



AmInvestment Bank

Company report

SUNWAY

(SWB MK EQUITY, SWAY.KL)

22 Nov 2018

New property sales more than double YoY

BUY

(Maintained)

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03-2036 2025

Rationale for report: Company results

Price	RM1.45
Fair Value	RM1.65
52-week High/Low	RM1.82/RM1.35

Key Changes

Fair value	↔
EPS	↔

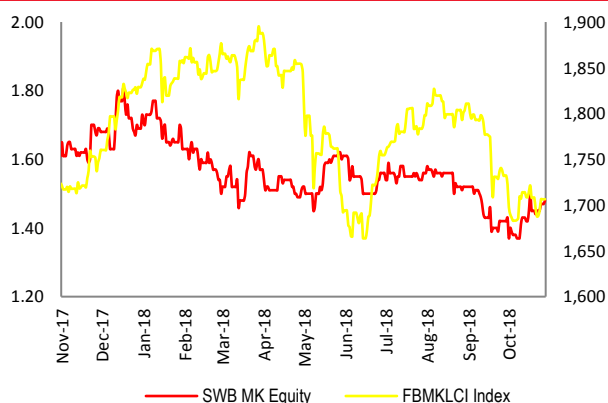
YE to Dec	FY17	FY18F	FY19F	FY20F
Revenue (RM mil)	5,375.4	5,845.3	5,763.2	6,315.1
Core net profit (RM mil)	610.8	576.2	590.5	612.1
FD Core EPS (sen)	12.6	11.9	12.2	12.6
FD Core EPS growth (%)	6.2	(5.7)	2.5	3.7
Consensus Net Profit (RM mil)	-	594.5	639.1	753.4
DPS (sen)	5.6	5.4	5.5	5.7
PE (x)	11.5	12.2	11.9	11.5
EV/EBITDA (x)	13.2	14.0	13.8	13.3
Div yield (%)	3.8	3.7	3.8	3.9
ROE (%)	8.0	7.2	7.1	7.1
Net Gearing (%)	48.9%	49.7%	48.3%	48.5%

Stock and Financial Data

Shares Outstanding (million)	4,853.19
Market Cap (RM mil)	6,988.6
Book Value (RM/share)	1.6
P/BV (x)	0.9
ROE (%)	8.28
Net Gearing (%)	48.9

Major Shareholders	Sungei Way Corp SB	56.2%
	EPF	7.1%
	Tan Sri Jeffrey Cheah	5.1%
Free Float	31.6%	
Avg Daily Value (RM mil)	2.45	

Price performance	3mth	6mth	12mth
Absolute (%)	(1.7)	1.6	(7.5)
Relative (%)	5.8	0.4	(10.6)



Investment Highlights

- We maintain our BUY call on Sunway Bhd (Sunway) with an unchanged fair value of RM1.65 per share based on SOP valuation (Exhibit 2). We made no changes to our FY18-20 earnings forecasts.
- Sunway reported its 9MFY18 revenue and core PATMI of RM4,040.1mil (+10.6% YoY) and RM401.5mil (-12.7% YoY) respectively. Despite making up only 70% and 68% of our and consensus full-year forecast, we reckon this to be in line, as we expect stronger earnings in the next quarter. 9MFY18 net profit would have been higher by 23.3% YoY if not for the adoption of the MFRS 15 whereby profits of property development projects in Singapore and China can only be recognised upon completion.
- The property development division reported 9MFY18 revenue of RM415.8mil (-22.6% YoY) and PBT of RM111.1mil (-17.5%) mainly due to the abovementioned reason. Nonetheless, Sunway reported strong new sales of RM1.6bil (+108% YoY) while unbilled sales of RM2.1bil (vs. QoQ's RM1.5bil) provided good earnings visibility in short to mid-term.
- The property investment segment reported 9MFY18 revenue of RM674.5mil (+8.8% YoY) and PBT of RM212.8mil (+11.4% YoY) mainly due to additional contribution from new properties such as Sunway Velocity Hotel and Sunway Geo in Sunway South Quay, as well as from the opening of additional room inventory at The Banjaran Hotsprings Retreat & Spa in Ipoh.
- The construction segment 9MFY18 PBT grew 5.9% YoY to RM131.6mil driven by higher construction profits (arising from the Parcel F building job in Putrajaya, Package V201 of the MRT2 and International School of Kuala Lumpur building contract in Ampang), partially offset by lower precast profits (due to the completion of several projects coupled with higher rebar prices). YTD, Sunway Construction has secured new jobs worth a total of RM1.35bil while its outstanding construction order book stands at RM5.2bil.
- We believe the outlook for Sunway remain positive premised on its unbilled sales of RM2.1bil, strong income contribution from property investment and a robust outstanding order book of RM5.2bil. Maintain BUY.

EXHIBIT 1: EARNINGS SUMMARY

YE to Dec (RM mil)	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	QoQ %	YoY %	9MFY17	9MFY18	YTD %
Revenue	1,322.7	1,723.5	1,308.4	1,287.1	1,444.6	12.2%	9.2%	3,651.9	4,040.1	10.6%
Operating costs	(1,130.5)	(1,465.8)	(1,141.8)	(1,083.8)	(1,244.8)	14.9%	10.1%	(3,083.9)	(3,470.5)	12.5%
EBITDA	192.2	257.6	166.6	203.2	199.8	-1.7%	4.0%	568.0	569.6	0.3%
Depreciation	(36.0)	(35.2)	(36.6)	(37.2)	(40.0)	7.5%	11.3%	(103.8)	(113.9)	9.7%
Finance costs	(6.3)	9.2	(7.6)	(12.8)	(3.4)	-73.1%	-45.4%	(31.8)	(23.9)	-24.9%
Associate contributions	49.7	29.3	38.5	89.0	37.7	-57.7%	-24.2%	188.9	165.2	-12.5%
Profit before tax	199.6	260.9	160.9	242.2	194.0	-19.9%	-2.8%	621.3	597.1	-3.9%
Taxation	(29.1)	(54.9)	(23.4)	(26.5)	(27.1)	2.3%	-7.0%	(94.5)	(76.9)	-18.6%
PATMI	152.8	183.8	121.9	199.4	145.3	-27.1%	-4.9%	455.7	466.7	2.4%
Adjustments	(6.5)	(32.6)	(23.2)	(33.3)	(8.7)	-74.0%	33.3%	4.0	(65.2)	-1741.8%
Core PATMI	146.3	151.2	98.7	166.2	136.6	-17.8%	-6.6%	459.7	401.5	-12.7%
EPS (sen)	3.1	3.8	2.5	4.1	3.0	-27.1%	-4.9%	9.4	9.6	2.4%
EBITDA margin (%)	14.5%	14.9%	12.7%	15.8%	13.8%			15.6%	14.1%	
Effective tax rate (%)	14.6%	21.1%	14.5%	10.9%	13.9%			15.2%	12.9%	
Core PATMI margin (%)	11.1%	8.8%	7.5%	12.9%	9.5%			12.6%	9.9%	

Source: Company

EXHIBIT 2: SOP VALUATIONS

DEVELOPMENT PROPERTIES	Outstanding GDV (RMmil)	NPV @9% (RMmil)	Stake	Segment	Value (RMmil)	% of SOP
Selangor/KL				Property (40% discount to RNAV)	1,337.0	14.0%
Sunway Damansara	1,691.3	61.5	60.0%	Investment properties (Estimated equity value as at 30Jun 2018)	3,050.0	32.0%
Sunway South Quay	2,586.7	176.8	100.0%	Sunway Construction (54.4% stake @ AmResearch Valuation)	1,076.1	11.3%
Sunway Montez	38.0	1.6	60.0%	Sunway REIT(40.9% stake @ AmResearch Valuation)	2,022.6	21.3%
Sunway Semenyih	728.6	34.9	70.0%	Healthcare (25x FY19 earnings)	1,273.3	13.4%
Sunway Cheras	16.8	1.1	100.0%	Quarry & building materials (8x FY19 earnings)	413.5	4.3%
Sunway Duta	120.0	4.4	60.0%	Trading & manufacturing (8x FY19 earnings)	344.2	3.6%
Sunway Montana	55.5	3.4	100.0%	Total SOP	9,516.7	
Sunway Resort City	660.1	40.0	100.0%	Net cash/(debt) as at 31 Dec 2017 (Company level)	(404.3)	
Sunway Velocity	1,984.0	102.2	85.0%	Fair value	9,112.4	
Sunway Velocity TWO	2,000.0	60.6	50.0%			
Sunway Tower KL 1	240.0	14.5	100.0%	Enlarged share base (mil shares)	5,538.8	
Melawati	43.0	2.6	100.0%	Fair value per share	1.65	
Sg Long	277.0	13.4	80.0%			
Mont Putra, Rawang	156.0	9.5	100.0%			
Kelana Jaya	1,450.0	91.5	100.0%			
Jalan Belfield	1,100.0	69.4	100.0%			
Lot One, Kajang	460.0	29.0	100.0%			
USJ 1, Subang Jaya	1,400.0	88.4	100.0%			
Wangsa Maju	500.0	17.4	55.0%			
Perak						
Sunway City Ipoh	1,048.4	61.0	96.0%			
Penang						
Sunway Hills	849.0	53.6	100.0%			
Sunway Wellesley, Bukit Mertajam	710.5	44.9	100.0%			
Paya Terubong	1,500.0	94.7	100.0%			
Sunway Tunas, Balik Pulau	60.0	3.8	100.0%			
Sunway Betong, Balik Pulau	110.0	6.9	100.0%			
Johor						
Bukit Lenang	698.4	33.8	80.0%			
Medini	10,743.0	390.5	60.0%			
Pendas	18,000.0	654.3	60.0%			
Singapore						
Brookvale Park	3,000.0	29.3	30.0%			
Canberra Link, Sembawang	1,500.0	17.1	35.0%			
China						
Sunway Guanghao	66.8	1.4	65.0%			
India						
Sunway OPUS Grand India	702.4	11.4	50.0%			
Sunway MAK Signature Residence	181.2	3.5	60.0%			
Subtotal		2,228.3				

Source: AmInvestment Bank Bhd

EXHIBIT 3: FINANCIAL DATA

Income Statement (RMmil, YE 31 Dec)	FY16	FY17	FY18F	FY19F	FY20F
Revenue	4,655.6	5,375.4	5,845.3	5,763.2	6,315.1
EBITDA	852.2	825.7	789.5	807.7	848.4
Depreciation/Amortisation	(137.2)	(139.0)	(151.2)	(149.1)	(163.3)
Operating income (EBIT)	715.1	686.6	638.3	658.7	685.1
Other income & associates	191.9	218.1	169.9	174.8	185.2
Net interest	(48.0)	(22.6)	(24.6)	(24.2)	(26.5)
Exceptional items	10.5	28.7	0.0	0.0	0.0
Pretax profit	859.0	882.2	783.6	809.3	843.7
Taxation	(140.4)	(149.4)	(141.1)	(145.7)	(151.9)
Minority interests	(132.7)	(93.3)	(66.3)	(73.1)	(79.7)
Net profit	585.9	639.5	576.2	590.5	612.1
Core net profit	575.4	610.8	576.2	590.5	612.1
Balance Sheet (RMmil, YE 31 Dec)	FY16	FY17	FY18F	FY19F	FY20F
PPE	1,879.9	2,050.5	2,153.0	2,260.7	2,373.7
Intangible assets	344.7	327.2	327.2	327.2	327.2
Other long-term assets	7,462.4	8,584.7	8,985.5	9,285.5	9,585.5
Total non-current assets	9,687.0	10,962.4	11,465.7	11,873.4	12,286.4
Cash & equivalent	4,080.1	4,426.6	4,321.8	4,414.2	4,509.9
Inventories	670.0	681.4	776.3	788.2	848.7
Trade receivables	1,551.0	1,930.2	2,023.8	1,994.9	2,213.3
Other current assets	2,713.6	2,043.5	2,303.3	2,287.8	2,347.2
Total current assets	9,014.6	9,081.8	9,425.1	9,485.1	9,919.1
Trade payables	1,345.6	1,595.9	1,778.0	1,737.5	1,933.2
Short-term borrowings	4,858.4	4,911.0	4,082.8	4,247.7	4,418.6
Other current liabilities	1,323.2	1,459.3	1,461.6	1,461.2	1,463.9
Total current liabilities	7,527.2	7,966.2	7,322.4	7,446.4	7,815.7
Long-term borrowings	2,553.1	3,348.3	3,641.0	3,589.9	3,933.6
Other long-term liabilities	438.4	405.7	1,126.1	1,200.8	927.0
Total long-term liabilities	2,991.5	3,754.0	4,767.1	4,790.7	4,860.6
Shareholders' funds	7,469.7	7,844.1	8,164.5	8,494.3	8,836.1
Minority interests	763.5	643.3	699.6	689.7	755.8
BV/share (RM)	1.52	1.59	1.66	1.73	1.79
Cash Flow (RMmil, YE 31 Dec)	FY16	FY17	FY18F	FY19F	FY20F
Pretax profit	859.0	882.2	783.6	809.3	843.7
Depreciation/Amortisation	137.2	139.0	151.2	149.1	163.3
Net change in working capital	542.7	610.6	(263.8)	(8.5)	(139.9)
Others	(870.7)	(851.9)	564.1	(303.0)	(602.8)
Cash flow from operations	668.1	779.9	1,235.1	646.8	264.4
Capital expenditure	(364.2)	(513.7)	(102.5)	(107.7)	(113.0)
Net investments & sale of fixed assets	(26.2)	(212.7)	(300.0)	(300.0)	(300.0)
Others	(1,244.8)	(327.3)	0.0	0.0	0.0
Cash flow from investing	(1,635.2)	(1,053.7)	(402.5)	(407.7)	(413.0)
Debt raised/(repaid)	1,259.5	1,023.1	(535.6)	113.8	514.6
Equity raised/(repaid)	595.0	118.0	0.0	0.0	0.0
Dividends paid	(219.5)	(228.1)	(255.8)	(260.7)	(270.3)
Others	(98.2)	(206.2)	0.0	0.0	0.0
Cash flow from financing	1,536.8	706.7	(791.4)	(146.8)	244.3
Net cash flow	569.7	432.9	41.1	92.3	95.7
Adjustments	6.6	(12.2)	0.0	0.0	0.0
Net cash/(debt) b/f	1,247.9	1,824.2	2,244.9	2,286.1	2,378.4
Net cash/(debt) c/f	1,824.2	2,244.9	2,286.1	2,378.4	2,474.1
Key Ratios (YE 31 Dec)	FY16	FY17	FY18F	FY19F	FY20F
Revenue growth (%)	4.7	15.5	8.7	(1.4)	9.6
EBITDA growth (%)	6.3	(3.1)	(4.4)	2.3	5.0
Pretax margin (%)	18.5	16.4	13.4	14.0	13.4
Net profit margin (%)	12.6	11.9	9.9	10.2	9.7
Interest cover (x)	14.9	30.4	26.0	27.2	25.8
Effective tax rate (%)	16.3	16.9	18.0	18.0	18.0
Dividend payout (%)	37.5	42.3	44.4	44.1	44.2
Receivable turnover (days)	121.6	131.1	126.4	126.3	127.9
Inventory turnover (days)	53.4	45.9	45.5	49.5	47.3
Payable turnover (days)	103.2	99.9	105.3	111.3	106.1

Source: AmlInvestment Bank Bhd estimates

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