



AmInvestment Bank

Company report

SUNWAY

(SWB MK EQUITY, SWAY.KL)

23 May 2019

New property sales surges 58%, healthcare PBT jumps 43% YoY

BUY

(Maintained)

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Rationale for report: Company results/update

Price RM1.69
Fair Value RM1.94
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	5,754.1
Core net profit (RM mil)	658.4	604.6	642.5	666.7
FD Core EPS (sen)	13.6	12.5	13.2	13.7
FD Core EPS growth (%)	4.9	(8.2)	6.3	3.8
Consensus Net Profit (RM mil)	-	627.4	689.5	740.0
DPS (sen)	5.5	5.7	6.0	6.2
PE (x)	12.5	13.6	12.8	12.3
EV/EBITDA (x)	17.0	17.1	16.4	16.1
Div yield (%)	3.2	3.4	3.5	3.6
ROE (%)	8.2	7.3	7.5	7.5
Net Gearing (%)	46.3%	45.2%	45.7%	46.9%

Stock and Financial Data

Shares Outstanding (million) 4,886.46
Market Cap (RM mil) 8,160.4
Book Value (RM/share) 1.7
P/BV (x) 1.0
ROE (%) 8.07
Net Gearing (%) 44.4

Major Shareholders
Sungei Way Corp SB 56.4%
EPF 7.2%
Tan Sri Jeffrey Cheah 5.2%

Free Float 31.3%
Avg Daily Value (RM mil) 4.84

Price performance	3mth	6mth	12mth
Absolute (%)	1.6	17.7	15.6
Relative (%)	(1.6)	7.7	28.7



Investment Highlights

- We maintain our BUY call on Sunway Bhd (Sunway) with a lower fair value of RM1.94 per share (from RM1.95) based on SOP valuations (Exhibit 2). We reduced our FY19–21 profit forecasts by 1.9%, 1.7% and 1.5% respectively. Our fair value and profit forecasts reduction are to reflect the recent revaluation and earnings downgrade on Sunway Construction.
- Sunway reported its 1QFY19 revenue and PATMI of RM1,123.6mil (-14.1% YoY) and RM136.4mil (+11.9% YoY) respectively. PATMI of RM136.4mil constituted 22% of both our and consensus full-year estimates. Nonetheless, we reckon this to be in line with expectations as Sunway's earnings are generally lower in 1Q.
- The property development division's 1QFY19 revenue came in at RM87.9mil (-33.6% YoY) while its PBT was RM32.8mil (+19.6%). The lower revenue is mainly due to lower sales and progress billings from local development projects while the stronger PBT is attributed to the reversal of provisions made in the previous year. Nonetheless, Sunway reported stronger new sales of RM263mil (+58% YoY) while unbilled sales of RM2.2bil (YoY: RM947mil; QoQ: RM2.1bil) will provide good earnings visibility in short to mid-term.
- The property investment segment recorded 1QFY19 revenue of RM196.7mil (+1.9% YoY) and PBT of RM57.4mil (+0.5% YoY) mainly due to a higher contribution from Sunway Geo in Sunway South Quay, as well as improved contribution from the group's theme parks.
- The construction segment posted 1QFY19 revenue and PBT of RM346.2mil (-22% YoY) and RM43.7mil (+5.4% 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 RM1.01bil while its outstanding construction order book stands at RM5.7bil.
- The healthcare segment chalked up 1QFY19 revenue of RM126.8mil (+24.4% YoY) and PBT of RM15.4mil (+43.4% YoY), contributed by higher occupancy from increased number of new beds and higher outpatient treatments.
- We reduced our FY19–21 earnings forecasts by 1.9%, 1.7% and 1.5% respectively following our recent earnings downgrade on Sunway Construction. Nevertheless, we believe the outlook for Sunway remains positive premised on its unbilled sales of RM2.2bil, strong income contribution from property investment and a robust outstanding order book of RM5.7bil. Maintain BUY.

EXHIBIT 1: EARNINGS SUMMARY

YE to Dec (RM mil)	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	QoQ %	YoY %	1QFY18	1QFY19	YTD %
Revenue	1,308.4	1,287.1	1,444.6	1,370.1	1,123.6	-18.0%	-14.1%	1,308.4	1,123.6	-14.1%
Operating costs	(1,141.8)	(1,083.8)	(1,244.8)	(1,237.3)	(950.2)	-23.2%	-16.8%	(1,141.8)	(950.2)	-16.8%
EBITDA	166.6	203.2	199.8	132.7	173.4	30.6%	4.1%	166.6	173.4	4.1%
Depreciation	(36.6)	(37.2)	(40.0)	(29.3)	(55.6)	89.9%	52.1%	(36.6)	(55.6)	52.1%
Finance costs	(7.6)	(12.8)	(3.4)	85.4	17.8	-79.2%	-333.2%	(7.6)	17.8	-333.2%
Associate contributions	38.5	89.0	37.7	64.1	41.7	-34.9%	8.4%	38.5	41.7	8.4%
Profit before tax	160.9	242.2	194.0	253.0	177.3	-29.9%	10.2%	160.9	177.3	10.2%
Taxation	(23.4)	(26.5)	(27.1)	(44.7)	(25.3)	-43.4%	8.2%	(23.4)	(25.3)	8.2%
MI	(15.6)	(16.3)	(21.6)	(16.5)	(15.5)	-6.1%	-0.2%	(15.6)	(15.5)	-0.2%
PATMI	121.9	199.4	145.3	191.7	136.4	-28.8%	11.9%	121.9	136.4	11.9%
EPS (sen)	2.5	4.1	3.0	4.0	2.8	-28.8%	11.9%	2.5	2.8	11.9%
EBITDA margin (%)	12.7%	15.8%	13.8%	9.7%	15.4%			12.7%	15.4%	
Effective tax rate (%)	14.5%	10.9%	13.9%	17.7%	14.3%			14.5%	14.3%	
PATMI margin (%)	9.3%	15.5%	10.1%	14.0%	12.1%			9.3%	12.1%	

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)	2,348.8	23.0%
Sunway Damansara	1,691.3	70.0	60.0%	Investment properties	1,942.7	19.0%
Sunway South Quay	2,586.7	208.5	100.0%	Sunway Construction (54.4% stake @ AmResearch Valuation)	766.6	7.5%
Sunway Monterez	38.0	1.8	60.0%	Sunway REIT (40.9% stake @ AmResearch Valuation)	2,106.9	20.6%
Sunway Semenyih	728.6	41.1	70.0%	Healthcare (30x FY19 earnings)	1,527.9	14.9%
Sunway Cheras	16.8	1.4	100.0%	Quarry & building materials (10x FY19 earnings)	590.7	5.8%
Sunway Duta	120.0	5.5	60.0%	Trading & manufacturing (10x FY19 earnings)	454.0	4.4%
Sunway Montana	55.5	4.2	100.0%	Assets held for sale	486.1	4.8%
Sunway Resort City	660.1	50.3	100.0%	Total SOP	10,223.9	
Sunway Velocity	1,984.0	128.5	85.0%	Net cash/(debt) @ Company level	508.0	
Sunway Velocity TWO	2,000.0	76.2	50.0%	Fair value	10,731.9	
Sunway Tower KL 1	240.0	18.3	100.0%			
Melawati	43.0	3.3	100.0%	Enlarged share base (mil shares)	5,538.8	
Sg Long	277.0	16.9	80.0%	Fair value per share	1.94	
Mont Putra, Rawang	156.0	11.9	100.0%			
Kelana Jaya	1,450.0	110.5	100.0%			
Jalan Belfield	1,100.0	83.8	100.0%			
Lot One, Kajang	460.0	35.0	100.0%			
USJ 1, Subang Jaya	1,400.0	106.7	100.0%			
Wangsa Maju	500.0	21.0	55.0%			
Perak						
Sunway City Ipoh	1,048.4	73.2	96.0%			
Penang						
Sunway Hills	849.0	58.6	100.0%			
Sunway Wellesley, Bukit Mertajam	710.5	49.0	100.0%			
Paya Terubong	1,500.0	103.5	100.0%			
Sunway Tunas, Balik Pulau	60.0	4.1	100.0%			
Sunway Betong, Balik Pulau	110.0	7.6	100.0%			
Johor						
Bukit Lenang	698.4	38.5	80.0%			
Medini	10,743.0	444.7	60.0%			
Pendas	18,000.0	745.1	60.0%			
Singapore						
Brookvale Park	3,000.0	62.1	30.0%			
Canberra Link, Sembawang	1,500.0	36.2	35.0%			
Tampines	2,424.0	67.9	35.0%			
China						
Sunway Guanghao	66.8	3.0	65.0%			
India						
Sunway OPUS Grand India	702.4	24.2	50.0%			
Sunway MAK Signature Residence	181.2	7.5	60.0%			
Unbilled sales	0.0	216.0	0.0%			
Subtotal		2,936.0				

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	5,421.9	5,519.1	5,754.1
EBITDA	797.7	702.4	703.1	744.3	774.0
Depreciation/Amortisation	(139.0)	(143.2)	(143.5)	(146.0)	(152.3)
Operating income (EBIT)	658.7	559.2	559.6	598.2	621.7
Other income & associates	199.7	229.3	238.0	250.1	259.0
Net interest	20.8	61.6	(18.3)	(18.6)	(19.4)
Exceptional items	0.0	0.0	0.0	0.0	0.0
Pretax profit	879.1	850.0	779.3	829.7	861.4
Taxation	(149.4)	(121.6)	(116.9)	(124.5)	(129.2)
Minority interests	(102.2)	(70.0)	(57.9)	(62.7)	(65.4)
Net profit	627.5	658.4	604.6	642.5	666.7
Core net profit	627.5	658.4	604.6	642.5	666.7
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	5,047.6	5,153.5	5,263.7
Inventories	1,788.4	1,857.9	1,831.9	1,850.7	1,923.2
Trade receivables	1,944.3	1,801.5	1,874.6	1,931.4	1,973.0
Other current assets	679.3	865.3	865.9	964.1	1,005.8
Total current assets	8,830.6	9,660.7	9,620.0	9,899.7	10,165.7
Trade payables	1,520.1	1,336.2	1,329.1	1,342.7	1,395.3
Short-term borrowings	4,910.5	6,337.5	6,303.2	6,567.9	6,843.5
Other current liabilities	1,310.5	1,428.5	1,428.6	1,429.2	1,430.7
Total current liabilities	7,741.1	9,102.2	9,061.0	9,339.8	9,669.5
Long-term borrowings	2,868.3	2,535.8	2,541.3	2,586.8	2,696.9
Other long-term liabilities	383.8	275.9	68.2	(44.5)	(359.6)
Total long-term liabilities	3,252.2	2,811.7	2,609.5	2,542.3	2,337.3
Shareholders' funds	7,890.7	8,074.4	8,403.8	8,756.7	9,124.2
Minority interests	621.5	1,019.8	1,022.0	1,040.4	1,084.7
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	779.3	829.7	861.4
Depreciation/Amortisation	139.0	143.2	143.5	146.0	152.3
Net change in working capital	(238.2)	(189.9)	(276.9)	(65.3)	(69.8)
Others	13.6	43.8	64.1	(427.7)	(617.7)
Cash flow from operations	793.5	847.1	710.0	482.8	326.1
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	(28.7)	310.2	385.7
Equity raised/(repaid)	144.0	6.9	0.0	0.0	0.0
Dividends paid	(228.1)	(316.5)	(275.1)	(289.6)	(299.3)
Others	(434.2)	33.4	0.0	0.0	0.0
Cash flow from financing	242.2	854.4	(303.9)	20.6	86.5
Net cash flow	425.6	288.1	13.3	105.9	110.2
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	2,521.1	2,627.0
Net cash/(debt) c/f	2,236.9	2,507.9	2,521.1	2,627.0	2,737.2
Key Ratios (YE 31 Dec)	FY17	FY18	FY19F	FY20F	FY21F
Revenue growth (%)	12.5	3.3	0.2	1.8	4.3
EBITDA growth (%)	(6.4)	(12.0)	0.1	5.9	4.0
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	32.0
Effective tax rate (%)	17.0	14.3	15.0	15.0	15.0
Dividend payout (%)	46.2	40.3	45.5	45.1	44.9
Receivable turnover (days)	135.5	121.5	126.2	127.7	125.2
Inventory turnover (days)	85.6	123.0	124.2	121.8	119.7
Payable turnover (days)	99.8	96.4	89.7	88.4	86.8

Source: AmlInvestment Bank Bhd estimates

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