

HLIB Research

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BUY (Maintain)

Target Price: RM2.30

Previously: RM2.30

Current Price: RM1.51

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

Sector coverage: Property

Company description: Sunway is a regional 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	-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

FYE (Dec)	FY17	FY18f	FY19f
PATMI – core	566.3	618.9	706.0
EPS – core (sen)	11.8	12.9	14.7
P/E (x)	12.8	11.7	10.3

Sunway

Boosted by property investments

Sunway's 1Q18 core PATMI of RM122m (-27% QoQ; +14% YoY) was within expectations. The lower QoQ results were mainly due to lower performances from property development and construction while higher YoY results were driven by improved contribution from property investments. In FY18, we expect the growing contributions from other businesses to drive the earnings growth despite the slowdown in property development. Our FY18/19 earnings are revised higher by 1.5%/4.0% after minor model up keeping adjustments. Reiterate BUY with unchanged TP of RM2.30 based on a 10% holding discount from SOP-derived valuation of RM2.55.

Within expectations. 1Q18 revenue of RM1.3bn translated into a core PATMI of RM121.9m, accounting for 20.0% and 20.1% of HLIB and consensus full year forecasts, respectively. We deem the results in line as 1Q numbers are typically weaker and only make up less than 20% of full year numbers.

QoQ. 1Q18 revenue declined by 24.1% mainly caused by lower sales and progressive billings from both property development and construction segments. Property investment segment also reported a decline as 4Q is usually stronger for leisure and hospitality. As a result, core PATMI dropped by 27.2%, in tandem with lower revenue for all segments except for quarry and other segments.

YoY. Revenue grew by 20.2% with better contributions from all segments, except for property development, which was impacted by lower sales and progress billings from local projects. Core PATAMI, meanwhile improved by 14.1% driven by better performance from property investment segment.

Outlook. The growing contributions from other pillars such as construction, property investment, trading and manufacturing and building material are expected to drive the earnings growth despite the slowdown in property development.

Property development. New effective sales of RM141m was achieved in 1Q18 while FY18 effective sales target is maintained at RM1bn, underpinned by RM1.6bn of planned launches. Unbilled sales was at RM811m (4Q17: RM861m) representing 0.82x of FY17's property revenue.

Property investment. Better performance YoY given higher contribution from Sunway Pyramid Hotel (post-refurbishment), new Sunway Velocity Hotel (open since Sept 17), Sunway Velocity Mall and theme parks operations.

Construction. Stronger YoY results due to higher progress billings from local jobs but earnings were affected by lower contribution from precast division. SunCon's current order book stood at RM6.1bn (3x cover on FY17 revenue) and is targeting RM1.5-2.5bn new jobs in FY18.

Forecast. FY18-19 earnings are revised higher by 1.5% and 4.0%, respectively due to a minor model up keeping adjustment following the recent released annual report.

Reiterate BUY with unchanged TP of RM2.30 based on a 10% holding discount from SOP-derived valuation of RM2.55 (Figure #2). We see value emerging given the weakness in share price in view of the resilient business model and earnings growth prospect. At a current P/E of 12x, we opine that it is a deep value stock 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	4241.2	4362.3	4461.1
Other short-term asset	4502.7	4083.1	3923.9	3926.7	4111.7
Working capital	4999.7	5808.8	6664.0	6907.6	7401.7
Receivables	1891.5	2220.8	2060.0	2145.1	2317.8
Payables	2438.2	2906.8	3501.2	3606.6	3820.4
Inventory	670.0	681.3	1102.8	1155.8	1263.5
Net cash / (debt)	-5461.1	-5867.9	-5061.5	-4795.7	-4632.9
Cash	1950.4	2390.9	3997.8	5063.7	6026.5
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	8925.5	9442.6	10042.5
Shareholders' funds	7469.7	7844.1	8174.2	8570.8	9028.7
Minorities	763.5	643.3	751.3	871.8	1013.9
Other liabilities	5545.4	6368.2	7556.6	7767.4	8195.0

Cashflow

FYE Dec	FY16	FY17	FY18e	FY19f	FY20f
EBIT	715.1	686.6	719.8	786.4	902.7
D&A	137.2	139.0	206.6	215.0	222.9
Working capital change	-142.8	-15.4	261.5	-35.6	-251.6
Taxation	-108.7	-175.0	-159.0	-176.5	-212.2
Others	-240.2	-274.5	-83.8	-121.1	-98.8
Operating cashflow	668.1	779.9	1343.3	1150.8	1085.6
Capex & acquisitions	-737.1	-1078.0	-15.3	-309.6	-309.6
Free cashflow	-69.0	-298.2	1327.9	841.2	775.9
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	224.6	186.9
Net cashflow	569.7	432.9	1606.9	1065.9	962.8

Growth ratios

FYE Dec	FY16	FY17	FY18e	FY19f	FY20f
Sales Growth	4.7	15.5	-1.5	4.8	9.3
Operating expenses	4.4	19.6	-4.0	4.1	8.6
EBITDA Growth	5.9	-3.1	12.2	8.1	12.4
PBT Growth	-7.7	2.7	0.4	13.2	13.3
PATMI	-7.3	3.5	9.3	14.1	10.9
Core EPS Growth	-19.2	3.5	9.3	14.1	10.9

Income statement

FYE Dec	FY16	FY17	FY18e	FY19f	FY20f
Revenue	4655.6	5375.4	5293.3	5548.0	6064.6
Operating cost	-3803.3	-4549.7	-4366.9	-4546.6	-4939.1
EBITDA	852.2	825.7	926.4	1001.4	1125.5
D&A	-137.2	-139.0	-206.6	-215.0	-222.9
Net Interest	-48.0	-22.6	-57.3	-50.9	-18.4
JV & Associates	191.9	218.1	223.4	267.6	252.7
Pretax profit	859.0	882.2	885.9	1003.1	1136.9
Taxation	-140.4	-149.4	-159.0	-176.5	-212.2
Minority Interest	-132.7	-93.3	-107.9	-120.6	-142.0
PATAMI	585.9	639.5	618.9	706.0	782.7
Exceptionals	38.5	73.2	0.0	0.0	0.0
Core Earning	547.4	566.3	618.9	706.0	782.7
Basic shares (m)	4813.8	4813.8	4813.8	4813.8	4813.8
Consensus core PATMI			607.8	654.3	740.0
HLIB/ Consensus			102%	108%	106%

Valuation ratios

FYE Dec	FY16	FY17	FY18e	FY19f	FY20f
Net DPS (sen)	5.2	6.0	6.4	6.7	7.5
FCF/ share (sen)	-1.4	-6.2	27.6	17.5	16.1
FCF yield (%)	-94.9	-410.2	1826.9	1157.3	1067.5
Market capitalization	7268.9	7268.9	7268.9	7268.9	7268.9
Net cash (m)	-5461.1	-5867.9	-5061.5	-4795.7	-4632.9
Core EPS (sen)	11.4	11.8	12.9	14.7	16.3
FD EPS (sen)	11.4	10.4	11.4	13.0	14.4
P/E (x)	13.3	12.8	11.7	10.3	9.3
FD P/E (x)	13.3	14.5	13.3	11.6	10.5
BV / share	1.6	1.6	1.7	1.8	1.9
P/BV (x)	1.0	0.9	0.9	0.8	0.8
ROA (%)	2.9	2.8	2.8	3.0	3.1
ROE (%)	6.6	6.7	6.9	7.5	7.8
Enterprise value	12730.0	13136.8	12330.4	12064.6	11901.8
EV/ EBITDA (x)	14.9	15.9	13.3	12.0	10.6

Assumption Metrics

FYE Dec	FY16	FY17	FY18e	FY19f	FY20f
Revenue	4655.6	5375.4	5293.3	5548.0	6064.6
Property	1203.0	989.7	947.8	1042.7	1375.1
Property Investment	692.1	866.0	884.3	895.9	900.2
Construction	1137.4	1627.7	1470.0	1518.6	1582.8
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%	14%	14%	15%

Figure #1 Quarterly results comparison

FYE Dec (RM m)	1Q17	4Q17	1Q18	QoQ (%)	YoY (%)
Revenue	1088.8	1722.9	1308.4	(24.1)	20.2
Property Development	143.3	413.0	132.3	(68.0)	(7.7)
Property Investment	186.9	245.7	220.0	(10.5)	17.7
Construction	316.8	583.3	443.7	(23.9)	40.0
Trading/Manufacturing	245.2	232.4	278.3	19.8	13.5
Quarry	40.2	52.9	50.0	(5.5)	24.4
Others	157.1	192.8	183.4	(4.9)	16.8
EBIT	115.2	222.4	130.0	(41.5)	12.8
Property Development	7.9	104.8	17.6	(83.2)	121.9
Property Investment	44.1	60.6	59.3	(2.2)	34.5
Construction	34.7	52.7	38.8	(26.4)	11.9
Trading/Manufacturing	12.5	14.2	14.0	(1.9)	11.5
Quarry	0.9	(0.6)	2.2	NM	149.2
Others	20.1	10.9	14.8	35.8	(26.2)
Net Interest Expense	(6.7)	9.2	(7.6)	NM	(13.2)
Share of Associates/JCE	43.1	29.3	38.5	31.4	(10.7)
PBT	151.6	260.9	160.9	(38.3)	6.1
PAT	124.4	206.0	137.5	(33.3)	10.5
PATAMI	106.9	183.8	121.9	(33.7)	14.1
EI	0.0	(16.4)	0.0	NM	NM
Core Earnings	106.9	167.4	121.9	(27.2)	14.1
Core EPS (sen)	2.2	3.5	2.5	(28.4)	11.3

Sunway, HLIB

Figure #2 RNAV Table

Division	Stake	Value (RM m)	RM/share	Methodology
Construction (SunCon)	54.4%	1,666	0.35	Based on TP of RM 2.37
Sunway REIT	39.3%	1,978	0.41	Based on TP of RM 1.71
Property Development & Investment	100%	6,991	1.45	35% 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
		12,873	2.67	
Holding Company Net Debt		(594)	(0.12)	
		12,279	2.55	
10% Holding Company Discount		(1,228)	(0.25)	
Equity Value (RM)		11,051	2.30	

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Figure #3 Peers comparison

Company	Mkt Cap (m)	Curr Price (RM)	TP (RM)	Recomm	FYE	Discount to RNAV	P/E (x)		P/B (x)		ROE (%)	Yield (%)
							CY18	CY19	CY18	CY19		
IOI PROPERTIES	8864.9	1.61	2.44	BUY	JUN	-57.1	10.5	11.6	0.5	0.5	4.5	3.7
SP SETIA BHD	12369.7	3.18	4.08	BUY	DEC	-43.9	18.5	16.6	1.1	1.1	4.3	3.5
SUNWAY BHD	7357.5	1.51	2.30	BUY	DEC		11.7	10.3	0.9	0.8	6.9	4.2
UEM SUNRISE BHD	3811.4	0.84	1.18	HOLD	DEC	-71.9	19.1	16.2	0.5	0.5	2.6	1.5
MAH SING GROUP	2694.7	1.11	1.53	HOLD	DEC	-52.8	7.2	7.4	0.7	0.7	8.7	5.9
MATRIX CONCEPTS	1436.7	1.91	2.36	BUY	MAR	-35.3	5.1	4.6	1.1	0.9	20.8	7.8
TAMBUN	359.6	0.83	1.23	T.BUY	DEC	-63.3	4.5	4.7	1.4	1.5	12.0	8.3
IBRACO BHD	250.7	0.51	0.93	BUY	DEC	-66.6	6.1	3.9	1.4	1.5	4.2	6.9
MB WORLD GROUP I	299.0	1.90	2.75	BUY	DEC	-55.1	6.8	5.7	1.4	1.5	19.5	2.9
Average						-55.7	9.9	9.0	1.0	1.0	9.3	5.0

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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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