



AmInvestment Bank

SUNWAY

(SWB MK EQUITY, SWAY.KL)

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Company report

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9MFY19 EBITDA surges 11.2% YoY

BUY

(Maintained)

Rationale for report: Company results/update

Price	RM1.77
Fair Value	RM2.07
52-week High/Low	RM1.84/RM1.33

Key Changes

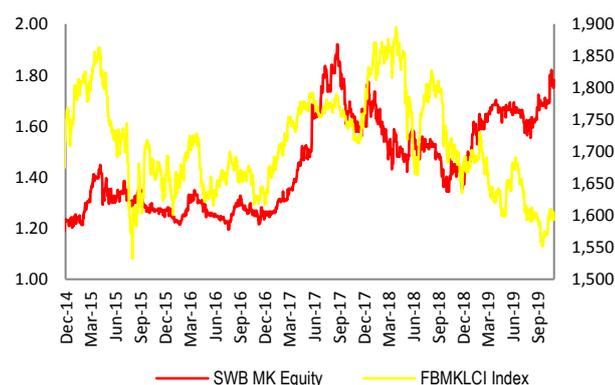
Fair value	↑
EPS	↔

YE to Dec	FY18	FY19F	FY20F	FY21F
Revenue (RM mil)	5,410.2	5,736.8	6,034.3	6,259.8
Core net profit (RM mil)	658.4	605.5	642.5	673.4
FD Core EPS (sen)	13.6	12.5	13.2	13.9
FD Core EPS growth (%)	4.9	(8.0)	6.1	4.8
Consensus Net Profit (RM mil)	-	622.1	682.1	755.4
DPS (sen)	5.5	5.7	6.0	6.3
PE (x)	13.0	14.2	13.4	12.8
EV/EBITDA (x)	17.6	17.3	16.2	15.8
Div yield (%)	3.1	3.2	3.4	3.5
ROE (%)	8.2	7.3	7.4	7.4
Net Gearing (%)	46.3%	46.9%	48.4%	49.4%

Stock and Financial Data

Shares Outstanding (million)	4,908.42
Market Cap (RM mil)	8,737.0
Book Value (RM/share)	1.9
P/BV (x)	0.9
ROE (%)	8.25
Net Gearing (%)	46.3%
Major Shareholders	Sungei Way Corp SB 56.7%
	EPF 7.2%
	Tan Sri Jeffrey Cheah 4.2%
Free Float	32.0%
Avg Daily Value (RM mil)	5.64

Price performance	3mth	6mth	12mth
Absolute (%)	14.3	8.3	29.0
Relative (%)	3.9	12.5	33.3



Investment Highlights

- We maintain our BUY call on Sunway Bhd (Sunway) with a higher FV of RM2.07 per share (from RM2.03) based on SOP valuations (Exhibit 2). We increase our FV to reflect the recent FV upgrade on Sunway REIT. We made no changes to our FY19–21 net profit forecasts.
- Sunway reported 9MFY19 revenue and net earnings of RM3,427.3mil (-15.2% YoY) and RM566.3mil (+21.4% YoY) respectively. Stripping off the net gain from the disposal of Sunway University assets (RM37.7mil), revaluation of Sunway REIT properties (RM43.6mil), distribution to holders of perpetual sukuk (RM38mil) and other gains, core PATMI of RM438.4mil (-6.1%) came in within our expectation but below consensus at 74% and 70% of ours and consensus full-year estimates. Nonetheless, 9MFY19 EBITDA was up by 11.2% at RM633mil.
- The property development division posted its 9MFY19 revenue and PBT of RM327.7mil (-21.2% YoY) and RM129.1mil (-5.7%) respectively. The lower revenue and PBT were mainly due to lower sales and progress billings from local development projects. Sunway reported new sales of RM1.1bil (YoY: RM1.6bil) while unbilled sales were higher at RM2.8bil (YoY: RM2.1bil; QoQ: RM2.7bil) and these will provide good earnings visibility in the short to mid-term.
- The property investment segment registered a 9MFY19 revenue of RM582.5mil (-1.6% YoY) and PBT of RM246.7mil (+15.1% YoY). The lower revenue was attributed to lower contribution from rental income after the disposal of Sunway University assets to Sunway REIT. Nonetheless, PBT was higher, boosted by a disposal gain on Sunway University assets.
- The healthcare segment chalked up a 9MFY19 revenue of RM422.0mil (+29.1% YoY) and PBT of RM50.5mil (+34.5% YoY), contributed by higher occupancy from increased number of new beds and higher outpatient treatments.
- The construction segment's 9MFY19 revenue and PBT were of RM955.2mil (-29.7% YoY) and RM124.2mil (-6.3% YoY) respectively. The weaker revenue was mainly due to lower progress billings from local construction projects and higher intra-group eliminations. Meanwhile, PBT was boosted by lower intra-group profit eliminations. YTD, Sunway Construction has secured new jobs worth a total of RM1.7bil while its outstanding construction order book stands at RM5.6bil.
- We are keeping our FY19–21 earnings forecasts. Our fair value is raised to RM2.07 from RM2.03. We believe the outlook for Sunway remains positive premised on its: (i) improving unbilled sales of RM2.7bil; (ii) stable income contribution from property investment; (iii) a robust outstanding order book of RM5.8bil; and (iv) strong growth potential in healthcare business. Maintain BUY.

EXHIBIT 1: EARNINGS SUMMARY

YE to Dec (RM mil)	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	QoQ %	YoY %	9MFY18	9MFY19	YTD %
Revenue	1,498.4	1,370.1	1,123.6	1,077.2	1,226.5	13.9%	-18.1%	4,040.1	3,427.3	-15.2%
Operating costs	(1,297.7)	(1,237.3)	(950.2)	(848.8)	(995.0)	17.2%	-23.3%	(3,470.5)	(2,794.0)	-19.5%
EBITDA	200.7	132.7	173.4	228.4	231.5	1.4%	15.3%	569.6	633.3	11.2%
Depreciation	(40.0)	(29.3)	(55.6)	(61.1)	(57.3)	-6.2%	43.1%	(113.9)	(174.0)	52.9%
Finance costs	(3.4)	85.4	17.8	3.8	1.1	-72.0%	-131.1%	(23.9)	22.7	-195.1%
Associate contributions	37.7	64.1	41.7	82.1	48.1	-41.5%	27.6%	165.2	171.9	4.1%
Profit before tax	194.9	253.0	177.3	253.2	223.3	-11.8%	14.6%	597.1	653.8	9.5%
Taxation	(27.9)	(44.7)	(25.3)	9.4	(21.1)	-324.0%	-24.6%	(76.9)	(37.0)	-51.9%
MI	(19.6)	(16.5)	(15.5)	(16.2)	(18.8)	16.7%	-4.0%	(53.5)	(50.5)	-5.5%
PATMI	147.3	191.7	136.4	246.5	183.4	-25.6%	24.5%	466.7	566.3	21.4%
Core PATMI	147.3	191.7	136.4	165.2	136.7	-17.2%	-7.2%	466.7	438.4	-6.1%
EPS (sen)	3.0	4.0	2.8	3.4	2.8	-17.2%	-7.2%	9.6	9.0	-6.1%
EBITDA margin (%)	13.4%	9.7%	15.4%	21.2%	18.9%			14.1%	18.5%	
Effective tax rate (%)	14.3%	17.7%	14.3%	-3.7%	9.4%			12.9%	5.7%	
PATMI margin (%)	9.8%	14.0%	12.1%	22.9%	15.0%			11.6%	16.5%	

Source: Company

EXHIBIT 2: SOP VALUATIONS

DEVELOPMENT PROPERTIES	Outstanding GDV (RMmil)	NPV @9% (RMmil)	Stake	Segment	Value (RMmil)	% of SOP
Selangor/KL				Property (25% discount to RNAV)	2,124.8	19.4%
Sunway Damansara	2,235.3	96.8	60.0%	Investment properties	2,177.6	19.8%
Sunway South Quay	2,486.7	223.3	100.0%	Sunway Construction (54.4% stake @ AmInvestment Valuation)	844.0	7.7%
Sunway Montez	38.0	2.0	60.0%	Sunway REIT (40.9% stake @ AmInvestment Valuation)	2,600.5	23.7%
Sunway Semenyih	728.6	45.8	70.0%	Healthcare (30x FY20 earnings)	1,947.2	17.7%
Sunway Cheras	16.8	1.5	100.0%	Quarry & building materials (10x FY20 earnings)	170.9	1.6%
Sunway Duta	120.0	5.7	60.0%	Trading & manufacturing (10x FY20 earnings)	622.1	5.7%
Sunway Resort City	660.1	51.9	100.0%	Assets held for sale	486.1	4.4%
Sunway Velocity	1,984.0	132.6	85.0%	Total SOP	10,973.3	
Sunway Velocity TWO	1,360.0	53.5	50.0%	Net cash/(debt) @ Company level	508.0	
Sunway Tower KL 1	240.0	18.9	100.0%	Fair value	11,481.3	
Sunway Termuning	277.0	17.4	80.0%			
Mont Putra, Rawang	156.0	12.3	100.0%	Enlarged share base (mil shares)	5,538.8	
Kelana Jaya	1,450.0	114.0	100.0%	Fair value per share	2.07	
Jalan Belfield	1,100.0	86.5	100.0%			
Lot One, Kajang	460.0	36.2	100.0%			
USJ 1, Subang Jaya	1,400.0	110.1	100.0%			
Subang 2	52.0	2.9	70.0%			
Wangsa Maju-1	270.0	11.7	55.0%			
Dengkil (Emerald Tycoon)	796.6	62.6	100.0%			
Bukit Jalil (Sterling Paradise)	800.0	98.4	100.0%			
Wangsa Maju-2	300.0	19.6	55.0%			
Perak						
Sunway City Ipoh	928.4	68.3	96.0%			
Penang						
Sunway Hills	849.0	61.3	100.0%			
Sunway Wellesley, Bukit Mertajam	710.5	51.3	100.0%			
Paya Terubong	1,500.0	108.3	100.0%			
Sunway Tunas, Balik Pulau	60.0	4.3	100.0%			
Sunway Betong, Balik Pulau	110.0	7.9	100.0%			
Johor						
Bukit Lenang	698.4	26.1	80.0%			
Medini	10,616.0	297.0	60.0%			
Pendas	18,000.0	503.7	60.0%			
Singapore						
Brookvale Park	3,000.0	67.6	30.0%			
Canberra Link, Sembawang	1,500.0	39.4	35.0%			
Tampines Ave 10	2,400.0	63.1	35.0%			
China						
Tianjin Eco-City	765.3	45.9	60.0%			
India						
Sunway OPUS Grand India	702.4	25.4	50.0%			
Sunway MAK Signature Residence	181.2	7.9	60.0%			
Unbilled sales		252.0				
Subtotal		2,833.1				

Source: AmInvestment Bank Bhd

EXHIBIT 3: FINANCIAL DATA

Income Statement (RMmil, YE 31 Dec)	FY17	FY18	FY19F	FY20F	FY21F
Revenue	5,239.3	5,410.2	5,736.8	6,034.3	6,259.8
EBITDA	797.7	702.4	725.4	796.6	833.1
Depreciation/Amortisation	(139.0)	(143.2)	(151.8)	(159.7)	(165.6)
Operating income (EBIT)	658.7	559.2	573.6	636.9	667.5
Other income & associates	199.7	229.3	239.1	250.2	259.6
Net interest	20.8	61.6	61.3	64.5	66.9
Exceptional items	0.0	0.0	66.0	66.0	66.0
Pretax profit	879.1	850.0	874.0	951.6	994.0
Taxation	(149.4)	(121.6)	(129.7)	(158.8)	(167.4)
Minority interests	(102.2)	(70.0)	(72.9)	(84.2)	(87.2)
Net profit	627.5	658.4	671.5	708.5	739.4
Core net profit	627.5	658.4	605.5	642.5	673.4
Balance Sheet (RMmil, YE 31 Dec)	FY17	FY18	FY19F	FY20F	FY21F
PPE	1,522.9	1,856.9	1,949.7	2,047.2	2,149.5
Intangible assets	311.8	313.9	313.9	313.9	313.9
Other long-term assets	8,676.6	9,087.8	9,387.8	9,687.8	9,887.8
Total non-current assets	10,511.3	11,258.5	11,651.4	12,048.9	12,351.2
Cash & equivalent	4,418.6	5,136.0	5,067.7	5,193.4	5,324.0
Inventories	1,788.4	1,857.9	1,947.5	2,031.9	2,096.6
Trade receivables	1,944.3	1,801.5	1,983.5	2,111.7	2,146.4
Other current assets	679.3	865.3	894.1	1,018.7	1,060.9
Total current assets	8,830.6	9,660.7	9,892.8	10,355.7	10,627.9
Trade payables	1,520.1	1,336.2	1,413.0	1,474.2	1,521.2
Short-term borrowings	4,910.5	6,337.5	6,353.4	6,667.6	6,994.1
Other current liabilities	1,310.5	1,428.5	1,430.6	1,432.4	1,433.8
Total current liabilities	7,741.1	9,102.2	9,196.9	9,574.2	9,949.0
Long-term borrowings	2,868.3	2,535.8	2,688.8	2,828.2	2,933.9
Other long-term liabilities	383.8	275.9	195.1	63.8	(319.9)
Total long-term liabilities	3,252.2	2,811.7	2,883.9	2,892.1	2,614.0
Shareholders' funds	7,890.7	8,074.4	8,470.7	8,889.6	9,324.9
Minority interests	621.5	1,019.8	1,081.4	1,137.5	1,180.0
BV/share (RM)	1.63	1.66	1.75	1.83	1.92
Cash Flow (RMmil, YE 31 Dec)	FY17	FY18	FY19F	FY20F	FY21F
Pretax profit	879.1	850.0	874.0	951.6	994.0
Depreciation/Amortisation	139.0	143.2	151.8	159.7	165.6
Net change in working capital	(238.2)	(189.9)	(428.5)	(161.8)	(60.4)
Others	13.6	43.8	(65.1)	(590.3)	(794.4)
Cash flow from operations	793.5	847.1	532.3	359.2	304.9
Capital expenditure	(396.6)	(464.1)	(92.8)	(97.5)	(102.4)
Net investments & sale of fixed assets	0.0	0.0	0.0	0.0	0.0
Others	(213.6)	(949.3)	(300.0)	(300.0)	(200.0)
Cash flow from investing	(610.2)	(1,413.4)	(392.8)	(397.5)	(302.4)
Debt raised/(repaid)	760.5	1,130.6	169.0	453.6	432.2
Equity raised/(repaid)	144.0	6.9	0.0	0.0	0.0
Dividends paid	(228.1)	(316.5)	(275.1)	(289.6)	(304.1)
Others	(434.2)	33.4	0.0	0.0	0.0
Cash flow from financing	242.2	854.4	(106.1)	164.0	128.1
Net cash flow	425.6	288.1	33.3	125.7	130.6
Adjustments	(12.2)	(17.1)	0.0	0.0	0.0
Net cash/(debt) b/f	1,823.5	2,236.9	2,507.9	2,541.2	2,666.9
Net cash/(debt) c/f	2,236.9	2,507.9	2,541.2	2,666.9	2,797.5
Key Ratios (YE 31 Dec)	FY17	FY18	FY19F	FY20F	FY21F
Revenue growth (%)	12.5	3.3	6.0	5.2	3.7
EBITDA growth (%)	(6.4)	(12.0)	3.3	9.8	4.6
Pretax margin (%)	16.8	15.7	15.2	15.8	15.9
Net profit margin (%)	12.0	12.2	11.7	11.7	11.8
Interest cover (x)	nm	nm	nm	nm	nm
Effective tax rate (%)	17.0	14.3	14.8	16.7	16.8
Dividend payout (%)	46.2	40.3	41.0	40.9	41.1
Receivable turnover (days)	135.5	121.5	126.2	127.7	125.2
Inventory turnover (days)	85.6	123.0	121.1	120.4	120.4
Payable turnover (days)	99.8	96.4	87.5	87.3	87.3

Source: AmlInvestment Bank Bhd estimates

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