



AmInvestment Bank

SUNWAY

(SWB MK EQUITY, SWAY.KL)

26 Feb 2020

Company report

Thong Pak Leng

thong-pak-leng@ambankgroup.com

03-2036 2025

FY19 core net profit surges 16.5% YoY

BUY

(Maintained)

Rationale for report: Company results/update

Price	RM1.78
Fair Value	RM2.07
52-week High/Low	RM1.87/RM1.54

Key Changes

Fair value	↔
EPS	↔

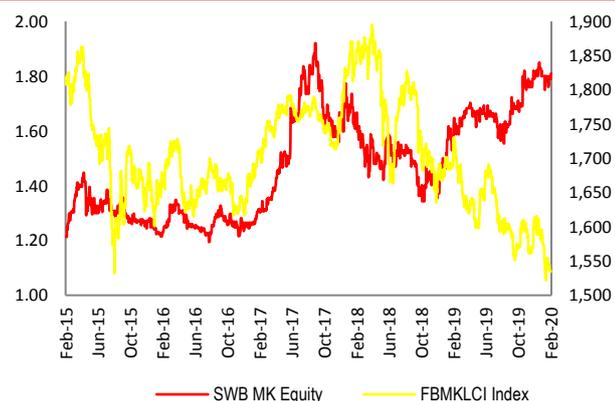
YE to Dec	FY19	FY20F	FY21F	FY21F
Revenue (RM mil)	4,780.4	5,716.5	5,939.1	5,998.3
Core net profit (RM mil)	638.2	650.3	683.0	708.7
FD Core EPS (sen)	13.0	13.3	13.9	14.5
FD Core EPS growth (%)	16.5	1.9	5.0	3.8
Consensus Net Profit (RM mil)	-	695.1	761.9	-
DPS (sen)	7.4	6.6	6.9	7.2
PE (x)	13.7	13.4	12.8	12.3
EV/EBITDA (x)	15.5	13.4	12.9	13.0
Div yield (%)	4.1	3.7	3.9	4.0
ROE (%)	7.8	7.6	7.6	7.5
Net Gearing (%)	43.9%	34.3%	34.1%	33.1%

Stock and Financial Data

Shares Outstanding (million)	4,902.7
Market Cap (RM mil)	8,728.6
Book Value (RM/share)	1.9
P/BV (x)	0.9
ROE (%)	8.56
Net Gearing (%)	43.9%

Major Shareholders	Sungei Way Corp SB	56.8%
	EPF	7.4%
	Active Equity SB	3.2%
Free Float	32.0%	
Avg Daily Value (RM mil)	5.64	

Price performance	3mth	6mth	12mth
Absolute (%)	2.3	16.3	13.2
Relative (%)	4.0	6.1	23.9



Investment Highlights

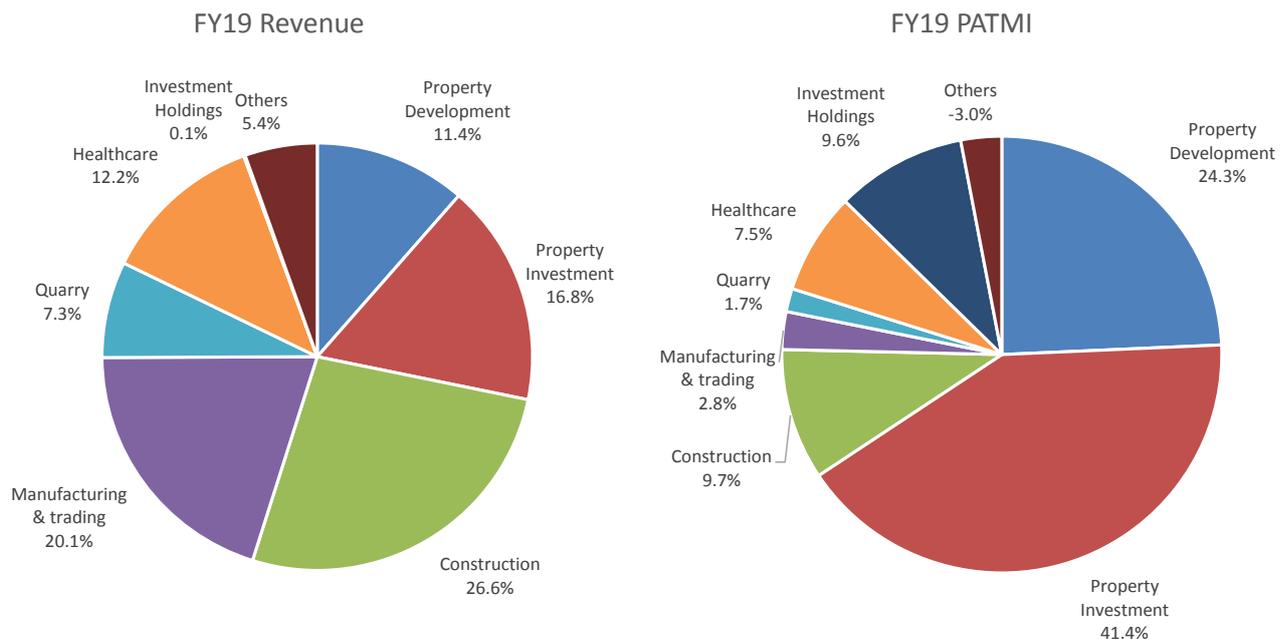
- We maintain our BUY call on Sunway Bhd (Sunway) with an unchanged FV of RM2.07 per share based on SOP valuations (Exhibit 3). We made no changes to our FY20–21 while introducing FY22 net earnings forecast at RM708.7mil.
- Sunway reported FY19 revenue and net earnings of RM4,780.4mil (-11.6% YoY) and RM766.6mil (+8.8% YoY) respectively. Stripping off the exceptional gains (RM73.9mil) and distribution to holders of perpetual sukuk (RM54.5mil), core PATMI of RM638.2mil (+16.5%) came in within expectations.
- The property development division posted an FY19 revenue and PBT of RM545.96mil (-11.9% YoY) and RM246.3mil (+42.2%) respectively. The stronger PBT was mainly due to higher profit recognition and progress billings from local and China development projects. Sunway reported new sales of RM1.55bil (YoY: RM1.88bil) while unbilled sales were higher at RM2.7bil (YoY: RM2.1bil). These will provide good earnings visibility in the short to mid-term. The property division is targeting new sales of RM2.0bil and lined up several launches for 2020 with a combined GDV of RM3.5bil (FY19: RM2.0bil).
- The property investment segment registered a FY19 revenue of RM803.5mil (-1.4% YoY) and PBT of RM336.3mil (+12.6% YoY). The lower revenue was attributed to a weaker 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 an FY19 revenue of RM584.8mil (+27.2% YoY) and PBT of RM61.8mil (+13.6% YoY), contributed by higher occupancy from increased number of new beds and higher outpatient treatments.
- The construction segment's FY19 revenue and PBT came in at RM1,273.3mil (-31.1% YoY) and RM162.3mil (-10.3% YoY) respectively. The weaker performance was mainly due to lower recognition amid the subdued local and overseas market conditions and lower operating margins. YTD, Sunway Construction has secured new jobs worth RM1.8bil while its outstanding construction order book stands at RM5.2bil.
- The company declared a second interim dividend of 4.5 sen per share, bringing the total dividend payout to 7.5 sen for FY19, representing a payout ratio of 57%.
- Our fair value is unchanged at RM2.07. 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)	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	QoQ %	YoY %	FY18	FY19	YTD %
Revenue	1,370.1	1,123.6	1,077.2	1,226.5	1,353.2	10.3%	-1.2%	5,410.2	4,780.4	-11.6%
Operating costs	(1,201.8)	(950.2)	(848.8)	(995.0)	(1,186.1)	19.2%	-1.3%	(4,672.3)	(3,980.2)	-14.8%
EBITDA	168.3	173.4	228.4	231.5	167.0	-27.8%	-0.7%	737.9	800.3	8.5%
Depreciation	(29.3)	(55.6)	(61.1)	(57.3)	(61.1)	6.6%	108.4%	(143.2)	(235.1)	64.2%
Finance costs	36.7	17.8	3.8	1.1	65.1	5987.5%	77.6%	12.8	87.8	585.6%
Associate contributions	64.1	41.7	82.1	48.1	89.3	85.8%	39.3%	229.3	261.2	13.9%
Profit before tax	239.7	177.3	253.2	223.3	260.4	16.6%	8.6%	836.8	914.2	9.3%
Taxation	(44.5)	(25.3)	9.4	(21.1)	(41.3)	96.2%	-7.2%	(121.4)	(78.3)	-35.5%
MI	(16.4)	(15.5)	(16.2)	(18.8)	(18.8)	-0.3%	14.7%	(69.9)	(69.3)	-0.8%
PATMI	178.8	136.4	246.5	183.4	200.3	9.2%	12.0%	645.5	766.6	18.8%
Core PATMI	178.8	136.4	165.2	136.7	199.9	46.2%	11.8%	547.9	638.2	16.5%
EPS (sen)	3.6	2.8	3.4	2.8	4.1	46.2%	11.8%	11.2	13.0	16.5%
EBITDA margin (%)	12.3%	15.4%	21.2%	18.9%	12.3%			13.6%	16.7%	
Effective tax rate (%)	18.6%	14.3%	-3.7%	9.4%	15.9%			14.5%	8.6%	
PATMI margin (%)	13.1%	12.1%	22.9%	15.0%	14.8%			11.9%	16.0%	

Source: Company

EXHIBIT 2: SEGMENTAL BREAKDOWN



Source: AmlInvestment Bank Bhd/ Company

EXHIBIT 3: SOP VALUATIONS

DEVELOPMENT PROPERTIES	Outstanding GDV (RMmil)	NPV @9% (RMmil)	Stake	Segment	Value (RMmil)	% of SOP
Selangor/KL				Property (20% discount to RNAV)	2,664.7	24.3%
Sunway Damansara	2,235.3	115.3	60.0%	Investment properties	2,320.5	21.1%
Sunway South Quay	2,486.7	263.6	100.0%	Sunway Construction (54.4% stake @ AmlInvestment Valuation)	844.0	7.7%
Sunway Monterez	38.0	2.4	60.0%	Sunway REIT (40.9% stake @ AmlInvestment Valuation)	2,600.5	23.7%
Sunway Semenyih	728.6	54.1	70.0%	Healthcare (30x FY20 earnings)	1,753.0	16.0%
Sunway Cheras	16.8	1.8	100.0%	Quarry & building materials (10x FY20 earnings)	263.7	2.4%
Sunway Duta	120.0	6.7	60.0%	Trading & manufacturing (10x FY20 earnings)	533.1	4.9%
Sunway Resort City	660.1	61.6	100.0%			
Sunway Velocity	1,984.0	157.4	85.0%	Total SOP	10,979.6	
Sunway Velocity TWO	1,360.0	63.5	50.0%	Net cash/(debt) @ Company level	508.0	
Sunway Tower KL 1	240.0	22.4	100.0%	Fair value	11,487.6	
Sunway Temuning	277.0	20.7	80.0%			
Mont Putra, Rawang	156.0	14.6	100.0%	Enlarged share base (mil shares)	5,538.8	
Kelana Jaya	1,450.0	135.4	100.0%	Fair value per share	2.07	
Jalan Belfield	1,100.0	102.7	100.0%			
Lot One, Kajang	460.0	42.9	100.0%			
USJ 1, Subang Jaya	1,400.0	130.7	100.0%			
Subang 2	52.0	3.4	70.0%			
Wangsa Maju-1	270.0	13.9	55.0%			
Dengkil (Emerald Tycoon)	796.6	74.4	100.0%			
Bukit Jalil (Sterling Paradise)	800.0	114.7	100.0%			
Wangsa Maju-2	300.0	22.9	55.0%			
Perak						
Sunway City Ipoh	928.4	81.1	96.0%			
Penang						
Sunway Hills	849.0	73.0	100.0%			
Sunway Wellesley, Bukit Mertajam	710.5	61.1	100.0%			
Paya Terubong	1,500.0	129.0	100.0%			
Sunway Tunas, Balik Pulau	60.0	5.2	100.0%			
Sunway Betong, Balik Pulau	110.0	9.5	100.0%			
Johor						
Bukit Lenang	698.4	31.5	80.0%			
Medini	10,616.0	359.1	60.0%			
Pendas	18,000.0	608.9	60.0%			
Singapore						
Brookvale Park	3,000.0	80.3	30.0%			
Canberra Link, Sembawang	1,500.0	46.9	35.0%			
Tampines Ave 10	2,400.0	75.0	35.0%			
China						
Tianjin Eco-City	765.3	53.9	60.0%			
India						
Sunway OPUS Grand India	702.4	30.2	50.0%			
Sunway MAK Signature Residence	181.2	9.3	60.0%			
Unbilled sales		252.0				
Subtotal		3,330.8				

Source: AmlInvestment Bank Bhd

EXHIBIT 4: FINANCIAL DATA

Income Statement (RMmil, YE 31 Dec)	FY18	FY19	FY20F	FY21F	FY22F
Revenue	5,410.2	4,780.4	5,716.5	5,939.1	5,998.3
EBITDA	737.9	800.3	877.8	919.3	918.9
Depreciation/Amortisation	(143.2)	(235.1)	(281.1)	(292.1)	(295.0)
Operating income (EBIT)	594.7	565.2	596.6	627.2	623.9
Other income & associates	229.3	261.2	259.3	269.2	281.0
Net interest	12.8	87.8	105.0	109.1	110.2
Exceptional items	97.6	128.4	66.0	66.0	66.0
Pretax profit	836.8	914.2	961.0	1,005.6	1,015.1
Taxation	(121.4)	(78.3)	(160.4)	(169.3)	(152.3)
Minority interests	(69.9)	(69.3)	(84.2)	(87.2)	(88.1)
Net profit	645.5	766.6	716.3	749.0	774.7
Core net profit	547.9	638.2	650.3	683.0	708.7
Balance Sheet (RMmil, YE 31 Dec)	FY18	FY19	FY20F	FY21F	FY22F
PPE	1,856.9	2,753.4	3,292.5	3,420.7	3,454.8
Intangible assets	313.9	331.5	331.5	331.5	331.5
Other long-term assets	9,087.8	7,823.8	8,023.8	8,223.8	8,223.8
Total non-current assets	11,258.5	10,908.7	11,647.9	11,976.1	12,010.2
Cash & equivalent	5,136.0	5,888.8	5,710.3	5,977.6	6,252.1
Inventories	1,857.9	2,100.9	1,864.2	1,925.6	1,953.3
Trade receivables	1,801.5	2,122.0	2,187.5	2,295.5	2,425.5
Other current assets	865.3	159.2	394.1	403.3	405.7
Total current assets	9,660.7	10,270.9	10,156.1	10,602.0	11,036.6
Trade payables	1,336.2	2,653.1	3,178.7	3,283.5	3,330.8
Short-term borrowings	6,337.5	7,416.8	6,149.6	6,437.4	6,733.0
Other current liabilities	1,428.5	137.4	565.1	405.8	74.8
Total current liabilities	9,102.2	10,207.3	9,893.4	10,126.7	10,138.5
Long-term borrowings	2,535.8	2,153.7	2,575.5	2,675.7	2,702.4
Other long-term liabilities	275.9	1,023.3	1,023.3	1,023.3	1,023.3
Total long-term liabilities	2,811.7	3,177.1	3,598.8	3,699.1	3,725.7
Shareholders' funds	8,074.4	8,392.2	8,785.1	9,196.2	9,618.6
Minority interests	1,019.8	1,781.3	1,905.0	1,934.4	1,942.2
BV/share (RM)	1.65	1.71	1.79	1.88	1.96
Cash Flow (RMmil, YE 31 Dec)	FY18	FY19	FY20F	FY21F	FY22F
Pretax profit	836.8	914.2	961.0	1,005.6	1,015.1
Depreciation/Amortisation	143.2	235.1	281.1	292.1	295.0
Net change in working capital	(189.9)	(317.8)	889.7	(233.1)	(443.8)
Others	136.2	93.7	2,316.0	(519.3)	(527.5)
Cash flow from operations	926.3	925.3	4,447.8	545.3	338.7
Capital expenditure	(464.1)	335.9	(539.1)	(128.2)	(34.1)
Net investments & sale of fixed assets	0.0	0.0	0.0	0.0	0.0
Others	(470.6)	(1,260.1)	(200.0)	(200.0)	0.0
Cash flow from investing	(934.7)	(924.2)	(739.1)	(328.2)	(34.1)
Debt raised/(repaid)	1,130.6	667.1	(845.5)	388.1	322.3
Equity raised/(repaid)	6.9	0.0	0.0	0.0	0.0
Dividends paid	(316.5)	(242.9)	(323.4)	(337.9)	(352.4)
Others	(524.7)	234.0	0.0	0.0	0.0
Cash flow from financing	296.4	658.3	(1,168.9)	50.2	(30.1)
Net cash flow	288.0	659.4	2,539.7	267.2	274.5
Adjustments	(17.1)	3.4	0.0	0.0	0.0
Net cash/(debt) b/f	2,236.9	2,507.8	3,170.6	5,710.3	5,977.6
Net cash/(debt) c/f	2,507.8	3,170.6	5,710.3	5,977.6	6,252.1
Key Ratios (YE 31 Dec)	FY18	FY19	FY20F	FY21F	FY22F
Revenue growth (%)	3.3	(11.6)	19.6	3.9	1.0
EBITDA growth (%)	(7.5)	8.5	9.7	4.7	(0.0)
Pretax margin (%)	15.5	19.1	16.8	16.9	16.9
Net profit margin (%)	11.9	16.0	12.5	12.6	12.9
Interest cover (x)	nm	nm	nm	nm	nm
Effective tax rate (%)	14.5	8.6	16.7	16.8	15.0
Dividend payout (%)	41.1	47.2	45.1	45.1	45.5
Receivable turnover (days)	121.5	162.0	139.7	141.1	147.6
Inventory turnover (days)	123.0	151.1	126.6	116.5	118.0
Payable turnover (days)	96.4	152.3	186.2	198.6	201.2

Source: AmlInvestment Bank Bhd estimates

DISCLOSURE AND DISCLAIMER

This report is prepared for information purposes only and it is issued by AmInvestment Bank Berhad (“AmInvestment”) without regard to your individual financial circumstances and objectives. Nothing in this report shall constitute an offer to sell, warranty, representation, recommendation, legal, accounting or tax advice, solicitation or expression of views to influence any one to buy or sell any real estate, securities, stocks, foreign exchange, futures or investment products. AmInvestment recommends that you evaluate a particular investment or strategy based on your individual circumstances and objectives and/or seek financial, legal or other advice on the appropriateness of the particular investment or strategy.

The information in this report was obtained or derived from sources that AmInvestment believes are reliable and correct at the time of issue. While all reasonable care has been taken to ensure that the stated facts are accurate and views are fair and reasonable, AmInvestment has not independently verified the information and does not warrant or represent that they are accurate, adequate, complete or up-to-date and they should not be relied upon as such. All information included in this report constitute AmInvestment’s views as of this date and are subject to change without notice. Notwithstanding that, AmInvestment has no obligation to update its opinion or information in this report. Facts and views presented in this report may not reflect the views of or information known to other business units of AmInvestment’s affiliates and/or related corporations (collectively, “AmBank Group”).

This report is prepared for the clients of AmBank Group and it cannot be altered, copied, reproduced, distributed or republished for any purpose without AmInvestment’s prior written consent. AmInvestment, AmBank Group and its respective directors, officers, employees and agents (“Relevant Person”) accept no liability whatsoever for any direct, indirect or consequential losses, loss of profits and/or damages arising from the use or reliance of this report and/or further communications given in relation to this report. Any such responsibility is hereby expressly disclaimed.

AmInvestment is not acting as your advisor and does not owe you any fiduciary duties in connection with this report. The Relevant Person may provide services to any company and affiliates of such companies in or related to the securities or products and/or may trade or otherwise effect transactions for their own account or the accounts of their customers which may give rise to real or potential conflicts of interest.

This report is not directed to or intended for distribution or publication outside Malaysia. If you are outside Malaysia, you should have regard to the laws of the jurisdiction in which you are located.

If any provision of this disclosure and disclaimer is held to be invalid in whole or in part, such provision will be deemed not to form part of this disclosure and disclaimer. The validity and enforceability of the remainder of this disclosure and disclaimer will not be affected.