

Sunway (BUY ↔; EPS ↓)

INDUSTRY: NEUTRAL
EARNINGS EVALUATION
28 November 2017
Price Target: RM2.25 (↔)
Share price: RM1.64

Steady performance in diversity

Results

- 9M17 core earnings of RM398.9m (+3.4%) came in slightly below our expectation at 68.1% but in line with consensus estimation at 71.4% of full year forecasts.

Deviations

- Lower contribution from property development.

Dividends

- None.

Highlights

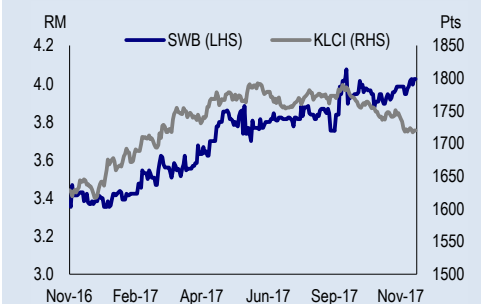
- QoQ:** Higher revenue (+6.3%) in 3Q17 was contributed by all segments except property development and quarry segments. Core earnings improved by 7.6% largely driven by improved performance from higher occupancy and visitorship to the group's investment properties.
- YoY:** Core earnings grew by 1.9% on the back of higher revenue (+16.0%) thanks to higher contributions from all segments, except for property development and quarry.
- YTD:** Revenue grew by 8.6% and core earnings improved by 3.4%. All segments showed improvements except property development and quarry segments. Lower contribution from property development was due to lower sales and progress billings from local development in the absence of contribution from Avant Parc.
- Property development...** Effective property sales for 9M17 achieved RM533m (2Q17: RM339m) vs full year sales target of RM900m (flat yoy). Sales are expected to pick up with launches such as Serene, The Grid and industrial park in Subang. Effective property unbilled sales stood at RM766m, representing 0.64x of FY16's property revenue.
- Property Investment...** Growth was largely attributable to additional revenue from Sunway Velocity Mall (opened in Dec 16), higher visitorship to the theme parks and higher contribution from Sunway Pyramid Hotel which was reopened in 2017 with additional rooms after refurbishment.
- Construction...** Stronger results achieved due to stronger progress billings and lower intra-group elimination. SunCon's current order book of RM6.8bn is at all-time high, translating to a healthy cover of 3.8x on FY16 revenue.
- Prolonged downturn in property market.
- Execution risk.
- We lower the contribution from property segment. Consequently, core earnings forecasts for FY17/18/19 are cut by 3.0%/3.2%/1.4%, respectively.

Risks
Forecasts
Rating
BUY ↔, TP: RM2.25 ↔
Valuation

- Sunway is our **Top Pick** within the sector as we believe it should be rerated and trade closer to its peers such as IJM and Gamuda (Figure #5) given its diversified income stream and declassification from property sector. At a forward P/E of 13x as compared to peers, we opine that it is a deep value stock with mature investment properties and the underappreciated trading and healthcare segments.
- TP is maintained at **RM2.25**, based on a 10% holding discount from SOP derived valuation of RM2.50 (Figure #6).

Lee Meng Horng
leemh@hlib.hongleong.com.my
(603) 2083 1722

KLCI	1,719.9
Expected share price return	37.2%
Expected dividend return	3.7%
Expected total return	40.9%

Share price

Information

Bloomberg Ticker	SWB MK
Bursa Code	5211
Issued Shares (m)	4,880
Market cap (RM m)	8,003
3-mth avg. volume ('000)	6,458
SC Shariah compliant	Yes

Price Performance

	1M	3M	12M
Absolute	-3.0	-11.0	28.8
Relative	-1.5	-8.4	22.0

Major shareholders

Sungei Way Corp Sdn Bhd	55.2%
EPF	5.2%
Cheah Fook Ling	5.1%

Summary Earnings Table

FYE Dec (RM m)	2016A	2017E	2018F	2019F
Revenue	4,656	4,774	5,000	5,343
EBITDA	852	928	1,015	1,108
EBIT	715	683	745	815
PATAMI	586	568	610	679
Core PATAMI	547	568	610	679
Core EPS (sen)	11.4	11.8	12.7	14.1
DPS (sen)	5.2	6.0	6.4	7.2
DY (%)	3.2	3.7	3.9	4.4
P/E (x)	14.4	13.9	12.9	11.6
BV / share	1.6	1.6	1.7	1.8
P/BV (x)	1.1	1.0	1.0	0.9
Net Gearing	43.2	36.2	32.3	29.9
ROA (%)	2.9	2.9	3.0	3.2
ROE (%)	6.6	6.6	6.7	7.1

HLIB

Figure #1 Quarterly Results Comparison

FYE Dec (RM m)	3Q16	2Q17	3Q17	QoQ (%)	YoY (%)	Comments
Revenue	1137.5	1241.0	1319.6	6.3	16.0	Refer to segmental.
Property Development	247.6	271.1	162.2	(40.2)	(34.5)	QoQ: Lower sales and progress billings as well as vacant possession of Sunway Geo Residences. YoY: Lower sales and progress billings from local projects.
Property Investment	189.9	207.4	225.4	8.7	18.7	QoQ: Better occupancy and visitorships as well as the progressive reopening of Sunway Pyramid Hotel with additional rooms after refurbishment exercise. YoY: Additional revenue from newly opened Sunway Velocity Mall since Dec 16 and reopening of Sunway Pyramid Hotel.
Construction	287.9	310.9	416.6	34.0	44.7	QoQ/YoY: Stronger progress billings and lower intra-group eliminations.
Trading/Manufacturing	206.7	226.0	292.9	29.6	41.7	QoQ/YoY: Improved sales due to better overall market condition and sentiment, both locally and overseas.
Quarry	54.0	58.7	50.3	(14.3)	(6.9)	QoQ/YoY: Lower sales volume for both aggregates and premix, and lower selling price for aggregates.
Others	147.1	167.1	171.4	2.6	16.5	QoQ/YoY: Higher contribution from the healthcare, building materials segments
EBIT	164.3	193.9	153.6	(20.8)	(6.6)	Refer to segmental.
Property Development	45.3	65.8	20.8	(68.4)	(54.1)	QoQ/YoY: Filtered down from lower sales.
Property Investment	50.0	43.0	60.8	41.3	21.4	YoY: Due to higher income from all investment properties.
Construction	31.3	40.8	37.8	(7.4)	20.5	YoY: Higher revenue and lower intra-group elimination.
Trading/Manufacturing	11.3	13.9	17.4	25.0	53.9	QoQ/YoY: Better operating margins.
Quarry	7.2	4.2	3.1	(26.7)	(57.6)	QoQ: Higher revenue and operating margin. YoY: Lower revenue and also impacted by temporary halt in operations at one of its sites due to closure of the access road.
Others	16.3	25.3	24.6	(2.7)	50.6	QoQ/YoY: Higher contribution from the healthcare, building materials segments and group treasury operations.
Net Interest Expense	(2.6)	(18.7)	(6.3)	66.4	(144.0)	
Share of Associates/JCE	46.7	96.3	49.5	(48.6)	5.9	
PBT	208.5	271.4	196.7	(27.5)	(5.7)	Filtered down from EBIT.
PAT	170.8	233.3	167.8	(28.1)	(1.8)	
PATAMI	143.6	196.9	150.9	(23.4)	5.0	
EI	4.5	(56.8)	0.0	(100.0)	(100.0)	Fair value gain from SREIT.
Core Earnings	148.1	140.1	150.9	7.6	1.9	Filtered down from PATAMI ex. EI.
Core EPS (sen)	7.2	6.8	7.4	7.9	2.0	
				QoQ (ppt)	YoY (ppt)	
EBIT Margin (%)	14.4	15.6	11.6	(4.0)	(2.8)	
Property Development	18.3	24.3	12.8	(11.4)	(5.5)	
Property Investment	26.4	20.7	26.9	6.2	0.6	
Construction	10.9	13.1	9.1	(4.1)	(1.8)	
Trading/Manufacturing	5.5	6.2	6.0	(0.2)	0.5	
Quarry	13.4	7.1	6.1	(1.0)	(7.3)	
Others	11.1	15.1	14.4	(0.8)	3.2	
PBT Margin Ex-Assoc (%)	14.2	14.1	11.2	(3.0)	(3.1)	

Sunway, HLIB

Figure #2 Cumulative results comparison

FYE Dec (RM m)	9M16	9M17	YoY (%)	Comments
Revenue	3362.2	3651.9	8.6	Refer to segmental.
Property Development	796.7	576.6	(27.6)	Lower sales and progress billings from local development projects and no contribution from Avant Parc project in Singapore.
Property Investment	519.2	619.7	19.4	Boosted by the newly-opened Sunway Velocity Mall, theme parks and the refurbished Sunway Pyramid Hotels.
Construction	848.7	1044.4	23.1	Due to higher progress billings and lower intra group revenue elimination.
Trading/Manufacturing	618.2	764.1	23.6	Due to higher sales in heavy equipment, heavy equipment parts and building materials divisions.
Quarry	153.3	149.2	(2.7)	Lower sales volume for aggregates and premix, and a slightly lower selling price for aggregates.
Others	415.4	495.6	19.3	Higher contribution from the healthcare, building materials segments and Group treasury operations.
EBIT	475.4	464.2	(2.3)	Refer to segmental.
Property Development	154.0	94.5	(38.7)	Lower sales and progress billings from local development projects and no contribution from Avant Parc project in Singapore.
Property Investment	110.9	147.8	33.4	Boosted by the newly-opened Sunway Velocity Mall, theme parks and the refurbished Sunway Pyramid Hotels.
Construction	100.9	113.3	12.3	Higher progress billings and lower intra group revenue elimination.
Trading/Manufacturing	30.3	43.9	44.8	Higher revenue and margins.
Quarry	25.3	8.1	(67.9)	Lower operating margin and higher depreciation expenses.
Others	47.1	69.9	48.5	Higher contribution from the healthcare, building materials segments and group treasury operations.
Net Interest Expense	(34.2)	(31.8)	7.2	
Share of Associates/JCE	147.2	188.9	28.3	
PBT	588.5	621.3	5.6	
PAT	494.0	526.8	6.6	
PATAMI	400.1	455.7	13.9	
EI	(14.5)	(56.8)	(291.7)	Consist of fair value gain from SREIT.
Core Earnings	385.6	398.9	3.4	
Core EPS (sen)	18.8	19.5	3.3	
			YoY (ppt)	
EBIT Margin (%)	14.1	12.7	(1.4)	
Property Development	19.3	16.4	(2.9)	
Property Investment	21.3	23.9	2.5	
Construction	11.9	10.8	(1.0)	
Trading/Manufacturing	4.9	5.7	0.8	
Quarry	16.5	5.4	(11.0)	
Others	11.3	14.1	2.8	
PBT Margin Ex-Assoc (%)	13.1	11.8	(1.3)	

Sunway, HLIB

Figure #3 9M17 Results Vs. Consensus & HLIB Estimates

FYE Dec (RM m)	Actual 9M17	HLIB FY17	Actual vs HLIB (%)	Consensus FY17	Actual vs Consensus (%)	Comments
Revenue	3651.9	4798.8	76.1	5137.0	71.1	In line with HLIB.
Normalised PAT	398.9	585.5	68.1	558.7	71.4	Below HLIB but in line with consensus

Company, HLIB, Bloomberg

Figure #4 HLIB vs Consensus

FYE Dec (RM m)	FY17E			FY18F		
	HLIB	Consensus	(%)	HLIB	Consensus	(%)
Revenue	4,798.8	5,137.0	(6.6)	5,175.2	5,618.0	(7.9)
PATAMI	585.5	558.7	4.8	630.5	605.6	4.1

Bloomberg, HLIB

Figure #5 Peers comparison

Company	Segmental Profit Contribution (%)				FYE	Forward PE (x)	Net Gearing (x)	Div Yield (%)
	Property Development	Recurring Income	Construction	Others				
Sunway (RM1.64)	38%	23%	17%	Trading & Services - 22% (~9% from Healthcare)	Dec	12.6	0.36	3.2
IJM Corp (RM3.07)	14%	48%	15%	Manufacturing & Quarrying - 11% Plantation - 4%; Others - 8%	Mar	17.2	0.40	2.4
Gamuda (RM4.70)	22%	53%	25%	(Water & expressway concessions)	Jul	14.3	0.54	2.5

Company, HLIB

Figure #6 SOP valuation

Division	Stake	Value (RM m)	RM/share	Methodology
Construction (SunCon)	54.4%	1,821	0.38	Based on TP of RM 2.59
Sunway REIT	37.3%	1,902	0.40	Based on TP of RM 1.73
Property Development & Investment	100%	6,448	1.34	35% discount on estimated RNAV
Healthcare	100%	1,840	0.38	25X forward P/E
Trading/Manufacturing	100%	250	0.05	10X trailing P/E
Quarry	100%	191	0.04	10X trailing P/E
		12,452	2.59	
Holding Company Net Debt		(439)	(0.09)	
		12,014	2.50	
10% Holding Company Discount		(1,201)	(0.25)	
Equity Value (RM)		10,813	2.25	

HLIB

Financial Projections for Sunway (BUY; TP: RM2.25)

Income statement

FYE 31 Dec (RM m)	2015A	2016A	2017E	2018F	2019F
Revenue	4,448	4,656	4,774	5,000	5,343
Operating cost	(3,644)	(3,803)	(3,846)	(3,985)	(4,236)
EBITDA	804	852	928	1,015	1,108
D&A	(117)	(137)	(245)	(270)	(293)
Net Interest	(27)	(48)	(46)	(46)	(39)
Associates	202	125	127	133	140
Jointly controlled entities	68	67	67	67	87
Exceptionals	142	39	-	-	-
Pretax profit	930	859	830	899	1,003
Taxation	(131)	(140)	(153)	(168)	(186)
Minority Interest	(67)	(133)	(109)	(121)	(138)
PATAMI	732	586	568	610	679
Core Earning	591	547	568	610	679
Basic shares (m)	4,199	4,814	4,814	4,814	4,814
Core EPS (sen)	14.1	11.4	11.8	12.7	14.1
FD EPS (sen)	14.1	11.4	10.4	11.2	12.5

Balance sheet

FYE 31 Dec (RM m)	2015A	2016A	2017E	2018F	2019F
Fixed assets	5,296	5,910	6,164	6,394	6,602
Other long-term assets	3,966	3,827	3,845	3,912	3,998
Other short-term assets	2,740	4,503	4,299	4,292	4,520
Working capital	4,775	5,000	5,953	6,168	6,493
Receivables	1,823	1,892	1,962	2,039	2,156
Payables	2,258	2,438	3,008	3,099	3,236
Inventory	693	670	983	1,030	1,101
Net cash / (debt)	(4,404)	(5,461)	(4,919)	(4,799)	(4,864)
Cash	1,483	1,950	2,494	2,614	2,549
ST debt	3,069	4,858	7,413	7,413	7,413
LT debt	2,818	2,553	0	0	0
Shareholders' funds	7,213	8,233	8,660	9,102	9,609
Share capital	1,800	2,063	2,063	2,063	2,063
Reserves	3,195	3,549	3,866	4,188	4,556
Minorities	651	764	873	994	1,132
Other liabilities	5,159	5,545	6,683	6,865	7,140

Summary Earnings Table

Revenue	4,448	4,656	4,774	5,000	5,343
EBITDA	804	852	928	1,015	1,108
Core PATAMI	591	547	568	610	679
P/E (x)	11.7	14.4	13.9	12.9	11.6
BV / share	1.6	1.6	1.6	1.7	1.8
P/BV (x)	1.0	1.1	1.0	1.0	0.9
ROA (%)	3.7	2.9	2.9	3.0	3.2
ROE (%)	8.2	6.6	6.6	6.7	7.1

Cashflow

FYE 31 Dec (RM m)	2015A	2016A	2017E	2018F	2019F
EBIT	687	715	683	745	815
D&A	117	137	245	270	293
Working capital changes	78	(143)	439	(26)	(278)
Taxation	(144)	(109)	(153)	(168)	(186)
Others	(166)	(240)	(67)	(67)	(87)
Operating cashflow	940	668	1,481	1,096	932
Capex & acquisitions	(1,396)	(737)	(500)	(500)	(500)
Free cashflow	(456)	(69)	981	596	432
Others	(692)	(898)	-	-	-
Investing cashflow	(2,088)	(1,635)	(500)	(500)	(500)
Equity Raised	180	595	-	-	-
Others	(30)	(57)	-	-	-
Net Borrowing	1,764	1,427	-	-	-
Financing cashflow	1,116	1,537	(438)	(476)	(497)
Net cashflow	(32)	570	544	120	(65)

Valuation ratios

Net DPS (sen)	15.9	5.2	6.0	6.4	7.2
FCF/ share (sen)	(11)	(1)	20	12	9
FCF yield (%)	(6.6)	(0.9)	12.4	7.5	5.5
Market capitalization (m)	6,887	7,895	7,895	7,895	7,895
Net cash (m)	(4,404)	(5,461)	(4,919)	(4,799)	(4,864)
Enterprise value	11,291	13,356	12,814	12,694	12,759
EV/ EBITDA (x)	14.0	15.7	13.8	12.5	11.5

Growth margins ratios

Growth (%)					
Sales Growth	(2.4)	4.7	2.5	4.7	6.9
Operating expenses	(1.1)	4.4	1.1	3.6	6.3
EBITDA Growth	(8.1)	5.9	8.9	9.4	9.1
PBT Growth	(3.1)	(7.7)	(3.4)	8.3	11.6
PATMI	1.4	(7.3)	3.8	7.4	11.2
Basic EPS Growth	(2.5)	(19.2)	3.8	7.4	11.2

Assumption Metrics

Revenue	4448	4656	4774	5000	5343
Property	1196	1203	1084	1076	1331
Property Investment	639	692	758	777	788
Construction	1222	1137	1271	1405	1405
Trading/Manufacture	650	833	858	901	946
Quarry	242	207	207	218	218
Others	495	577	595	624	656
EBIT margin	15%	15%	14%	15%	15%

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Hong Leong Investment Bank Berhad (10209-W)
 Level 28, Menara Hong Leong,
 No. 6, Jalan Damansara,
 Bukit Damansara,
 50490 Kuala Lumpur,
 Malaysia.
 Tel 603 2083 1800
 Fax 603 2083 1990

Equity rating definitions

BUY	Positive recommendation of stock under coverage. Expected absolute return of more than +10% over 12-months, with low risk of sustained downside.
TRADING BUY	Positive recommendation of stock not under coverage. Expected absolute return of more than +10% over 6-months. Situational or arbitrage trading opportunity.
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Industry rating definitions

OVERWEIGHT	The sector, based on weighted market capitalization, is expected to have absolute return of more than +5% over 12-months.
NEUTRAL	The sector, based on weighted market capitalization, is expected to have absolute return between -5% and +5% over 12-months.
UNDERWEIGHT	The sector, based on weighted market capitalization, is expected to have absolute return of less than -5% over 12-months.