

HLIB Research

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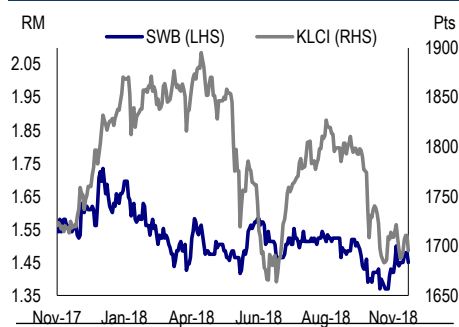
BUY (Maintain)

Target Price: **RM2.13**
Previously: **RM2.15**
Current Price: **RM1.45**

Capital upside	46.9%
Dividend yield	4.8%
Expected total return	51.7%

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	2.1	-7.1	-10.5
Relative	4.3	-2.0	-9.3

Stock information

Bloomberg Ticker	SWB MK
Bursa Code	5211
Issued Shares (m)	4,853
Market cap (RM m)	7,037
3-mth avg. volume ('000)	2,116
SC Shariah-compliant	Yes

Major shareholders

Sungei Way Corp Sdn Bhd	56.2%
EPF	7.1%
Cheah Fook Ling	5.1%
Amanah Saham	3.7%

Earnings summary

FYE (Dec)	FY17	FY18f	FY19f
PATMI – core (RM m)	566.3	582.5	658.2
EPS – core (sen)	11.8	12.1	13.7
P/E (x)	12.3	12.0	10.6

Sunway

Resilient performance

Sunway's 9M18 core PATMI of RM408m (+4.8% YoY) was broadly within expectations. Stronger YoY results were driven by stronger contributions from all segments except for property development. 9M18 new sales of RM1.4bn have exceeded FY18 target and unbilled sales improved to RM1.8bn (1.8x cover). We adjust our FY18/19/20 forecasts by -3.6%/+6.3%/-3.2% to reflect the recognitions of Sunway Gardens in Tianjin and the revised forecasts for SunCon. Maintain BUY with lower SOP-derived valuation TP of RM2.13 (was RM2.15), reflecting the lower TP for SunREIT.

Broadly in line. 9M18 revenue of RM4.0bn translated into core PATMI of RM407.5m, accounting for 67.1% and 69.7% of HLIB and consensus full year forecasts, respectively. We deem the results as in line as we expect 4th quarter to come in stronger and it usually account for 30% of full year numbers.

Dividend. None (3Q17: none).

QoQ. 3Q revenue of RM1.4bn (+12.2%) was driven by all segments except for quarry segment. However, core PATMI increased by 3.6%, in tandem with stronger contributions for all segments except for property development and quarry; despite the higher share of profit from JV contribution in Singapore.

YoY. Revenue grew by 12.6% with better contributions from all segments, except for quarry (low operating margins) and property investment (lower performance from hotel operations). Core PATMI of RM145.3m was higher (+0.2%) on the back of higher progress billings and the completion of Sunway GEOSense.

YTD. Revenue grew by 11.8% with better contributions from all segments, except for property development, which was impacted by fewer ongoing projects. Meanwhile, core PATMI improved by 4.8% given the better performance for all segments (except building materials) and lower minority interest for local property projects.

Property development. New effective sales of RM1.4bn (+263% YoY) was achieved in 9M18 and has exceeded FY18 sales target of RM1bn, underpinned by the strong take-up in Sunway GEOLake, Sunway Citrine Lakehomes, Rivercove Residences and Sunway Gardens in Tianjin. Unbilled sales improved to RM1.8bn (2Q18: RM1.4bn representing 1.8x of FY17's property revenue).

Property investment. Better performance YoY was achieved with contributions from better performance from Sunway Velocity Mall, The Banjaran Hotsprings (additional room inventory) as well as new properties in 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 RM5.6bn (3x cover on FY17 revenue) and is targeting RM1.5bn of new jobs in FY18 (RM1.35bn achieved).

Forecast. We adjust our FY18/19/20 forecasts by -4.0%/+4.4%/-3.8% to reflect the recognitions of Sunway Gardens in Tianjin following the adoption of MFRS 15 as well as the revised forecasts for SunCon.

Maintain BUY with slightly lower TP of **RM2.13** (was RM2.15) based on a 10% holding discount from SOP-derived valuation of RM2.37 (Figure #2), reflecting the lower TP for SunREIT (HOLD, RM1.66). Despite the down cycle of both property development and construction sectors, 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	FY18f	FY19f	FY20f
Fixed assets	5909.9	6611.5	6714.5	6809.1	6895.9
Other long-term assets	3827.5	4220.2	4219.7	4321.9	4425.0
Other short-term assets	4502.7	4083.1	3967.8	3927.1	4015.7
Working capital	4999.7	5808.8	6778.3	6870.5	7285.1
Receivables	1891.5	2220.8	2099.9	2132.1	2277.0
Payables	2438.2	2906.8	3550.7	3590.6	3770.0
Inventory	670.0	681.3	1127.7	1147.8	1238.1
Net cash / (debt)	(5461.1)	(5867.9)	(5147.9)	(4900.4)	(4720.4)
Cash	1950.4	2390.9	3625.5	4672.9	5653.0
ST debt	4858.4	4910.5	8773.4	9573.4	10373.4
LT debt	2553.1	3348.3	0.0	0.0	0.0
Equity	8233.2	8487.5	8877.0	9292.9	9807.2
Shareholders' funds	7469.7	7844.1	8137.8	8458.2	8857.1
Minorities	763.5	643.3	739.2	834.7	950.1
Other liabilities	5545.4	6368.2	7655.5	7735.2	8094.0

Cashflow

FYE Dec	FY16	FY17	FY18f	FY19f	FY20f
EBIT	715.1	686.6	684.2	715.1	841.1
D&A	137.2	139.0	206.6	215.0	222.9
Working capital change	(142.8)	(15.4)	202.2	28.2	(144.4)
Taxation	(108.7)	(175.0)	(150.5)	(159.5)	(195.6)
Others	(240.2)	(274.5)	(62.3)	(102.1)	(103.1)
Operating cashflow	668.1	779.9	1256.9	1152.8	1132.1
Capex & acquisitions	(737.1)	(1078.0)	(15.3)	(309.6)	(309.6)
Free cashflow	(69.0)	(298.2)	1241.6	843.1	822.5
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	514.0	800.0	800.0
Financing cashflow	1536.8	706.7	(7.0)	204.3	157.6
Net cashflow	569.7	432.9	1234.6	1047.4	980.1

Growth ratios

FYE Dec	FY16	FY17	FY18f	FY19f	FY20f
Sales Growth	4.7	15.5	0.7	1.8	7.9
Operating expenses	4.4	19.6	(0.6)	1.3	6.5
EBITDA Growth	5.9	(3.1)	7.9	4.4	14.4
PBT Growth	(7.7)	2.7	(6.1)	10.2	17.4
PATMI	(7.3)	3.5	2.9	13.0	15.6
Core EPS Growth	(19.2)	3.5	2.9	13.0	15.6

Income statement

FYE Dec	FY16	FY17	FY18f	FY19f	FY20f
Revenue	4655.6	5375.4	5412.8	5509.2	5942.7
Operating cost	(3803.3)	(4549.7)	(4522.1)	(4579.0)	(4878.7)
EBITDA	852.2	825.7	890.8	930.2	1064.0
D&A	(137.2)	(139.0)	(206.6)	(215.0)	(222.9)
Net Interest	(48.0)	(22.6)	(57.3)	(50.5)	(26.1)
JV & Associates	191.9	218.1	201.9	248.7	256.9
Pretax profit	859.0	882.2	828.8	913.3	1072.0
Taxation	(140.4)	(149.4)	(150.5)	(159.5)	(195.6)
Minority Interest	(132.7)	(93.3)	(95.8)	(95.5)	(115.4)
PATAMI	585.9	639.5	582.5	658.2	761.0
Exceptionals	38.5	73.2	0.0	0.0	0.0
Core Earning	547.4	566.3	582.5	658.2	761.0
Basic shares (m)	4813.8	4813.8	4813.8	4813.8	4813.8
Consensus core PATMI			584.9	627.8	715.9
HLIB/ Consensus			100%	105%	106%

Valuation ratios

FYE Dec	FY16	FY17	FY18f	FY19f	FY20f
Net DPS (sen)	5.2	6.0	7.0	7.5	7.6
FCF/ share (sen)	(1.4)	(6.2)	25.8	17.5	17.1
FCF yield (%)	(98.9)	(427.1)	1778.8	1207.9	1178.3
Market capitalization	6980.0	6980.0	6980.0	6980.0	6980.0
Net cash (m)	(5461.1)	(5867.9)	(5147.9)	(4900.4)	(4720.4)
Core EPS (sen)	11.4	11.8	12.1	13.7	15.8
FD EPS (sen)	11.4	10.4	10.7	12.1	14.0
P/E (x)	12.8	12.3	12.0	10.6	9.2
FD P/E (x)	12.8	13.9	13.6	12.0	10.4
BV / share	1.6	1.6	1.7	1.8	1.8
P/BV (x)	0.9	0.9	0.9	0.8	0.8
ROA (%)	2.9	2.8	2.7	2.9	3.1
ROE (%)	6.6	6.7	6.6	7.1	7.8
Enterprise value	12441.2	12848.0	12127.9	11880.5	11700.4
EV/ EBITDA (x)	14.6	15.6	13.6	12.8	11.0

Assumption Metrics

FYE Dec	FY16	FY17	FY18f	FY19f	FY20f
Revenue	4655.6	5375.4	5412.8	5509.2	5942.7
Property	1203.0	989.7	983.4	1043.1	1277.8
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%	13%	14%

Figure #1 Quarterly results comparison

FYE Dec (RM m)	3Q17	2Q18	3Q18	QoQ	YoY	9M17	9M18	YoY
Revenue	1283.0	1287.1	1444.6	12.2%	12.6%	3612.2	4040.1	11.8%
Property Development	125.5	88.7	194.8	119.6%	55.2%	536.9	415.8	-22.6%
Property Investment	225.4	216.7	237.8	9.7%	5.5%	619.7	674.5	8.8%
Construction	416.6	449.7	465.4	3.5%	11.7%	1044.4	1358.8	30.1%
Trading/Manufacturing	292.9	286.4	296.9	3.6%	1.3%	764.1	861.6	12.8%
Quarry	50.3	57.9	56.3	-2.8%	11.9%	149.2	164.2	10.1%
Others	171.4	186.9	191.7	2.6%	11.8%	495.6	562.0	13.4%
EBIT	146.0	166.0	159.7	-3.8%	9.4%	454.0	455.8	0.4%
Property Development	13.6	44.0	33.9	-23.0%	149.0%	84.3	95.5	13.3%
Property Investment	60.8	54.1	60.2	11.2%	-0.9%	147.8	173.6	17.4%
Construction	37.8	46.2	47.6	3.1%	26.0%	113.3	132.7	17.1%
Trading/Manufacturing	17.4	16.4	17.6	6.9%	0.7%	43.9	47.9	9.2%
Quarry	3.1	3.6	2.4	-33.9%	-23.0%	8.1	8.1	0.2%
Others	24.6	21.6	22.0	1.6%	-10.6%	69.9	58.4	-16.5%
Net Interest Expense	(6.3)	(12.8)	(3.4)	73.1%	45.4%	(31.8)	(23.9)	24.9%
Share of Associates/JCE	49.2	89.0	37.7	-57.7%	-23.5%	188.9	165.2	-12.5%
PBT	188.9	242.2	194.0	-19.9%	2.7%	611.1	597.1	-2.3%
PAT	161.6	215.8	166.9	-22.6%	3.3%	516.7	520.1	0.7%
PATAMI	145.0	199.4	145.3	-27.1%	0.2%	445.5	466.7	4.7%
EI	0.0	(59.2)	0.0	NM	NM	(56.8)	(59.2)	-4.2%
Core Earnings	145.0	140.2	145.3	3.6%	0.2%	388.7	407.5	4.8%
Core EPS (sen)	3.0	2.9	3.0	3.6%	0.2%	8.1	8.4	2.8%

- FY17 figures are restated due to the adoption of MFRS 15
Sunway, HLIB

Figure #2 SOP Table

Division	Stake	Value (RM m)	RM/share	Methodology
Construction (SunCon)	54.4%	1,308	0.27	Based on TP of RM 1.86
Sunway REIT	39.3%	1,999	0.42	Based on TP of RM 1.66
Property Development & Investment	100%	6,440	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
		11,985	2.49	
Holding Company Net Debt		(594)	(0.12)	
		11,391	2.37	
10% Holding Company Discount		(1,139)	(0.24)	
Equity Value (RM)		10,252	2.13	

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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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