

## Sunway (SWB MK) : BUY

Mkt. Cap: US\$1,821m | 3m Avg. Daily Val: US\$1.6m

Last Traded Price ( 27 Aug 2019): RM1.57

Price Target 12-mth: RM2.20 (40% upside) (Prev RM2.20)

### Analyst

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### Steady growth prospects

- 2Q19 results met expectations
- Declared first interim DPS of 4.57 sen
- Clear earnings visibility anchored by recurring income stream and strong order book
- 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)	11.7	12.4	11.1	10.9
PE Pre Ex. (X)	13.1	12.4	11.1	10.9
P/Cash Flow (X)	9.1	14.2	10.3	11.3
EV/EBITDA (X)	14.3	12.7	12.3	12.7
Net Div Yield (%)	4.8	4.0	4.5	4.6
P/Book Value (X)	1.0	0.9	0.9	0.8
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

**In-line 1Q19 earnings:** Stripping out RM37.7m disposal gains on Sunway University assets and RM43.6m fair value gains from Sunway REIT, Sunway (SWB) reported a 2Q19 core profit of RM165m (+21% q-o-q, +18% y-o-y). This takes 1H19 core profit to RM302m, which formed 49% of our full-year projection.

**Steady property business.** In 2Q19, SWB's property segment EBIT dipped 51% y-o-y to RM21.6m despite the 28% y-o-y increase in property revenue, leading to a lower EBIT margin of 19.1% due to the lack of foreign exchange gains realised from accumulated profits distributed from Singapore projects. Nevertheless, segment EBIT from the property division constituted 17% of total EBIT for the quarter. Meanwhile, SWB's 2Q19 property sales came in at RM472m, taking 1H19 sales to RM735m (-13% y-o-y).

**Weaker income from investment properties.** After the disposal of Sunway University assets, the property investment segment booked a weaker core EBIT of RM29.4m (-42% y-o-y), contributing 23% of the group's EBIT. It was also hit by lower visitorship and occupancy rates at its theme parks and hospitality properties during the quarter.

**Construction continues to perform.** SWB's construction arm continued to deliver a commendable performance with EBIT of RM41.5m (-11% y-o-y), making it the largest EBIT



## Flash Note

contributor with a 32% share. Earnings visibility for its construction division remains positive, with its elevated order book of RM5.8bn.

**Growing healthcare business.** Healthcare segmental contribution was the bright spot as its segment EBIT surged 59% y-o-y to RM17.6m, growing into a sizeable profit contributor within the SWB group. The impressive growth was largely attributable to the increased number of new beds and higher outpatient treatments.

### Outlook

**RM2.7bn of unbilled sales.** Unbilled sales have grown to RM2.7bn, 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 43% 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 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	2Q2018	1Q2019	2Q2019	% chg yoy	% chg qoq
Revenue	1,260	1,124	1,077	(14.5)	(4.1)
Cost of Goods Sold	(1,149)	(1,032)	(980)	(14.7)	(5.0)
<b>Gross Profit</b>	<b>111</b>	<b>91.3</b>	<b>96.9</b>	<b>(13.0)</b>	<b>6.2</b>
Other Oper. (Exp)/Inc	54.0	26.5	32.7	(39.5)	23.2
<b>Operating Profit</b>	<b>165</b>	<b>118</b>	<b>130</b>	<b>(21.6)</b>	<b>10.0</b>
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	nm	nm
Associates & JV Inc	28.7	41.7	38.6	34.2	(7.6)
Net Interest (Exp)/Inc	(10.2)	17.8	3.82	nm	(78.5)
Exceptional Gain/(Loss)	59.2	0.0	81.3	37.3	nm
<b>Pre-tax Profit</b>	<b>243</b>	<b>177</b>	<b>253</b>	<b>4.2</b>	<b>42.9</b>
Tax	(26.0)	(25.3)	9.40	nm	nm
Minority Interest	(17.6)	(15.5)	(16.2)	8.0	4.0
<b>Net Profit</b>	<b>199</b>	<b>136</b>	<b>246</b>	<b>23.6</b>	<b>80.7</b>
Net profit bef Except.	140	136	165	17.8	21.1
EBITDA	231	215	229	(0.9)	6.6
<b>Margins (%)</b>					
Gross Margins	8.8	8.1	9.0		
Opg Profit Margins	13.1	10.5	12.0		
Net Profit Margins	15.8	12.1	22.9		

Source of all data: Company, AllianceDBS

**Target Price & Ratings History**


S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	13 Sep 18	1.51	1.63	HOLD
2:	18 Sep 18	1.50	1.63	HOLD
3:	22 Nov 18	1.47	1.58	HOLD
4:	04 Jan 19	1.49	1.58	HOLD
5:	24 Jan 19	1.55	1.58	HOLD
6:	29 Jan 19	1.60	1.58	HOLD
7:	01 Mar 19	1.63	1.58	HOLD
8:	16 Apr 19	1.70	1.58	HOLD
9:	14 May 19	1.63	1.58	HOLD
10:	23 May 19	1.68	1.60	HOLD
11:	27 Jun 19	1.71	1.60	HOLD
12:	02 Jul 19	1.67	1.60	HOLD
13:	09 Jul 19	1.68	2.20	BUY

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

Source: AllianceDBS

Analyst: QUAH He Wei, CFA

**Flash Note**

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**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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