

28 August 2019

# Sunway Berhad

## Within Expectations

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**1H19 CNP of RM280.1m came in line, making up 52%/45% of our/consensus full-year expectations. A 4.6 sen dividend was declared, as expected. Property sales of RM735.0m are also within our FY19 estimate of RM1.3b. No changes to FY19-20E earnings. Maintain MP with unchanged SoP-driven TP of RM1.60.**

**Within expectations.** 1H19 CNP of RM280.1m (excluding disposal gains: RM37.7m, revaluation gains: RM43.6m, and perpetual holders dividend: RM21.5m) came in line, making up 52%/45% of our/consensus full-year expectations. A 4.6 sen dividend declared, as expected. Property sales of RM735.0m are also within our FY19 estimate of RM1.3b.

**Results' highlights.** YoY, 1H19 CNP grew 7%, despite revenue coming off by 15% driven by: (i) 1H19 registering net interest income of RM21.6m vs. net interest cost of RM20.4m, and (ii) lower effective tax rate of 4% (-8ppt) due to the reversal of deferred tax. The negative growth in revenue was mainly attributed to all its divisions except for "others" which grew 10% thanks to its medical division. **QoQ**, 2Q19 CNP grew 14% mainly due to the reversal of deferred tax.

**Outlook.** Its current unbilled sales stand at RM2.7b 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 our FY19E sales target of RM1.3b is achievable. We also do not rule out land banking activities for the year. As for its construction division, it has an outstanding order-book of RM5.8b, which is sufficient for 3-year's visibility.

**Earnings maintained.** No changes to our FY19-20E earnings.

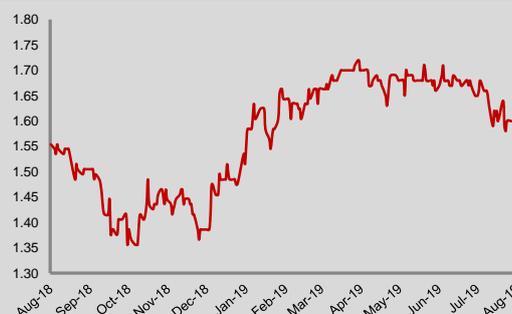
**Maintain MP, with unchanged TP of RM1.60.** Currently, we are comfortable with our valuations as follows; (i) applied property RNAV discount of 64% that is close to the sector average of 72%, (ii) premium valuation of 25.0x Fwd. PER to its healthcare division, and (iii) 11.0x FY20E PER to its construction 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 15.1x.

**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 :** **RM1.57**  
**Target Price :** **RM1.60** ↔

## Share Price Performance



KLCI 1,590.84  
YTD KLCI chg -5.9%  
YTD stock price chg 7.9%

## Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	SWB MK EQUITY
Market Cap (RM m)	7,656.2
Shares Outstanding	4,876.5
52-week range (H)	1.72
52-week range (L)	1.34
3-mth avg daily vol:	3,925,767
Free Float	32%
Beta	0.8

## Major Shareholders

Sungei Way Corp Sdn Bhd	56.5%
Employee Provident Fund Board	7.3%
Cheah Fook Ling	4.1%

## Summary Earnings Table

FYE Dec (RM m)	2018A	2019E	2020E
Turnover	5410	5265	5926
EBIT	560	687	768
PBT	851	787	789
<b>Net Profit</b>	<b>658</b>	<b>540</b>	<b>597</b>
<b>Core PATAMI</b>	<b>590</b>	<b>540</b>	<b>597</b>
Consensus (NP)	N.A.	620	681
Earnings Revision	N.A.	0%	0%
Core EPS (sen)	12.0	11.0	12.1
Core EPS growth (%)	8	-9	11
*NDPS (sen)	5.5	5.9	6.1
NTA per Share (RM)	1.66	1.71	1.77
Price to NTA (x)	0.9	0.9	0.9
PER (x)	13.1	14.3	12.9
Debt-to-Equity ratio (x)	1.0	1.0	0.9
Return on Asset (%)	2.8	2.6	2.8
Return on Equity (%)	7.8	6.2	6.6
Net Div. Yield (%)	3.5	3.7	3.9

\*Only cash dividend is reflected.



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<b>Result Highlight</b>								
	<b>2Q19</b>	<b>1Q19</b>	<b>QoQ</b>	<b>2Q18</b>	<b>YoY</b>	<b>1H19</b>	<b>1H18</b>	<b>YoY</b>
<b>FYE Dec (RM'm)</b>								
<b>Turnover</b>	<b>1,077.2</b>	<b>1,123.6</b>	<b>-4%</b>	<b>1,287.1</b>	<b>-16%</b>	<b>2,200.8</b>	<b>2,595.5</b>	<b>-15%</b>
EBITDA	147.1	173.4	-15%	144.0	2%	320.5	310.7	3%
Depreciation	-61.1	-55.6	10%	-37.2	64%	-116.7	-73.8	58%
<b>EBIT</b>	<b>86.0</b>	<b>117.8</b>	<b>-27%</b>	<b>106.8</b>	<b>-20%</b>	<b>203.7</b>	<b>236.8</b>	<b>-14%</b>
Interest inc/(exp)	3.8	17.8	-79%	-12.8	n.m.	21.6	-20.4	n.m.
Associates/JV	82.1	41.7	97%	89.0	-8%	123.9	127.5	-3%
Exceptional items	81.3	0.0	n.m.	59.2	37%	81.3	59.2	37%
Forex gain/(loss)	0.0	0.0	n.m.	0.0	n.m.	0.0	0.0	n.m.
<b>Pretax profit</b>	<b>253.2</b>	<b>177.3</b>	<b>43%</b>	<b>242.2</b>	<b>5%</b>	<b>430.5</b>	<b>403.1</b>	<b>7%</b>
Taxation	9.4	-25.3	n.m.	-26.5	n.m.	-15.9	-49.9	-68%
Deferred tax	0.0	0.0	n.m.	0.0	n.m.	0.0	0.0	n.m.
<b>Profit after tax</b>	<b>262.6</b>	<b>151.9</b>	<b>73%</b>	<b>215.8</b>	<b>22%</b>	<b>414.6</b>	<b>353.3</b>	<b>17%</b>
Minority interest	-32.4	-20.8	56%	-16.3	98%	-53.2	-31.9	67%
<b>PATAMI</b>	<b>230.3</b>	<b>131.2</b>	<b>76%</b>	<b>199.4</b>	<b>15%</b>	<b>361.4</b>	<b>321.4</b>	<b>12%</b>
<b>Core PATAMI</b>	<b>149.0</b>	<b>131.2</b>	<b>14%</b>	<b>140.2</b>	<b>6%</b>	<b>280.1</b>	<b>262.2</b>	<b>7%</b>
DPS (sen)	4.6	0.0		3.5		4.6	3.5	
EBIT margin	8%	10%		8%		9%	9%	
Pretax margin	24%	16%		19%		20%	16%	
NP margin	24%	16%		19%		20%	16%	
CNP margin	14%	12%		11%		13%	10%	
EPS (sen)	4.7	2.7		4.1		7.4	6.6	
Core EPS(sen)	3.1	2.7		2.9		5.7	5.4	
BV/share (RM)	1.69	1.68		1.66		1.69	1.66	
Net gearing (x)	0.36	0.43		0.51		0.36	0.51	
Effective tax	-4%	14%		11%		4%	12%	

Source: Company, Kenanga Research

<b>Segmental Breakdown</b>								
	<b>2Q19</b>	<b>1Q19</b>	<b>QoQ</b>	<b>2Q18</b>	<b>YoY</b>	<b>1H19</b>	<b>1H18</b>	<b>YoY</b>
<b>External Revenue</b>								
Property Development	113.6	87.9	29%	88.7	28%	201.4	221.0	-9%
Property Investment	176.1	196.7	-11%	216.7	-19%	372.8	436.7	-15%
Construction	293.5	346.2	-15%	449.7	-35%	639.6	893.4	-28%
Trading & Manufacturing	230.0	251.3	-8%	286.4	-20%	481.4	564.7	-15%
Quarry	52.6	44.2	19%	57.9	-9%	96.8	107.9	-10%
Investment	0.9	0.8	9%	0.8	11%	1.7	1.6	11%
Others	209.8	197.1	6%	186.9	12%	406.9	370.3	10%
<b>Pre-tax Segmentation</b>								
Property Development	37.3	32.8	14%	46.4	-20%	70.1	70.2	0%
Property Investment	122.3	57.4	113%	102.5	19%	179.7	158.2	14%
Construction	47.4	43.7	9%	49.6	-4%	91.1	89.7	2%
Trading & Manufacturing	6.6	6.6	0%	13.4	-51%	13.1	24.9	-47%
Quarry	2.1	1.7	21%	2.9	-27%	3.9	4.7	-18%
Investment	11.2	16.4	-32%	4.7	140%	27.6	15.0	84%
Others	26.3	18.6	41%	22.7	16%	45.0	40.5	11%
<b>Pre-tax margins</b>								
Property Development	33%	37%		52%		35%	32%	
Property Investment	69%	29%		47%		48%	36%	
Construction	16%	13%		11%		14%	10%	
Trading & Manufacturing	3%	3%		5%		3%	4%	
Quarry	4%	4%		5%		4%	4%	
Investment	1230%	1959%		567%		1579%	949%	
Others	13%	9%		12%		11%	11%	

Source: Company, Kenanga Research

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Sum-of-Parts						
	Stake	Value @ Stake	PER	Discount	Value	Assumptions
		RM'm	(x)	(%)	RM'm	
Property Development & Investment	100%	7,959	n.a	64%	2,865	(i) Property Dev: DCF of Future Profits @ 11% WACC, 18% net margin property mav discount of 64% (ii) Property Inv: Zero surplus on Book Value
Sunway Reit	35%	1,834	n.a		1,834	SUNREIT TP RM1.80
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%	1,571	28		1,571	25x FY20E PER
Group Shareholders Funds						
<b>Total SOP</b>		<b>12,819</b>			<b>7,726</b>	
Adjustment for Dilution					1,157	
<b>FD SOP (RM)</b>					<b>2.52</b>	
Implied SOP Discount Rate					-37%	
<b>TP (RM)</b>					<b>1.60</b>	
Diluted no. of shares ('m)					5,539	

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.		
<b>PROPERTY DEVELOPERS UNDER COVERAGE</b>																		
AMVERTON BHD	1.08	394.3	Y	12/2019	-0.7%	3.4%	-58.8%	7.3%	16.5	40.0	37.3	0.6	0.5	1.4%	0.0%	1.00	UP	
ECO WORLD DEVELOPMENT GROUP	0.710	2,090.5	Y	10/2019	-4.4%	-18.3%	9.5%	18.8%	12.6	11.5	9.7	0.5	0.5	4.8%	1.3%	1.15	OP	
HUA YANG BHD	0.335	117.9	Y	03/2020	-11.0%	-1.2%	153.2%	-11.8%	N.A.	14.4	16.3	0.2	0.2	1.4%	0.0%	0.335	UP	
IOI PROPERTIES GROUP BHD	1.16	6,387.1	Y	06/2019	-15.0%	-6.0%	2.2%	-5.3%	9.7	9.4	10.0	0.3	0.3	3.6%	4.3%	1.65	OP	
LBS BINA GROUP BHD	0.540	841.9	Y	12/2019	31.3%	0.9%	7.9%	-7.2%	9.9	9.2	9.9	0.6	0.5	6.6%	3.3%	0.495	MP	
MAGNA PRIMA BHD	1.15	382.5	Y	12/2019	-5.6%	28.8%	-572.6%	-139.5%	N.A.	N.A.	N.A.	0.7	0.7	-2.0%	0.0%	0.710	UP	
MAH SING GROUP BHD	0.865	2,099.9	Y	12/2019	4.5%	7.0%	-4.3%	-0.3%	12.8	13.4	13.4	0.6	0.6	5.2%	4.6%	1.05	OP	
MALAYSIAN RESOURCES CORP BHD	0.720	3,176.7	Y	12/2019	-41.9%	70.5%	-95.3%	2791.2%	41.9	894.7	30.9	0.7	0.6	1.2%	0.0%	0.700	UP	
SIME DARBY PROPERTY BHD	0.790	5,372.7	Y	12/2019	13.6%	12.5%	1.5%	9.7%	14.6	14.4	13.2	0.6	0.6	3.9%	2.8%	1.10	MP	
SP SETIA BHD	1.62	6,548.8	Y	12/2019	5.5%	24.3%	27.2%	46.0%	29.8	23.5	16.0	0.4	0.4	1.9%	4.3%	1.85	MP	
SUNSURIA BHD	0.715	640.6	Y	09/2019	-18.5%	7.4%	-19.3%	4.4%	4.8	6.0	5.7	0.7	0.7	12.2%	0.0%	0.760	OP	
SUNWAY BHD	1.57	7,656.2	Y	12/2019	-2.7%	12.5%	-8.5%	10.6%	13.1	14.3	12.9	0.9	0.9	6.2%	3.7%	1.60	MP	
UEM SUNRISE BHD	0.670	3,040.1	Y	12/2019	37.0%	-14.3%	5.9%	-18.1%	9.3	8.8	10.7	0.5	0.4	4.8%	1.5%	0.835	MP	
UOA DEVELOPMENT BHD	2.06	4,050.0	Y	12/2019	0.6%	-0.4%	4.4%	0.8%	11.4	10.9	10.8	0.8	0.8	7.4%	6.8%	2.15	MP	
<b>Simple Average</b>					<b>-0.5%</b>	<b>9.1%</b>	<b>-39.1%</b>	<b>193.3%</b>	<b>15.5</b>	<b>82.3</b>	<b>15.1</b>	<b>0.6</b>	<b>0.6</b>	<b>4.2%</b>	<b>2.3%</b>			
*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																		
<b>CONSENSUS NUMBERS</b>																		
GLOMAC BHD	0.370	288.1	Y	04/2020	12.9%	38.7%	25.7%	90.1%	21.2	16.8	8.9	0.3	N.A.	1.6%	2.4%	0.405	N.A	
MATRIX CONCEPTS HOLDINGS BHD	1.93	1,518.5	Y	03/2020	3.0%	9.6%	3.8%	9.3%	7.0	6.7	6.1	1.1	1.1	16.3%	6.7%	2.36	BUY	
PARAMOUNT CORP BHD	1.29	782.6	Y	12/2019	-1.4%	8.4%	2.4%	5.3%	8.5	8.3	7.9	0.7	N.A.	7.2%	5.0%	1.83	BUY	
TAMBUN INDAH LAND BHD	0.770	333.8	Y	12/2019	-11.1%	1.5%	-21.2%	1.9%	6.0	7.6	7.5	0.5	0.5	6.7%	5.8%	0.863	BUY	
TITIJAYA LAND BHD	0.300	380.3	Y	06/2019	-14.3%	13.9%	-36.3%	19.5%	5.2	8.2	6.9	0.3	0.3	3.5%	42.7%	0.310	BUY	
YONG TAI BHD	0.235	127.5	Y	06/2020	246.3%	14.5%	1036.5%	120.6%	N.A.	16.7	7.6	0.3	0.3	1.5%	0.0%	0.343	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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