

HLIB Research

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Andrew Lim Ken-Wern

kylim@hlib.hongleong.com.my

(603) 2083 1730

BUY (Maintain)

Target Price: RM2.18

Previously: RM2.18

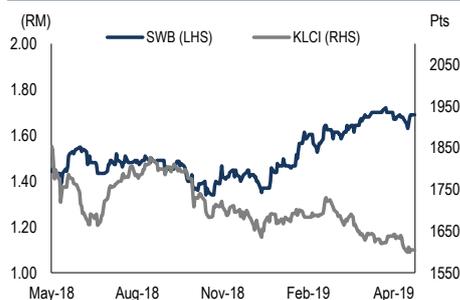
Current Price: RM1.69

Capital upside	29.0%
Dividend yield	4.2%
Expected total return	33.2%

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	-1.2	1.6	13.0
Relative	0.0	9.4	30.7

Stock information

Bloomberg Ticker	SWB MK
Bursa Code	5211
Issued Shares (m)	4,886
Market cap (RM m)	8,258
3-mth avg. volume ('000)	2,586
SC Shariah-compliant	Yes

Major shareholders

Sungei Way Corp Sdn Bhd	56.4%
EPF	7.2%
Cheah Fook Ling	5.2%

Earnings summary

FYE (Dec)	FY18	FY19f	FY20f
PATMI – core (RM m)	569.4	631.5	695.4
EPS – core (sen)	11.7	13.0	14.3
P/E (x)	14.5	13.0	11.8

Sunway

Starting the year right

Sunway's 1QFY19 core PATMI of RM131.2m (-19.3% QoQ, +9.4% YoY) was within expectations as 1Q numbers are seasonally weaker. Weaker results QoQ was largely due to lower contributions from all segments coupled with lower net interest and JV contributions. Stronger YoY results were mainly due to higher net interest and improved JV contributions. New effective sales of RM172m were achieved and management is maintaining its FY19 sales target of RM1.7bn as it notes that 1Q sales are typically slow. Unbilled sales stood at RM1.8bn (strong cover ratio of 2.9x on FY18's property revenue). The healthcare segment is now reported as a standalone segment, as opposed to being grouped under the Others segment. We introduce FY21 numbers and maintain our BUY call with an unchanged SOP-derived valuation TP of RM2.18.

Within expectations. 1QFY19 core PATMI of RM131.2m was within expectations, accounting for 20.8% and 20.9% of HLIB and consensus full year forecasts, respectively. We deem the results within expectations as 1Q numbers are typically weaker and the earnings recognition of the Tianjin project to filter in to FY19. No dividends were declared.

QoQ. Revenue decreased -18.0% mainly due to lower contributions from all segments except Trading and Manufacturing. Core PATMI decreased -19.3% to RM131.2m in tandem with revenue coupled with lower net interest and JV contributions.

YoY. Despite revenue decreasing -12.3%, core PATMI increased +9.4% attributed to higher net interest and improved JV contributions.

Property development. New effective sales of RM172m (+22% YoY) was achieved in 1Q19, representing 10% of FY19 sales target of RM1.7bn. Management is still maintaining its sales target as it notes that 1Q sales are typically slow. Unbilled sales stood at RM1.8bn (4Q18: RM2.1bn) representing a strong cover ratio of 2.9x on FY18's property revenue.

Property investment. Improved PBT contribution YoY was achieved mainly due to higher contributions from Sunway Geo and theme parks. On the other hand, weaker PBT contribution QoQ was largely attributed to seasonality factor.

Construction. SunCon's 1QFY19 recorded lower PBT (-5% YoY) largely due to substantial completion of project Parcel F, Putrajaya and delay in both LRT 3 and MRT 2 work packages from the review of station works. SunCon's current orderbook stands at RM5.4bn (ex. Precast) which implies a healthy cover of 2.6x on FY18 construction revenue.

Healthcare. The healthcare segment is now reported as a standalone segment, as opposed to being grouped under the Others segment. We believe the reported PBT of c.RM60m recorded in FY18 will be sustained in FY19 as the initial operating losses of the new hospital should be offset by the increasing contributions from SMC3.

Forecast. We introduce FY21 numbers with core PATMI at RM769.8m.

Maintain BUY with unchanged **TP** of **RM2.18** based on a 10% holding discount from SOP-derived valuation of RM2.42 (Figure #2). Despite the down cycle of both property development and construction sectors, we continue to like its resilient integrated real estate business model and earnings growth prospect with mature investment properties and underappreciated trading and healthcare businesses.

Figure #1 Quarterly results comparison

FYE Dec (RM m)	1Q18	4Q18	1Q19	QoQ	YoY
Revenue	1,281.5	1,370.2	1,123.6	-18.0%	-12.3%
Property Development	132.3	203.8	87.9	-56.9%	-33.6%
Property Investment	193.0	140.3	196.7	40.2%	1.9%
Construction	443.7	489.1	346.2	-29.2%	-22.0%
Trading/Manufacturing	278.3	241.8	251.3	3.9%	-9.7%
Quarry	50.0	59.2	44.2	-25.3%	-11.6%
Healthcare	101.9	-	126.8	N.M.	24.4%
Others*	82.3	235.9	70.5	-70.1%	-14.3%
EBIT	128.6	104.1	117.8	13.1%	-8.4%
Property Development	17.6	22.5	18.9	-16.0%	7.2%
Property Investment	59.3	40.8	52.8	29.5%	-10.9%
Construction	38.8	48.3	40.0	-17.2%	2.9%
Trading/Manufacturing	14.0	13.0	8.8	-32.1%	-36.8%
Quarry	2.2	2.4	1.1	-55.6%	-52.0%
Healthcare	-	-	13.1	N.M.	N.M.
Others*	(3.4)	(22.8)	(16.9)	N.M.	N.M.
Net Interest	(7.6)	85.4	17.8	N.M.	N.M.
Share of Associates/JCE	36.2	64.0	41.7	-34.8%	15.3%
PBT	159.2	253.6	177.3	-30.1%	11.4%
PAT	136.2	208.9	151.9	-27.2%	11.6%
MI	(16.3)	(16.5)	(15.5)	-6.1%	-4.8%
Holders of Perpetual Sukuk	-	-	(5.3)	N.M.	N.M.
PATAMI	119.9	192.3	131.2	-31.8%	9.4%
EI	-	(29.8)	-	N.M.	N.M.
Core Earnings	119.9	162.5	131.2	-19.3%	9.4%

Sunway, HLIB

*Others segment previously included the Healthcare segment

Figure #2 SOP Table

Division	Stake	Value (RM m)	RM/share	Methodology
Construction (SunCon)	54.40%	1,238	0.25	Based on TP of RM 1.76
Sunway REIT	40.90%	2,215	0.45	Based on TP of RM 1.84
Property Development & Investment	100%	7,150	1.47	Discounted RNAV
Healthcare	100%	1,492	0.31	25X forward P/E
Trading/Manufacturing	100%	388	0.08	10X trailing P/E
Quarry	100%	90	0.02	10X trailing P/E
		12,573	2.58	
Holding Company Net Debt		(738)	(0.15)	
		11,835	2.43	
10% Holding Company Discount		(-1,183)	(0.24)	
Equity Value (RM)		10,651	2.18	

HLIB Research

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	3,770.0	4,319.3	4,777.8
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	1,805.9	1,893.2	1,985.8
Inventories	785.9	849.2	1,504.9	1,577.6	1,654.8
Others	12,642.0	13,508.3	12,946.5	13,257.6	13,731.5
Assets	19,505.6	21,008.1	22,553.8	23,574.2	24,676.4
Payables	1,520.1	1,336.2	1,956.4	2,050.9	2,151.3
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	13,035.0	13,629.5	14,229.9
Shareholder's equity	7,890.7	8,074.4	8,427.6	8,775.7	9,197.8
Minority interest	621.5	619.8	691.2	769.0	848.7
Perpetual bond	-	400.0	400.0	400.0	400.0
Equity	8,512.2	9,094.2	9,518.8	9,944.7	10,446.5
					-

Cash Flow Statement

FYE Dec	FY17	FY18	FY19f	FY20f	FY20f
Profit before taxation	218.0	303.3	194.3	202.7	260.4
D&A	783.3	709.1	833.7	887.5	943.1
Working capital	(14.3)	(131.0)	(42.3)	(145.1)	(274.7)
Taxation	(175.0)	(109.2)	(156.9)	(168.8)	(178.2)
Others	(18.5)	74.9	158.0	168.3	116.4
CFO	793.5	847.1	986.8	944.6	867.0
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)	(341.3)	(347.3)	(347.7)
Others	(213.0)	(291.0)	(235.1)	(248.0)	(260.9)
CFF	242.2	854.4	(76.3)	(95.3)	(108.6)
Net cash flow	425.6	288.1	1,160.5	549.3	458.4
Forex	(12.2)	(17.1)	-	-	-
Others	146.0	101.7	-	-	-
Beginning cash	1,823.5	2,236.9	2,609.6	3,770.0	4,319.3
Ending cash	2,236.9	2,609.6	3,770.0	4,319.3	4,777.8

Income statement

FYE Dec	FY17	FY18	FY19f	FY20f	FY21f
Revenue	5239.3	5410.2	5492.9	5758.4	6040.2
Operating cost	(4456.0)	(4701.1)	(4659.2)	(4870.9)	(5097.1)
EBITDA	783.3	709.1	833.7	887.5	943.1
D&A	(130.2)	(149.9)	(183.6)	(193.5)	(202.6)
Net Interest	19.6	61.6	3.8	9.3	2.0
JV & Associates	206.5	229.3	228.0	260.7	307.2
Pretax profit	879.1	850.0	881.8	964.0	1049.7
Taxation	(149.4)	(121.6)	(156.9)	(168.8)	(178.2)
Minority Interest	(102.3)	(70.0)	(71.4)	(77.8)	(79.7)
Holders of Perpetual	0.0	0.0	(22.0)	(22.0)	(22.0)
PATAMI	627.5	658.4	631.5	695.4	769.8
Exceptionals	73.2	89.0	0.0	0.0	0.0
Core Earning	554.3	569.4	631.5	695.4	769.8
Basic shares (m)	4813.8	4875.0	4875.0	4875.0	4875.0
Consensus core PATMI			627.4	689.5	740.0
HLIB/ Consensus			101%	101%	104%

Valuation ratios

FYE Dec	FY17	FY18	FY19f	FY20f	FY21f
Net DPS (sen)	6.0	7.0	7.1	7.1	7.9
Yield (%)	3.6	4.1	4.2	4.2	4.7
Core EPS (sen)	11.5	11.7	13.0	14.3	15.8
P/E (x)	14.7	14.5	13.0	11.8	10.7
Market capitalization (m)	8135.4	8238.8	8238.8	8238.8	8238.8
Net cash (m)	(5396.5)	(6263.7)	(5603.2)	(5553.9)	(5595.5)
Net gearing (%)	0.63	0.69	0.59	0.56	0.54
BV / share	1.8	1.9	2.0	2.0	2.1
P/BV (x)	1.0	0.9	0.9	0.8	0.8
ROA (%)	2.8	2.7	2.8	2.9	3.1
ROE (%)	6.5	6.3	6.6	7.0	7.4
Enterprise value	13531.9	14502.4	13841.9	13792.6	13834.2
EV/ EBITDA (x)	17.3	20.5	16.6	15.5	14.7

Margin ratios

FYE Dec	FY17	FY18	FY19f	FY20f	FY21f
EBITDA Margin	15.0	13.1	15.2	15.4	15.6
PBT Margin	16.8	15.7	16.1	16.7	17.4
PATMI	10.6	10.5	11.5	12.1	12.7

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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

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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.
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Sector rating guide

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