

01 March 2018

# Sunway Berhad

## Scoresa Tad Higher

By **Adrian Ng** | [adrian.ng@kenanga.com.my](mailto:adrian.ng@kenanga.com.my); **Sarah Lim** | [sarahlim@kenanga.com.my](mailto:sarahlim@kenanga.com.my)

**FY17 CNP of RM566.3m came in above our, but within consensus, estimate, at 108%/100%. Property sales of RM1.2b came in higher compared to our and management target of RM1.1b. 3.0sen dividend was declared, bringing full-year DPS to 6.0 sen inline with our 5.9 sen forecast. Raised FY18E CNP by 5% to RM572.0m, introduce FY19E CNP of RM607.0m. Reiterate MARKET PERFORM with an unchanged SoP-driven Target Price of RM1.75.**

**Above our estimate but within consensus.** FY17 CNP of RM566.3m makes up 108%/100% of our/consensus full-year estimates. Negative variances are mainly from the differential in taxes where we assumed a higher effective tax rate and better development margins. FY17 property sales of RM1.2b came in higher compared to our and management's full-year target of RM1.1b. A 3 sen dividend was declared, bringing total dividends for the year to 6.0 sen inline with our expectation of 5.9 sen.

**Results highlight.** FY17 CNP grew 5% YoY underpinned by; (i) revenue growth of 14%, (ii) reduction in net financing cost (-62%), and (iii) decline in minority contributions (-30%). Revenue growth was backed by the growth of 16%-25% from all of its divisions except for property development, and quarry. 4Q17 CNP grew 11%, QoQ, due to significant improvements in pre-tax profits from its property development and construction divisions, which grew 32%-197%. Its property development division saw completion of several projects, 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.** Moving ahead, management have planned launches of RM2.0b, with a new sales target of RM1.3b which is pretty close to our target of RM1.2b. Property unbilled sales of RM0.9b with 1-year visibility, a vigorous outstanding order-book of RM6.7b provides 2-3 years' visibility while other divisions are generating decent growth except for quarry.

**A raise for FY18E.** Post results, we raised our FY18E CNP by 5% to RM572.0m, and introduce our FY19E CNP of RM607.0m after we fine-tuned our development margin assumptions.

**Maintain MARKET PERFORM, with unchanged Target Price of RM1.75.** 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:- (i) the applied property RNAV discount of 56% is well within the sector average of 60%, (ii) already pegging premium valuations of 27.0x Fwd PER to its healthcare division, and (iii) 16.0x FY18E PER to its construction division which is inline with our big-cap range of 16-18x.

**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 :** RM1.65  
**Target Price :** RM1.75 ↔

## Share Price Performance



KLCI	1,856.20
YTD KLCI chg	3.3%
YTD stock price chg	1.2%

## Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	SWB MK Equity
Market Cap (RM m)	8,078.0
Issued shares	4,895.7
52-week range (H)	1.96
52-week range (L)	1.31
3-mth avg daily vol:	4,012,992
Free Float	34%
Beta	0.9

## Major Shareholders

Sungei Way Corp SdnBhd	55.1%
Employees Provident Fund	5.7%
Fook Ling Cheah	5.1%

## Summary Earnings Table

FYE Dec (RM m)	2017A	2018E	2019E
Turnover	5,375	5,500	5,721
EBIT	687	783	805
PBT	882	858	889
<b>Net Profit (NP)</b>	<b>640</b>	<b>572</b>	<b>607</b>
<b>Core NP</b>	<b>566</b>	<b>572</b>	<b>607</b>
Consensus (CNP)	n.a.	637	663
Earnings Revision	n.a.	5%	0%
Core Basic EPS	11.5	11.6	12.3
Core EPS growth(%)	9%	4%	6%
NDPS (sen)	6.0	6.2	6.5
Basic PER (x)	14.3	14.2	13.4
BVPS (RM)	1.58	1.62	1.68
Net Gearing (x)	0.5	0.5	0.4
Dividend Yield (%)	3.6%	3.7%	4.0%

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Result Highlight								
FYE 31 Dec (RM'm)	4Q17	3Q17	QoQ%	3Q16	YoY%	FY17	FY16	QoQ
Revenue	1,722.9	1,319.6	31%	1,137.5	51%	5,374.8	4,725.9	14%
Op costs w/o depn/amort	-1,592.2	-1,192.0	34%	-1,014.9	57%	-4,847.9	-4,194.8	16%
Other Op Income	75.3	25.9	190%	41.7	81%	143.3	175.2	-18%
<b>EBITDA</b>	<b>241.3</b>	<b>189.6</b>	<b>27%</b>	<b>203.7</b>	<b>18%</b>	<b>809.3</b>	<b>820.2</b>	<b>-1%</b>
<b>EBIT</b>	<b>206.0</b>	<b>153.6</b>	<b>34%</b>	<b>164.3</b>	<b>25%</b>	<b>670.2</b>	<b>706.3</b>	<b>-5%</b>
Net Interest	9.2	-6.3	-246%	-2.6	-456%	-22.6	-59.9	-62%
Associate & JCE	29.3	49.5	-41%	46.7	-37%	161.3	168.3	-4%
Fair Value Adjustments on IP	16.4	0.0	n.m.	0.0	n.m.	73.2	44.2	66%
<b>Pre-tax profit</b>	<b>260.9</b>	<b>196.7</b>	<b>33%</b>	<b>208.5</b>	<b>25%</b>	<b>882.2</b>	<b>858.9</b>	<b>3%</b>
Taxation	-54.9	-29.0	90%	-37.7	46%	-149.4	-140.4	6%
Minority Interests	-22.2	-16.9	31%	-27.2	-19%	-93.3	-132.7	-30%
<b>Net profit</b>	<b>183.8</b>	<b>150.9</b>	<b>22%</b>	<b>143.5</b>	<b>28%</b>	<b>639.5</b>	<b>585.8</b>	<b>9%</b>
<b>Core Net profit</b>	<b>167.4</b>	<b>150.9</b>	<b>11%</b>	<b>143.5</b>	<b>17%</b>	<b>566.3</b>	<b>541.6</b>	<b>5%</b>
EPS (sen)	3.7	3.1	22%	2.9	28%	13.0	11.9	9%
Diluted EPS (sen)	3.0	2.7	11%	2.6	17%	10.2	9.8	5%
NDPS (sen)	3.0	0.0		0.0		6.0	5.1	
NTA/share (RM)	1.53	1.55		1.44		1.53	1.44	
Net gearing/(cash) (x)	0.49	0.37		0.41		0.49	0.41	
EBITDA margin	14%	14%		18%		15%	17%	
EBIT margin	12%	12%		14%		12%	15%	
Pretax margin	15%	15%		18%		16%	18%	
Effective tax rate	21%	15%		18%		17%	16%	

Source: Companv. Kenanga Research

Segmental Breakdown								
FYE 31 Dec (RM'm)	4Q17	3Q17	QoQ	4Q16	YoY	FY17	FY16	QoQ
<b>Revenue</b>								
Property Development	472.3	206.2	129%	349.1	35%	1093.1	1209.8	-10%
Property Investment	300.3	269.0	12%	246.0	22%	1046.7	867.0	21%
Construction	1181.6	622.5	90%	1153.4	2%	2856.6	2389.1	20%
Trading & Manufacturing	356.3	331.3	8%	352.3	1%	1289.4	1035.3	25%
Quarry	54.4	51.3	6%	66.3	-18%	214.8	226.0	-5%
Investment Holdings	69.5	147.0	-53%	461.5	-85%	608.0	840.7	-28%
Others	214.0	198.7	8%	205.2	4%	784.2	677.0	16%
Eliminations	-925.6	-506.2	83%	-1470.1	-37%	-2517.9	-2519.1	0%
<b>TOTAL</b>	<b>1722.9</b>	<b>1319.6</b>	<b>31%</b>	<b>1363.7</b>	<b>26%</b>	<b>5374.8</b>	<b>4725.9</b>	<b>14%</b>
<b>Pre-tax Profit</b>								
Property Development	105.4	35.5	197%	135.9	-22%	241.1	327.8	-26%
Property Investment	47.1	106.8	-56%	38.0	24%	212.7	158.7	34%
Construction	54.1	41.0	32%	29.7	82%	174.4	134.1	30%
Trading & Manufacturing	10.6	14.2	-25%	16.4	-35%	43.9	35.7	23%
Quarry	-1.2	2.5	-149%	0.8	-245%	5.4	25.0	-78%
Investment Holdings	31.7	26.3	21%	23.6	34%	114.7	99.8	15%
Others	13.2	27.3	-52%	26.3	-50%	90.0	78.0	15%
Eliminations	0.0	0.0	n.m.	0.0	n.m.	0.0	0.0	n.m.
<b>TOTAL</b>	<b>260.9</b>	<b>253.5</b>	<b>3%</b>	<b>270.6</b>	<b>-4%</b>	<b>882.2</b>	<b>859.0</b>	<b>3%</b>
<b>Pre-tax Margin</b>								
Property Development	22%	17%		39%		22%	27%	
Property Investment	16%	40%		15%		20%	18%	
Construction	5%	7%		3%		6%	6%	
Trading & Manufacturing	3%	4%		5%		3%	3%	
Quarry	-2%	5%		1%		3%	11%	
Investment Holdings	46%	18%		5%		19%	12%	
Others	6%	14%		13%		11%	12%	

Source: Companv. 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	56%	3,428	(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
Sunway Reit	35%	1,906	n.a		1,906	SUNREIT TP RM1.87
Construction	56%	1,438	16		1,438	16x FY18E PER- Inline with Big-Cap peers range of 16-18x.
Quarry & Buildings Mat	100%	158	8		158	8x FY18E PER
Trading & manufacturing	100%	288	8		288	8x FY18E PER
Healthcare	100%	1,334	27		1,334	27x FY18E PER inline with KPJ
Group Shareholders Funds						
<b>Total SOP</b>		<b>12,987</b>			<b>8,553</b>	
Adjustment for Dilution					1,157	
<b>FD SOP (RM)</b>					<b>2.55</b>	
Implied SOP Discount Rate					-31%	
<b>TP (RM)</b>					<b>1.75</b>	
Diluted no. of shares ('m)					5,539	

Source: Kenanga Research

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## Peer Comparison

NAME	Price (28/2/18)	Mkt Cap	PER (x)			Est. NDiv. Yld.	Hist. ROE	Fwd ROE	P/BV	Net Profit (RMm)			FY17/18 NP Growth	FY18/19 NP Growth	Target Price	Rating
	(RM)	(RMm)	FY16/17	FY17/18	FY18/19	(%)	(%)	(%)	(x)	FY16/17	FY17/18	FY18/19	(%)	(%)	(RM)	
<b>DEVELOPERS UNDER COVERAGE</b>																
IOI PROPERTIES GROUP BHD*	1.85	10,186	11.5	12.5	11.9	3.2%	5.1%	4.7%	0.58	938.0	859.1	903.8	-8.4%	5.2%	2.00	MARKET PERFORM
S P SETIA BHD*	3.39	12,723	15.1	19.1	16.3	3.4%	8.4%	4.8%	0.88	766.4	607.3	712.3	-20.8%	17.3%	4.10	OUTPERFORM
UEM SUNRISE BHD*	1.09	4,946	18.2	17.8	21.4	0.9%	4.0%	3.9%	0.74	272.2	278.6	230.8	2.3%	-17.2%	1.20	MARKET PERFORM
SUNWAY BHD^	1.65	8,078	14.3	14.2	13.4	3.6%	7.3%	6.7%	1.02	566.0	572.0	607.0	1.1%	6.1%	1.75	MARKET PERFORM
MAH SING GROUP BHD	1.20	2,913	11.4	11.6	12.0	5.4%	9.0%	8.2%	0.81	296.8	290.2	281.8	-2.2%	-2.9%	1.50	OUTPERFORM
ECO WORLD DEVELOPMENT GROUP BHD	1.29	3,798	33.6	20.1	14.2	0.0%	5.2%	4.3%	0.85	113.1	188.6	267.1	66.8%	41.7%	1.50	MARKET PERFORM
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%	2.60	MARKET PERFORM
MALAYSIAN RESOURCES CORP BHD	1.08	4,742	51.5	31.8	27.9	1.7%	8.6%	2.4%	1.14	101.3	163.8	186.8	62%	14.0%	1.30	OUTPERFORM
SUNSURIA BERHAD	1.30	1,038	11.4	9.3	6.1	0.0%	6.9%	11.6%	1.14	90.7	111.9	169.9	23.3%	51.9%	1.40	MARKET PERFORM
CRESCENDO CORPORATION BHD*	1.40	318	13.6	9.2	8.8	4.3%	2.2%	8.0%	0.41	28.9	42.5	44.6	47.2%	4.9%	1.50	MARKET PERFORM
HUA YANG BHD	0.580	204	2.9	64.4	17.6	3.4%	21.9%	12.2%	0.34	70.0	3.0	12.0	-95.7%	300.0%	0.600	MARKET PERFORM
AMVERTON BHD	1.25	456	18.7	17.9	16.7	0.0%	3.0%	4.0%	0.69	24.3	25.7	27.5	5.8%	7.0%	2.00	OUTPERFORM
MAGNA PRIMA BHD	1.26	419	78.9	53.5	52.1	0.9%	7.4%	1.1%	1.01	6.7	11.7	12.0	74.6%	2.6%	1.25	MARKET PERFORM
<b>CONSENSUS NUMBERS</b>																
IGB CORPORATION BHD	2.97	3,984	11.7	14.9	14.1	3.4%	7.4%	5.1%	0.76	340.9	268.3	281.7	-21.3%	5.0%	n.a.	BUY
GLOMAC BHD	0.54	429	4.0	16.4	11.5	3.1%	0.7%	4.6%	n.a.	108.2	26.2	37.3	-75.8%	42.4%	0.54	SELL
PARAMOUNT CORP BHD	1.98	840	6.3	9.4	9.0	5.1%	14.6%	9.6%	0.90	133.4	89.1	93.3	-33.2%	4.8%	2.40	BUY
TAMBUN INDAH LAND BHD	0.87	375	4.5	5.0	5.0	7.6%	18.8%	11.9%	0.59	83.4	74.5	74.5	-10.6%	0.0%	1.00	NEUTRAL
LBS BINA GROUP BHD	1.02	1,582	15.3	12.3	11.3	3.3%	9.2%	10.5%	0.90	103.4	128.7	139.5	24.5%	8.4%	1.25	BUY
* 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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**KENANGA INVESTMENT BANK BERHAD (15678-H)**

Level 12, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia  
Telephone: (603) 2172 0880 Website: [www.kenanga.com.my](http://www.kenanga.com.my) E-mail: [research@kenanga.com.my](mailto:research@kenanga.com.my)



Chan Ken Yew  
Head of Research