



AmInvestment Bank

Company report

SUNWAY

(SWB MK EQUITY, SWAY.KL)

28 Aug 2019

New profit up 19.9%, healthcare PBT jumps 59.7% YoY

BUY

(Maintained)

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Rationale for report: Company results/update

Price RM1.57
Fair Value RM2.00
52-week High/Low RM1.72/RM1.34

Key Changes

Fair value

EPS

YE to Dec	FY18	FY19F	FY20F	FY21F
Revenue (RM mil)	5,410.2	5,421.9	5,519.1	5,775.8
Core net profit (RM mil)	658.4	605.5	642.5	670.4
FD Core EPS (sen)	13.6	12.5	13.2	13.8
FD Core EPS growth (%)	4.9	(8.0)	6.1	4.3
Consensus Net Profit (RM mil)	-	627.4	689.5	740.0
DPS (sen)	5.5	5.7	6.0	6.3
PE (x)	11.6	12.6	11.9	11.4
EV/EBITDA (x)	16.2	16.2	15.6	15.3
Div yield (%)	3.5	3.6	3.8	4.0
ROE (%)	8.2	7.3	7.5	7.5
Net Gearing (%)	46.3%	45.2%	45.7%	47.0%

Stock and Financial Data

Shares Outstanding (million) 4,872.47
Market Cap (RM mil) 7,649.8
Book Value (RM/share) 1.6
P/BV (x) 1.0
ROE (%) 8.30
Net Gearing (%) 46.3%

Major Shareholders

Sungei Way Corp SB	56.6%
EPF	7.0%
Tan Sri Jeffrey Cheah	5.2%

Free Float 31.3%
Avg Daily Value (RM mil) 7.18

Price performance	3mth	6mth	12mth
Absolute (%)	(3.6)	1.0	7.2
Relative (%)	(0.2)	(2.3)	14.1



Investment Highlights

- We maintain our BUY call on Sunway Bhd (Sunway) with a higher fair value of RM2.00 per share (from RM1.95) based on SOP valuations (Exhibit 2) as we roll over our valuations to FY20. We are keeping our FY19–21 net profit forecasts.
- Sunway reported its 1HFY19 revenue and PATMI at RM2,200.8mil (-13.4% YoY) and RM382.9mil (+19.9% YoY) respectively. Stripping off the net gain from the disposal Sunway University assets (RM37.7mil) and revaluation of Sunway REIT properties (RM43.6mil), core PATMI of RM301.6mil (-5.6%) came in within expectations at 50% and 48% of ours and consensus full-year estimates.
- The property development division posted a 1HFY19 revenue of RM201.4mil (-8.8% YoY) while its PBT was RM70.1mil (-9.6%). The lower revenue and PBT were mainly due to lower sales and progress billings from local development projects. Sunway reported new sales of RM735mil (-12.5% YoY) while unbilled sales were higher at RM2.7bil (YoY: RM1.5mil; QoQ: RM2.2bil) and these will provide good earnings visibility in short to mid-term.
- The property investment segment registered a 1HFY19 revenue of RM372.8mil (-2.6% YoY) and PBT of RM179.7mil (+11.1% YoY) mainly due to a higher contribution from Sunway Velocity Mall as well as improved contribution from the group's theme parks.
- The healthcare segment chalked up a 1HFY19 revenue of RM267.6mil (+27.4% YoY) and PBT of RM34.7mil (+59.7% YoY), contributed by higher occupancy from increased number of new beds and higher outpatient treatments.
- The construction segment's 1HFY19 revenue and PBT were of RM639.6mil (-28.4% YoY) and RM91.1mil (-1.3% YoY) respectively. The weaker revenue was mainly due to lower progress billings from local construction projects and higher intra-group eliminations. Meanwhile, the higher PBT was boosted by lower intra-group profit eliminations. YTD, Sunway Construction has secured new jobs worth a total of RM1.5bil while its outstanding construction order book stands at RM5.8bil.
- We are keeping our FY19–21 earnings forecasts. Our fair value is increased to RM2.00 from RM1.95 as we roll over our valuations to FY20. 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)	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	QoQ %	YoY %	1HFY18	1HFY19	YTD %
Revenue	1,233.2	1,498.4	1,370.1	1,123.6	1,077.2	-4.1%	-12.7%	2,541.7	2,200.8	-13.4%
Operating costs	(1,030.9)	(1,297.7)	(1,237.3)	(950.2)	(848.8)	-10.7%	-17.7%	(2,172.7)	(1,799.0)	-17.2%
EBITDA	202.3	200.7	132.7	173.4	228.4	31.7%	12.9%	368.9	401.8	8.9%
Depreciation	(37.2)	(40.0)	(29.3)	(55.6)	(61.1)	9.9%	64.1%	(73.8)	(116.7)	58.2%
Finance costs	(12.8)	(3.4)	85.4	17.8	3.8	-78.5%	-129.9%	(20.4)	21.6	-205.8%
Associate contributions	89.0	37.7	64.1	41.7	82.1	96.9%	-7.7%	127.5	123.9	-2.9%
Profit before tax	241.3	194.9	253.0	177.3	253.2	42.9%	5.0%	402.2	430.5	7.0%
Taxation	(25.6)	(27.9)	(44.7)	(25.3)	9.4	-137.1%	-136.8%	(49.0)	(15.9)	-67.5%
MI	(18.3)	(19.6)	(16.5)	(15.5)	(16.2)	4.0%	-11.7%	(33.9)	(31.7)	-6.4%
PATMI	197.4	147.3	191.7	136.4	246.5	80.7%	24.9%	319.4	382.9	19.9%
Core PATMI	197.4	147.3	191.7	136.4	165.2	21.1%	-16.3%	319.4	301.6	-5.6%
EPS (sen)	4.1	3.0	4.0	2.8	3.4	21.1%	-16.3%	6.6	6.2	-5.6%
EBITDA margin (%)	16.4%	13.4%	9.7%	15.4%	21.2%			14.5%	18.3%	
Effective tax rate (%)	10.6%	14.3%	17.7%	14.3%	-3.7%			12.2%	3.7%	
PATMI margin (%)	16.0%	9.8%	14.0%	12.1%	22.9%			12.6%	17.4%	

Source: Company

EXHIBIT 2: SOP VALUATIONS

DEVELOPMENT PROPERTIES	Outstanding GDV (RMmil)	NPV @8% (RMmil)	Stake	Segment	Value (RMmil)	% of SOP
Selangor/KL				Property (20% discount to RNAV)	2,461.8	23.3%
Sunway Damansara	1,691.3	73.0	60.0%	Investment properties	1,974.8	18.7%
Sunway South Quay	2,586.7	215.5	100.0%	Sunway Construction (54.4% stake @ AmlInvestment Valuation)	766.6	7.3%
Sunway Montez	38.0	1.9	60.0%	Sunway REIT (40.9% stake @ AmlInvestment Valuation)	2,371.8	22.4%
Sunway Semenyih	728.6	42.5	70.0%	Healthcare (30x FY20 earnings)	1,880.5	17.8%
Sunway Cheras	16.8	1.4	100.0%	Quarry & building materials (10x FY20 earnings)	137.1	1.3%
Sunway Duta	120.0	5.7	60.0%	Trading & manufacturing (10x FY20 earnings)	494.9	4.7%
Sunway Montana	55.5	4.4	100.0%	Assets held for sale	486.1	4.6%
Sunway Resort City	660.1	52.2	100.0%	Total SOP	10,573.7	
Sunway Velocity	1,984.0	133.4	85.0%	Net cash/(debt) @ Company level	508.0	
Sunway Velocity TWO	2,000.0	79.1	50.0%	Fair value	11,081.7	
Sunway Tower KL 1	240.0	19.0	100.0%			
Melawati	43.0	3.4	100.0%	Enlarged share base (mil shares)	5,538.8	
Sg Long	277.0	17.5	80.0%	Fair value per share	2.00	
Mont Putra, Rawang	156.0	12.3	100.0%			
Kelana Jaya	1,450.0	114.7	100.0%			
Jalan Belfield	1,100.0	87.0	100.0%			
Lot One, Kajang	460.0	36.4	100.0%			
USJ 1, Subang Jaya	1,400.0	110.7	100.0%			
Wangsa Maju	500.0	21.8	55.0%			
PKNS Kola Damansara	544.0	34.4	60.0%			
Perak						
Sunway City Ipoh	1,048.4	76.1	96.0%			
Penang						
Sunway Hills	849.0	61.0	100.0%			
Sunway Wellesley, Bukit Mertajam	710.5	51.1	100.0%			
Paya Terubong	1,500.0	107.9	100.0%			
Sunway Tunas, Balik Pulau	60.0	4.3	100.0%			
Sunway Bebong, Balik Pulau	110.0	7.9	100.0%			
Johor						
Bukit Lenang	698.4	40.2	80.0%			
Medini	10,743.0	463.5	60.0%			
Pendas	18,000.0	776.5	60.0%			
Singapore						
Brookvale Park	3,000.0	64.7	30.0%			
Canberra Link, Sembawang	1,500.0	37.7	35.0%			
Tampines	2,424.0	67.9	35.0%			
China						
Sunway Guanghao	66.8	3.1	65.0%			
India						
Sunway OPUS Grand India	702.4	25.3	50.0%			
Sunway MAK Signature Residence	181.2	7.8	60.0%			
Unbilled sales	0.0	216.0	0.0%			
Subtotal		3,077.2				

Source: AmlInvestment Bank Bhd

EXHIBIT 3: FINANCIAL DATA

Income Statement (RMmil, YE 31 Dec)	FY17	FY18	FY19F	FY20F	FY21F
Revenue	5,239.3	5,410.2	5,421.9	5,519.1	5,775.8
EBITDA	797.7	702.4	703.1	744.3	779.3
Depreciation/Amortisation	(139.0)	(143.2)	(143.5)	(146.0)	(152.8)
Operating income (EBIT)	658.7	559.2	559.6	598.2	626.4
Other income & associates	199.7	229.3	239.0	250.1	259.0
Net interest	20.8	61.6	(18.3)	(18.6)	(19.5)
Exceptional items	0.0	0.0	0.0	0.0	0.0
Pretax profit	879.1	850.0	780.4	829.7	866.0
Taxation	(149.4)	(121.6)	(117.1)	(124.5)	(129.9)
Minority interests	(102.2)	(70.0)	(57.9)	(62.7)	(65.7)
Net profit	627.5	658.4	605.5	642.5	670.4
Core net profit	627.5	658.4	605.5	642.5	670.4
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	5,047.9	5,153.8	5,263.7
Inventories	1,788.4	1,857.9	1,831.9	1,850.7	1,929.3
Trade receivables	1,944.3	1,801.5	1,874.6	1,931.4	1,980.5
Other current assets	679.3	865.3	865.9	964.1	1,008.1
Total current assets	8,830.6	9,660.7	9,620.3	9,899.9	10,181.6
Trade payables	1,520.1	1,336.2	1,329.1	1,342.7	1,399.8
Short-term borrowings	4,910.5	6,337.5	6,303.9	6,568.5	6,843.3
Other current liabilities	1,310.5	1,428.5	1,428.6	1,429.2	1,430.8
Total current liabilities	7,741.1	9,102.2	9,061.6	9,340.5	9,673.9
Long-term borrowings	2,868.3	2,535.8	2,541.3	2,586.8	2,707.1
Other long-term liabilities	383.8	275.9	66.9	(45.8)	(363.7)
Total long-term liabilities	3,252.2	2,811.7	2,608.2	2,541.0	2,343.4
Shareholders' funds	7,890.7	8,074.4	8,404.7	8,757.6	9,123.9
Minority interests	621.5	1,019.8	1,022.0	1,040.4	1,088.8
BV/share (RM)	1.63	1.66	1.73	1.80	1.88
Cash Flow (RMmil, YE 31 Dec)	FY17	FY18	FY19F	FY20F	FY21F
Pretax profit	879.1	850.0	780.4	829.7	866.0
Depreciation/Amortisation	139.0	143.2	143.5	146.0	152.8
Net change in working capital	(238.2)	(189.9)	(276.9)	(65.3)	(79.7)
Others	13.6	43.8	62.6	(427.7)	(617.9)
Cash flow from operations	793.5	847.1	709.6	482.8	321.3
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	(28.1)	310.2	395.1
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	(303.2)	20.6	91.0
Net cash flow	425.6	288.1	13.5	105.9	109.9
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	2,521.4	2,627.3
Net cash/(debt) c/f	2,236.9	2,507.9	2,521.4	2,627.3	2,737.2
Key Ratios (YE 31 Dec)	FY17	FY18	FY19F	FY20F	FY21F
Revenue growth (%)	12.5	3.3	0.2	1.8	4.7
EBITDA growth (%)	(6.4)	(12.0)	0.1	5.9	4.7
Pretax margin (%)	16.8	15.7	14.4	15.0	15.0
Net profit margin (%)	12.0	12.2	11.2	11.6	11.6
Interest cover (x)	nm	nm	30.6	32.1	32.2
Effective tax rate (%)	17.0	14.3	15.0	15.0	15.0
Dividend payout (%)	46.2	40.3	45.4	45.1	45.4
Receivable turnover (days)	135.5	121.5	126.2	127.7	125.2
Inventory turnover (days)	85.6	123.0	124.2	121.8	119.4
Payable turnover (days)	99.8	96.4	89.7	88.4	86.7

Source: AmlInvestment Bank Bhd estimates

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