	0.8	16.7
Net Profit	145	246	183	26.6	(25.6)
Net profit bef Except.	145	165	183	26.6	11.0
EBITDA	232	229	280	20.6	21.9
Margins (%)					
Gross Margins	9.0	9.0	13.0		
Opg Profit Margins	10.6	12.0	14.2		
Net Profit Margins	10.2	22.9	15.0		

Source of all data: Company, AllianceDBS

Target Price & Ratings History


S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	22 Nov 18	1.45	1.57	HOLD
2:	04 Jan 19	1.47	1.57	HOLD
3:	24 Jan 19	1.54	1.57	HOLD
4:	29 Jan 19	1.59	1.57	HOLD
5:	01 Mar 19	1.62	1.57	HOLD
6:	16 Apr 19	1.68	1.57	HOLD
7:	14 May 19	1.61	1.57	HOLD
8:	23 May 19	1.66	1.58	HOLD
9:	27 Jun 19	1.69	1.58	HOLD
10:	02 Jul 19	1.65	1.58	HOLD
11:	09 Jul 19	1.66	2.18	BUY
12:	28 Aug 19	1.59	2.18	BUY
13:	13 Sep 19	1.62	2.18	BUY
14:	01 Nov 19	1.69	2.20	BUY

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

Source: AllianceDBS

Analyst: QUAH He Wei, CFA

Flash Note

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 share price catalysts within this time frame)

*Share price appreciation + dividends

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