

23 May 2019

Sunway Berhad

1Q19 Within Expectations

By Adrian Ng | adrian.ng@kenanga.com.my

1Q19 CNP of RM131.2m came in-line, making up 22%/21% of our/consensus full-year expectations. No dividends declared, as expected. However, property sales of RM263.0m came in lower compared to our FY19 estimate of RM1.8b, due to slower sales in the local market and lack of new launches. No dividends declared as expected. Maintained FY19-20E earnings and MP call but raised our SoP-driven TP to RM1.60 (from RM1.55).

Within expectations. 1Q19 CNP of RM131.2m came in-line, making up 22%/21% of our/consensus full-year expectations. No dividends declared, as expected. However, property sales of RM263.0m came in broadly inline compared to our FY19 estimate of RM1.8b, as we expect lumpier sales in next few quarters. No dividends declared as expected.

Results highlight. 1Q19 CNP grew 8%, YoY despite revenue coming off by 14% driven by: (i) increase in associate/JV contributions from an overseas project, and (ii) 1Q19 registering net interest income of RM17.8m vs. net interest cost of RM7.6m. The negative growth in revenue was mainly attributed to its property and construction divisions, which saw revenue decline of 34% and 22%, respectively. **QoQ**, 1Q19 CNP decreased sharply by 29% attributable to the decline in (i) revenue (18%), (ii) net interest income (-79%), and (iii) lower contribution from associates and JV (-35%). The decline in revenue was mainly due to similar reasons above where the main drag stemmed from its property and construction divisions, which saw revenue decreasing by 57% and 29%, respectively.

Outlook. Its current unbilled sales stand at RM2.2b providing them at least 2-year visibility. That said, management is looking to launch RM2.0b worth of projects of which 50% are in Singapore. We believe that they might be able to hit our FY19E sales target of RM1.8b if they launched its Singapore project. We also do not rule out any land banking activities to take place for the year. As for its construction division, it has an outstanding order-book of RM5.7b, which is sufficient for 3 years' visibility.

Earnings maintained. While we deem that the results are still within expectations, we reduced our FY19-20E earnings by 10%-4%, respectively following our recent earnings revision in SUNCON and made some minor tweaks for FY20.

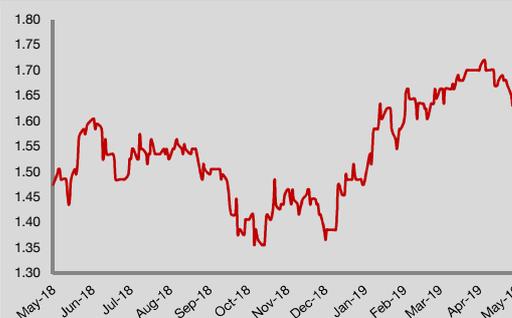
Maintain MP, with higher TP of RM1.60, (previously, RM1.55) as we roll forward our valuation base year from FY19E to FY20E for all its divisions. Currently, we are comfortable with our valuations as follows; (i) applied property RNAV discount of 64% that is close to the sector average of 72%, (ii) premium valuation of 25.0x Fwd. PER to its healthcare division, and (iii) 11.0x FY20E PER to its construction division, highest multiple ascribed for the construction sector. Our TP implies FY20E PER of 11.9x, which is above our contractors ascribed multiple of 11.0x, but below our developers' average of 16.4x.

Risks include: Weaker/higher-than-expected property sales and construction replenishment, higher/lower-than-expected administrative costs, negative real estate policies, and tighter lending environment.

MARKET PERFORM ↔

Price : **RM1.69**
Target Price : **RM1.60** ↑

Share Price Performance



KLCI	1,603.74
YTD KLCI chg	-5.1%
YTD stock price chg	16.1%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	SWB MK Equity
Market Cap (RM m)	8,258.1
Shares Outstanding	4,886.5
52-week range (H)	1.72
52-week range (L)	1.34
3-mth avg daily vol:	2,585,529
Free Float	31%
Beta	0.9

Major Shareholders

Sungei Way Corp Sdn Bhd	56.4%
Employee Provident Fund Board	7.2%
Cheah Fook Ling	5.2%

Summary Earnings Table

FYE Dec (RM m)	2018A	2019E	2020E
Turnover	5410	5265	5926
EBIT	560	687	768
PBT	851	787	873
Net Profit	658	540	661
Core PATAMI	590	540	661
Consensus (NP)	n.a.	627	690
Earnings Revision	n.a.	-10%	-4%
Core EPS (sen)	12.0	11.0	13.4
Core EPS growth (%)	8%	-9%	22%
*NDPS (sen)	5.5	5.9	6.7
NTA per Share (RM)	1.66	1.71	1.78
Price to NTA (x)	1.0	1.0	1.0
PER (x)	14.1	15.4	12.6
Debt-to-Equity ratio (x)	1.0	1.0	0.9
Return on Asset (%)	2.8%	2.6%	3.1%
Return on Equity (%)	7.8%	6.2%	7.3%
Net Div. Yield (%)	3.2%	3.5%	4.0%

*Only cash dividend is reflected.

23 May 2019

Result Highlight						
	1Q19	4Q18	QoQ	1Q18	YoY	
FYE Dec (RM'm)						
Turnover	1,123.6	1,370.2	-18%	1,308.4	-14%	
EBITDA	173.4	124.8	39%	166.6	4%	
Depreciation	-55.6	-29.3	90%	-36.6	52%	
EBIT	117.8	95.5	23%	130.0	-9%	
Interest inc/(exp)	17.8	85.4	-79%	-7.6	-333%	
Associates/JV	41.7	64.0	-35%	38.5	8%	
Exceptional items	0.0	8.6	n.m.	0.0	n.m.	
Forex gain/(loss)	0.0	0.0	n.m.	0.0	n.m.	
Pretax profit	177.3	253.6	-30%	160.9	10%	
Taxation	-25.3	-44.7	-43%	-23.4	8%	
Deferred tax	0.0	0.0	n.m.	0.0	n.m.	
Profit after tax	151.9	208.9	-27%	137.5	11%	
Minority interest	-20.8	-16.5	26%	-15.6	34%	
PATAMI	131.2	192.3	-32%	121.9	8%	
Core PATAMI	131.2	183.7	-29%	121.9	8%	
DPS (sen)	0.0	3.6		0.0		
EBIT margin	10%	7%		10%		
Pretax margin	16%	19%		12%		
NP margin	16%	19%		12%		
CNP margin	12%	13%		9%		
EPS (sen)	2.7	3.9		2.5		
Core EPS(sen)	2.7	3.8		2.5		
BV/share (RM)	1.68	1.74		1.66		
Net gearing (x)	0.43	0.44		0.42		
Effective tax	14%	18%		15%		

Source: Company, Kenanga Research

Segmental Breakdown						
	1Q19	4Q18	QoQ	1Q18	YoY	
External Revenue						
Property Development	87.9	203.8	-57%	132.3	-34%	
Property Investment	196.7	140.3	40%	220.0	-11%	
Construction	346.2	489.1	-29%	443.7	-22%	
Trading & Manufacturing	251.3	241.8	4%	278.3	-10%	
Quarry	44.2	59.2	-25%	50.0	-12%	
Investment	0.8	4.3	-81%	0.8	11%	
Others	69.7	231.6	-70%	183.4	-62%	
Pre-tax Segmentation						
Property Development	32.8	47.5	-31%	23.8	38%	
Property Investment	57.4	78.6	-27%	55.6	3%	
Construction	43.7	50.7	-14%	40.1	9%	
Trading & Manufacturing	6.6	-0.3	n.m.	11.5	-43%	
Quarry	1.7	2.5	-29%	1.8	-1%	
Investment	16.4	54.0	-70%	10.3	59%	
Others	3.2	23.2	-86%	17.8	-82%	
Pre-tax margins						
Property Development	37%	23%		18%		
Property Investment	29%	56%		25%		
Construction	13%	10%		9%		
Trading & Manufacturing	3%	0%		4%		
Quarry	4%	4%		4%		
Investment	n.m.	n.m.		n.m.		
Others	5%	10%		10%		

Source: Company, Kenanga Research

23 May 2019

Sum-of-Parts						
	Stake	Value @ Stake	PER	Discount	Value	Assumptions
		RM'm	(x)	(%)	RM'm	
Property Development & Investment	100%	7,932	n.a	64%	2,856	(i) Property Dev: DCF of Future Profits @ 11% WACC, 18% net margin property rnav discount of 64% (ii) Property Inv: Zero surplus on Book Value
Sunway Reit	35%	1,885	n.a		1,885	SUNREIT TP RM1.85
Construction	56%	1,019	11		1,019	11x FY20E PER (Sum-of-Parts)
Quarry & Buildings Mat	100%	168	8		168	8x FY20E PER
Trading & manufacturing	100%	268	8		268	8x FY20E PER
Healthcare	100%	1,432	28		1,432	25x FY20E PER
Group Shareholders Funds						
Total SOP		12,704			7,627	
Adjustment for Dilution					1,157	
FD SOP (RM)					2.50	
Implied SOP Discount Rate					-36%	
TP (RM)					1.60	
Diluted no. of shares ('m)					5,539	

Source: Kenanga Research

This section is intentionally left blank.

23 May 2019

Peer Comparison

Name	Last Price	Market	Shariah	Current	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)	Net Div.Yld. (%)	Target	Rating
	(RM)	Cap (RM'm)	Compliant	FYE	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	Price (RM)	
PROPERTY DEVELOPERS UNDER COVERAGE																	
AMVERTON BHD	1.16	423.5	Y	12/2019	15.2%	-1.4%	-27.5%	2.2%	17.7	24.4	23.9	0.6	0.6	2.4%	0.0%	1.00	UP
ECO WORLD DEVELOPMENT GROUP	0.860	2,532.2	Y	10/2019	-4.4%	-18.3%	23.4%	23.9%	15.3	12.4	10.0	0.7	0.6	4.5%	1.2%	1.15	OP
HUA YANG BHD	0.345	121.4	Y	03/2019	9.0%	0.3%	149.1%	22.3%	27.5	11.1	9.0	0.2	0.2	1.8%	0.0%	0.410	MP
IOI PROPERTIES GROUP BHD	1.19	6,552.3	Y	06/2019	-15.0%	-6.0%	0.8%	-3.4%	9.9	9.8	10.2	0.4	0.3	3.6%	4.2%	1.65	OP
LBS BINA GROUP BHD	0.565	880.8	Y	12/2019	31.3%	0.9%	7.9%	3.4%	10.3	9.6	9.3	0.6	0.6	6.6%	3.1%	0.675	MP
MAGNA PRIMA BHD	0.850	282.7	Y	12/2019	40.0%	11.1%	9637.5%	338.9%	N.A.	1,128.4	257.1	0.8	0.8	0.1%	0.0%	0.740	UP
MAH SING GROUP BHD	0.930	2,257.7	Y	12/2019	4.5%	7.0%	-2.5%	1.0%	13.7	14.1	14.0	0.6	0.6	5.2%	4.3%	1.05	OP
MALAYSIAN RESOURCES CORP BHD	0.935	4,113.9	Y	12/2019	5.0%	5.0%	26.9%	19.5%	54.4	42.9	35.9	0.8	0.8	2.0%	1.9%	0.750	UP
SIME DARBY PROPERTY BHD	0.965	6,562.8	Y	12/2019	14.6%	15.1%	7.7%	19.2%	17.9	16.6	13.9	0.7	0.7	4.0%	2.4%	1.10	MP
SP SETIA BHD	2.00	8,065.0	Y	12/2019	7.8%	15.3%	71.3%	53.9%	36.7	21.4	13.9	0.5	0.5	2.5%	3.5%	2.45	OP
SUNSURIA BHD	0.670	596.2	Y	09/2019	-36.0%	25.2%	-31.8%	26.6%	4.4	6.4	5.1	0.6	0.6	10.4%	0.0%	0.760	OP
SUNWAY BHD	1.69	8,258.1	Y	12/2019	-2.7%	12.6%	-8.5%	22.4%	14.1	15.4	12.6	1.0	1.0	6.8%	3.5%	1.60	MP
UEM SUNRISE BHD	0.845	3,834.1	Y	12/2019	37.0%	-14.3%	9.0%	-11.7%	11.8	10.8	12.2	0.6	0.6	4.9%	1.2%	0.850	MP
UOA DEVELOPMENT BHD	2.34	4,314.3	Y	12/2019	0.6%	-0.4%	4.6%	0.9%	13.0	12.4	12.3	0.9	0.9	7.4%	6.0%	2.15	MP
Simple Average					7.6%	3.7%	704.8%	37.1%	19.0	95.4	31.4	0.7	0.6	4.5%	2.2%		
*SIMEPROP change of FY-end from 30-Jun to 31-Dec. Our historical numbers are based on FY18A while 1-Yr and 2-Yr Fwd are based on FY19E and FY20E figures																	
CONSENSUS NUMBERS																	
GLOMAC BHD	0.360	280.9	Y	04/2019	-37.9%	22.4%	-81.8%	179.8%	9.0	49.3	17.6	0.3	N.A.	0.6%	1.1%	0.390	SELL
MATRIX CONCEPTS HOLDINGS BHD	1.92	1,485.7	Y	03/2019	25.1%	12.1%	-2.3%	11.5%	7.0	7.1	6.4	1.1	1.1	16.2%	6.3%	2.33	BUY
PARAMOUNT CORP BHD	2.09	905.7	Y	12/2019	-1.4%	8.4%	2.4%	5.3%	9.9	9.6	9.1	0.8	N.A.	7.2%	4.3%	2.56	BUY
TAMBUN INDAH LAND BHD	0.765	331.6	Y	12/2019	-14.3%	10.6%	-24.0%	9.5%	6.0	7.9	7.2	0.5	N.A.	7.3%	5.5%	0.933	BUY
TITIJAYA LAND BHD	0.290	371.3	Y	06/2019	-14.3%	13.9%	-28.4%	17.1%	5.1	7.1	6.1	0.3	0.3	3.9%	1.7%	0.385	BUY
YONG TAI BHD	0.345	184.3	Y	06/2019	33.2%	102.7%	-143.0%	42.2%	11.9	N.A.	11.7	0.4	0.5	-3.5%	0.0%	0.352	NEUTRAL

Source: Kenanga Research

23 May 2019

Stock Ratings are defined as follows:**Stock Recommendations**

OUTPERFORM : A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM : A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM : A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT : A particular sector's Expected Total Return is MORE than 10%
NEUTRAL : A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT : A particular sector's Expected Total Return is LESS than -5%

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

This document has been prepared for general circulation based on information obtained from sources believed to be reliable but we do not make any representations as to its accuracy or completeness. Any recommendation contained in this document does not have regard to the specific investment objectives, financial situation and the particular needs of any specific person who may read this document. This document is for the information of addressees only and is not to be taken in substitution for the exercise of judgement by addressees. Kenanga Investment Bank Berhad accepts no liability whatsoever for any direct or consequential loss arising from any use of this document or any solicitations of an offer to buy or sell any securities. Kenanga Investment Bank Berhad and its associates, their directors, and/or employees may have positions in, and may effect transactions in securities mentioned herein from time to time in the open market or otherwise, and may receive brokerage fees or act as principal or agent in dealings with respect to these companies.

Published and printed by:

KENANGA INVESTMENT BANK BERHAD (15678-H)

Level 17, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia
Telephone: (603) 2172 0880 Website: www.kenanga.com.my E-mail: research@kenanga.com.my



Chan Ken Yew
Head of Research