

HLIB Research

PP 9484/12/2012 (031413)

Andrew Lim Ken-Wern
kwl@hlib.hongleong.com.my

(603) 2083 1730

BUY (Maintain)

Target Price: RM2.17
Previously: RM2.17
Current Price: RM1.77

Capital upside	22.6%
Dividend yield	5.0%
Expected total return	27.6%

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


Historical return (%)	1M	3M	12M
Absolute	4.7	11.7	24.6
Relative	3.3	11.9	32.6

Stock information

Bloomberg Ticker	SWB MK
Bursa Code	5211
Issued Shares (m)	4,908
Market cap (RM m)	8,688
3-mth avg. volume ('000)	3,458
SC Shariah-compliant	Yes

Major shareholders

Sungei Way Corp Sdn Bhd	56.7%
EPF	7.2%

Earnings summary

FYE (Dec)	FY18	FY19f	FY20f
PATMI – core (RM m)	569.4	620.9	697.6
EPS – core (sen)	11.7	12.7	14.3
P/E (x)	15.2	13.9	12.4

Sunway

On the right track

Sunway's 9MFY19 core PATMI of RM416.8m (+2.3% YoY) was within expectations given the expectation of a strong 4Q19 as Sunway is expected to recognise the Tianjin project. 9M19 effective sales stood at RM720m (72% of FY19 target) while unbilled sales stood at RM2.1bn (cover ratio of 3.4x). We tweak our FY19/20/21 earnings forecasts marginally by -1.0%/-1.2%/-3.4% and maintain our BUY rating with an unchanged TP of RM2.17 based on a 10% holding discount from SOP-derived valuation of RM2.41.

Within expectations. Sunway's 3QFY19 core PATMI of RM166.9m (+49.2% QoQ, +14.8% YoY), brings the 9MFY19 sum to RM416.8m (+2.3% YoY), forming 66.4% and 67% of ours and consensus full year forecasts, respectively. We deem this within expectations as we note that Sunway is expected to recognise a lumpy recognition of earnings (c.RM55m) from the Tianjin project in 4Q19, due to MFRS15. The 9MFY19 core PATMI sum has been arrived after subtracting RM43.6m in disposal gains from the sale of Sunway University (concluded in Apr), RM30.2m in reversal of provision for deferred taxation, and a RM43.6m revaluation gain. No dividends were declared.

QoQ. Core PATMI increased 49.2% to RM166.9m largely due to higher progressive billings from the property development segment coupled with improvements from the investment holdings segment (i.e. treasury operations).

YoY. Core PATMI fell -14.8% in tandem with the decrease in revenue from all segments except the quarry segment.

YTD. Core PATMI remained relatively flat (+2.3%) at RM416.8m as the lower revenue (-15.2%) recorded was offset by improvements from the investment holdings segment coupled with a lower effective tax rate.

Property development. New effective sales of RM210m was achieved in 3Q19, bringing 9MFY19 effective sales to RM720m, representing 72% of its full year target. Unbilled sales stood at RM2.1bn, representing a strong cover ratio of 3.4x on FY18's property revenue. Sunway has revised its GDV launch target for FY19 downwards as the Brookvale launch has been replaced by Sunway Avila (Tower B). Nonetheless, we note that the delay is rather minor (i.e. less than 6 months) and management still maintains its FY19 effective sales target of RM1bn.

Construction. SunCon reported 9MFY19 core earnings of RM97.8m (-10% YoY) while current orderbook stands at RM5.6bn which implies a healthy cover of 2.5x on FY18 construction revenue.

Healthcare. The healthcare segment reported a healthy RM50.4m PBT (9MFY19), well in line with our full year expectations of c.RM60m. We expect the initial operating losses of the new hospital to be offset by the increasing contributions from SMC3.

Forecast. We tweak our FY19/20/21 earnings forecasts marginally by -1.0%/-1.2%/-3.4% post model up-keeping and imputing higher distribution to sukuk holders.

Maintain BUY with an unchanged TP of RM2.17 based on a 10% holding discount from SOP-derived valuation of RM2.41. Sunway remains our top pick given its well-integrated property and construction segments. Its hidden gem, the healthcare business (with 4 new hospitals coming on stream over the next three years) has yet to be appreciated as it is embedded within the parent-co. These coupled with the resilient earnings from mature investment properties alongside its growing building materials business and quarry operations justifies for the re-rating of the stock.

Financial Forecast

All items in (RM m) unless otherwise stated

Balance Sheet

FYE Dec	FY17	FY18	FY19f	FY20f	FY21f
Cash	2,382.9	2,609.6	3,684.7	4,159.2	4,560.9
Placement in funds	2,035.7	2,526.5	2,526.5	2,526.5	2,526.5
Receivables	1,659.1	1,514.5	1,752.4	1,868.7	1,966.2
Inventories	785.9	849.2	1,460.3	1,557.3	1,638.5
Others	12,642.0	13,508.3	12,903.3	13,174.5	13,570.7
Assets	19,505.6	21,008.1	22,327.2	23,286.2	24,262.8
Payables	1,520.1	1,336.2	1,752.4	1,868.7	1,966.2
Debt	7,779.4	8,873.2	9,373.2	9,873.2	10,373.2
Others	1,693.8	1,704.5	1,705.4	1,705.4	1,705.4
Liabilities	10,993.3	11,913.9	12,831.0	13,447.3	14,044.8
Shareholder's equity	7,890.7	8,074.4	8,411.1	8,677.3	8,977.1
Minority interest	621.5	619.8	685.1	761.6	840.9
Perpetual bond	-	400.0	400.0	400.0	400.0
Equity	8,512.2	9,094.2	9,496.3	9,838.9	10,218.0
					-

Cash Flow Statement

FYE Dec	FY17	FY18	FY19f	FY20f	FY20f
Profit before taxation	879.1	850.0	896.0	1,018.0	1,090.6
D&A	137.2	129.9	149.6	226.7	234.5
Working capital	(127.0)	(14.3)	(131.0)	(148.2)	(176.6)
Taxation	(108.7)	(175.0)	(109.2)	(160.3)	(180.6)
Others	12.9	56.4	94.9	10.4	(59.7)
CFO	793.5	847.1	900.3	946.6	908.2
Capex	(396.6)	(464.1)	(300.0)	(300.0)	(300.0)
Others	(213.6)	(949.3)	550.0	-	-
CFI	(610.2)	(1,413.4)	250.0	(300.0)	(300.0)
Changes in debt	760.5	1,130.6	500.0	500.0	500.0
Shares issued	(29.0)	397.1	-	-	-
Dividends	(276.3)	(382.3)	(347.1)	(431.5)	(453.5)
Others	(213.0)	(291.0)	(228.1)	(240.6)	(253.1)
CFF	242.2	854.4	(75.2)	(172.1)	(206.5)
Net cash flow	425.6	288.1	1,075.2	474.5	401.7
Forex	(12.2)	(17.1)	-	-	-
Others	146.0	101.7	-	-	-
Beginning cash	1,823.5	2,236.9	2,609.6	3,684.7	4,159.2
Ending cash	2,236.9	2,609.6	3,684.7	4,159.2	4,560.9

Income statement

FYE Dec	FY17	FY18	FY19f	FY20f	FY21f
Revenue	5239.3	5410.2	5330.2	5684.1	5980.5
Operating cost	(4456.0)	(4701.1)	(4496.6)	(4759.6)	(4997.9)
EBITDA	783.3	709.1	833.5	924.5	982.6
D&A	(130.2)	(149.9)	(226.7)	(234.5)	(241.4)
Net Interest	19.6	61.6	61.3	62.5	70.6
JV & Associates	206.5	229.3	228.0	265.5	278.9
Pretax profit	879.1	850.0	896.0	1018.0	1090.6
Taxation	(149.4)	(121.6)	(160.3)	(180.6)	(194.8)
Minority Interest	(102.3)	(70.0)	(65.3)	(76.5)	(79.2)
Holders of Perpetual	0.0	0.0	(49.5)	(63.3)	(63.3)
PATAMI	627.5	658.4	620.9	697.6	753.3
Exceptionals	73.2	89.0	0.0	0.0	0.0
Core Earning	554.3	569.4	620.9	697.6	753.3
Basic shares (m)	4813.8	4875.0	4875.0	4875.0	4875.0
Consensus core PATMI			622.1	682.1	755.4
HLIB/ Consensus			100%	102%	100%

Valuation ratios

FYE Dec	FY17	FY18	FY19f	FY20f	FY21f
Net DPS (sen)	6.0	7.1	8.9	9.3	10.0
Yield (%)	3.4	4.0	5.0	5.3	5.7
Core EPS (sen)	11.5	11.7	12.7	14.3	15.5
P/E (x)	15.4	15.2	13.9	12.4	11.5
Market capitalization (m)	8520.5	8628.8	8628.8	8628.8	8628.8
Net cash (m)	(3360.8)	(3737.2)	(3162.0)	(3187.5)	(3285.8)
Net gearing (%)	0.39	0.41	0.33	0.32	0.32
BV / share	1.8	1.9	1.9	2.0	2.1
P/BV (x)	1.0	0.9	0.9	0.9	0.8
ROA (%)	2.8	2.7	2.8	3.0	3.1
ROE (%)	6.5	6.3	6.5	7.1	7.4
Enterprise value	11881.3	12365.9	11790.8	11816.3	11914.6
EV/ EBITDA (x)	15.2	17.4	14.1	12.8	12.1

Margin ratios

FYE Dec	FY17	FY18	FY19f	FY20f	FY21f
EBITDA Margin	15.0	13.1	15.6	16.3	16.4
PBT Margin	16.8	15.7	16.8	17.9	18.2
PATMI	10.6	10.5	11.6	12.3	12.6

Figure #1 Quarterly results comparison

FYE Dec (RM m)	3Q18	2Q19	3Q19	QoQ	YoY	9M18	9M19	YoY
Revenue	1,444.6	1,077.2	1,226.5	13.9%	-15.1%	4,040.1	3,427.3	-15.2%
Property Development	194.8	113.6	126.2	11.1%	-35.2%	415.8	327.7	-21.2%
Property Investment	237.8	176.1	209.7	19.1%	-11.8%	674.5	582.5	-13.6%
Construction	465.4	293.5	315.6	7.5%	-32.2%	1,358.8	955.2	-29.7%
Trading/Manufacturing	296.9	230.0	246.2	7.0%	-17.1%	861.6	727.6	-15.5%
Quarry	56.3	52.6	114.9	118.2%	104.2%	164.2	211.7	29.0%
Healthcare	-	140.8	154.4	9.6%	N.M.	-	422.0	N.M.
Investment Holdings	1.8	(0.8)	2.5	-403.3%	38.3%	3.4	2.5	-25.7%
Others*	191.7	71.4	57.0	-20.2%	-70.3%	562.0	198.1	-64.8%
EBIT	159.8	167.3	174.2	4.1%	9.0%	455.8	459.2	0.8%
Property Development	33.9	21.6	45.1	108.3%	33.0%	95.5	85.6	-10.4%
Property Investment	60.2	67.1	52.2	-22.1%	-13.2%	173.6	172.1	-0.8%
Construction	47.6	41.5	34.9	-15.9%	-26.7%	132.7	116.4	-12.3%
Trading/Manufacturing	17.6	8.5	16.7	95.6%	-5.0%	47.9	34.0	-29.0%
Quarry	2.4	1.2	3.9	227.0%	67.4%	8.1	6.2	-23.6%
Healthcare	-	17.6	14.7	-16.8%	N.M.	-	45.4	N.M.
Investment Holdings	(23.9)	3.5	0.5	-86.8%	-101.9%	(60.5)	(17.6)	-70.9%
Others*	22.0	6.2	6.2	N.M.	-71.6%	58.4	17.1	-70.8%
Net Interest	(3.4)	3.8	1.1	N.M.	N.M.	(23.9)	22.7	-195.1%
Share of Associates/JCE	37.7	82.1	48.1	-41.5%	27.6%	165.2	171.9	4.1%
PBT	194.0	253.2	223.3	-11.8%	15.1%	597.1	653.8	9.5%
PAT	166.9	262.6	202.3	-23.0%	21.2%	520.1	616.8	18.6%
MI	(21.6)	(16.2)	(18.8)	16.7%	-12.7%	(53.5)	(50.5)	-5.5%
Holders of Perpetual Sukuk	-	(16.2)	(16.5)	1.8%	N.M.	-	(38.0)	N.M.
PATAMI	145.3	230.3	166.9	-27.5%	14.8%	466.7	528.3	13.2%
EI	-	(111.5)	-	N.M.	N.M.	(59.2)	(111.5)	88.4%
Core Earnings	145.3	111.9	166.9	49.2%	14.8%	407.5	416.8	2.3%
EBIT margin	11.1%	15.5%	14.2%	-1.3%	3.1%	11.3%	13.4%	2.1%
PBT margin	13.4%	23.5%	18.2%	-5.3%	4.8%	14.8%	19.1%	4.3%
PAT margin	10.1%	10.4%	13.6%	3.2%	3.5%	10.1%	12.2%	2.1%

Sunway, HLIB

*Others segment previously included the Healthcare segment in FY18

Figure #2 SOP table

Division	Stake	Value (RM m)	RM/share	Methodology
Construction (SunCon)	54.56%	1,523	0.31	Based on TP of RM 2.16
Sunway REIT	40.88%	2,215	0.45	Based on TP of RM 1.84
Property Development & Investment	100%	5,984	1.23	Discounted RNAV
Healthcare	100%	1,734	0.36	25X forward P/E
Trading/Manufacturing	100%	388	0.08	10X trailing P/E
Quarry	100%	90	0.02	10X trailing P/E
		11,934	2.45	
Holding Company Net Debt		(188)	(0.04)	
		11,746	2.41	
10% Holding Company Discount		-1,175	(0.24)	
Equity Value (RM)		10,572	2.17	

HLIB Research

Disclaimer

The information contained in this report is based on data obtained from sources believed to be reliable. However, the data and/or sources have not been independently verified and as such, no representation, express or implied, are made as to the accuracy, adequacy, completeness or reliability of the info or opinions in the report.

Accordingly, neither Hong Leong Investment Bank Berhad nor any of its related companies and associates nor person connected to it accept any liability whatsoever for any direct, indirect or consequential losses (including loss of profits) or damages that may arise from the use or reliance on the info or opinions in this publication.

Any information, opinions or recommendations contained herein are subject to change at any time without prior notice. Hong Leong Investment Bank Berhad has no obligation to update its opinion or the information in this report.

Investors are advised to make their own independent evaluation of the info contained in this report and seek independent financial, legal or other advice regarding the appropriateness of investing in any securities or the investment strategies discussed or recommended in this report. Nothing in this report constitutes investment, legal, accounting or tax advice or a representation that any investment or strategy is suitable or appropriate to your individual circumstances or otherwise represents a personal recommendation to you.

Under no circumstances should this report be considered as an offer to sell or a solicitation of any offer to buy any securities referred to herein.

Hong Leong Investment Bank Berhad and its related companies, their associates, directors, connected parties and/or employees may, from time to time, own, have positions or be materially interested in any securities mentioned herein or any securities related thereto, and may further act as market maker or have assumed underwriting commitment or deal with such securities and provide advisory, investment or other services for or do business with any companies or entities mentioned in this report. In reviewing the report, investors should be aware that any or all of the foregoing among other things, may give rise to real or potential conflict of interests.

This research report is being supplied to you on a strictly confidential basis solely for your information and is made strictly on the basis that it will remain confidential. All materials presented in this report, unless specifically indicated otherwise, are under copyright to Hong Leong Investment Bank Berhad. This research report and its contents may not be reproduced, stored in a retrieval system, redistributed, transmitted or passed on, directly or indirectly, to any person or published in whole or in part, or altered in any way, for any purpose.

This report may provide the addresses of, or contain hyperlinks to websites. Hong Leong Investment Bank Berhad takes no responsibility for the content contained therein. Such addresses or hyperlinks (including addresses or hyperlinks to Hong Leong Investment Bank Berhad own website material) are provided solely for your convenience. The information and the content of the linked site do not in any way form part of this report. Accessing such website or following such link through the report or Hong Leong Investment Bank Berhad website shall be at your own risk.

1. As of 22 November 2019, Hong Leong Investment Bank Berhad has proprietary interest in the following securities covered in this report:

(a) -

2. As of 22 November 2019, the analyst(s) whose name(s) appears on the front page, who prepared this report, has interest in the following securities covered in this report:

(a) -

Published & printed by:

Hong Leong Investment Bank Berhad (10209-W)

Level 28, Menara Hong Leong,
No. 6, Jalan Damanlela,
Bukit Damansara,
50490 Kuala Lumpur
Tel: (603) 2083 1800
Fax: (603) 2083 1766

Stock rating guide

BUY	Expected absolute return of +10% or more over the next 12 months.
HOLD	Expected absolute return of -10% to +10% 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 in a change from the previous rating.
NOT RATED	Stock is not or no longer within regular coverage.

Sector rating guide

OVERWEIGHT	Sector expected to outperform the market over the next 12 months.
NEUTRAL	Sector expected to perform in-line with the market over the next 12 months.
UNDERWEIGHT	Sector expected to underperform the market over the next 12 months.

The stock rating guide as stipulated above serves as a guiding principle to stock ratings. However, apart from the abovementioned quantitative definitions, other qualitative measures and situational aspects will also be considered when arriving at the final stock rating. Stock rating may also be affected by the market capitalisation of the individual stock under review.