

Sunway Berhad

Results In Line

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1Q18 CNP of RM121.9m came in within our/consensus estimates, at 21%/20%. 1Q18 property sales of RM166.0m makes up 14%/13% of our/management's full-year sales target of RM1.2b/RM1.3b. We deem this as broadly in line as new launches were held back running up to GE-14. Post-election, we expect launches to pick up pace. No dividend proposed as expected. Reiterate MARKET PERFORM with an unchanged SoP-driven Target Price of RM1.60.

In line. 1Q18 CNP of RM121.9m is in line, making up 21%/20% of our/consensus full-year estimates. 1Q18 property sales of RM166.0m makes up 14%/13% of our/management's full-year sales target of RM1.2b/RM1.3b. We deem this as broadly in line as new launches were held back running up to GE-14. Post-election we expect launches to pick up pace. No dividends proposed in the quarter as expected.

Results highlight. 1Q18 CNP grew 13% YoY underpinned by: (i) revenue growth of 20%, (ii) lower effective tax of 15% (-3ppt), and (iii) decline in minority contributions (-13%). Revenue growth was backed by growth (7%-113%) from all of its divisions. 1Q17 CNP decreased by 27%, QoQ, attributable to lower revenue, which was down by 24%, where it is always seasonally weaker compared to the fourth quarter. Furthermore, its property division saw completion of several projects in 4Q17, i.e. Sunway Velocity V-Residence 2 and Sunway Geo Retail Shops and Flexi Suites Phase 2, while its construction division registered better progressive billings from on-going projects.

Outlook. We believe management will continue with its planned launches of RM2.0b after the change in government; maintaining a sales target of RM1.3b, close to our target of RM1.2b which we believe to be achievable, should they launch most of their new projects before 3Q18. Property unbilled sales of RM0.9b with 1-year visibility and a vigorous outstanding order-book of RM6.3b provide 2-3 years' visibility while other divisions are generating decent growth except for quarry.

No changes in earnings. Post results, we made no changes to our FY18-19E earnings estimate.

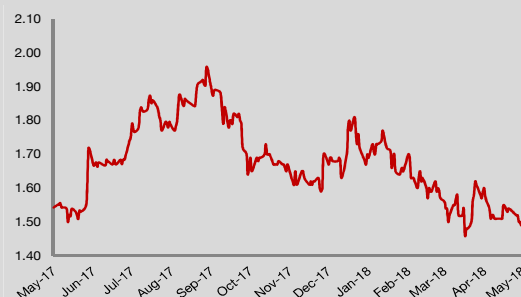
Maintain MARKET PERFORM, with unchanged Target Price of RM1.60. We believe SUNWAY will continue to deliver decent profitability despite a soft property market, backed by its other divisions, i.e. construction, property investment, trading and manufacturing. Currently, we are comfortable with our valuations as follows; (i) applied property RNAV discount of 64% that is close to the sector average of 68%, (ii) premium valuation of 25.0x Fwd. PER to its healthcare division, and (iii) 15.0x FY19E PER to its construction division, which is in line with our big-caps' range of 15-17x.

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

MARKET PERFORM ↔

Price : RM1.51
Target Price : RM1.60 ↔

Share Price Performance



KLCI	1,853.58
YTD KLCI chg	3.2%
YTD stock price chg	-7.4%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	SWB MK Equity
Market Cap (RM m)	7,357.5
Outstanding shares	4,872.5
52-week range (H)	1.96
52-week range (L)	1.46
3-mth avg daily vol:	3,055,890
Free Float	33%
Beta	1.0

Major Shareholders

Sungei Way Corp Sdn Bhd	55.3%
Employees Provident Fund Board	6.1%
Fook Ling Cheah	5.1%

Summary Earnings Table

FYE Dec (RM m)	2017A	2018E	2019E
Turnover	5,375	5,500	5,721
EBIT	687	768	788
PBT	882	860	891
Net Profit (NP)	640	573	608
Core net profit	566	573	608
Consensus (NP)	n.a.	654	740
Earnings Revision	n.a.	n.a.	n.a.
Basic EPS	11.5	11.7	12.4
EPS growth (%)	9%	-10%	6%
DPS (sen)	6.0	6.2	6.5
Basic PER (x)	13.1	13.0	12.2
BVPS (RM)	1.59	1.65	1.71
Net Gearing (x)	0.5	0.4	0.4
Dividend Yield (%)	4.0%	4.1%	4.3%

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Result Highlight						
FYE 31 Dec (RM'm)	1Q18	4Q17	QoQ%	1Q17	YoY%	
Revenue	1,308.4	1,722.9	-24%	1,091.3	20%	
Op costs w/o depn/amort	-1,199.9	-1,592.2	-25%	-992.1	21%	
Other Op Income	21.5	75.3	-71%	17.5	23%	
EBITDA	164.6	241.3	-32%	151.3	9%	
EBIT	130.0	206.0	-37%	116.8	11%	
Net Interest	-7.6	9.2	-183%	-6.7	13%	
Associate & JCE	38.5	29.3	31%	43.1	-11%	
Fair Value Adjustments on IP	0.0	16.4	n.m.	0.0	n.m.	
Pretax profit	160.9	260.9	-38%	153.1	5%	
Taxation	-23.4	-54.9	-57%	-27.3	-14%	
Minority Interests	-15.6	-22.2	-30%	-17.9	-13%	
Net profit	121.9	183.8	-34%	107.9	13%	
Core Net profit	121.9	167.4	-27%	107.9	13%	
EPS (sen)	2.5	3.7	-34%	2.2	13%	
Diluted EPS (sen)	2.2	3.0	-27%	1.9	13%	
NDPS (sen)	0.0	3.0		0.0		
NTA/share (RM)	1.58	1.53		1.48		
Net gearing/(cash) (x)	0.42	0.49		0.47		
EBITDA margin	13%	14%		14%		
EBIT margin	10%	12%		11%		
Pretax margin	12%	15%		14%		
Effective tax rate	15%	21%		18%		

Source: Company, Kenanga Research

Segmental Breakdown						
FYE 31 Dec (RM'm)	1Q18	4Q17	QoQ	1Q17	YoY	
Revenue						
Property Development	307.4	472.3	-35%	144.3	113%	
Property Investment	262.5	300.3	-13%	228.1	15%	
Construction	745.2	1181.6	-37%	531.0	40%	
Trading & Manufacturing	321.2	356.3	-10%	298.8	7%	
Quarry	53.2	54.4	-2%	47.6	12%	
Investment Holdings	108.9	69.5	57%	289.3	-62%	
Others	202.3	214.0	-5%	180.6	12%	
Eliminations	-692.3	-925.6	-25%	-628.5	10%	
TOTAL	1308.4	1722.9	-24%	1091.3	20%	
Pre-tax Profit						
Property Development	23.8	105.4	-77%	25.1	-5%	
Property Investment	55.6	47.1	18%	31.1	79%	
Construction	40.1	54.1	-26%	36.9	9%	
Trading & Manufacturing	11.5	10.6	8%	8.8	31%	
Quarry	1.8	-1.2	-246%	0.5	251%	
Investment Holdings	10.3	31.7	-67%	28.6	-64%	
Others	17.8	13.2	35%	22.1	-20%	
Eliminations	0.0	0.0	n.m.	0.0	n.m.	
TOTAL	160.9	260.9	-38%	153.1	5%	
Pre-tax Margin						
Property Development	8%	22%		17%		
Property Investment	21%	16%		14%		
Construction	5%	5%		7%		
Trading & Manufacturing	4%	3%		3%		
Quarry	3%	-2%		1%		
Investment Holdings	9%	46%		10%		
Others	9%	6%		12%		

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%	7,862	n.a	64%	2,830	(i) Property Dev: DCF of Future Profits @ 11% WACC, 18% net margin property rnav discount of 55% (ii) Property Inv: Zero surplus on Book Value SUNREIT TP RM1.60
Sunway Reit	35%	1,630	n.a		1,630	
Construction	56%	1,726	15		1,726	15x FY19E PE
Quarry & Buildings Mat	100%	163	8		163	8x FY19E PER
Trading & manufacturing	100%	260	8		260	8x FY19E PER
Healthcare	100%	1,217	25		1,217	25x FY19E PER - Inline with KPJ valuation
Group Shareholders Funds						
Total SOP		12,858			7,827	
Adjustment for Dilution					1,157	
FD SOP (RM)					2.53	
Implied SOP Discount Rate					-37%	
TP (RM)					1.60	
Diluted no. of shares ('m)					5,539	

Source: Kenanga Research

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Peer Comparison

NAME	Price (21/5/18)	Mkt Cap	PER (x)			Est. NDiv. Yld.	Hist. ROE	Fwd ROE	P/BV	Net Profit (RMm)			FY18/19 NP Growth	FY19/20 NP Growth	Target Price	Rating
	(RM)	(RMm)	FY17/18	FY18/19	FY19/20	(%)	(%)	(%)	(x)	FY17/18	FY18/19	FY19/20	(%)	(%)	(RM)	
DEVELOPERS UNDER COVERAGE																
IOI PROPERTIES GROUP BHD*	1.61	8,865	10.0	12.9	12.4	3.7%	5.1%	4.0%	0.51	938.0	727.4	757.2	-22.4%	4.1%	1.70	MARKET PERFORM
S P SETIA BHD*	3.18	12,370	14.2	17.9	15.3	3.6%	8.4%	4.8%	0.83	766.4	607.3	712.3	-20.8%	17.3%	3.50	OUTPERFORM
UEM SUNRISE BHD*	0.840	3,811	14.0	13.7	16.5	1.2%	4.0%	3.9%	0.57	272.2	278.6	230.8	2.3%	-17.2%	0.970	MARKET PERFORM
SUNWAY BHD*	1.51	7,358	13.1	13.0	12.2	4.1%	7.3%	6.7%	0.92	566.0	573.0	608.0	1.2%	6.1%	1.60	MARKET PERFORM
MAH SING GROUP BHD	1.11	2,695	10.5	10.7	11.1	5.9%	9.0%	8.2%	0.75	296.8	290.2	281.8	-2.2%	-2.9%	1.10	OUTPERFORM
ECO WORLD DEVELOPMENT GROUP BHD	1.42	4,181	37.0	22.2	15.7	0.0%	5.2%	4.3%	1.11	113.1	188.6	267.1	66.8%	41.7%	1.15	OUTPERFORM
UOA DEVELOPMENT BHD*	2.60	4,506	11.5	11.4	11.4	5.8%	12.1%	9.3%	1.04	401.5	403.9	406.1	0.6%	0.6%	2.40	MARKET PERFORM
MALAYSIAN RESOURCES CORP BHD	0.725	3,183	34.5	21.3	18.6	2.5%	2.1%	3.7%	0.76	101.3	163.8	186.8	62%	14.0%	1.15	OUTPERFORM
SUNSURIA BERHAD	1.20	959	10.6	8.6	5.6	0.0%	6.9%	11.6%	1.05	90.7	111.9	169.9	23.3%	51.9%	1.30	MARKET PERFORM
CRESCENDO CORPORATION BHD*	1.34	305	10.7	12.0	11.6	4.5%	2.2%	8.0%	0.36	34.9	31.3	32.5	-10.3%	3.8%	1.30	MARKET PERFORM
HUA YANG BHD	0.455	160	2.3	50.6	13.8	0.0%	21.9%	12.2%	0.27	70.0	3.0	12.0	-95.7%	300.0%	0.500	MARKET PERFORM
AMVERTON BHD	1.01	369	15.1	14.4	13.5	0.0%	3.0%	4.0%	0.56	24.3	25.7	27.5	5.8%	7.0%	1.15	MARKET PERFORM
MAGNA PRIMA BHD	1.14	379	71.3	48.3	47.1	1.0%	7.4%	1.1%	0.91	6.7	11.7	12.0	74.6%	2.6%	0.955	UNDERPERFORM
CONSENSUS NUMBERS																
SIME DARBY PROPERTY BHD	1.46	9929	15.9	18.5	20.9	1.9%	n.a.	7.4%	1.21	624.0	537.3	476.1	-13.9%	-11.4%	1.72	BUY
MATRIX CONCEPTS HOLDINGS BHD	1.91	1437	7.8	6.0	5.3	6%	18.8%	19.1%	1.11	185.3	238.4	270.8	28.7%	13.6%	2.39	BUY
LBS BINA GROUP BHD	0.93	1435	13.9	11.9	10.5	3.8%	8.6%	9.5%	1.07	103.4	121.0	136.5	17.0%	12.8%	1.22	BUY
PARAMOUNT CORP BHD	2.00	857	6.4	9.5	9.1	5.0%	13.5%	8.5%	0.91	133.4	89.9	94.2	-32.6%	4.8%	2.40	BUY
TITIJAYA LAND BHD	0.44	591	7.8	8.0	7.2	3%	8.6%	11.0%	0.52	76.0	73.9	82.0	-2.7%	10.9%	0.86	BUY
YONG TAI BHD	1.41	679	102.6	21.4	7.2	0%	3.5%	8.8%	1.18	6.6	31.8	93.9	380.2%	195.5%	2.09	BUY
GLOMAC BHD	0.50	397	3.7	16.7	12.8	1.8%	0.6%	1.1%	n.a.	108.2	23.8	30.9	-78.0%	30.0%	0.49	SELL
TAMBUN INDAH LAND BHD	0.83	360	4.3	5.6	5.7	6.9%	14.9%	10.4%	0.65	83.4	64.1	62.8	-23.1%	-2.0%	1.00	NEUTRAL

* Core NP and Core PER

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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