

HLIB Research

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BUY (Maintain)

Target Price: RM2.20
Previously: RM2.19
Current Price: RM1.56

Capital upside 52.3%
Dividend yield 4.2%
Expected total return 56.5%

Sector coverage: Property

Company description: Sunway is a conglomerate that engages in property development, property investment, construction, leisure and hospitality, education, trading and manufacturing, building materials and healthcare.

Share price



	1M	3M	12M
Absolute	-3.8	-7.4	-2.1
Relative	-2.0	-7.1	-6.6

Stock information

Bloomberg Ticker	SWB MK
Bursa Code	5211
Issued Shares (m)	4,873
Market cap (RM m)	7,358
3-mth avg. volume ('000)	3,056
SC Shariah-compliant	Yes

Major shareholders

Sungei Way Corp Sdn Bhd	55.2%
Amanah Saham	7.2%
EPF	5.8%
Cheah Fook Ling	5.1%

Earnings summary

	FY17	FY18f	FY19f
FYE (Dec)			
PATMI – core (RM m)	566.3	607.0	629.1
EPS – core (sen)	11.8	12.6	13.1
P/E (x)	13.3	12.4	11.9

Sunway

Exceeding sales target

Sunway's 1H18 core PATMI of RM262m (+5.7% YoY) was within expectations. Stronger QoQ results were driven by stronger contributions from all segments except for property investment while higher YoY results were mainly due to the lower share of minority interest. YTD estimated sales have exceeded FY18 sales target of RM1bn and unbilled sales has improved to RM1.4bn (1.4x cover). We adjust our FY18/19/20 forecasts by -1.9%/-10.9%/+2.0% to reflect the deferment of recognition following the adoption of MFRS 15 and revised forecasts for SunCon. Maintain BUY with higher SOP-derived valuation TP of RM2.20.

Within expectations. 1H18 revenue of RM2.6bn translated into core PATMI of RM262.1m, accounting for 42.4% and 43.3% of HLIB and consensus full year forecasts, respectively. We deem the results in line as 1H usually make up only 42-45% of full year earnings.

Dividend. Declared 1st interim dividend of 3.5 sen (2Q17: 3 sen) per share, going ex on 24 Sept 2018, representing an annualized yield of 4.5%.

QoQ. The decline in 2Q revenue (-1.6%) was mainly due by lower progressive billings from property development following the handover of Sunway V-Residence in 1Q. However, Core PATMI increased by 15.0%, in tandem with stronger contributions for all segments except for property investment due to lower leisure-related contribution.

YoY. Revenue grew by 3.8% with better contributions from all segments, except for quarry and property development, which was impacted by lower sales and progress billings from local projects. Core PATMI increased marginally (+1.0%), thanks to the lower share of minority interest for Sunway South Quay as it is now wholly-owned.

YTD. Revenue grew by 11.3% with better contributions from all segments, except for property development, which was impacted by lower progress billings and fewer local projects. Meanwhile, core PATMI improved by 5.7% to RM262.1m given the better performance for all segments other than building materials.

Property development. New effective sales of RM800m was achieved in 1H18 and YTD estimated sales has exceeded FY18 effective sales target of RM1bn, underpinned by the strong take-up of recent launches in Sunway GEOLake, Sunway Citrine Lakehomes and Sunway Gardens in Tianjin. Unbilled sales improved to RM1.4bn (1Q18: RM811m) representing 1.4x of FY17's property revenue, thanks to the strong sales in Rivercove Residences in Singapore.

Property investment. Better overall YoY performance was achieved with contributions from new Sunway Velocity Hotel and Sunway Geo.

Construction. Stronger YoY results due to higher progress billings and lower intra-group eliminations. SunCon's current order book stood at RM5.8bn (3x cover on FY17 revenue) and is targeting RM1.5 of new jobs in FY18 (RM854m has been achieved).

Forecast. We adjust our FY18/19/20 forecasts by -1.9%/-10.9%/+2.0% to reflect the deferment of recognition for its Rivercove Residences following the adoption of MFRS 15 and account for the revised forecasts for SunCon.

Maintain BUY with higher TP of RM2.20 (from RM2.19) based on a 10% holding discount from SOP-derived valuation of RM2.45 (Figure #2) after taking into account the updated TP of SunCon and SunREIT. We continue to like the resilient integrated real estate business model and earnings growth prospect with mature investment properties and underappreciated trading and healthcare businesses.

Financial Forecast

All items in (RM m) unless otherwise stated

Balance sheet

FYE Dec	FY16	FY17	FY18e	FY19f	FY20f
Fixed assets	5909.9	6611.5	6714.5	6809.1	6895.9
Other long-term assets	3827.5	4220.2	4230.2	4283.8	4413.4
Other short-term assets	4502.7	4083.1	3923.9	3926.7	4111.7
Working capital	4999.7	5808.8	6744.3	6870.1	7378.1
Receivables	1891.5	2220.8	2088.0	2132.0	2309.6
Payables	2438.2	2906.8	3536.0	3590.4	3810.2
Inventory	670.0	681.3	1120.3	1147.7	1258.4
Net cash / (debt)	(5461.1)	(5867.9)	(5082.4)	(4856.8)	(4749.2)
Cash	1950.4	2390.9	3977.0	5002.6	5910.2
ST debt	4858.4	4910.5	9059.4	9859.4	10659.4
LT debt	2553.1	3348.3	0.0	0.0	0.0
Equity	8233.2	8487.5	8904.4	9297.9	9875.4
Shareholders' funds	7469.7	7844.1	8162.3	8454.5	8913.0
Minorities	763.5	643.3	742.2	843.4	962.4
Other liabilities	5545.4	6368.2	7626.1	7734.9	8174.6

Cashflow

FYE Dec	FY16	FY17	FY18e	FY19f	FY20f
EBIT	715.1	686.6	706.6	749.0	862.2
D&A	137.2	139.0	206.6	215.0	222.9
Working capital change	(142.8)	(15.4)	250.7	(19.7)	(253.4)
Taxation	(108.7)	(175.0)	(155.8)	(167.5)	(202.1)
Others	(240.2)	(274.5)	(72.8)	(53.5)	(129.6)
Operating cashflow	668.1	779.9	1322.4	1138.0	1051.6
Capex & acquisitions	(737.1)	(1078.0)	(15.3)	(309.6)	(309.6)
Free cashflow	(69.0)	(298.2)	1307.1	828.4	742.0
Others	(898.1)	24.4	0.0	0.0	0.0
Investing cashflow	(1635.2)	(1053.7)	(15.3)	(309.6)	(309.6)
Equity Raised	595.0	(29.0)	0.0	0.0	0.0
Others	(56.9)	(8.3)	0.0	0.0	0.0
Net Borrowing	1427.4	1240.5	800.0	800.0	800.0
Financing cashflow	1536.8	706.7	279.0	197.2	165.6
Net cashflow	569.7	432.9	1586.1	1025.6	907.7

Growth ratios

FYE Dec	FY16	FY17	FY18e	FY19f	FY20f
Sales Growth	4.7	15.5	0.0	2.4	9.6
Operating expenses	4.4	19.6	(1.9)	1.8	9.0
EBITDA Growth	5.9	(3.1)	10.6	5.6	12.5
PBT Growth	(7.7)	2.7	(2.3)	4.2	25.4
PATMI	(7.3)	3.5	7.2	3.6	27.9
Core EPS Growth	(19.2)	3.5	7.2	3.6	27.9

Income statement

FYE Dec	FY16	FY17	FY18e	FY19f	FY20f
Revenue	4655.6	5375.4	5377.2	5508.8	6040.0
Operating cost	(3803.3)	(4549.7)	(4464.1)	(4544.7)	(4954.9)
EBITDA	852.2	825.7	913.2	964.1	1085.1
D&A	(137.2)	(139.0)	(206.6)	(215.0)	(222.9)
Net Interest	(48.0)	(22.6)	(57.3)	(51.3)	(20.1)
JV & Associates	191.9	218.1	212.4	200.1	283.5
Pretax profit	859.0	882.2	861.6	897.8	1125.6
Taxation	(140.4)	(149.4)	(155.8)	(167.5)	(202.1)
Minority Interest	(132.7)	(93.3)	(98.8)	(101.2)	(119.0)
PATAMI	585.9	639.5	607.0	629.1	804.5
Exceptionals	38.5	73.2	0.0	0.0	0.0
Core Earning	547.4	566.3	607.0	629.1	804.5
Basic shares (m)	4813.8	4813.8	4813.8	4813.8	4813.8
Consensus core PATMI			604.7	657.1	759.9
HLIB/ Consensus			100%	96%	106%

Valuation ratios

FYE Dec	FY16	FY17	FY18e	FY19f	FY20f
Net DPS (sen)	5.2	6.0	7.0	7.2	8.0
FCF/ share (sen)	(1.4)	(6.2)	27.2	17.2	15.4
FCF yield (%)	(91.9)	(397.0)	1740.6	1103.1	988.1
Market capitalization	7509.6	7509.6	7509.6	7509.6	7509.6
Net cash (m)	(5461.1)	(5867.9)	(5082.4)	(4856.8)	(4749.2)
Core EPS (sen)	11.4	11.8	12.6	13.1	16.7
FD EPS (sen)	11.4	10.4	11.1	11.6	14.8
P/E (x)	13.7	13.3	12.4	11.9	9.3
FD P/E (x)	13.7	15.0	14.0	13.5	10.6
BV / share	1.6	1.6	1.7	1.8	1.9
P/BV (x)	1.0	1.0	0.9	0.9	0.8
ROA (%)	2.9	2.8	2.8	2.7	3.2
ROE (%)	6.6	6.7	6.8	6.8	8.1
Enterprise value	12970.7	13377.5	12592.0	12366.4	12258.7
EV/ EBITDA (x)	15.2	16.2	13.8	12.8	11.3

Assumption Metrics

FYE Dec	FY16	FY17	FY18e	FY19f	FY20f
Revenue	4655.6	5375.4	5377.2	5508.8	6040.0
Property	1203.0	989.7	947.8	1042.7	1375.1
Property Investment	692.1	866.0	927.9	945.7	950.4
Construction	1137.4	1627.7	1510.4	1429.6	1508.1
Trading/Manufacture	833.3	996.5	1056.3	1119.6	1186.8
Quarry	207.4	202.1	212.2	212.2	222.8
Others	577.3	688.4	722.8	758.9	796.9
EBIT margin	15%	13%	13%	14%	14%

Figure #1 Quarterly results comparison

FYE Dec (RM m)	2Q17	1Q18	2Q18	QoQ	YoY	1H17	1H18	YoY
Revenue	1240.5	1308.4	1287.1	-1.6%	3.8%	2332.3	2595.5	11.3%
Property Development	271.1	132.3	88.7	-33.0%	-67.3%	414.4	221.0	-46.7%
Property Investment	207.4	220.0	216.7	-1.5%	4.5%	394.3	436.7	10.8%
Construction	310.9	443.7	449.7	1.3%	44.6%	627.7	893.4	42.3%
Trading/Manufacturing	226.0	278.3	286.4	2.9%	26.7%	471.2	564.7	19.8%
Quarry	58.7	50.0	57.9	15.8%	-1.4%	98.9	107.9	9.1%
Others	167.1	183.4	186.9	1.9%	11.8%	324.2	370.3	14.2%
EBIT	192.8	130.0	166.0	27.7%	-13.9%	310.7	296.0	-4.7%
Property Development	65.8	17.6	44.0	150.0%	-33.1%	73.7	61.6	-16.4%
Property Investment	43.0	59.3	54.1	-8.7%	25.9%	87.1	113.4	30.2%
Construction	40.8	38.8	46.2	19.0%	13.3%	75.5	85.0	12.6%
Trading/Manufacturing	13.9	14.0	16.4	17.6%	17.8%	26.5	30.4	14.8%
Quarry	4.2	2.2	3.6	60.1%	-14.6%	5.1	5.8	14.2%
Others	25.3	14.8	21.6	46.1%	-14.4%	45.3	36.4	-19.6%
Net Interest Expense	(18.7)	(7.6)	(12.8)	-67.7%	31.7%	(25.5)	(20.4)	19.8%
Share of Associates/JCE	96.1	38.5	89.0	131.3%	-7.4%	139.4	127.5	-8.5%
PBT	270.2	160.9	242.2	50.6%	-10.3%	424.6	403.1	-5.1%
PAT	232.0	137.5	215.8	56.9%	-7.0%	359.1	353.2	-1.6%
PATAMI	195.7	121.9	199.4	63.6%	1.9%	304.9	321.3	5.4%
EI	(56.8)	0.0	(59.2)	NM	-4.2%	(56.8)	(59.2)	-4.2%
Core Earnings	138.9	121.9	140.2	15.0%	1.0%	248.1	262.1	5.7%
Core EPS (sen)	2.9	2.5	2.9	15.5%	-0.9%	5.2	5.4	2.9%

Sunway, HLIB

Figure #2 SOP Table

Division	Stake	Value (RM m)	RM/share	Methodology
Construction (SunCon)	54.4%	1,582	0.33	Based on TP of RM 2.25
Sunway REIT	39.3%	2,105	0.44	Based on TP of RM 1.82
Property Development & Investment	100%	6,448	1.34	40% discount on estimated RNAV
Healthcare	100%	1,840	0.38	25X forward P/E
Trading/Manufacturing	100%	315	0.07	10X trailing P/E
Quarry	100%	83	0.02	10X trailing P/E
		12,373	2.57	
Holding Company Net Debt		(594)	(0.12)	
		11,779	2.45	
10% Holding Company Discount		(1,178)	(0.25)	
Equity Value (RM)		10,601	2.20	

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Stock rating definitions

BUY	Expected absolute return of +10% or more over the next 12-months.
HOLD	Expected absolute return of -10% to +15% over the next 12-months.
SELL	Expected absolute return of -10% or less over the next 12-months.
UNDER REVIEW	Rating on the stock is temporarily under review which may or may not result to a change from the previous rating.
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