

Malaysia Flash Note

Refer to important disclosures at the end of this report

DBS Group Research . Equity

23 Aug 2018

Sunway (SWB MK) : HOLD

Mkt. Cap: US\$1,849m | 3m Avg. Daily Val: US\$0.76m

Last Traded Price (21 Aug 2018): RM1.56

Price Target 12-mth: RM1.65 (6% upside) (Prev RM1.65)

Analyst

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Steady quarter

- 2Q18 results met expectations
- Steady performance across key divisions
- First interim DPS of 3.5 sen
- Maintain Hold and RM1.65 TP

Company Guide



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

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Forecasts and Valuation

FY Dec (RMm)	2017A	2018F	2019F	2020F
Revenue	5,375	5,224	5,731	5,983
EBITDA	971	954	998	1,082
Pre-tax Profit	882	762	797	900
Net Profit	640	577	610	688
Net Pft (Pre Ex.)	566	577	610	688
Net Pft Gth (Pre-ex) (%)	3.5	1.9	5.7	12.8
EPS (sen)	13.0	11.7	12.4	14.0
EPS Pre Ex. (sen)	11.5	11.7	12.4	14.0
EPS Gth Pre Ex (%)	(2)	2	6	13
Diluted EPS (sen)	13.0	11.7	12.4	14.0
Net DPS (sen)	5.99	5.87	6.20	6.99
BV Per Share (sen)	159	165	172	179
PE (X)	12.0	13.3	12.6	11.2
PE Pre Ex. (X)	13.5	13.3	12.6	11.2
P/Cash Flow (X)	9.8	10.9	11.5	11.0
EV/EBITDA (X)	12.5	12.9	12.5	11.7
Net Div Yield (%)	3.8	3.8	4.0	4.5
P/Book Value (X)	1.0	0.9	0.9	0.9
Net Debt/Equity (X)	0.5	0.4	0.4	0.4
ROAE (%)	8.4	7.2	7.4	8.0

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

What's New

In line 2Q18 earnings: Stripping out fair value gains of RM59.2m on Sunway REIT, Sunway reported 2Q18 core profit of RM140m (+15% q-o-q, +1% y-o-y). This takes 1H18 core profit to RM262m (+7% y-o-y), reaching 45% of our full year projection.

Property development: 2Q18 property segment pre-tax profit grew 95% q-o-q to RM46.4m despite the 33% q-o-q dip in revenue. This was due to the realisation of foreign exchange (forex) gains from the accumulated profits arising from its Singapore property development projects. As a result, pre-tax profit contribution from the property division climbed to 25% during the quarter from 15% in 1Q18.

Property sales lifted by Singapore project. Sunway's 2Q18 property sales rose substantially to RM674m from RM166m in 1Q18. This was largely driven by the overwhelming response to its executive condominium Rivercove Residences in Sengkang, Singapore which contributed RM569m sales in 2Q18. The timely launch of the project in Apr 2018 before the new property cooling measures introduced in Jul 2018 helped the project achieve a 99% take-up (inclusive of bookings). Sunway's year-to-date property sales hit RM1.3bn which is also its FY18 target.

RM1.5bn unbilled sales. Unbilled sales grew higher, in tandem with the strong property sales in Singapore. However, in accordance with the adoption of the Malaysian Financial Reporting Standard 15 (MFRS 15), profit

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contribution from Rivercove Residences will only be recognised upon completion of the project due to the eligibility requirement. This suggests that unconditional completion of the sale and purchase agreement can only be assured upon handover of the property. This will result in a lumpy recognition upon the project's completion in FY20.

Investment properties. The property investment segment continued to deliver strong core pre-tax profit of RM43.3m, contributing 24% of the group's pre-tax profit. This comes on the back of 4% y-o-y growth in 2Q18 revenue to RM217m, thanks to higher occupancy of its quality investment property assets as well as contribution from new properties such as Sunway Velocity Hotel and Sunway Geo.

Construction. Its construction arm continued to deliver a commendable performance, as pre-tax profit came in at RM49.6m which makes it the largest pre-tax earnings contributor with a 27% share. Earnings visibility for its construction division remains positive, with an impressive order book of RM5.8bn.

Maintain Hold. We reiterate our Hold recommendation given the lack of catalysts, although we like its superior and unrivalled 'build-own-operate' integrated business model.

Quarterly / Interim Income Statement (RMm)

FY Dec	2Q2017	1Q2018	2Q2018	% chg yoy	% chg qoq
Revenue	1,241	1,308	1,287	3.8	(1.6)
Cost of Goods Sold	(1,072)	(1,200)	(1,175)	9.6	(2.1)
Gross Profit	168	109	112	(33.6)	3.0
Other Oper. (Exp)/Inc	24.5	21.5	54.2	121.0	152.0
Operating Profit	193	130	166	(13.9)	27.7
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	nm	nm
Associates & JV Inc	39.3	38.5	29.8	(24.1)	(22.5)
Net Interest (Exp)/Inc	(18.7)	(7.6)	(12.8)	31.7	(67.7)
Exceptional Gain/(Loss)	56.8	0.0	59.2	4.2	nm
Pre-tax Profit	270	161	242	(10.3)	50.6
Tax	(38.1)	(23.4)	(26.5)	(30.6)	13.0
Minority Interest	(36.0)	(15.6)	(16.3)	54.6	4.9
Net Profit	196	122	199	1.7	63.6
Net profit bef Except.	139	122	140	0.7	15.0
EBITDA	265	205	233	(12.2)	13.6
Margins (%)					
Gross Margins	13.6	8.3	8.7		
Opg Profit Margins	15.5	9.9	12.9		
Net Profit Margins	15.8	9.3	15.5		

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:	30 Aug 17	1.86	1.74	HOLD
2:	11 Oct 17	1.80	1.70	HOLD
3:	28 Nov 17	1.65	1.70	HOLD
4:	03 Jan 18	1.78	1.70	HOLD
5:	19 Feb 18	1.70	1.70	HOLD
6:	01 Mar 18	1.62	1.70	HOLD
7:	22 May 18	1.52	1.60	HOLD
8:	12 Jun 18	1.59	1.60	HOLD
9:	11 Jul 18	1.50	1.65	HOLD

Source: AllianceDBS

Analyst: QUAH He Wei, CFA

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

Completed Date: 22 Aug 2018 00:08:52 (MYT)

Dissemination Date: 23 Aug 2018 08:11:48 (MYT)

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