

Sunway (SWB MK)

Sales to pick up post-GE14

BUY

Share Price MYR 1.51
 12m Price Target MYR 1.99 (+32%)
 Previous Price Target MYR 2.02

Earnings in line but sales fell short

Sunway's 1Q18 net profit came in as expected but sales were below expectations on the lack of new launches in view of weak buying sentiment pre-GE14. As for its construction business, SCG has secured MYR542m of new jobs (including precast) YTD, lifting outstanding orderbook to MYR6.1b as at end-Mar 2018. We lower earnings forecasts by -0.4% to -4% following the cut in SCG's FY18-20 earnings forecasts. RNAV-TP is largely unchanged at MYR1.99 (-3sen; on 0.75x P/RNAV). BUY.

1Q18 on track

Sunway's 1Q18 net profit was MYR122m (+14% YoY, -27% QoQ) accounting for 20% of our/consensus full-year estimates - in line as earnings are seasonally stronger in the 2H. All divisions registered positive YoY growth in earnings except for property development on slower sales (2015: -30% YoY, 2016: +1% YoY, 2017: +8% YoY) and slower progress billings from local projects. Net gearing was 0.38x end-Mar 2018 (0.45x end-Dec 2017).

Slow property sales on cautious pre-GE14 mode

In 1Q18, Sunway locked in MYR141m in effective property sales, at just 14% of its 2018 sales target of MYR1b due to the lack of new launches as management has delayed most of its new launches to 2H18 in view of the cautious buying sentiment pre-GE14. Effective unbilled sales were MYR811b end-Mar 2018 (1.2x our FY18F property revenue). Elsewhere, 54.4%-owned Sunway Construction Group's (SCG; SCGB MK, HOLD, TP: MYR2.30) job wins were MYR542m in 1Q18, raising outstanding orderbook to MYR6.1b end-Mar 2018.

Revise earnings downwards

We lower our FY18/19/20 earnings forecasts for Sunway by -4%/-2%/-0.4% after factoring in slower precast recognition and lower precast EBIT margin (-1.5ppt) for SCG. Our RNAV-TP for Sunway is trimmed by 4sen to MYR2.65 after imputing a lower TP (-33sen) for SCG. Sunway remains as our top BUY pick for the sector for its more diversified income stream and the plan to list its healthcare unit by 2022.

FYE Dec (MYR m)	FY16A	FY17A	FY18E	FY19E	FY20E
Revenue	4,656	5,375	6,296	6,809	7,450
EBITDA	1,596	725	877	973	1,056
Core net profit	547	566	577	638	698
Core FDEPS (sen)	11.4	11.8	12.0	13.3	14.5
Core FDEPS growth(%)	(16.0)	3.4	1.9	10.6	9.3
Net DPS (sen)	5.7	6.0	5.4	6.0	6.5
Core FD P/E (x)	13.3	12.8	12.6	11.4	10.4
P/BV (x)	1.0	0.9	0.9	0.8	0.8
Net dividend yield (%)	3.8	4.0	3.6	4.0	4.3
ROAE (%)	8.4	8.4	7.2	7.6	8.0
ROAA (%)	3.2	2.9	2.8	3.0	3.1
EV/EBITDA (x)	6.1	16.9	13.6	12.4	11.5
Net gearing (%) (incl perps)	40.5	45.0	45.5	45.0	44.1
Consensus net profit	-	-	605	651	710
MKE vs. Consensus (%)	-	-	(4.5)	(1.9)	(1.7)

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Company Description

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

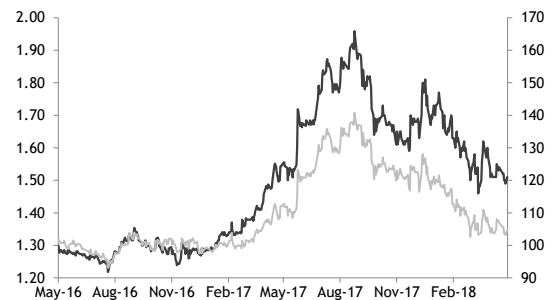
Statistics

52w high/low (MYR)	1.96/1.46
3m avg turnover (USDm)	1.2
Free float (%)	33.4
Issued shares (m)	1,732
Market capitalisation	MYR2.6B
	USD657M

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 (%)	(4)	(7)	(2)
Relative to index (%)	(2)	(7)	(7)

Source: FactSet

Table 1: Results summary table - Sunway

FY Dec (MYRm)	Quarterly				
	1Q18	1Q17	%YoY	4Q17	%QoQ
Revenue	1,308.4	1,088.8	20.2	1,729.8	(24.4)
- Property dev	132.3	140.7	(6.0)	419.4	(68.5)
- Property inv	220.0	186.9	17.7	246.2	(10.7)
- Construction	443.7	316.8	40.1	583.3	(23.9)
- Trading	278.3	245.2	13.5	232.4	19.8
- Quarry	50.0	40.2	24.4	52.9	(5.5)
- Others	183.4	157.1	16.8	192.8	(4.9)
EBIT	130.0	115.2	12.8	231.2	(43.8)
- Property dev	17.6	10.5	67.7	107.8	(83.7)
- Property inv	59.3	46.0	28.9	62.7	(5.5)
- Construction	38.8	38.2	1.7	56.5	(31.3)
- Trading	14.0	12.5	11.5	14.2	(1.9)
- Quarry	2.2	0.9	+>100	(0.6)	>-100
- Others	14.8	20.1	(26.2)	10.9	35.8
Finance costs	(7.6)	(6.7)	13.2	9.2	(183.1)
Other income	38.5	43.1	(10.7)	28.6	34.3
Pretax profit	160.9	151.6	6.1	269.0	(40.2)
Pretax profit-EI	160.9	151.6	6.1	245.5	(34.5)
Taxation	(23.4)	(27.2)	(14.0)	(55.1)	(57.6)
Minority interest	(15.6)	(17.5)	(11.0)	(21.7)	(28.4)
Net profit	121.9	106.9	14.1	183.5	(33.6)
Net profit ex-EI	121.9	106.9	14.1	167.1	(27.0)
Exceptional item (pretax)	0.0	0.0	NA	(14.9)	NM
			+/- ppt		+/- ppt
EBIT margin (%)	9.9	12.7	(2.7)	13.4	(3.4)
- Property dev	13.3	7.5	5.8	25.7	(12.4)
- Property inv	26.9	31.7	(4.8)	25.5	1.5
- Construction	8.8	12.1	(3.3)	9.7	(0.9)
- Trading	5.0	5.1	(0.1)	6.1	(1.1)
- Quarry	4.4	2.2	2.2	(1.2)	5.7
- Others	8.1	12.8	(4.7)	5.7	2.4
Tax rate (%)	14.5	18.0	(3.4)	20.5	(6.0)

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:					5,516.0
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 0.75x RNAV					1.99
Source: Maybank KE					

FYE 31 Dec	FY16A	FY17A	FY18E	FY19E	FY20E
Key Metrics					
P/E (reported) (x)	9.5	11.9	12.6	11.4	10.4
Core P/E (x)	12.0	12.8	12.6	11.4	10.4
Core FD P/E (x)	13.3	12.8	12.6	11.4	10.4
P/BV (x)	1.0	0.9	0.9	0.8	0.8
P/NTA (x)	0.8	0.9	0.9	0.8	0.8
Net dividend yield (%)	3.8	4.0	3.6	4.0	4.3
FCF yield (%)	1.7	nm	1.0	2.0	2.8
EV/EBITDA (x)	6.1	16.9	13.6	12.4	11.5
EV/EBIT (x)	13.5	17.9	14.3	13.0	12.1
INCOME STATEMENT (MYR m)					
Revenue	4,655.6	5,374.8	6,295.7	6,809.2	7,449.6
Gross profit	1,596.1	725.4	876.8	973.0	1,055.9
EBITDA	1,596.1	725.4	876.8	973.0	1,055.9
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	833.9	925.9	1,004.4
Net interest income / (exp)	(48.0)	(22.6)	(142.6)	(144.9)	(154.1)
Associates & JV	191.9	218.1	189.4	197.4	209.7
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	880.7	978.4	1,060.0
Income tax	(140.4)	(149.4)	(211.4)	(234.8)	(254.4)
Minorities	(132.7)	(93.3)	(92.3)	(105.1)	(107.8)
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	577.1	638.5	697.8
Core net profit	547.4	566.3	577.1	638.5	697.8
Preferred Dividends	0.0	0.0	0.0	0.0	0.0
BALANCE SHEET (MYR m)					
Cash & Short Term Investments	4,080.1	4,445.6	4,226.2	4,111.8	5,027.1
Accounts receivable	1,891.5	2,992.7	2,992.7	2,992.7	2,992.7
Inventory	670.0	681.3	798.1	863.2	944.3
Reinsurance assets	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	1,879.9	2,009.2	1,554.2	1,700.8	1,851.9
Intangible assets	344.7	327.2	327.2	327.2	327.2
Investment in Associates & JVs	3,229.9	3,521.9	3,521.9	3,521.9	3,521.9
Other assets	6,655.9	6,236.0	7,683.0	8,222.6	8,815.3
Total assets	18,752.0	20,214.0	21,103.3	21,740.2	23,480.4
ST interest bearing debt	4,860.0	4,910.3	4,910.3	4,910.3	4,910.3
Accounts payable	2,438.2	2,991.5	3,504.1	3,789.8	4,146.3
Insurance contract liabilities	0.0	0.0	0.0	0.0	0.0
LT interest bearing debt	2,556.8	3,349.1	3,349.1	3,349.1	4,349.1
Other liabilities	664.0	480.0	476.0	476.0	476.0
Total Liabilities	10,518.7	11,730.9	12,239.0	12,524.8	13,881.2
Shareholders Equity	7,469.7	7,839.9	8,221.2	8,572.3	8,956.1
Minority Interest	763.5	643.1	643.1	643.1	643.1
Total shareholder equity	8,233.2	8,483.1	8,864.3	9,215.5	9,599.2
Perpetual securities	0.0	0.0	0.0	0.0	0.0
Total liabilities and equity	18,752.0	20,214.0	21,103.3	21,740.2	23,480.4
CASH FLOW (MYR m)					
Pretax profit	859.0	882.2	880.7	978.4	1,060.0
Depreciation & amortisation	0.0	0.0	0.0	0.0	0.0
Adj net interest (income)/exp	282.1	340.5	(142.6)	(144.9)	(154.1)
Change in working capital	(251.2)	(235.7)	0.0	0.0	0.0
Cash taxes paid	(108.7)	(175.3)	(211.4)	(234.8)	(254.4)
Other operating cash flow	(250.3)	(85.6)	0.0	0.0	0.0
Cash flow from operations	668.1	726.2	569.1	645.3	702.5
Capex	(556.2)	(1,111.5)	(500.0)	(500.0)	(500.0)
Free cash flow	111.8	(385.3)	69.1	145.3	202.5
Dividends paid	(260.8)	(228.1)	(288.5)	(259.7)	(287.3)
Equity raised / (purchased)	538.1	138.5	0.0	0.0	0.0
Perpetual securities	0.0	0.0	0.0	0.0	0.0
Change in Debt	1,427.4	1,241.2	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)	(460.8)	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	303.1	(219.4)	(114.4)	(84.8)

FYE 31 Dec	FY16A	FY17A	FY18E	FY19E	FY20E
Key Ratios					
Growth ratios (%)					
Revenue growth	4.7	15.4	17.1	8.2	9.4
EBITDA growth	273.6	(54.6)	20.9	11.0	8.5
EBIT growth	4.1	(4.0)	21.5	11.0	8.5
Pretax growth	(7.7)	2.7	(0.2)	11.1	8.3
Reported net profit growth	(20.0)	9.2	(9.8)	10.6	9.3
Core net profit growth	(7.3)	3.5	1.9	10.6	9.3
Profitability ratios (%)					
EBITDA margin	34.3	13.5	13.9	14.3	14.2
EBIT margin	15.4	12.8	13.2	13.6	13.5
Pretax profit margin	18.5	16.4	14.0	14.4	14.2
Payout ratio	42.0	45.1	45.0	45.0	45.0
DuPont analysis					
Net profit margin (%)	12.6	11.9	9.2	9.4	9.4
Revenue/Assets (x)	0.2	0.3	0.3	0.3	0.3
Assets/Equity (x)	2.5	2.6	2.6	2.5	2.6
ROAE (%)	8.4	8.4	7.2	7.6	8.0
ROAA (%)	3.2	2.9	2.8	3.0	3.1
Leverage & Expense Analysis					
Asset/Liability (x)	1.8	1.7	1.7	1.7	1.7
Net gearing (%) (incl perps)	40.5	45.0	45.5	45.0	44.1
Net gearing (%) (excl. perps)	40.5	45.0	45.5	45.0	44.1
Net interest cover (x)	14.9	30.4	5.8	6.4	6.5
Debt/EBITDA (x)	4.6	11.4	9.4	8.5	8.8
Capex/revenue (%)	11.9	20.7	7.9	7.3	6.7
Net debt/ (net cash)	3,336.8	3,813.8	4,033.2	4,147.6	4,232.3

Source: Company; Maybank

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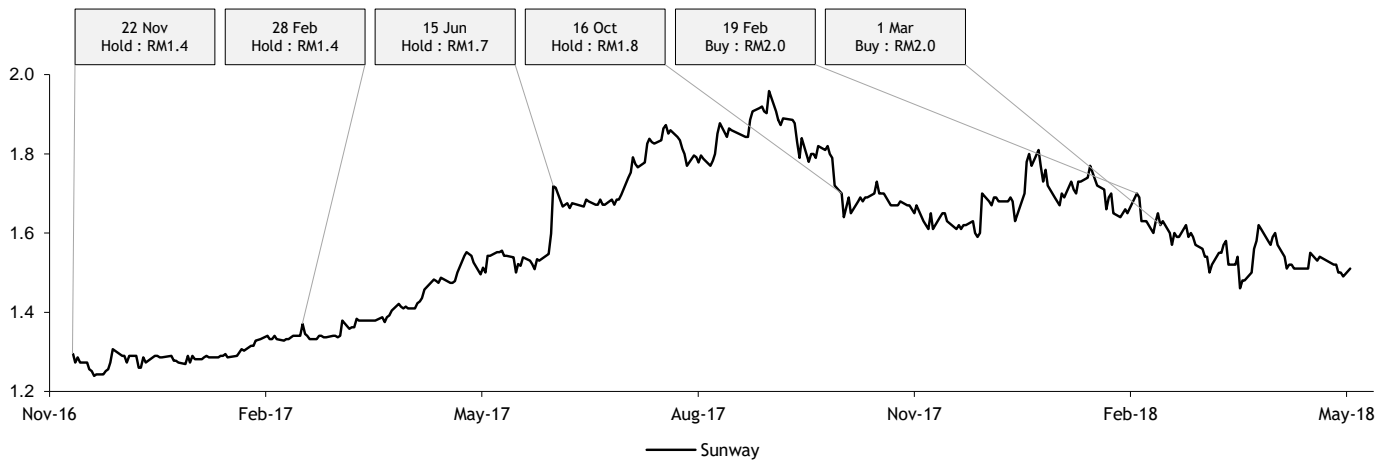
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