

Sunway (SWB MK)

A good 2019

Profit in line but sales above expectation

Sunway's 4Q19 core net profit of MYR154m (+0.6% YoY) was within our and consensus estimates but 2019 property sales of MYR1.1b were above expectation. Management has set a MYR1.4b effective sales target for 2020 (+27% YoY). We adjust Sunway's core net profit forecasts by 5-7% to factor in 2019 actual results and the change in Sunway Construction Group (SCG MK; TP MYR2.28; BUY)'s earnings forecasts. Our RNAV-TP is raised to MYR1.81 (+7sen; on an unchanged 0.6x P/RNAV). HOLD. For sector exposure, we prefer SP Setia (SPSB MK; BUY; TP: MYR1.85).

FY19 results in line

Excluding the MYR16.5m distribution to perpetual sukuk holders and MYR30m fair value gain, Sunway's 4Q19 core net profit was MYR154m (+0.6% YoY, -8% QoQ), lifting 2019 core net earnings to MYR638m (+14% YoY), at 98%/101% of our/consensus estimates. The positive earnings growth was mainly supported by its property, quarry and healthcare businesses as well as a lower tax rate of 9.4%. 2019 tax rate was low (2018: 16%) due to the provision for deferred taxation pertaining to balancing charge was reversed in 2Q19 on the asset disposal.

Sets higher property sales target

Sunway's 2019 effective locked-in sales of MYR1.1b were 10% higher than its initial MYR1b sales target. Despite a challenging domestic property market outlook, Sunway has set a higher sales target of MYR1.4b for FY20 mainly driven by its Singapore projects. Effective unbilled sales were MYR2.1b as at end-Dec 2019 (3x FY20F property revenue). Elsewhere, 54.4%-owned SCG has secured MYR1.8b worth of jobs in 2019, increasing its outstanding orderbook to MYR5.2b as at end-Dec 2019.

Earnings adjustments

We adjust our FY20/21 core net profit forecasts for Sunway by 4.8%/6.7% after factoring in: 1) 2019 actual results; 2) higher earnings contributions from SCG ([link](#)) and 3) our 2020 sales assumption of MYR1.4b. Our new RNAV est. for Sunway is raised to MYR3.01 (+11sen) after factoring a higher TP for SCG (+23 sen). We maintain HOLD on Sunway in view of a total return (incl. dividend) of c.5%. The re-rating catalyst i.e. the IPO listing of its healthcare business could only happen in 2022.

FYE Dec (MYR m)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue	5,410	4,780	6,274	6,805	6,409
EBITDA	595	565	1,037	1,087	1,068
Core net profit	558	638	696	729	696
Core FDEPS (sen)	11.4	13.1	14.3	15.0	14.3
Core FDEPS growth(%)	0.9	14.4	9.0	4.8	(4.5)
Net DPS (sen)	7.1	9.1	6.4	6.7	6.4
Core FD P/E (x)	12.6	13.7	12.5	11.9	12.5
P/BV (x)	0.9	1.0	1.0	0.9	0.9
Net dividend yield (%)	4.9	5.1	3.6	3.8	3.6
ROAE (%)	8.1	8.7	8.1	8.1	7.4
ROAA (%)	2.7	2.8	2.8	2.8	2.6
EV/EBITDA (x)	19.1	23.1	13.1	13.2	14.3
Net gearing (%) (incl perps)	41.6	36.2	40.2	46.0	52.1
Consensus net profit	-	-	666	707	na
MKE vs. Consensus (%)	-	-	4.4	3.1	na

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HOLD

Share Price	MYR 1.78
12m Price Target	MYR 1.81 (+2%)
Previous Price Target	MYR 1.74

Company Description

Sunway Bhd is involved in property development, investment properties and construction businesses

Statistics

52w high/low (MYR)	1.85/1.55
3m avg turnover (USDm)	1.3
Free float (%)	26.5
Issued shares (m)	4,934
Market capitalisation	MYR8.8B
	USD2.1B

Major shareholders:

Active Equity Sdn. Bhd.	61.9%
Employees Provident Fund	7.3%
CHEAH FOOK LING	2.0%

Price Performance



	-1M	-3M	-12M
Absolute (%)	(1)	1	9
Relative to index (%)	4	7	27

Source: FactSet

Fig. 1: Results summary table - Sunway

FY Dec (MYRm)	Quarterly					Cumulative		
	4Q19	4Q18	%YoY	3Q19	%QoQ	2019	2018	%YoY
Revenue	1,353.2	1,452.4	-6.8	1,226.5	10.3	4,710.8	5,410.2	-12.9
- Property dev	218.2	203.8	7.0	126.2	72.8	545.9	619.6	-11.9
- Property inv	220.9	222.6	-0.8	209.7	5.4	803.5	814.8	-1.4
- Construction	318.0	489.1	-35.0	315.6	0.8	1,273.3	1,847.9	-31.1
- Trading	232.2	241.8	-4.0	246.2	-5.7	959.8	1,103.4	-13.0
- Quarry	136.4	59.2	130.5	114.9	18.8	348.1	223.4	55.9
- Healthcare	162.9	132.8	22.7	154.4	5.5	584.8	459.7	27.2
- Others	64.5	103.0	-37.4	59.5	8.5	195.5	341.5	-42.8
PBIT	106.0	150.8	-29.8	174.2	-39.2	565.2	594.7	-5.0
Finance costs	65.1	31.4	107.5	1.1	5,987.5	87.8	12.8	585.6
Other income	89.3	61.5	45.3	48.1	85.9	261.2	229.3	13.9
Pretax profit	260.4	243.7	6.8	223.3	16.6	914.2	836.8	9.3
- Property dev	117.2	51.0	129.8	59.0	98.6	246.3	173.2	42.2
- Property inv	89.6	84.3	6.4	67.0	33.8	336.3	298.6	12.6
- Construction	38.1	48.4	-21.2	33.1	15.1	162.3	180.9	-10.3
- Trading	4.5	10.1	-55.1	13.8	-67.1	31.4	53.1	-40.8
- Quarry	8.0	3.6	122.8	4.9	64.5	16.7	13.6	22.8
- Healthcare	11.4	16.9	-32.9	15.8	-28.1	61.8	54.4	13.6
- Others	-8.4	29.5	-128.6	29.8	-128.3	59.3	62.9	-5.8
Pretax profit ex-EI	224.9	213.8	5.2	223.3	0.7	835.1	747.7	11.7
Taxation	-41.3	-45.5	-9.2	-21.1	96.2	-78.3	-121.4	-35.5
Minority interest*	-35.3	-17.0	107.7	-35.4	-0.2	-69.3	-69.9	-0.8
Net profit	183.8	181.2	1.4	166.9	10.1	766.6	645.5	18.8
Net profit ex-EI	153.5	152.6	0.6	166.9	-8.0	638.2	557.7	14.4
Exceptional item (pretax)	-35.5	-29.9	18.7	0.0	NA	-79.1	-89.1	-11.2
	4Q19	4Q18	+/- ppt	3Q19	+/- ppt	2019	2018	+/- ppt
Pretax margin (%)	19.2	16.8	2.5	18.2	1.0	17.7	13.8	3.9
- Property dev	53.7	25.0	28.7	46.7	7.0	45.1	28.0	17.2
- Property inv	40.6	37.9	2.7	31.9	8.6	41.9	36.7	5.2
- Construction	12.0	9.9	2.1	10.5	1.5	12.7	9.8	3.0
- Trading	1.9	4.2	-2.2	5.6	-3.6	3.3	4.8	-1.5
- Quarry	5.9	6.1	-0.2	4.2	1.6	4.8	6.1	-1.3
- Healthcare	7.0	12.7	-5.8	10.2	-3.3	10.6	11.8	-1.3
- Others	-13.1	28.6	-41.7	50.1	-63.2	30.3	18.4	11.9
Tax rate (%)	-18.4	-21.3	2.9	-9.4	-8.9	-9.4	-16.2	6.9

*Including distribution to perpetual sukuk holders of MYR16.5m in 4Q19; YTD: MYR54.5m

Source: Company

Our RNAV estimate

	Stake	Acres	MV (MYR m)	BV (MYR m)	Surplus (MYR m)
1. Landbank - MARKET VALUE					
Sunway Semenyih	70%	526.1	572.9	128.0	311.5
Suncity Ipoh	96%	336.4	58.6	58.7	(0.1)
Sunway Integrated Resort	100%	7.7	4.8	8.3	(3.5)
Sunway Tower KL 1	100%	1.9	122.8	28.3	94.5
Sunway JB, Bukit Lenang	80%	49.9	54.3	134.5	(64.1)
Sg Long Balakong	80%	111	140.2	21.8	94.8
Mont Putra Rawang	100%	163	49.7	35.1	14.6
Sunway Iskandar - Pendas, freehold	60%	1079	1175.1	596.6	347.1
Sub-total (1)					794.8
2. Active developments - WACC (10.5-13.1%)					
	Stake				(MYR m)
South Quay	100%				308.9
Sunway Cheras	100%				1.7
Sunway Damansara	60%				5.4
Bangi	100%				3.3
Sunway Melawati	100%				2.1
Casa Kiara III	80%				14.4
Sunway Velocity	85%				120.5
Penang projects	100%				28.3
Wonderland Business Park, Australia	31%				2.2
Singapore Sembawang	100%				1.3
Mount Sophia	30%				30.0
Sunway Iskandar -leasehold (Medini)	51%				368.6
Kelana Jaya	100%				106.1
Industrial projects at Kelana Jaya and Subang	100%				18.3
Sunway Velocity extension	50%				78.8
Belfield	100%				97.2
Kajang	100%				34.2
Subang	100%				58.1
Wangsamaju	55%				30.9
PKNS Kota Damansara	60%				27.1
Sub-total (2):					1,337.4
3. Investment properties - MARKET VALUE					
	Stake		MV	BV	Surplus
			(MYR m)	(MYR m)	(MYR m)
Sunway Velocity Mall	59%		1,600	1,172	252.3
Sub-total (3)					252.3

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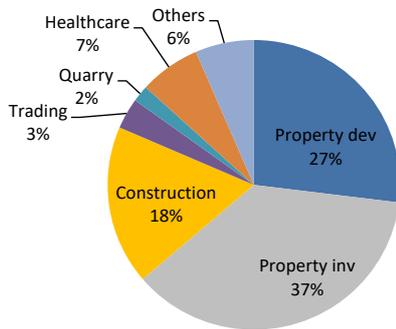
	Surplus (MYR m)
4. Other businesses or assets	
37.3% stake in SunREIT on Maybank IB's MYR1.95 TP	681.1
54.4% stake in SCG based on Maybank IB's MYR2.28 TP	1,453.7
Healthcare (35x 2020 PER)	1,703.8
Building material (10x 2020 PER)	474.8
Trading (10x 2020 PER)	240.4
Sub-total (4)	4,553.8
Grand total = (1) + (2) + (3) + (4)	6,938.3
Shareholders' funds (MYR m) - Dec 2019	8,392.2
Proceeds from warrants (MYR1.86 exercise price; expiring in Oct 2024)	1,171.7
RNAV (MYR m)	16,502.2
Number of shares (m)	4,849.0
Number of warrants (m)	630.0
FD RNAV/share (MYR)	3.01
Target price (MYR) - based on 0.6x RNAV	1.81

Source: Maybank KE

Value Proposition

- A conglomerate with core business in property development and businesses in other sectors comprising property investment, construction, building materials, leisure and healthcare.
- Property development landbank is located throughout Malaysia. Sunway also has property projects in Singapore (in partnership with Hoi Hup), India and China.
- Sunway also owns a 37% stake in SunREIT (SREIT MK, BUY, TP: MYR1.95) and 54% in SCG (SCGB MK, BUY, TP: MYR2.28). Sunway intends to grow its healthcare business and list the healthcare business post-2022.

PBT (FY19) breakdown by businesses



Source: Company

Price Drivers

Historical share price trend



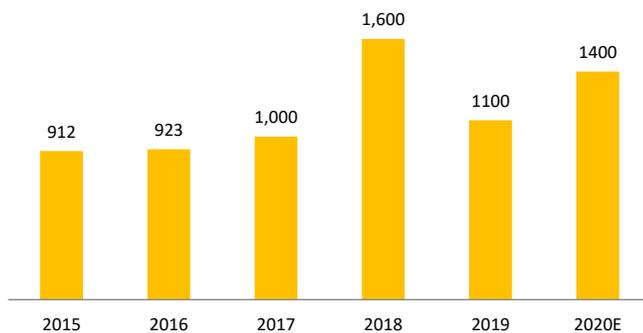
Source: Company, Maybank Kim Eng

1. 2014: Property stocks were hit by stricter property measures announced during Budget 2014.
2. June 2017: Proposed bonus issue of new shares and free warrants. Also announced plans to list healthcare business by 2022.
3. 1H18: Weak sentiment on property stocks pre-GE14.
4. 2H18: Weak sentiment on property stocks pre Budget 2019.
5. 2019: Better sentiment on construction stocks (including SCG) after the revival of the ECRL project.

Financial Metrics

- Effective unbilled sales (property) stood at MYR2.1b (or 3x our FY20F property revenue) as at end-Dec 2019.
- Sunway targets to achieve MYR1.4b in effective property sales in 2020 (+27% YoY).

Sunway's effective sales trend (actual and target) (MYRm)



Source: Company

Swing Factors

Upside

- Earlier-than-expected listing of its healthcare business.
- RNAV-accretive land acquisitions.
- Higher-than-expected job wins at its construction business under SCG.

Downside

- Slow-than-expected property sales and longer-than-expected downturn in the property sector.
- Earnings risks at its construction business on cost-down of the KVLRT 3 project.
- Country/currency risks as Sunway has property projects in Singapore and China.

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FYE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
Key Metrics					
P/E (reported) (x)	11.4	11.3	12.5	11.9	12.5
Core P/E (x)	12.6	13.7	12.5	11.9	12.5
Core FD P/E (x)	12.6	13.7	12.5	11.9	12.5
P/BV (x)	0.9	1.0	1.0	0.9	0.9
P/NTA (x)	0.8	0.9	0.8	0.8	0.8
Net dividend yield (%)	4.9	5.1	3.6	3.8	3.6
FCF yield (%)	nm	nm	nm	nm	nm
EV/EBITDA (x)	19.1	23.1	13.1	13.2	14.3
EV/EBIT (x)	19.1	23.1	14.2	14.4	15.6

INCOME STATEMENT (MYR m)

Revenue	5,410.2	4,780.4	6,273.9	6,805.1	6,409.1
Gross profit	378.5	363.5	1,036.9	1,086.5	1,068.1
EBITDA	594.7	565.2	1,036.9	1,086.5	1,068.1
Depreciation	0.0	0.0	(82.6)	(88.1)	(93.7)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	594.7	565.2	954.3	998.5	974.4
Net interest income / (exp)	12.8	87.8	(192.4)	(212.2)	(233.3)
Associates & JV	229.3	261.2	220.5	237.1	221.2
Exceptionals	89.1	79.1	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	836.8	914.2	982.4	1,023.4	962.3
Income tax	(121.4)	(78.3)	(137.5)	(143.3)	(134.7)
Minorities	(69.9)	(69.3)	(94.2)	(96.1)	(76.7)
Perpetual securities	0.0	(54.5)	(55.0)	(55.0)	(55.0)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	645.5	712.1	695.7	729.0	695.8
Core net profit	557.7	638.2	695.7	729.0	695.8

BALANCE SHEET (MYR m)

Cash & Short Term Investments	5,136.0	5,888.8	5,805.8	5,507.2	5,137.1
Accounts receivable	1,946.5	2,122.0	2,785.0	3,020.7	2,845.0
Inventory	1,857.9	2,100.9	2,757.3	2,990.7	2,816.7
Reinsurance assets	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	2,627.7	2,753.4	2,936.0	3,124.1	3,317.8
Intangible assets	313.9	311.7	311.7	311.7	311.7
Investment in Associates & JVs	3,390.7	3,751.8	3,751.8	3,751.8	3,751.8
Other assets	6,507.7	6,629.3	6,975.2	7,812.3	9,001.4
Total assets	21,780.3	23,558.0	25,322.8	26,518.5	27,181.4
ST interest bearing debt	6,337.5	7,416.8	7,916.8	8,416.8	8,916.8
Accounts payable	2,786.6	2,765.5	3,594.4	3,889.2	3,669.4
Insurance contract liabilities	0.0	0.0	0.0	0.0	0.0
LT interest bearing debt	2,535.8	2,153.7	2,153.7	2,153.7	2,153.7
Other liabilities	1,137.0	1,048.0	1,048.0	1,048.0	1,048.0
Total Liabilities	12,796.4	13,384.4	14,713.3	15,508.0	15,788.3
Shareholders Equity	7,964.8	8,392.2	8,828.1	9,229.1	9,611.8
Minority Interest	619.1	631.3	631.3	631.3	631.3
Total shareholder equity	8,583.9	9,023.5	9,459.5	9,860.4	10,243.1
Perpetual securities	400.0	1,150.0	1,150.0	1,150.0	1,150.0
Total liabilities and equity	21,780.3	23,558.0	25,322.8	26,518.5	27,181.4

CASH FLOW (MYR m)

Pretax profit	836.8	914.2	982.4	1,023.4	962.3
Depreciation & amortisation	0.0	0.0	82.6	88.1	93.7
Adj net interest (income)/exp	442.5	380.6	(192.4)	(212.2)	(233.3)
Change in working capital	(181.6)	(176.8)	50.8	(316.0)	(304.4)
Cash taxes paid	(109.2)	(90.7)	(137.5)	(143.3)	(134.7)
Other operating cash flow	(62.0)	(102.0)	0.0	0.0	0.0
Cash flow from operations	926.4	925.3	785.8	440.0	383.5
Capex	(953.3)	(925.5)	(925.5)	(925.5)	(925.5)
Free cash flow	(26.9)	(0.3)	(139.8)	(485.6)	(542.0)
Dividends paid	(382.3)	(307.9)	(443.2)	(313.1)	(328.0)
Equity raised / (purchased)	330.5	663.8	0.0	0.0	0.0
Change in Debt	651.9	1,447.3	500.0	500.0	500.0
Other invest/financing cash flow	(285.1)	(363.3)	0.0	0.0	0.0
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	288.1	1,439.6	(82.9)	(298.6)	(370.1)

FYE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
Key Ratios					
Growth ratios (%)					
Revenue growth	3.3	(11.6)	31.2	8.5	(5.8)
EBITDA growth	(8.9)	(5.0)	83.5	4.8	(1.7)
EBIT growth	(8.9)	(5.0)	68.8	4.6	(2.4)
Pretax growth	(4.1)	9.3	7.5	4.2	(6.0)
Reported net profit growth	4.0	10.3	(2.3)	4.8	(4.5)
Core net profit growth	1.9	14.4	9.0	4.8	(4.5)
Profitability ratios (%)					
EBITDA margin	11.0	11.8	16.5	16.0	16.7
EBIT margin	11.0	11.8	15.2	14.7	15.2
Pretax profit margin	15.5	19.1	15.7	15.0	15.0
Payout ratio	53.7	62.2	45.0	45.0	45.0
DuPont analysis					
Net profit margin (%)	11.9	14.9	11.1	10.7	10.9
Revenue/Assets (x)	0.2	0.2	0.2	0.3	0.2
Assets/Equity (x)	2.7	2.8	2.9	2.9	2.8
ROAE (%)	8.1	8.7	8.1	8.1	7.4
ROAA (%)	2.7	2.8	2.8	2.8	2.6
Leverage & Expense Analysis					
Asset/Liability (x)	1.7	1.8	1.7	1.7	1.7
Net gearing (%) (incl perps)	41.6	36.2	40.2	46.0	52.1
Net gearing (%) (excl. perps)	43.5	40.8	45.1	51.4	57.9
Net interest cover (x)	na	na	5.0	4.7	4.2
Debt/EBITDA (x)	14.9	16.9	9.7	9.7	10.4
Capex/revenue (%)	17.6	19.4	14.8	13.6	14.4
Net debt/ (net cash)	3,737.2	3,681.8	4,264.8	5,063.4	5,933.5

Source: Company; Maybank

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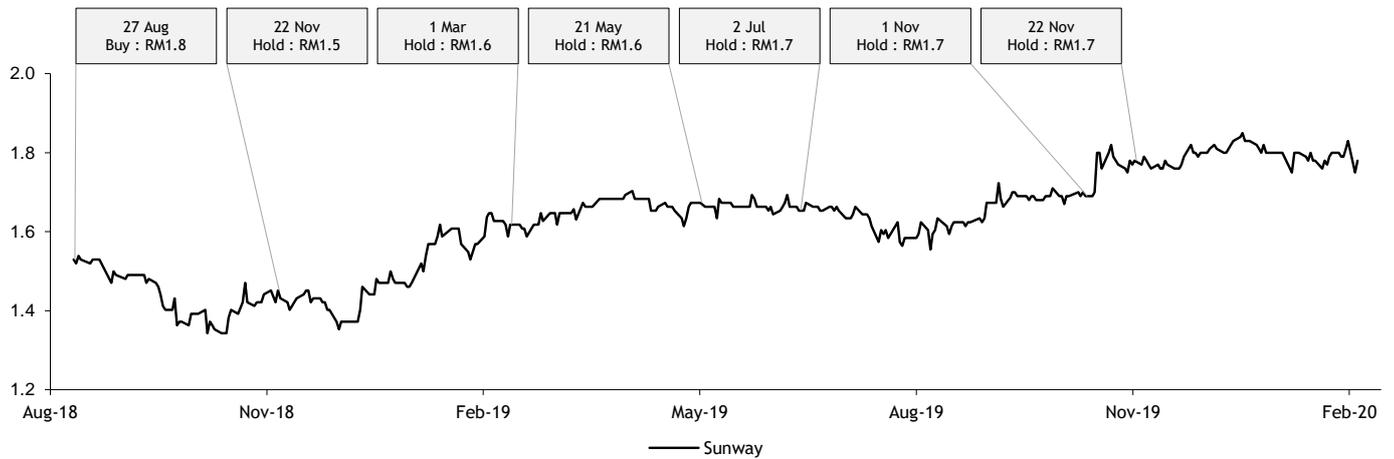
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