

26 February 2020

Sunway Berhad

Lifted By Strong Property Earnings

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FY19 CNP of RM638.2m (+14% YoY) came above our estimate (at 118%) but met consensus expectation (at 99%), boosted by strong property contributions. A 4.5 sen DPS was declared. Our revised earnings forecast for FY20 is RM643m (+8%) and we introduce FY21E earnings of RM703m. Maintain MARKET PERFORM with a higher SoP-derived target price of RM1.75 (from RM1.60).

Above expectations. FY19 CNP of RM638.2m (after stripping out fair value gains of RM79.1m but imputed perpetual sukuk distribution of RM54.5m) beat our estimate (at 118%) but met consensus expectation (at 99%). A DPS of 4.5 sen was declared, taking full-year dividends to 9.1 sen (implying yield of 5.1%).

Results' highlights. The robust YoY full-year performance was lifted by higher pretax profit contributions from property development (+42%), property investment (+13%), quarry (+23%) and healthcare (+14%). This more than offset the drop in construction (-10%) and trading & manufacturing (-41%). The strong property development performance was mainly attributable to China (which in total contributed pretax profit of RM61m in FY19 versus RM15m in FY18). QoQ, CNP of RM153.5m (-8% QoQ/+1% YoY) came mainly on the back of higher contributions from property development, property investment and quarry.

Outlook. Current unbilled property sales of RM2.1b (effective interest) and construction order-book of RM5.2b will underpin forward earnings. The Group has set a target to achieve new property sales of RM1.4b (versus RM1.1b in FY19) and replenish its construction order-book by RM2.0b in FY20 (versus RM1.8b in FY19).

Earnings revision. We have raised our net profit projection to RM643m (+8%) for FY20 and introduce our earnings forecast of RM703m for FY21. This is primarily to take into consideration stronger contributions from the property development and healthcare divisions.

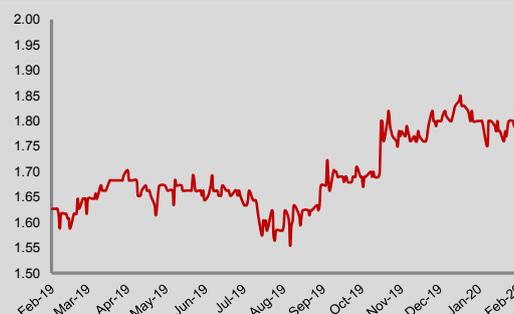
Maintain MARKET PERFORM. Our revised SoP-driven target price is RM1.75 (see table overleaf), versus RM1.60 previously. We like Sunway for its diversified earnings base, with the resiliency of its REIT and healthcare businesses providing stability to counter the cyclical nature of the property development and construction segments. Downside risk is also supported by FY20E dividend yield of 3.7%.

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 : RM1.78
Target Price : RM1.75 ↑

Share Price Performance



KLCI 1,500.88
YTD KLCI chg -5.5%
YTD stock price chg -1.1%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	SWB MK EQUITY
Market Cap (RM m)	8,726.8
Shares Outstanding	4,902.7
52-week range (H)	1.87
52-week range (L)	1.54
3-mth avg daily vol:	3,053,752
Free Float	29%
Beta	0.7

Major Shareholders

Sungei Way Corp Sdn Bhd	56.8%
Employee Provident Fund Board	7.4%
Active Equity Sdn Bhd	3.2%

Summary Earnings Table

FYE Dec (RM m)	2019A	2020E	2021E
Turnover	4,780	5331	5799
EBIT	486	945	945
PBT	914	893	976
Net Profit	712	643	703
Core PATAMI	638	643	703
Consensus (NP)	N.A.	695	N.A.
Earnings Revision	N.A.	+8%	N.A.
Core EPS (sen)	13.1	13.1	14.3
Core EPS growth (%)	8%	11%	9%
*NDPS (sen)	9.1	6.5	7.1
NTA per Share (RM)	1.7	1.77	1.77
Price to NTA (x)	1.0	0.9	0.9
PER (x)	13.5	13.6	12.5
Debt-to-Equity ratio (x)	1.2	0.9	0.9
Return on Asset (%)	2.7%	2.8%	2.8%
Return on Equity (%)	7.6%	6.6%	6.6%
Net Div. Yield (%)	5.1%	3.7%	4.0%

*Only cash dividend is reflected.

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Result Highlight

FYE Dec (RM'm)	4Q19	3Q19	QoQ	4Q18	YoY	FY19	FY18	YoY
Turnover	1,353.2	1,226.5	10%	1,452.4	-7%	4,780.4	5,410.2	-12%
EBIT	70.5	174.2	-60%	120.9	-42%	486.1	505.6	-4%
Interest inc/(exp)	65.1	1.1	5987%	31.4	107%	87.8	12.8	586%
Share of profit from assoc/JVs	89.3	48.1	86%	61.5	45%	261.2	229.3	14%
Fair value gain on invmt prop/assoc	35.5	0.0	n.m.	29.9	19%	79.1	89.1	-11%
Pretax profit	260.4	223.3	17%	243.7	7%	914.2	836.8	9%
Taxation	(41.3)	(21.1)	96%	(45.5)	-9%	(78.3)	(121.4)	-36%
Profit after tax	219.1	202.3	8%	198.2	11%	835.9	715.4	17%
Minority interest	(18.8)	(18.8)	0%	(17.0)	11%	(69.3)	(69.9)	-1%
Distribution to holders of perpetual sukuk	(16.5)	(16.5)	0%	0.0	n.m.	(54.5)	0.0	n.m.
PATAMI	183.8	166.9	10%	181.2	1%	712.1	645.5	10%
Core PATAMI	153.5	166.9	-8%	152.6	1%	638.2	557.7	14%
DPS (sen)	4.5	2.0		3.6		9.1	7.1	
EBIT margin	5.2%	14.2%		8.3%		10.2%	9.3%	
Pretax margin	19.2%	18.2%		16.8%		19.1%	15.5%	
EPS (sen)	3.8	3.4		3.7		14.6	13.3	
Core EPS(sen)	3.2	3.4		3.1		13.1	11.5	
Effective tax	15.9%	9.4%		18.7%		8.6%	14.5%	

Source: Company, Kenanga Research

Segmental Breakdown

FYE Dec (RM'm)	4Q19	3Q19	QoQ	4Q18	YoY	FY19	FY18	YoY
Revenue								
Property Development	218.2	126.2	73%	203.8	7%	545.9	619.6	-12%
Property Investment	220.9	209.7	5%	222.6	-1%	803.5	814.8	-1%
Construction	318.0	315.6	1%	489.1	-35%	1,273.3	1,847.9	-31%
Trading & Manufacturing	232.2	246.2	-6%	241.8	-4%	959.8	1,103.4	-13%
Quarry	136.4	114.9	19%	59.2	130%	348.1	223.4	56%
Healthcare	162.9	154.4	6%	132.8	23%	584.8	459.7	27%
Others	64.5	59.5	8%	103.0	-37%	265.1	341.5	-22%
Total	1,353.2	1,226.5	10%	1,452.4	-7%	4,780.4	5,410.2	-12%
Pretax Profit								
Property Development	117.2	59.0	99%	51.0	130%	246.3	173.2	42%
Property Investment	89.6	67.0	34%	84.3	6%	336.3	298.6	13%
Construction	38.1	33.1	15%	48.4	-21%	162.3	180.9	-10%
Trading & Manufacturing	4.5	13.8	-67%	10.1	-55%	31.4	53.1	-41%
Quarry	8.0	4.9	64%	3.6	123%	16.7	13.6	23%
Healthcare	11.4	15.8	-28%	16.9	-33%	61.8	54.4	14%
Others	(8.4)	29.8	n.m.	29.5	n.m.	59.3	62.9	-6%
Total	260.4	223.3	17%	243.7	7%	914.3	836.8	9%
Pretax Profit Margin								
Property Development	53.7%	46.7%		25.0%		45.1%	28.0%	
Property Investment	40.6%	31.9%		37.9%		41.9%	36.7%	
Construction	12.0%	10.5%		9.9%		12.7%	9.8%	
Trading & Manufacturing	1.9%	5.6%		4.2%		3.3%	4.8%	
Quarry	5.9%	4.2%		6.1%		4.8%	6.1%	
Healthcare	7.0%	10.2%		12.7%		10.6%	11.8%	
Others	-13.1%	50.1%		28.6%		22.4%	18.4%	
Total	14.8%	18.2%		16.8%		19.1%	15.5%	

Source: Company, Kenanga Research



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Sum-of-Parts		
Segment	Value (RMm)	Valuation basis
Property Development	2,466.5	P/BV of 1.0x (+1.0 SD above mean) with inventory adjustment
Property Investment (mainly 40.9%-owned Sunway REIT)	2,788.6	Kenanga's TP of RM1.90 for SREIT + investment prop ex-SREIT
Construction (via 54.5%-owned Sunway Construction)	1,510.9	Kenanga's TP of RM2.15
Trading & Manufacturing	348.3	P/E of 10x
Quarry	241.6	P/E of 12x
Healthcare	2,617.3	P/E of 35x
Investment Holdings & Others	647.6	P/E of 12x
Net cash / (debt) at holding company level	(1,137.8)	
Aggregate Valuation	9,483.0	
less holding company discount of 10%	(948.3)	
No of shares (m)	4,902.7	
RNAV per share (RM)	1.75	

Source: Kenanga Research

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Peer Comparison

Name	Last Price	Market Cap (RM'm)	Shariah Compliant	Current FYE	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)		Net Div. Yld. (%)	Target Price (RM)	Rating
	(RM)				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.	1-Yr. Fwd.		
PROPERTY DEVELOPERS UNDER COVERAGE																		
AMVERTON BHD	1.20	438.1	Y	12/2019	-34.7%	1.3%	-83.6%	30.5%	18.3	111.8	85.7	0.6	0.6	0.5%	0.0%	0.890	UP	
ECO WORLD DEVELOPMENT GROUP	0.640	1,884.4	Y	10/2020	-19.2%	25.6%	8.0%	7.8%	9.4	8.6	8.0	0.4	0.4	4.8%	1.7%	0.750	MP	
IOI PROPERTIES GROUP BHD	1.07	5,891.6	Y	06/2020	1.4%	2.6%	-3.0%	8.2%	8.9	9.2	8.5	0.3	0.3	3.5%	4.7%	1.45	OP	
LBS BINA GROUP BHD	0.475	727.1	Y	12/2019	34.1%	1.5%	-18.1%	10.6%	8.7	10.6	9.6	0.5	0.5	5.1%	2.2%	0.520	MP	
MAGNA PRIMA BHD	0.755	251.1	Y	12/2020	7.7%	8.4%	-136.3%	-115.2%	N.A.	N.A.	N.A.	0.5	0.5	-4.3%	0.0%	0.545	UP	
MAH SING GROUP BHD	0.650	1,578.0	Y	12/2019	-17.5%	6.5%	-36.9%	7.0%	9.6	15.2	14.2	0.5	0.4	3.4%	6.2%	0.750	MP	
MALAYSIAN RESOURCES CORP BHD	0.655	2,889.9	Y	12/2019	-41.9%	70.5%	-95.3%	2791.2%	38.1	813.9	28.2	0.6	0.6	1.2%	0.0%	0.700	UP	
SIME DARBY PROPERTY BHD	0.765	5,202.6	Y	12/2019	129.2%	11.0%	9700.0%	-4.4%	765.0	7.6	8.0	0.6	0.5	7.3%	5.2%	1.00	OP	
SP SETIA BHD	1.28	5,174.4	Y	12/2019	5.5%	24.3%	15.6%	57.6%	24.8	21.4	13.6	0.4	0.4	1.7%	3.3%	1.80	OP	
SUNSURIA BHD	0.595	533.1	Y	09/2020	-2.7%	7.3%	-4.0%	4.8%	4.2	4.0	3.8	0.6	0.5	14.5%	0.0%	0.575	N.R	
SUNWAY BHD	1.78	8,726.8	Y	12/2019	11.5%	8.8%	0.8%	9.3%	13.5	13.6	12.5	1.0	0.9	6.6%	3.7%	1.75	MP	
UEM SUNRISE BHD	0.635	2,881.3	Y	12/2020	-17.5%	-0.9%	-9.3%	-13.8%	9.2	10.2	11.8	0.4	0.4	3.9%	1.6%	0.720	OP	
UOA DEVELOPMENT BHD	1.91	3,755.1	Y	12/2019	-0.5%	-6.4%	9.2%	-8.7%	10.6	9.7	10.6	0.8	0.7	7.7%	7.3%	2.15	OP	
Simple Average					3.2%	12.6%	718.3%	214.3%	76.8	86.6	18.1	0.6	0.5	4.3%	2.7%			
*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	0.350	272.1	Y	04/2020	11.9%	40.2%	22.6%	85.9%	18.5	15.1	8.1	0.2	N.A.	1.7%	2.6%	0.385	N.A	
MATRIX CONCEPTS HOLDINGS BHD	1.91	1,571.6	Y	03/2020	7.3%	9.1%	5.8%	4.8%	7.2	6.8	6.5	1.0	1.0	15.9%	6.4%	2.28	BUY	
PARAMOUNT CORP BHD	1.34	813.0	Y	12/2019	N.A.	N.A.	N.A.	N.A.	8.9	N.A.	N.A.	0.7	N.A.	N.A.	N.A.	N.A.	BUY	
TAMBUN INDAH LAND BHD	0.665	288.2	Y	12/2019	-11.3%	4.0%	-21.7%	-1.0%	5.2	6.6	6.7	0.5	0.5	6.6%	6.0%	0.840	N.A	
TITIJAYA LAND BHD	0.280	354.6	Y	06/2020	-21.3%	8.5%	-35.0%	15.7%	10.6	16.4	14.2	0.3	0.3	1.7%	45.0%	0.305	N.A	
YONG TAI BHD	0.105	99.8	Y	06/2020	128.4%	8.6%	-3718.7%	-130.6%	N.A.	N.A.	N.A.	0.2	0.2	-0.6%	0.0%	0.183	N.A	

Source: Kenanga Research

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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.**

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Published and printed by:

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