

Sunway (SWB MK)

Diversification bearing fruits

Results in line but sales above

Sunway's 1H18 core net profit of MYR262m was within our expectation. 1H18 locked-in effective property sales of MYR800m were however above expectations. At construction, SCG is on track to meet its 2018 job win target of MYR1.5b-2b. We adjust our earnings forecasts by -3% to -5%. Our RNAV-TP is unchanged at MYR1.85 (0.7x P/RNAV). Maintain BUY.

Earnings on track

Excluding MYR59m fair value gain from the revaluation of SunREIT's (SREIT MK; BUY; MYR1.85 TP) properties, Sunway reported a core net profit of MYR140m (+0.7% YoY, +15% QoQ) which lifted 1H18 core net profit to MYR262m (+6.5% YoY), accounting for 45%/43% of our (in-line) and consensus (below) full-year estimates. Earnings are seasonally stronger in the 2H. It declared a first interim DPS of 3.5 sen (+17% YoY).

Property sales beat expectations

In 1H18, Sunway has locked in MYR800m in effective property sales, meeting 80% of its 2018 target of MYR1b, thanks to the strong sales achieved in *Rivercove Residences* (RR). Unbilled property sales stood at MYR1.4b end-Jun 2018. There are signs of demand improvement in its Malaysian projects post-GE14. *Sunway Geo Lake Residences* and *Citrine Lakehomes* have received good take up/bookings of 60% and 70% respectively. Elsewhere, 54%-owned SCG's (SCGB MK; HOLD; MYR2.30 TP) YTD job wins of MYR854m are on track to meet its MYR1.5b-2b target for 2018. YTD wins have lifted its outstanding orderbook to MYR5.8b.

Maintain BUY

We adjust our FY18/19/20 earnings forecasts by -5%/-3%/-5% to factor in a higher property sales assumption of MYR1.2b for 2018 (+15%) but zero-earnings recognition for RR due to the change in accounting policy under MFRS15. Our RNAV/share estimate is largely intact at MYR2.65. We see earnings risk at construction, from the KVLRT 3 project on potentially a lower contract value and longer construction period. Every 10% reduction in contract value could result in 1-2% earnings downgrade for Sunway.

FYE Dec (MYR m)	FY16A	FY17A	FY18E	FY19E	FY20E
Revenue	4,656	5,375	6,357	6,837	7,597
EBITDA	0	0	885	988	1,076
Core net profit	547	566	547	621	666
Core FDEPS (sen)	11.9	11.7	11.3	12.9	13.8
Core FDEPS growth(%)	(12.1)	(1.5)	(3.3)	13.4	7.2
Net DPS (sen)	5.4	6.0	5.1	5.8	6.2
Core FD P/E (x)	10.8	13.5	13.8	12.1	11.3
P/BV (x)	0.8	1.0	0.9	0.9	0.8
Net dividend yield (%)	4.2	3.8	3.3	3.7	4.0
ROAE (%)	8.4	8.4	6.8	7.5	7.7
ROAA (%)	3.2	2.9	2.8	3.2	3.2
EV/EBITDA (x)	nm	nm	16.2	14.6	13.6
Net gearing (%) (incl perps)	40.5	45.2	70.0	69.2	68.1
Consensus net profit	-	-	603	650	698
MKE vs. Consensus (%)	-	-	(9.2)	(4.5)	(4.6)

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BUY

Share Price	MYR 1.56
12m Price Target	MYR 1.85 (+19%)
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)	1.96/1.45
3m avg turnover (USDm)	0.8
Free float (%)	33.4
Issued shares (m)	1,732
Market capitalisation	MYR2.7B
	USD660M

Major shareholders:

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

Price Performance



— Sunway - (LHS, MYR) — Sunway / Kuala Lumpur Composite Index - (RHS, %)

	-1M	-3M	-12M
Absolute (%)	0	3	(13)
Relative to index (%)	(2)	5	(14)

Source: FactSet

Table 1: Results summary table - Sunway

FY Dec (MYRm)	Quarterly					Cumulative		
	2Q18	2Q17	%YoY	1Q18	%QoQ	1H18	1H17	%YoY
Revenue	1,287.1	1,240.5	3.8	1,308.4	(1.6)	2,595.5	2,329.3	11.4
- Property dev	88.7	273.7	(67.6)	132.3	(33.0)	221.0	414.4	(46.7)
- Property inv	216.7	207.4	4.5	220.0	(1.5)	436.7	394.3	10.8
- Construction	449.7	310.9	44.6	443.7	1.3	893.4	627.7	42.3
- Trading	286.4	226.0	26.7	278.3	2.9	564.7	471.2	19.8
- Quarry	57.9	58.7	(1.4)	50.0	15.8	107.9	98.9	9.1
- Others	0.8	(0.2)	>+100	0.8	8.6	1.6	1.6	(1.7)
EBIT	166.0	192.8	(13.9)	130.0	27.7	296.0	308.0	(3.9)
- Property dev	44.0	63.2	(30.3)	17.6	>+100	61.6	73.7	(16.4)
- Property inv	54.1	41.1	31.7	59.3	(8.7)	113.4	87.1	30.2
- Construction	46.2	37.3	23.8	38.8	19.0	85.0	75.5	12.6
- Trading	16.4	13.9	17.8	14.0	17.6	30.4	26.5	14.8
- Quarry	3.6	4.2	(14.6)	2.2	60.1	5.8	5.1	14.2
- Others	(20.0)	1.0	>-100	(16.7)	19.6	(36.7)	(2.5)	>+100
Finance costs	(12.8)	(18.7)	(31.7)	(7.6)	67.7	(20.4)	(25.5)	(19.8)
Other income	89.0	96.1	(7.4)	38.5	>+100	127.5	139.2	(8.4)
Pretax profit	242.2	270.2	(10.3)	160.9	50.6	403.1	421.8	(4.4)
Pretax profit-EI	183.0	213.4	(14.2)	160.9	13.8	343.9	365.0	(5.8)
Taxation	(26.5)	(38.1)	(30.6)	(23.4)	13.0	(49.9)	(65.4)	(23.7)
Minority interest	(16.3)	(36.0)	(54.6)	(15.6)	4.9	(31.9)	(53.5)	(40.3)
Net profit	199.4	196.1	1.7	121.9	63.6	321.4	302.9	6.1
Net profit ex-EI	140.2	139.3	0.7	121.9	15.0	262.2	246.1	6.5
Exceptional item (pretax)	59.2	56.8	4.2	0.0	NA	59.2	56.8	4.2
	2Q18	2Q17	+/- ppt	1Q18	+/- ppt	1H18	1H17	+/- ppt
EBIT margin (%)	12.9	15.0	(2.1)	9.9	3.0	11.4	13.2	(1.8)
- Property dev	49.6	23.1	26.5	13.3	36.3	27.9	17.8	10.1
- Property inv	25.0	19.8	5.2	26.9	(2.0)	26.0	22.1	3.9
- Construction	10.3	12.0	(1.7)	8.8	1.5	9.5	12.0	(2.5)
- Trading	5.7	6.2	(0.4)	5.0	0.7	5.4	5.6	(0.2)
- Quarry	6.1	7.1	(1.0)	4.4	1.7	5.4	5.1	0.2
- Others	11.6	15.1	(3.5)	8.1	3.5	9.8	14.0	(4.1)
Tax rate (%)	14.5	17.9	(3.4)	14.5	(0.1)	14.5	17.9	(3.4)

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	56.6	28.3	28.3
Sunway JB, Bukit Lenang	80%	64.8	50.8	134.5	(67.0)
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	705.1	596.6	65.1
Sub-total:					301.8

2. Active developments - WACC: 10.5-13.1%

	Stake			(MYR m)
South Quay	80%			247.2
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%			123.1
Penang projects	100%			40.5
Wonderland Business Park, Australia	31%			3.5
Singapore Yi Shun	30%			2.5
Singapore Sembawang	100%			4.1
Thomson/Irrawady	30%			45.1
Mount Sophia	30%			36.5
Sunway Iskandar -leasehold (Medini)	51%			309.6
Kelana Jaya	100%			101.2
Industrial projects at Kelana Jaya and Subang	100%			26.8
Sunway Velocity extension	50%			58.3
Belfield	100%			82.6
Kajang	100%			27.2
Subang	100%			41.9
Wangsamaju	100%			42.5
Sub-total:				1,240.7

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
Sub-total:				252.3

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 MYR2.30 TP	1,467.8
Healthcare (20x 2018 PER)	720.0
Building material (10x 2018 PER)	386.7
Trading (10x 2018 PER)	575.5

Grand total:

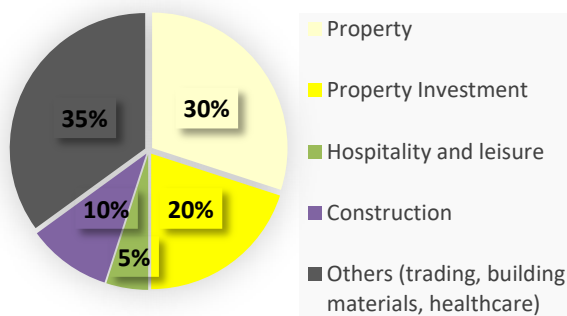
Shareholders fund (MYR m) - Dec 2017	7,839.9
Proceeds from warrants (MYR1.86 exercise price; expired in Oct 2024)	1,171.7
RNAV (MYR m)	14,527.7
Number of shares (m)	4,852.5
Number of warrants (m)	630.0
FD RNAV/share (MYR)	2.65
Target price (MYR) - based on 0.70x RNAV	1.85

Source: Maybank KE

Value Proposition

- A conglomerate with 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: MYR2.30). Sunway intends to grow its healthcare business and list the healthcare unit by 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

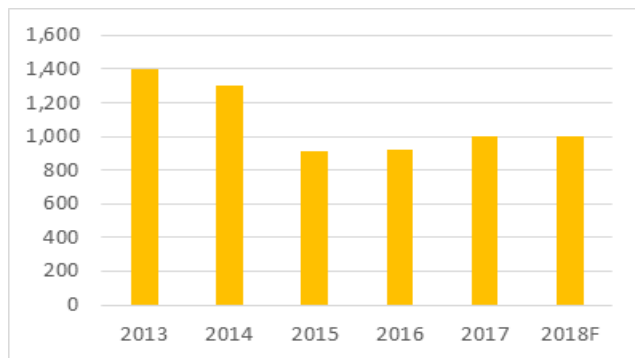


Source: Company

Financial Metrics

- We expect -3% core earnings growth in FY18 due to the change in earnings recognition for Rivercove Residences project but earnings should pick up in 2019 and 2010 supported by its construction and REIT businesses, improving property sales and MYR1.4b in unbilled sales (property) as at Jun 2018.
- Sunway targets to achieve MYR1b effective property sales in 2018 (flat YoY).

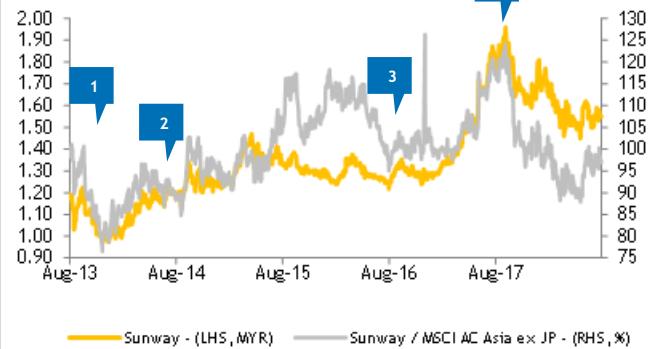
Sunway's sales trend (MYRm)



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.

FYE 31 Dec	FY16A	FY17A	FY18E	FY19E	FY20E
Key Metrics					
P/E (reported) (x)	10.0	11.9	13.7	12.1	11.3
Core P/E (x)	10.7	13.5	13.7	12.1	11.3
Core FD P/E (x)	10.8	13.5	13.8	12.1	11.3
P/BV (x)	0.8	1.0	0.9	0.9	0.8
P/NTA (x)	0.7	0.9	0.9	0.9	0.8
Net dividend yield (%)	4.2	3.8	3.3	3.7	4.0
FCF yield (%)	1.9	nm	nm	1.1	1.7
EV/EBITDA (x)	nm	nm	16.2	14.6	13.6
EV/EBIT (x)	13.9	17.9	17.0	15.4	14.3
INCOME STATEMENT (MYR m)					
Revenue	4,655.6	5,375.4	6,356.8	6,837.1	7,597.5
Gross profit	0.0	0.0	884.7	988.4	1,076.0
EBITDA	0.0	0.0	884.7	988.4	1,076.0
Depreciation	0.0	0.0	0.0	0.0	0.0
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	715.1	686.6	841.8	941.3	1,024.4
Net interest income / (exp)	(48.0)	(22.6)	(185.2)	(188.5)	(199.0)
Associates & JV	191.9	218.1	186.6	203.3	197.7
Exceptionals	55.4	71.7	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	859.0	882.2	843.1	956.2	1,023.2
Income tax	(140.4)	(149.4)	(202.4)	(229.5)	(245.6)
Minorities	(132.7)	(93.3)	(93.4)	(105.8)	(112.1)
Perpetual securities	0.0	0.0	0.0	0.0	0.0
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	585.9	639.5	547.4	620.8	665.5
Core net profit	547.4	566.3	547.4	620.8	665.5
Preferred Dividends	0.0	0.0	0.0	0.0	0.0
BALANCE SHEET (MYR m)					
Cash & Short Term Investments	4,080.1	4,426.6	2,094.3	1,932.8	2,783.1
Accounts receivable	1,891.5	2,220.8	2,220.8	2,220.8	2,220.8
Inventory	670.0	681.3	805.7	866.6	963.0
Reinsurance assets	0.0	0.0	0.0	0.0	0.0
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	8,909.9	9,347.9	9,842.0
Total assets	18,752.0	20,207.7	19,423.3	19,907.3	21,499.1
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	1,887.3	2,029.9	2,255.7
Insurance contract liabilities	0.0	0.0	0.0	0.0	0.0
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
Total Liabilities	10,518.7	11,720.3	10,622.6	10,765.1	11,990.9
Shareholders Equity	7,469.7	7,844.1	8,157.4	8,498.8	8,864.9
Minority Interest	763.5	643.3	643.3	643.3	643.3
Total shareholder equity	8,233.2	8,487.5	8,800.7	9,142.2	9,508.2
Perpetual securities	0.0	0.0	0.0	0.0	0.0
Total liabilities and equity	18,752.0	20,207.7	19,423.3	19,907.3	21,499.1
CASH FLOW (MYR m)					
Pretax profit	859.0	882.2	843.1	956.2	1,023.2
Depreciation & amortisation	0.0	0.0	0.0	0.0	0.0
Adj net interest (income)/exp	282.1	148.7	(185.2)	(188.5)	(199.0)
Change in working capital	(251.2)	(235.6)	0.0	0.0	0.0
Cash taxes paid	(108.7)	(175.0)	(202.4)	(229.5)	(245.6)
Other operating cash flow	(250.3)	20.5	0.0	0.0	0.0
Cash flow from operations	668.1	779.9	497.9	584.8	629.7
Capex	(556.2)	(1,033.9)	(500.0)	(500.0)	(500.0)
Free cash flow	111.8	(254.0)	(2.1)	84.8	129.7
Dividends paid	(260.8)	(276.3)	(294.6)	(246.3)	(279.4)
Equity raised / (purchased)	538.1	112.5	0.0	0.0	0.0
Perpetual securities	0.0	0.0	0.0	0.0	0.0
Change in Debt	1,427.4	1,240.5	0.0	0.0	0.0
Perpetual securities distribution	0.0	0.0	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
Net cash flow	576.3	430.7	(296.7)	(161.5)	(149.7)

FYE 31 Dec	FY16A	FY17A	FY18E	FY19E	FY20E
Key Ratios					
Growth ratios (%)					
Revenue growth	4.7	15.5	18.3	7.6	11.1
EBITDA growth	nm	na	nm	11.7	8.9
EBIT growth	4.1	(4.0)	22.6	11.8	8.8
Pretax growth	(7.7)	2.7	(4.4)	13.4	7.0
Reported net profit growth	(20.0)	9.2	(14.4)	13.4	7.2
Core net profit growth	(7.3)	3.5	(3.3)	13.4	7.2
Profitability ratios (%)					
EBITDA margin	0.0	0.0	13.9	14.5	14.2
EBIT margin	15.4	12.8	13.2	13.8	13.5
Pretax profit margin	18.5	16.4	13.3	14.0	13.5
Payout ratio	42.0	45.2	45.0	45.0	45.0
DuPont analysis					
Net profit margin (%)	12.6	11.9	8.6	9.1	8.8
Revenue/Assets (x)	0.2	0.3	0.3	0.3	0.4
Assets/Equity (x)	2.5	2.6	2.4	2.3	2.4
ROAE (%)	8.4	8.4	6.8	7.5	7.7
ROAA (%)	3.2	2.9	2.8	3.2	3.2
Leverage & Expense Analysis					
Asset/Liability (x)	1.8	1.7	1.8	1.8	1.8
Net gearing (%) (incl perps)	40.5	45.2	70.0	69.2	68.1
Net gearing (%) (excl. perps)	40.5	45.2	70.0	69.2	68.1
Net interest cover (x)	14.9	30.4	4.5	5.0	5.1
Debt/EBITDA (x)	nm	nm	9.3	8.4	8.6
Capex/revenue (%)	11.9	19.2	7.9	7.3	6.6
Net debt/ (net cash)	3,336.8	3,832.8	6,164.8	6,326.3	6,475.9

Source: Company; Maybank

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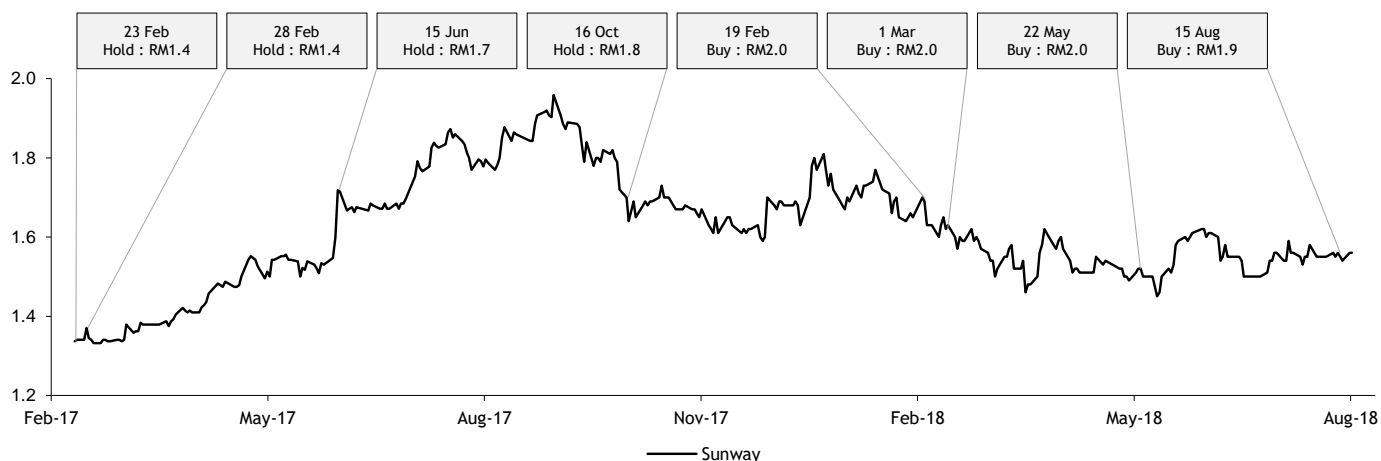
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