

HLIB Research

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

(603) 2083 1730

BUY (Maintain)

Target Price: RM2.17
Previously: RM2.18
Current Price: RM1.57

Capital upside	38.2%
Dividend yield	5.7%
Expected total return	43.9%

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	-6.5	-6.5	1.6
Relative	-3.2	-5.9	15.8

Stock information

Bloomberg Ticker	SWB MK
Bursa Code	5211
Issued Shares (m)	4,877
Market cap (RM m)	7,656
3-mth avg. volume ('000)	3,921
SC Shariah-compliant	Yes

Major shareholders

Sungei Way Corp Sdn Bhd	56.5%
EPF	7.3%

Earnings summary

FYE (Dec)	FY18	FY19f	FY20f
PATMI – core (RM m)	569.4	627.3	695.3
EPS – core (sen)	11.7	12.9	14.3
P/E (x)	13.4	12.2	11.0

Sunway

Strong dividends ahead

Sunway's 1HFY19 core PATMI of RM256.9m (-1.3% YoY) was within expectations given the expectation of a stronger 2H. 1H19 effective sales stood at RM510m (51% of FY19 target) while unbilled sales stood at RM2.1bn (cover ratio of 3.4x). Minimal changes to forecast after imputing SunCon's latest earnings. Maintain BUY with TP of RM2.17 (from RM2.18) based on a 10% holding discount from SOP-derived valuation of RM2.41 after imputing SunCon's latest TP.

Within expectations. Sunway's 2QFY19 core PATMI of RM118.8m (-13.9% QoQ, -15.4% YoY), brings the 1HFY19 sum to RM256.9m (-1.3% YoY), forming 41% of ours and consensus full year forecasts. We deem this within expectations as we note that 1H typically makes up 45% of full year earnings coupled with a lumpy recognition of earnings (c.RM55m) from the Tianjin project to be recognised by 4Q19, due to MFRS15. Despite strong reported headline earnings (RM361.4m, +13.2% YoY), the 1HFY19 core PATMI sum has been arrived after subtracting RM43.6m in disposal gains from the sale of Sunway University (concluded in Apr), RM23.3m in reversal of provision for deferred taxation, and a RM43.6m fair value gain from revaluation.

Dividend. Proposed first interim dividend of 3 sen per share and a distribution of 1 treasury share for every 100 existing shares (based on closing price RM1.57), bringing 2QFY19 proposed dividend effectively to 4.57 sen per share (2QFY18: 3.5). We are positive on the recently proposed dividend and believe FY19 dividends to be able to record up to 9 sen per share, representing a 5.7% yield.

QoQ. Core PATMI decreased -13.9% to RM118.8m in tandem with the decrease in revenue from property investment, construction and trading/manufacturing segments coupled with lower net interest.

YoY. Core PATMI fell -15.4% in tandem with the decrease in revenue all segments except property development and the healthcare segments.

YTD. Core PATMI remained relatively flat (-1.3%) at RM256.9m as the lower revenue (-13.4%) recorded was offset by higher net interest.

Property development. New effective sales of RM338m was achieved in 1Q19, bringing 1H19 effective sales to RM510m, representing 51% of its full year target. Unbilled sales stood at RM2.1bn, representing a strong cover ratio of 3.4x on FY18's property revenue.

Construction. SunCon reported 1HFY19 core earnings of RM62.2m (-13% YoY) while current orderbook stands at RM5.8bn which implies a healthy cover of 2.6x on FY18 construction revenue.

Healthcare. The healthcare segment reported a healthy RM34.7m PBT (1H19), which is 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. Minimal changes after imputing SunCon's latest forecast.

Maintain BUY with TP of RM2.17 (from RM2.18) based on a 10% holding discount from SOP-derived valuation of RM2.41 (Figure #2) after imputing SunCon's latest TP (RM2.16 from RM2.24). 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.

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	3,779.7	4,217.7	4,567.3
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	1,774.2	1,891.1	1,989.3
Inventories	785.9	849.2	1,478.5	1,576.0	1,657.7
Others	12,642.0	13,508.3	12,946.5	13,257.6	13,731.5
Assets	19,505.6	21,008.1	22,505.3	23,468.9	24,472.3
Payables	1,520.1	1,336.2	1,922.0	2,048.7	2,155.1
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	13,000.6	13,627.3	14,233.6
Shareholder's equity	7,890.7	8,074.4	8,417.6	8,676.9	8,993.8
Minority interest	621.5	619.8	687.1	764.6	844.8
Perpetual bond	-	400.0	400.0	400.0	400.0
Equity	8,512.2	9,094.2	9,504.7	9,841.5	10,238.6
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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	822.8	886.8	944.3
Working capital	(14.3)	(131.0)	(18.5)	(167.4)	(278.9)
Taxation	(175.0)	(109.2)	(154.3)	(168.7)	(178.1)
Others	(18.5)	74.9	158.0	168.5	114.6
CFO	793.5	847.1	1,002.4	921.9	862.5
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)	(436.0)	(452.0)
Others	(213.0)	(291.0)	(235.1)	(248.0)	(260.9)
CFF	242.2	854.4	(82.2)	(184.0)	(212.8)
Net cash flow	425.6	288.1	1,170.2	437.9	349.6
Forex	(12.2)	(17.1)	-	-	-
Others	146.0	101.7	-	-	-
Beginning cash	1,823.5	2,236.9	2,609.6	3,779.7	4,217.7
Ending cash	2,236.9	2,609.6	3,779.7	4,217.7	4,567.3

Income statement

FYE Dec	FY17	FY18	FY19f	FY20f	FY21f
Revenue	5239.3	5410.2	5396.4	5752.2	6050.7
Operating cost	(4456.0)	(4701.1)	(4573.5)	(4865.5)	(5106.4)
EBITDA	783.3	709.1	822.8	886.8	944.3
D&A	(130.2)	(149.9)	(183.6)	(193.5)	(202.6)
Net Interest	19.6	61.6	3.8	9.5	0.1
JV & Associates	206.5	229.3	228.0	260.7	307.2
Pretax profit	879.1	850.0	871.0	963.5	1049.1
Taxation	(149.4)	(121.6)	(154.3)	(168.7)	(178.1)
Minority Interest	(102.3)	(70.0)	(67.3)	(77.5)	(80.2)
Holders of Perpetual	0.0	0.0	(22.0)	(22.0)	(22.0)
PATAMI	627.5	658.4	627.3	695.3	768.9
Exceptionals	73.2	89.0	0.0	0.0	0.0
Core Earning	554.3	569.4	627.3	695.3	768.9
Basic shares (m)	4813.8	4875.0	4875.0	4875.0	4875.0
Consensus core PATMI			627.4	689.5	740.0
HLIB/ Consensus			100%	101%	104%

Valuation ratios

FYE Dec	FY17	FY18	FY19f	FY20f	FY21f
Net DPS (sen)	6.0	7.1	8.9	9.3	10.3
Yield (%)	3.8	4.5	5.7	5.9	6.5
Core EPS (sen)	11.5	11.7	12.9	14.3	15.8
P/E (x)	13.6	13.4	12.2	11.0	10.0
Market capitalization (m)	7557.7	7653.8	7653.8	7653.8	7653.8
Net cash (m)	(3360.8)	(3737.2)	(3067.0)	(3129.1)	(3279.4)
Net gearing (%)	0.39	0.41	0.32	0.32	0.32
BV / share	1.8	1.9	1.9	2.0	2.1
P/BV (x)	0.9	0.8	0.8	0.8	0.7
ROA (%)	2.8	2.7	2.8	3.0	3.1
ROE (%)	6.5	6.3	6.6	7.1	7.5
Enterprise value	10918.5	11390.9	10720.8	10782.8	10933.2
EV/ EBITDA (x)	13.9	16.1	13.0	12.2	11.6

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	17.3
PATMI	10.6	10.5	11.6	12.1	12.7

Figure #1 Quarterly results comparison

FYE Dec (RM m)	2Q18	1Q19	2Q19	QoQ	YoY	1H18	1H19	YoY
Revenue	1,260.2	1,123.6	1,077.2	-4.1%	-14.5%	2,541.7	2,200.8	-13.4%
Property Development	88.7	87.9	113.6	29.3%	28.1%	221.0	201.4	-8.8%
Property Investment	189.8	196.7	176.1	-10.5%	-7.2%	382.8	372.8	-2.6%
Construction	449.7	346.2	293.5	-15.2%	-34.7%	893.4	639.6	-28.4%
Trading/Manufacturing	286.4	251.3	230.0	-8.5%	-19.7%	564.7	481.4	-14.8%
Quarry	57.9	44.2	52.6	19.1%	-9.1%	107.9	96.8	-10.3%
Healthcare	108.2	126.8	140.8	11.1%	30.2%	210.1	267.6	27.4%
Others*	79.5	70.5	70.6	0.1%	-11.2%	161.8	141.1	-12.8%
EBIT	165.3	117.8	167.3	42.1%	1.2%	293.9	285.0	-3.0%
Property Development	44.0	18.9	21.6	14.7%	-50.8%	61.6	40.5	-34.2%
Property Investment	54.1	52.8	67.1	27.0%	24.0%	113.4	119.9	5.7%
Construction	46.2	40.0	41.5	3.8%	-10.2%	85.0	81.5	-4.2%
Trading/Manufacturing	16.4	8.8	8.5	-3.4%	-48.1%	30.4	17.3	-42.9%
Quarry	3.6	1.1	1.2	12.8%	-66.2%	5.8	2.3	-60.7%
Healthcare	-	13.1	17.6	34.6%	N.M.	-	30.7	N.M.
Others*	1.0	(16.9)	9.7	N.M.	876.5%	(2.4)	(7.2)	203.9%
Net Interest	(10.2)	17.8	3.8	N.M.	N.M.	(17.8)	21.6	-221.5%
Share of Associates/JCE	87.9	41.7	82.1	96.9%	-6.6%	126.1	123.9	-1.8%
PBT	243.0	177.3	253.3	42.9%	4.2%	402.2	430.5	7.0%
PAT	217.0	151.9	262.7	72.9%	21.0%	353.2	414.6	17.4%
MI	(17.5)	(15.5)	(16.2)	4.0%	-8.0%	(33.9)	(31.7)	-6.4%
Holders of Perpetual Sukuk	-	(5.3)	(16.2)	N.M.	N.M.	-	(21.5)	N.M.
PATAMI	199.5	131.2	230.3	75.6%	15.5%	319.4	361.4	13.2%
EI	(59.0)	6.9	(111.4)	N.M.	N.M.	(59.2)	(104.6)	76.6%
Core Earnings	140.5	138.1	118.8	-13.9%	-15.4%	260.2	256.9	-1.3%
EBIT margin	13.1%	10.5%	15.5%	5.0%	2.4%	11.6%	13.0%	1.4%
PBT margin	19.3%	15.8%	23.5%	7.7%	4.2%	15.8%	19.6%	3.7%
PAT margin	11.1%	12.3%	11.0%	-1.3%	-0.1%	10.2%	11.7%	1.4%

Sunway, HLIB

*Others segment previously included the Healthcare segment

Figure #2 SOP table

Division	Stake	Value (RM m)	RM/share	Methodology
Construction (SunCon)	54.56%	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%	5,991	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
		11,941	2.45	
Holding Company Net Debt		(188)	(0.04)	
		11,753	2.41	
10% Holding Company Discount		-1,175	(0.24)	
Equity Value (RM)		10,578	2.17	

HLIB Research

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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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OVERWEIGHT	Sector expected to outperform the market over the next 12 months.
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