

23 August 2018 | 2QFY18 Results Review

Sunway Berhad

Strong property sales

INVESTMENT HIGHLIGHTS

- **1HFY18 earnings slightly below expectations**
- **Higher earnings in 1HFY18**
- **Strong property sales of RM1.3b in 1HFY18**
- **Earnings forecast revised downwards**
- **Maintain Neutral with unchanged TP of RM1.60**

1HFY18 earnings slightly below expectations. Sunway Berhad (SUNWAY) 1HFY18 core net income of RM262.2m came in slightly below expectations, making up 43% of our and consensus full year estimates. This was mainly due to lower-than-expected earnings from project in Singapore following adoption of MFRS 15. Under MFRS 15, SUNWAY can only recognise the development profits from Singapore project upon its completion. Dividend of 3.5 sen per share was announced.

Higher earnings in 1HFY18. SUNWAY 2QFY18 core net income increased marginally at +0.7%yoy, bringing cumulative earnings in 1HFY18 to RM262.2m (+6.5%yoy). The growth in 1HFY18 earnings were mainly driven by higher earnings from property investment division. Operating profit of property investment division increased 23.9%yoy, mainly buoyed by higher earnings contribution from Sunway Velocity Mall. Meanwhile, operating profit of property development division fell 18.2%yoy due to lower progress billings from local development projects. Besides, adoption of MFRS 15 had dragged earnings of the property development division as SUNWAY can only recognise the development profits from Rivercove Residences project in Singapore upon its completion.

Strong property sales. SUNWAY recorded strong property sales of RM674m in 2QFY18, bringing total new sales to RM840m in 1HFY18. The strong sales in 1HFY18 were mainly contributed by its Singapore project, which made up 79% of total new sales. Meanwhile, SUNWAY achieved its full year new sales target as its year-to-date new sales reached RM1.3b. Hence, we revise our full year new sales target to RM1.8b. Meanwhile, unbilled sales surged to RM1.5b from RM947m, providing 1.3 years earnings visibility to property development division.

Maintain NEUTRAL

Unchanged Target Price (TP): RM1.60

| RETURN STATS | |
|------------------------------|-------------|
| Price (21 Aug 2018) | RM1.56 |
| Target Price | RM1.60 |
| Expected Share Price Return | 2.6% |
| Expected Dividend Yield | 4.0% |
| Expected Total Return | 6.6% |

| STOCK INFO | |
|-----------------------|---------------------------|
| KLCI | 1,798.11 |
| Bursa / Bloomberg | 5211 / SWB MK |
| Board / Sector | Main / Trading & Services |
| Syariah Compliant | Yes |
| Issued shares (mil) | 4918 |
| Market cap. (RM'm) | 7,587.53 |
| Price over NA | 0.95 |
| 52-wk price Range | RM1.44–RM1.95 |
| Beta (against KLCI) | 0.83 |
| 3-mth Avg Daily Vol | 2.09m |
| 3-mth Avg Daily Value | RM3.21m |
| Major Shareholders | |
| Sungei Way Corp | 55.93% |
| EPF | 6.59% |
| Cheah Fook Ling | 5.12% |

Maintain Neutral with an unchanged TP of RM1.60. We revise downwards our earnings forecast for FY18 and FY19 by -2.7% and -2.8% respectively due to the deferred earnings recognition from Singapore project despite strong sales. Despite the earnings downward revision, our TP is unchanged at RM1.60 as the earnings revision reflects only deferred earnings recognition from Singapore project and it does not affect our Sum-of-Parts valuation. We maintain our Neutral call on SUNWAY due to neutral earnings outlook for property development division.



INVESTMENT STATISTICS

| FYE Dec (RM m) | FY15A | FY16A | FY17A | FY18F | FY19F |
|-----------------|--------|--------|--------|--------|--------|
| Revenue | 4448.4 | 4725.9 | 5374.8 | 5268.6 | 5679.2 |
| Core EBIT | 546.6 | 726.9 | 613.4 | 694.1 | 752.9 |
| Core PBT | 788.7 | 820.5 | 809.0 | 878.4 | 951.6 |
| Net Income | 732.4 | 585.9 | 639.5 | 589.2 | 631.4 |
| Core Net Income | 590.7 | 547.4 | 566.3 | 589.2 | 631.4 |
| EPS (sen) | 41.8 | 28.4 | 13.29 | 12.1 | 13.0 |
| Core EPS (sen) | 33.7 | 26.6 | 11.77 | 12.1 | 13.0 |
| Net DPS (sen) | 38.00 | 12.14 | 6.00 | 6.32 | 6.51 |
| Net Dvd Yield | 24.4% | 7.8% | 3.8% | 4.0% | 4.2% |
| Core PER | 4.63 | 5.87 | 13.24 | 12.85 | 11.99 |
| NTA/share (RM) | 3.74 | 3.62 | 1.63 | 1.67 | 1.74 |
| P/NTA | 0.42 | 0.43 | 0.96 | 0.93 | 0.90 |
| Core ROE | 9.0% | 7.3% | 7.2% | 7.3% | 7.5% |
| Core ROA | 3.7% | 2.9% | 2.8% | 2.9% | 3.0% |
| Net Gearing (x) | 0.50 | 0.45 | 0.49 | 0.46 | 0.49 |

Source: Company, MIDF Research Estimates

Sunway: 2QFY18 RESULTS SUMMARY

| FYE Dec (RM'm, unless otherwise stated) | Quarterly Results | | | Cumulative | |
|---|-------------------|--------|--------|------------|-------|
| | 2QFY18 | %YoY | %QoQ | FY18 | %YoY |
| Revenue | 1287.1 | 3.8% | -25.3% | 2,595.5 | 11.4% |
| EBIT | 166.0 | -13.9% | -25.4% | 296.0 | -3.9% |
| Core PBT | 183.0 | -14.2% | -25.1% | 343.9 | -5.8% |
| Net Income | 199.4 | 1.7% | 8.5% | 321.4 | 6.1% |
| Core Net Income | 140.2 | 0.7% | -16.2% | 262.2 | 6.5% |
| EPS (sen) | 4.09 | 1.7% | 7.1% | 6.68 | 7.4% |
| Core EPS (sen) | 2.88 | 0.7% | -17.3% | 5.45 | 7.8% |
| Net DPS (sen) | 3.50 | 17% | NA | 3.5 | 16.7% |
| NTA/share (RM) | 1.60 | 4% | 2% | 1.6 | 4.8% |
| Net Gearing (x) | 0.48 | NA | NA | 0.5 | NA |
| EBIT Margin | 12.9% | NA | NA | 11.4% | NA |
| Core PBT Margin | 14.2% | NA | NA | 13.3% | NA |

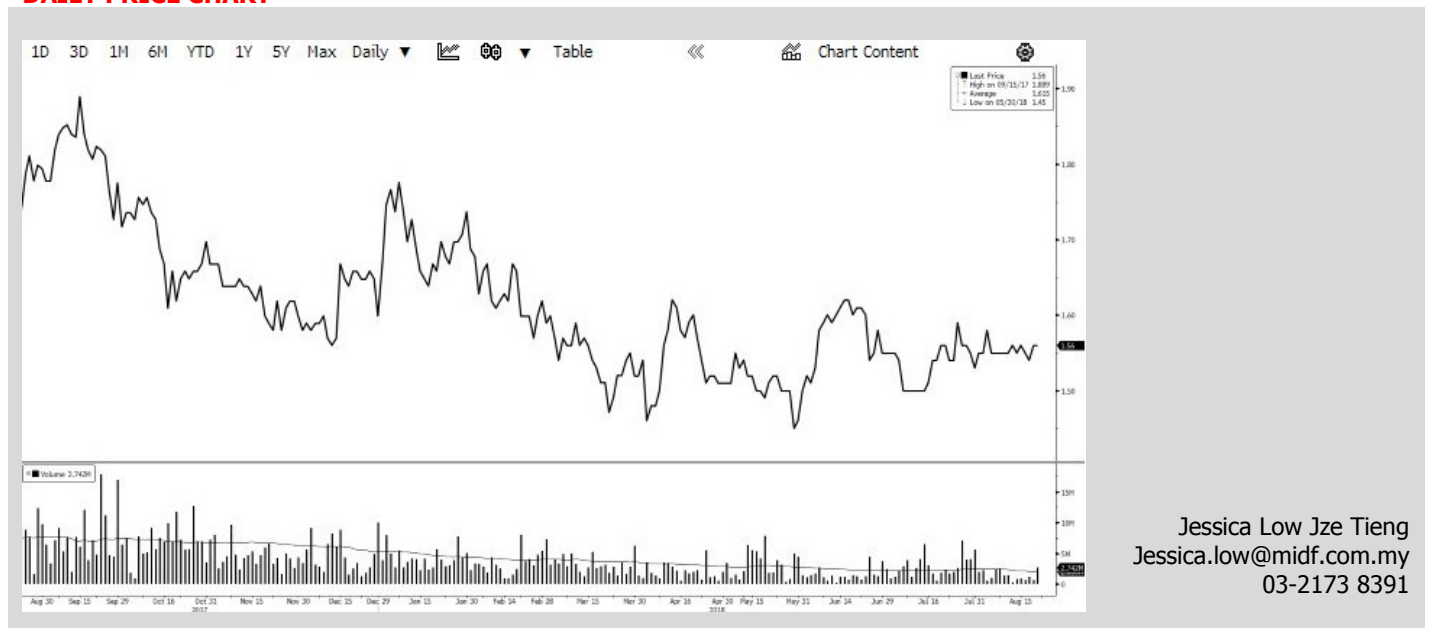
Source: Company

Sum-of-Parts

| Division | Methodology | PER (x) | Stake | Discount | Value (RM m) |
|---------------------------|---|---------|-------|----------|---------------|
| Property Development | NPV of profits | n/a | 100% | 20% | 2321.2 |
| Property Investment | Net Book Value | n/a | 100% | n/a | 1490.0 |
| Construction | 13x FY18E PER - KL Construction Index PER | 13 | 54% | n/a | 1603.3 |
| Sunway REIT | Target Price of RM1.90 | n/a | 35% | n/a | 1930.5 |
| Trading and manufacturing | 10x FY18E PER - In line with small cap PER of 10x | 10 | 100% | n/a | 149.6 |
| Quarry | 10x FY18E PER - In line with small cap PER of 10x | 10 | 100% | n/a | 376.4 |
| Total SOP | | | | | 7870.0 |
| Number of shares | | | | | 4919.0 |
| Target Price (RM) | | | | | 1.60 |

Source: MIDF Research Estimates

DAILY PRICE CHART



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Source: Bloomberg

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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

| | |
|--------------|--|
| BUY | Total return is expected to be >10% over the next 12 months. |
| TRADING BUY | Stock price is expected to <i>rise</i> by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow. |
| NEUTRAL | Total return is expected to be between -10% and +10% over the next 12 months. |
| SELL | Total return is expected to be <-10% over the next 12 months. |
| TRADING SELL | Stock price is expected to <i>fall</i> by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow. |

SECTOR RECOMMENDATIONS

| | |
|----------|--|
| POSITIVE | The sector is expected to outperform the overall market over the next 12 months. |
| NEUTRAL | The sector is to perform in line with the overall market over the next 12 months. |
| NEGATIVE | The sector is expected to underperform the overall market over the next 12 months. |