

# Sunway (SWB MK)

## Earnings on track

### Profit in line but sales above expectations

Sunway's 9M18 core net profit of MYR408m was in line but locked-in effective property sales of MYR1.4b came in above expectations. At construction, SCG is on track to meet its 2018 job win target of MYR1.5b. We adjust our earnings forecasts by -5% to +1%. Our RNAV-TP is however lowered to MYR1.54 (-31sen) on a lower SCG TP (-26% to MYR1.70/sh) and a lower P/RNAV peg of 0.6x for Sunway. Downgrade to HOLD.

### Results in line

Sunway reported a net profit of MYR145m in 3Q18 (+0.2% YoY, +15% QoQ) which lifted 9M18 core net profit to MYR408m (+4% YoY), excluding fair value gain of MYR59m arising from its REIT vehicle in 2Q18. At MYR408m, this is 74%/70% of our and consensus full-year estimates. Unbilled sales stood at MYR1.8b end-Sep 2018 (3x our new FY19E revenue).

### Revises up its property sales target

In 9M18, Sunway has locked in MYR1.4b in effective property sales, meeting 140%/117% of its/our 2018 target of MYR1b/MYR1.2b. It has raised its property sales target to MYR1.5b. Elsewhere, 54%-owned SCG's (SCGB MK; HOLD; MYR1.70 TP) YTD job wins of MYR1.35b (incl. precast) are on track to meet its MYR1.5b target for 2018. YTD wins have lifted its outstanding orderbook to MYR5.2b. Management may now list its healthcare business after 2022 (initial timeline target) to maximise the asset value post-construction completion of medical centers.

### Earnings adjustments

We adjust our FY18/19/20 earnings forecasts by +1.3%/-5.3%/+0.5% to factor in: 1) the 10-18% cut in SCG's earnings forecasts and 2) a higher property sales target for 2018 (+25%). Due to a lower TP for SCG, we have lowered our RNAV est. for Sunway to MYR2.57/shr (-8 sen). Our RNAV-TP is now based on 0.6x P/RNAV peg (from 0.7x). Compared to the revised P/RNAV peg of 0.4x-0.55x for mid-cap developers under our coverage, the 0.6x peg for Sunway reflects its more diversified earnings.

FYE Dec (MYR m)	FY16A	FY17A	FY18E	FY19E	FY20E
Revenue	4,656	5,375	6,184	6,406	7,255
EBITDA	715	687	859	926	1,039
Core net profit	547	566	554	588	669
Core FDEPS (sen)	11.9	11.7	11.5	12.2	13.9
Core FDEPS growth(%)	(12.1)	(1.5)	(2.1)	6.0	13.8
Net DPS (sen)	5.4	6.0	5.2	5.5	6.3
Core FD P/E (x)	10.8	13.9	12.6	11.9	10.5
P/BV (x)	0.8	1.0	0.9	0.8	0.8
Net dividend yield (%)	4.2	3.7	3.6	3.8	4.3
ROAE (%)	8.4	8.4	6.9	7.1	7.7
ROAA (%)	3.2	2.9	2.8	3.0	3.3
EV/EBITDA (x)	13.9	17.9	15.6	14.2	12.4
Net gearing (%) (incl perps)	40.5	45.2	65.4	60.9	55.5
Consensus net profit	-	-	577	618	677
MKE vs. Consensus (%)	-	-	(3.8)	(4.9)	(1.7)

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# HOLD

[Prior:BUY]

Share Price MYR 1.45  
 12m Price Target MYR 1.54 (+7%)  
 Previous Price Target MYR 1.85

### Company Description

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

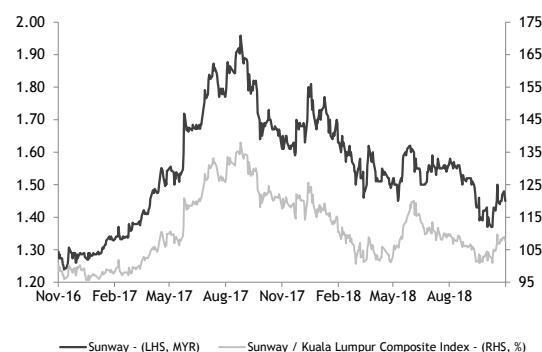
### Statistics

52w high/low (MYR) 1.81/1.37  
 3m avg turnover (USDm) 0.7  
 Free float (%) 33.4  
 Issued shares (m) 1,732  
 Market capitalisation MYR2.5B  
 USD599M

### Major shareholders:

Sungei Way Corp. Sdn. Bhd. 49.8%  
 Permodalan Nasional Bhd. 7.2%  
 Employees Provident Fund 5.3%

### Price Performance



	-1M	-3M	-12M
Absolute (%)	2	(7)	(10)
Relative to index (%)	3	(2)	(10)

Source: FactSet

Table 1: Results summary table - Sunway

FY Dec (MYRm)	Quarterly					Cummulative		
	3Q18	3Q17	%YoY	2Q18	%QoQ	9M18	9M17	%YoY
<b>Revenue</b>	<b>1,444.6</b>	<b>1,283.0</b>	<b>12.6</b>	<b>1,287.1</b>	<b>(1.6)</b>	<b>4,040.1</b>	<b>3,612.2</b>	<b>11.8</b>
- Property dev	194.8	162.2	20.1	88.7	(33.0)	415.8	576.6	(27.9)
- Property inv	237.8	225.4	5.5	216.7	(1.5)	674.5	619.7	8.8
- Construction	465.4	416.6	11.7	449.7	1.3	1,358.8	1,044.4	30.1
- Trading	296.9	292.9	1.3	286.4	2.9	861.6	764.1	12.8
- Quarry	56.3	50.3	11.9	57.9	15.8	164.2	149.2	10.1
- Others	191.7	171.4	11.8	186.9	1.9	562.0	495.6	13.4
<b>EBIT</b>	<b>159.7</b>	<b>146.0</b>	<b>9.4</b>	<b>166.0</b>	<b>27.7</b>	<b>455.8</b>	<b>454.0</b>	<b>0.4</b>
- Property dev	33.9	20.8	63.0	44.0	>+100	95.5	94.5	1.1
- Property inv	60.2	60.8	(0.9)	54.1	(8.7)	173.6	147.8	17.4
- Construction	47.6	37.8	26.0	46.2	19.0	132.7	113.3	17.1
- Trading	17.6	17.4	0.7	16.4	17.6	47.9	43.9	9.2
- Quarry	2.4	3.1	(23.0)	3.6	60.1	8.1	8.1	0.2
- Others	22.0	24.6	(10.6)	21.6	46.1	58.4	69.9	(16.5)
Finance costs	(3.4)	(6.3)	(45.4)	(12.8)	67.7	(23.9)	(31.8)	(24.9)
Other income	37.7	49.2	(23.5)	89.0	>+100	165.2	188.4	(12.3)
Pretax profit	194.0	188.9	2.7	242.2	50.6	597.1	610.7	(2.2)
<b>Pretax profit-EI</b>	<b>194.0</b>	<b>188.9</b>	<b>2.7</b>	<b>183.0</b>	<b>13.8</b>	<b>537.9</b>	<b>553.9</b>	<b>(2.9)</b>
Taxation	(27.1)	(27.4)	(1.2)	(26.5)	13.0	(76.9)	(92.7)	(17.1)
Minority interest	(21.6)	(16.5)	30.5	(16.3)	4.9	(53.5)	(70.0)	(23.6)
<b>Net profit</b>	<b>145.3</b>	<b>145.0</b>	<b>0.2</b>	<b>199.4</b>	<b>63.6</b>	<b>466.7</b>	<b>447.9</b>	<b>4.2</b>
<b>Net profit ex-EI</b>	<b>145.3</b>	<b>145.0</b>	<b>0.2</b>	<b>140.2</b>	<b>15.0</b>	<b>407.5</b>	<b>391.1</b>	<b>4.2</b>
Exceptional item (pretax)	0.0	0.0	NA	(59.2)	NA	(59.2)	(56.8)	4.2
	<b>3Q18</b>	<b>3Q17</b>	<b>+/- ppt</b>	<b>2Q18</b>	<b>+/- ppt</b>	<b>9M18</b>	<b>9M17</b>	<b>+/- ppt</b>
<b>EBIT margin (%)</b>	<b>11.1</b>	<b>11.6</b>	<b>(0.6)</b>	<b>12.9</b>	<b>3.0</b>	<b>11.3</b>	<b>12.6</b>	<b>(1.3)</b>
- Property dev	17.4	12.8	4.6	49.6	36.3	23.0	16.4	6.6
- Property inv	25.3	26.9	(1.6)	25.0	(2.0)	25.7	23.9	1.9
- Construction	10.2	9.1	1.2	10.3	1.5	9.8	10.8	(1.1)
- Trading	5.9	6.0	(0.0)	5.7	0.7	5.6	5.7	(0.2)
- Quarry	4.2	6.1	(1.9)	6.1	1.7	5.0	5.4	(0.5)
- Others	11.5	14.4	(2.9)	11.6	3.5	10.4	14.1	(3.7)
<b>Tax rate (%)</b>	<b>13.9</b>	<b>14.5</b>	<b>(0.5)</b>	<b>10.9</b>	<b>(0.1)</b>	<b>14.3</b>	<b>16.7</b>	<b>(2.4)</b>

Source: Company

## Sunway Bhd's RNAV estimates

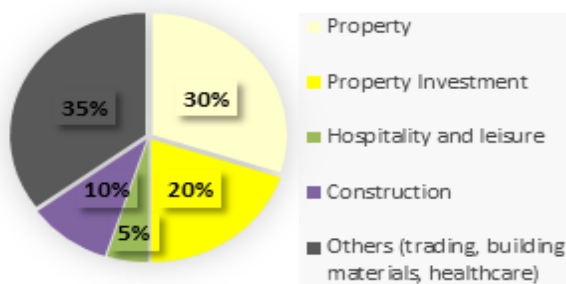
1. Landbank - MARKET VALUE	Stake	Acres	MV (MYR m)	BV (MYR m)	Surplus (MYR m)
Sunway Semenyih	70%	398.1	346.8	128.0	153.2
Suncity Ipoh	65%	440.5	76.8	58.7	11.7
Sunway Integrated Resort	100%	14.9	9.3	8.3	1.1
Sunway Tower KL 1	100%	1.0	65.3	28.3	37.0
Sunway JB, Bukit Lenang	80%	64.8	70.6	134.5	(51.2)
Sg 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	940.1	596.6	206.1
<b>Sub-total:</b>					<b>467.3</b>
2. Active developments - WACC: 10.5-13.1%	Stake				Surplus (MYR m)
South Quay	80%				248.8
Sunway Cheras	100%				1.7
Sunway Damansara	60%				15.3
Sunway Kayangan	100%				0.0
Sunway Duta	60%				4.5
Bangi	100%				5.8
Sunway Melawati	100%				7.6
Casa Kiara III	80%				12.6
Sunway Alam Suria	50%				0.4
Sunway Velocity	85%				124.9
Penang projects	100%				40.6
Wonderland Business Park, Australia	31%				3.5
Singapore Yi Shun	30%				2.5
Singapore Sembawang	100%				4.3
Thomson/Irrawady	30%				43.1
Mount Sophia	30%				36.5
Sunway Iskandar -leasehold (Medini)	51%				311.2
Kelana Jaya	100%				101.7
Industrial projects at Kelana Jaya and Subang	100%				26.1
Sunway Velocity extension	50%				59.3
Belfield	100%				82.3
Kajang	100%				27.2
Subang	100%				41.9
Wangsamaju	100%				42.3
<b>Sub-total:</b>					<b>1,244.1</b>
3. Investment properties - MV	Stake		MV (MYR m)	BV (MYR m)	Surplus (MYR m)
Sunway Velocity Mall	59%		1,600	1,172	252.3
Sunway University Campus	100%		481	481	0.0
Sunway Pinnacle	100%		351	351	0.0
Monash University	100%		303	303	0.0
Sunway Giza	60%		60	60	0.0
<b>Sub-total:</b>					<b>252.3</b>
4. Other businesses or assets					
37.3% stake in SunREIT on Maybank IB's MYR1.85 TP					571.2
54.4% stake in SCG based on Maybank IB's MYR1.70 TP					1,045.8
Healthcare (20x 2018 PER)					720.0
Building material (10x 2018 PER)					386.7
Trading (10x 2018 PER)					411.0
<b>Grand total:</b>					<b>5,098.5</b>
Shareholders fund (MYR m) - Dec 2017					7,844.1
Proceeds from warrants (MYR1.86 exercise price; expired in Oct 2024)					1,171.7
<b>RNAV (MYR m)</b>					<b>14,114.4</b>
Number of shares (m)					4,852.5
Number of warrants (m)					630.0
<b>FD RNAV/share (MYR)</b>					<b>2.57</b>
<b>Target price (MYR) - based on 0.60x RNAV</b>					<b>1.54</b>

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: MYR1.85) and 54% in SCG (SCGB MK, HOLD, TP: MYR1.70). Sunway intends to grow its healthcare business and list the healthcare unit post-2022.
- Slower property development contribution to earnings would be partially cushioned by steady dividend income from SunREIT and earnings from SCG.

### PATAMI (FY17) breakdown by businesses

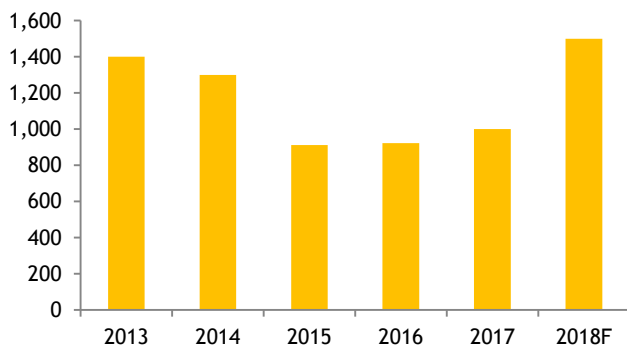


Source: Company

## Financial Metrics

- We expect -2% core earnings growth in FY18 due to the change in earnings recognition for Rivercove Residences project in Singapore (to completion method) but earnings should pick up in FY19 and FY20 supported by its construction and REIT businesses, improving property sales and MYR1.8b in unbilled sales (property) as at Sep 2018.
- Sunway targets to achieve MYR1.5b effective property sales in 2018.

### Sunway's sales trend (MYRm)



Source: Company

## Price Drivers

### Historical share price trend



Source: Company, Maybank Kim Eng

1. Share prices of property developers with exposure in Iskandar Malaysia gained traction especially after record high land selling prices to mainland Chinese developers. Sunway is one of the largest land owners in Iskandar Malaysia.
2. Property stocks were hit by stricter property measures announced during Budget 2014.
3. Property demand slowed, while concerns over the supply glut in Iskandar Malaysia surfaced.
4. Proposed bonus issue of new shares and free warrants. Also announced plans to list healthcare business by 2022.

## Swing Factors

### Upside

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

### Downside

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

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FYE 31 Dec	FY16A	FY17A	FY18E	FY19E	FY20E
<b>Key Metrics</b>					
P/E (reported) (x)	10.0	11.9	12.6	11.9	10.5
Core P/E (x)	10.7	13.9	12.6	11.9	10.4
Core FD P/E (x)	10.8	13.9	12.6	11.9	10.5
P/BV (x)	0.8	1.0	0.9	0.8	0.8
P/NTA (x)	0.7	1.0	0.8	0.8	0.8
Net dividend yield (%)	4.2	3.7	3.6	3.8	4.3
FCF yield (%)	nm	nm	5.8	6.5	7.8
EV/EBITDA (x)	13.9	17.9	15.6	14.2	12.4
EV/EBIT (x)	17.2	22.5	16.4	15.0	13.0

**INCOME STATEMENT (MYR m)**

Revenue	4,655.6	5,375.4	6,183.9	6,406.0	7,254.7
Gross profit	1,596.1	1,821.1	2,185.0	2,280.9	2,424.5
EBITDA	715.1	686.6	858.6	925.6	1,039.5
Depreciation	(137.2)	(139.0)	(42.4)	(46.6)	(51.0)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	577.9	547.6	816.2	879.0	988.4
Net interest income / (exp)	(48.0)	(22.6)	(177.1)	(173.0)	(174.9)
Associates & JV	191.9	218.1	204.3	185.6	197.7
Exceptionals	55.4	71.7	0.0	0.0	(3.4)
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	859.0	882.2	843.4	891.6	1,007.8
Income tax	(140.4)	(149.4)	(202.4)	(214.0)	(242.7)
Minorities	(132.7)	(93.3)	(86.5)	(89.8)	(99.6)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	585.9	639.5	554.5	587.8	665.5
Core net profit	547.4	566.3	554.5	587.8	668.9

**BALANCE SHEET (MYR m)**

Cash & Short Term Investments	4,080.1	4,426.6	2,502.7	2,704.4	3,984.4
Accounts receivable	1,891.5	2,220.8	2,220.8	2,220.8	2,220.8
Inventory	670.0	681.3	783.8	812.0	919.5
Property, Plant & Equip (net)	1,879.9	2,050.5	1,554.2	1,700.8	1,851.9
Intangible assets	344.7	311.8	311.8	311.8	311.8
Investment in Associates & JVs	3,229.9	3,709.7	3,526.5	3,526.5	3,526.5
Other assets	6,655.9	6,806.9	8,476.0	8,488.7	8,569.9
<b>Total assets</b>	<b>18,752.0</b>	<b>20,207.7</b>	<b>19,375.8</b>	<b>19,765.0</b>	<b>21,384.9</b>
ST interest bearing debt	4,860.0	4,911.0	4,910.5	4,910.5	4,910.5
Accounts payable	2,438.2	2,906.8	1,836.0	1,901.9	2,153.9
LT interest bearing debt	2,556.8	3,348.3	3,348.6	3,348.6	4,348.6
Other liabilities	664.0	554.0	476.0	476.0	476.0
<b>Total Liabilities</b>	<b>10,518.7</b>	<b>11,720.3</b>	<b>10,571.2</b>	<b>10,637.2</b>	<b>11,889.1</b>
Shareholders Equity	7,469.7	7,844.1	8,161.3	8,484.6	8,852.4
Minority Interest	763.5	643.3	643.3	643.3	643.3
<b>Total shareholder equity</b>	<b>8,233.2</b>	<b>8,487.5</b>	<b>8,804.6</b>	<b>9,127.9</b>	<b>9,495.8</b>
<b>Total liabilities and equity</b>	<b>18,752.0</b>	<b>20,207.7</b>	<b>19,375.8</b>	<b>19,765.0</b>	<b>21,384.9</b>

**CASH FLOW (MYR m)**

Pretax profit	859.0	882.2	843.4	891.6	1,007.8
Depreciation & amortisation	137.2	139.0	42.4	46.6	51.0
Adj net interest (income)/exp	282.1	148.7	(177.1)	(173.0)	(174.9)
Change in working capital	(251.2)	(235.6)	0.0	0.0	0.0
Cash taxes paid	(108.7)	(175.0)	(202.4)	(214.0)	(242.7)
Other operating cash flow	(250.3)	20.5	0.0	0.0	0.0
Cash flow from operations	393.8	501.8	506.3	551.2	644.6
Capex	(556.2)	(1,033.9)	(100.0)	(100.0)	(100.0)
Free cash flow	(162.5)	(532.0)	406.3	451.2	544.6
Dividends paid	(260.8)	(276.3)	(294.6)	(249.5)	(264.5)
Equity raised / (purchased)	538.1	112.5	0.0	0.0	0.0
Change in Debt	1,427.4	1,240.5	0.0	0.0	0.0
Other invest/financing cash flow	(1,246.8)	(389.8)	0.0	0.0	0.0
Effect of exch rate changes	6.6	(2.3)	0.0	0.0	0.0
<b>Net cash flow</b>	<b>302.0</b>	<b>152.6</b>	<b>111.7</b>	<b>201.7</b>	<b>280.1</b>

FYE 31 Dec	FY16A	FY17A	FY18E	FY19E	FY20E
<b>Key Ratios</b>					
<b>Growth ratios (%)</b>					
Revenue growth	4.7	15.5	15.0	3.6	13.2
EBITDA growth	4.1	(4.0)	25.0	7.8	12.3
EBIT growth	1.4	(5.2)	49.1	7.7	12.4
Pretax growth	(7.7)	2.7	(4.4)	5.7	13.0
Reported net profit growth	(20.0)	9.2	(13.3)	6.0	13.2
Core net profit growth	(7.3)	3.5	(2.1)	6.0	13.8
<b>Profitability ratios (%)</b>					
EBITDA margin	15.4	12.8	13.9	14.4	14.3
EBIT margin	12.4	10.2	13.2	13.7	13.6
Pretax profit margin	18.5	16.4	13.6	13.9	13.9
Payout ratio	42.0	45.2	45.0	45.0	45.2
<b>DuPont analysis</b>					
Net profit margin (%)	12.6	11.9	9.0	9.2	9.2
Revenue/Assets (x)	0.2	0.3	0.3	0.3	0.3
Assets/Equity (x)	2.5	2.6	2.4	2.3	2.4
ROAE (%)	8.4	8.4	6.9	7.1	7.7
ROAA (%)	3.2	2.9	2.8	3.0	3.3
<b>Leverage &amp; Expense Analysis</b>					
Asset/Liability (x)	1.8	1.7	1.8	1.9	1.8
Net gearing (%) (incl perps)	40.5	45.2	65.4	60.9	55.5
Net gearing (%) (excl. perps)	40.5	45.2	65.4	60.9	55.5
Net interest cover (x)	12.0	24.2	4.6	5.1	5.7
Debt/EBITDA (x)	10.4	12.0	9.6	8.9	8.9
Capex/revenue (%)	11.9	19.2	1.6	1.6	1.4
Net debt/ (net cash)	3,336.8	3,832.8	5,756.4	5,554.7	5,274.6

Source: Company; Maybank

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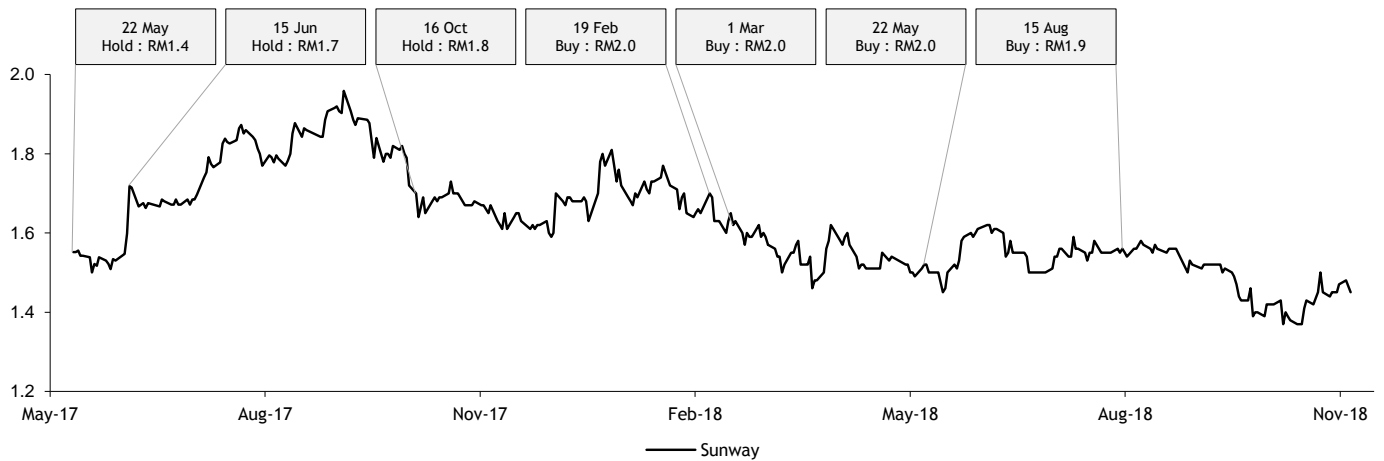
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