

HLIB Research

PP 9484/12/2012 (031413)

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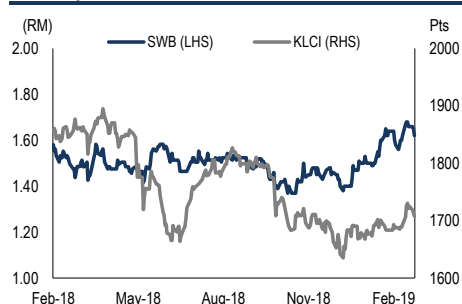
BUY (Maintain)

Target Price: RM2.18
Previously: RM2.18
Current Price: RM1.62

Capital upside	34.6%
Dividend yield	4.6%
Expected total return	39.2%

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


	1M	3M	12M
Absolute	0.0	11.0	-1.8
Relative	-1.4	9.1	6.7

Stock information

Bloomberg Ticker	SWB MK
Bursa Code	5211
Issued Shares (m)	4,850
Market cap (RM m)	7,857
3-mth avg. volume ('000)	1,648
SC Shariah-compliant	Yes

Major shareholders

Sungei Way Corp Sdn Bhd	56.2%
EPF	7.2%
Cheah Fook Ling	5.1%

Earnings summary

	FY18	FY19f	FY20f
FYE (Dec)			
PATMI – core (RM m)	570.0	659.7	764.0
EPS – core (sen)	11.7	13.7	15.9
P/E (x)	13.9	11.9	10.3

Sunway

Satisfactory results once again

Sunway's FY18 core PATMI of RM570m (+3.6% YoY) was within expectations. Stronger results QoQ/YoY/YTD was largely attributed to improved JV contributions and higher net interest. Management has sales target of RM1bn and GDV launch target of RM1.7bn for FY19. Unbilled sales stood at RM2.1bn (strong cover ratio of 3.4x on FY18's property revenue). Maintain forecasts and BUY call with unchanged SOP-derived valuation TP of RM2.18.

Within expectations. FY18 core PATMI of RM570m was within expectations, accounting for 98% and 99% of HLIB and consensus full year forecasts, respectively.

Dividend. Proposed second interim dividend of 2 sen per share (4QFY17: 3.0) and a distribution of 1 treasury share for every 100 existing shares (based on closing price RM1.62), bringing 4QFY18 proposed dividend effectively to 3.62 sen per share and FY18 dividend to 7.12 sen per share (FY17: 6.0).

QoQ. Despite revenue decreasing 5.1%, core PATMI increased 11.8% to RM162.5m attributed to higher net interest (from its well managed treasury operations) coupled with improved JV contributions.

YoY. Despite revenue decreasing 15.8%, core PATMI increased 4.0% attributed to higher net interest, improved JV contributions and lower effective tax rate (17.6% vs 21.6%).

YTD. Core PATMI increased 3.6% to RM570m in tandem with revenue (+3.3%) coupled with higher net interest and JV contributions.

Property development. New effective sales of RM1.56bn (+56% YoY) was achieved in FY18 and has exceeded FY18 sales target of RM1.5bn. Unbilled sales improved to RM2.1bn (3Q18: RM1.8bn) representing a strong cover ratio of 3.4x on FY18's property revenue. Management is targeting effective indicative launches (i.e. adjusted for stake) to remain relatively flat YoY at RM1.7bn (Figure #4 and #5).

Property investment. Better performance YoY was achieved with contributions from new properties such as Sunway Geo in Sunway South Quay, The Banjaran Hotsprings (additional room inventory) and higher theme park contributions.

Construction. Stronger YTD results due to higher progress billings which were partially offset by lower contribution from precast segment. SunCon's current order book (Figure #6) stood at RM6bn (2.7x cover on FY18 revenue) and is targeting RM1.5bn of new jobs in FY19.

Healthcare. The Sunway Velocity Medical Centre in Cheras is slated to begin operations by 1H19, increasing total number of beds to 858 (from 618 currently). We can expect Sunway's well managed healthcare business will enhance the value of its surrounding property development and property investment. The 4 new hospitals in the pipeline over the next 5 years will provide further value to unlock via separate listing of its healthcare business (Figure #7)

Forecast. Unchanged.

Maintain BUY with unchanged **TP** of **RM2.18** based on a 10% holding discount from SOP-derived valuation of RM2.42 (Figure #3). 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 Financial forecast summary

FYE Mar (RM m)	FY16	FY17	FY18	FY19f	FY20f
Revenue	4,655.6	5,239.3	5,410.3	5,493.4	5,913.7
EBIT	715.1	653.0	559.9	711.2	833.6
PBT	859.0	872.2	850.6	915.0	1,075.8
PATAMI	585.9	722.8	729.0	659.7	764.0
PATAMI – Core	547.4	550.3	570.0	659.7	764.0
% change YoY – Core PAT		0.5%	3.6%	15.7%	15.8%
HLIB/ Consensus (%) – Core PAT			102%	106%	113%
Core EPS (sen)	11.4	11.8	11.7	13.7	15.9
P/E (x)	14.3	13.9	13.9	11.9	10.3
EV/EBITDA (x)	15.6	16.6	16.6	13.8	11.9
DPS (sen)	5.2	6.0	7.1	7.5	7.6
Yield (%)	3.2	3.7	4.4	4.6	4.7
BVPS (RM/share)	1.6	1.6	1.7	1.8	1.8
P/B (x)	1.1	1.0	0.9	0.9	0.9
ROE (%)	6.6	6.7	6.3	7.1	7.8
Net Gearing (%)	(0.66)	(0.69)	(0.41)	(0.53)	(0.48)

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Figure #2 Quarterly results comparison

FYE Dec (RM m)	4Q17	3Q18	4Q18	QoQ	YoY	FY17	FY18	YoY
Revenue	1,627.1	1,444.6	1,370.2	-5.1%	-15.8%	5,239.3	5,410.3	3.3%
Property Development	452.8	194.8	203.8	4.7%	-55.0%	989.7	619.6	-37.4%
Property Investment	245.7	237.8	140.3	-41.0%	-42.9%	865.4	814.8	-5.8%
Construction	583.3	465.4	489.1	5.1%	-16.1%	1,627.7	1,847.9	13.5%
Trading/Manufacturing	232.4	296.9	241.8	-18.5%	4.1%	996.5	1,103.4	10.7%
Quarry	52.9	56.3	59.2	5.2%	11.9%	202.1	223.4	10.5%
Others	195.6	193.5	235.9	21.9%	20.6%	693.6	801.3	15.5%
EBIT	198.9	159.7	104.1	-34.8%	-47.7%	653.0	559.9	-14.3%
Property Development	115.0	33.9	22.5	-33.7%	-80.5%	199.3	118.0	-40.8%
Property Investment	60.6	60.2	40.8	-32.3%	-32.7%	208.5	214.4	2.8%
Construction	52.7	47.6	48.3	1.3%	-8.5%	166.0	180.9	9.0%
Trading/Manufacturing	14.2	17.6	13.0	-25.9%	-8.7%	58.1	60.9	4.8%
Quarry	(0.6)	2.4	2.4	2.3%	-470.7%	7.5	10.5	41.1%
Others	(9.4)	(1.9)	(22.8)	N.M.	142.7%	47.2	(24.9)	-152.7%
Net Interest	51.3	(3.4)	85.4	N.M.	N.M.	19.6	61.6	215.0%
Share of Associates/JCE	11.3	37.7	64.0	69.9%	468.7%	199.7	229.2	14.8%
PBT	261.5	194.0	253.6	30.7%	-3.0%	872.2	850.6	-2.5%
PAT	204.9	166.9	208.9	25.1%	1.9%	722.8	729.0	0.9%
PATAMI	182.3	145.3	192.3	32.4%	5.5%	623.5	659.0	5.7%
EI	(16.4)	-	(29.8)	N.M.	N.M.	(73.2)	(89.0)	21.6%
Core Earnings	156.2	145.3	162.5	11.8%	4.0%	550.3	570.0	3.6%
Core EPS (sen)	3.3	3.0	3.4	11.8%	4.0%	11.4	11.7	2.2%

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

Sunway, HLIB

Figure #3 SOP Table

Division	Stake	Value (RM m)	RM/share	Methodology
Construction (SunCon)	54.4%	1,273	0.26	TP of RM 1.81
Sunway REIT	40.9%	2,047	0.43	TP of RM 1.70
Property Development & Investment	100%	6,149	1.28	Discounted RNAV
Healthcare	100%	1,840	0.38	25X P/E
Trading/Manufacturing	100%	315	0.07	10X P/E
Quarry	100%	83	0.02	10X P/E
		11,706	2.43	
Holding Company Net Debt		(44)	(0.01)	
		11,662	2.42	
10% Holding Company Discount		(1,166)	(0.24)	
Equity Value (RM)		10,496	2.18	

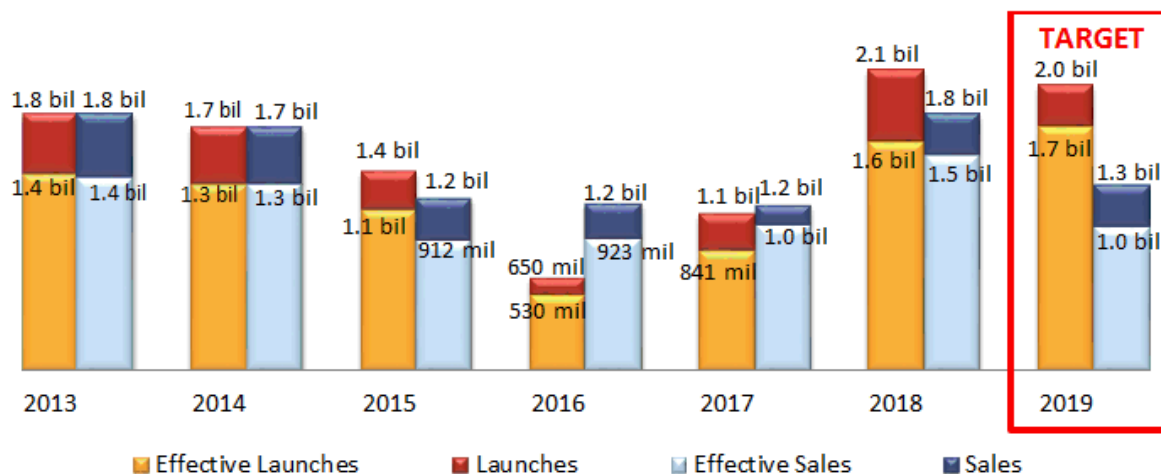
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Figure #4 2019 Indicative launches

Project	Product	Location	GDV (RM m)	Effective GDV (RM m)
Sunway Velocity Two (Tower B)	Service Apartment	Jalan Peel, KL	300	150
Sunway Avila	Service Apartment	Wangsa Maju	230	127
Sunway GeoLake Townhouse	Townhouse	Sunway South Quay	100	100
Sunway Onsen Suites, Ipoh	Service Apartment	Sunway City Ipoh	120	108
Sunway Citrine Lakehomes (Phase 3)	Townhouse	Sunway Iskandar	100	60
Sunway Lenang Heights	Semi-detached homes	Johor Bahru	150	120
Brookvale, Clementi	Private condominium	Singapore	1000	1000
Total			2000	1665

Company

Note: Effective GDV is based on effective stake

Figure #5 Sunway's sales and launches trend

Company

Note: Effective launches and sales are based on effective stakes

Figure #6 Construction Order Book

	Contract Sum RM'mil	O/S Order Book RM'mil	
Infrastructure/Piling			
LRT 3: Package GS07-08	2,178	1,969	}
MRT Package V201 & S201 (Sungai Buloh - Persiaran Dagang)	1,213	459	
Others	87	3	
Piling works	128	99	
Building			
Putrajaya Parcel F	1,610	170	}
Gas District Cooling Plant 1 & 2 Putrajaya	166	22	
PPA1M Project Kota Bharu	582	180	
Shah Alam Warehouse	70	48	
Others	334	13	
Internal			
Sunway Velocity Medical Centre	185	32	}
Sunway Medical Centre 4	512	438	
Sunway Iskandar - Emerald Residences	175	15	
Sunway Iskandar - Retail Complex	170	74	
Sunway Serene - Serviced Residences	449	339	
Sunway Geo Lake	223	177	
Sunway Carnival Extension	286	256	
Sunway Medical Centre Seberang Jaya	180	167	
Sunway Velocity TWO (Plot A Project)	352	352	
Sunway Velocity 3C4	100	99	
Others	39	22	
Singapore			
Precast	560	286	}
Order Book (as at 31 December 2018)	9,598	5,220	
TNB HQ Campus (<i>Secured on 19 Feb 2019</i>)	781	781	
Order Book (as at 28 February 2019)	10,379	6,001	

Company

Figure #7 Sunway Medical Centre pipeline

Project	Beds	Location	Est. Completion
Sunway Medical Centre 1 & 2	373	Selangor	1999, 2009
Sunway Medical Centre 3	245	Selangor	2017
Sunway Velocity Medical Centre	240	Kuala Lumpur	2019
Sunway Medical Centre Seberang Jaya	180	Penang	2020
Sunway Medical Centre 4	TBC	Selangor	2021
Sunway Medical Centre Damansara	250	Selangor	2022
Sunway Medical Centre Ipoh	200	Perak	2023

Company

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Published & printed by:

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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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