

Sunway (SWB MK)

Results in line, sales beat expectations

Construction continues to outshine property

Sunway's 2017 net profit of MYR566m (+4% YoY) came in as expected. 2017 property sales beat its own/our target while its construction outstanding orderbook ended the year at a high of MYR6.1b, providing short-term earnings visibility. Sunway sets flat MYR1b effective property sales target for 2018. We adjust our earnings forecasts by -3% to -9% post-2017 results and introduce 2020 forecasts. Our RNAV-TP is raised to MYR2.02 (+5 sen; on an unchanged 0.75x P/RNAV peg). BUY.

Results in line, declares 6 sen dividend

Sunway reported a 4Q17 core net profit of MYR167m (+11% YoY, +11% QoQ) which lifted 2017 core net profit to MYR566m (+4% YoY, excluding fair value gain of MYR73m), accounting for 104%/102% of our/consensus estimates. Most businesses are growing except for property development and quarrying. It has declared a 3 sen NDPS for 4Q17, bringing total NDPS to 6 sen for 2017 - above expectations.

Sales positively surprise

In 2017, effective locked-in property sales were MYR1b, 11% above its initial target of MYR900m. Given the challenging property market outlook, management sets a flat MYR1b target for 2018 supported by MYR1.6b worth of new launches. Effective unbilled sales stood at MYR861m at end Dec 2017, 1.2x our FY18F revenue. Elsewhere, 54%-owned SCG's (SCGB MK; HOLD; TP MYR2.63) 2017 job wins were MYR4b, lifting SCG's outstanding orderbook to MYR6.1b at end-Dec 2017. 2018 YTD job wins have lifted the outstanding orderbook further to MYR6.7b.

Earnings adjustment

We adjust FY18/19 earnings forecasts by -9%/-3% to factor in: 1) actual 2017 results and 2) property sales forecast of MYR1.0b for 2018 (-17%). Our RNAV estimate is largely unchanged at MYR2.69/sh (+6sen). We value Sunway based on an unchanged 0.75x P/RNAV peg. We like Sunway for its more diversified earnings base with a 54% stake in SCG and 37.3% in SunREIT (SREIT MK; BUY; TP MYR1.85). It is our top pick for the sector.

FYE Dec (MYR m)	FY16A	FY17A	FY18E	FY19E	FY20E
Revenue	4,656	5,375	6,574	6,980	7,545
EBITDA	1,596	725	932	996	1,061
Core net profit	547	566	601	649	701
Core FDEPS (sen)	11.4	11.8	12.5	13.5	14.6
Core FDEPS growth(%)	(16.0)	3.4	6.1	8.0	8.0
Net DPS (sen)	5.7	6.0	5.6	6.1	6.6
Core FD P/E (x)	14.5	14.0	13.2	12.2	11.3
P/BV (x)	1.1	1.0	1.0	0.9	0.9
Net dividend yield (%)	3.4	3.6	3.4	3.7	4.0
ROAA (%)	3.2	2.9	2.9	3.0	3.1
EV/EBITDA (x)	6.1	16.9	13.5	12.7	12.0
Net gearing (%) (incl perps)	40.5	45.0	44.9	44.3	43.4
Consensus net profit	-	-	595	665	na
MKE vs. Consensus (%)	-	-	1.0	(2.4)	na

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BUY

Share Price	MYR 1.65
12m Price Target	MYR 2.02 (+22%)
Previous Price Target	MYR 1.97

Company Description

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

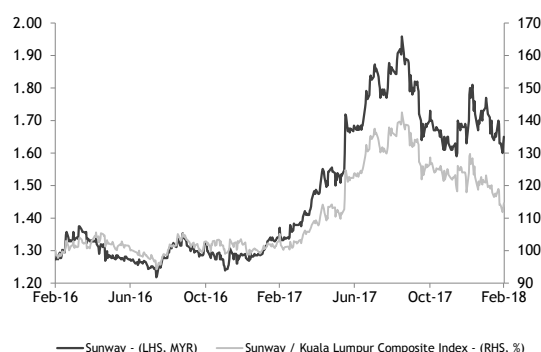
Statistics

Shariah status	Yes
52w high/low (MYR)	1.96/1.33
3m avg turnover (USDm)	1.7
Free float (%)	31.3
Issued shares (m)	4,919
Market capitalisation	MYR8.1B
	USD2.1B

Major shareholders:

Active Equity Sdn. Bhd.	54.8%
Permodalan Nasional Bhd.	8.0%
Employees Provident Fund	5.6%

Price Performance



	-1M	-3M	-12M
Absolute (%)	(7)	1	20
Relative to index (%)	(7)	(7)	9

Source: FactSet

Table 1: Results summary table - Sunway

FY Dec (MYRm)	Quarterly					Cumulative		
	4Q17	4Q16	%YoY	3Q17	%QoQ	2017	2016	%YoY
Revenue	1,722.9	1,293.4	33.2	1,319.6	30.6	5,374.8	4,655.6	15.4
- Property dev	413.0	412.7	0.1	162.2	154.6	989.7	1,209.4	(18.2)
- Property inv	245.7	172.8	42.2	225.4	9.0	865.4	692.0	25.1
- Construction	583.3	334.4	74.4	416.6	40.0	1,627.7	1,183.1	37.6
- Trading	232.4	215.1	8.0	292.9	(20.7)	996.5	833.3	19.6
- Quarry	52.9	54.1	(2.2)	50.3	5.2	202.1	207.4	(2.6)
- Inv Holdings	2.9	15.4	(81.4)	0.8	278.0	5.2	26.0	(79.9)
- Others	192.8	159.3	21.0	171.4	12.5	688.4	574.7	19.8
EBIT	222.4	239.6	(7.2)	153.6	44.8	686.6	715.1	(4.0)
- Property dev	104.8	119.0	(11.9)	20.8	404.4	199.3	393.9	(49.4)
- Property inv	60.6	51.7	17.3	60.8	(0.2)	208.5	162.5	28.3
- Construction	52.7	28.3	86.4	37.8	39.6	166.0	129.2	28.5
- Trading	14.2	20.7	(31.2)	17.4	(18.3)	58.1	51.0	13.9
- Quarry	(0.6)	1.5	NM	3.1	NM	7.5	26.7	(72.0)
- Inv Holdings	(20.3)	8.2	NM	(10.8)	87.1	(33.6)	15.0	NM
- Others	10.9	22.2	(50.8)	24.6	(55.6)	80.8	69.3	16.7
Finance costs	9.2	(13.7)	NM	(6.3)	NM	(22.6)	(48.0)	(52.9)
Other income	29.3	44.7	(34.5)	49.5	(40.8)	218.1	191.9	13.7
Pretax profit	260.9	270.6	(3.6)	196.7	32.6	882.2	859.0	2.7
Pretax profit-EI	246.0	230.3	6.8	196.7	25.0	810.5	803.6	0.9
Taxation	(54.9)	(46.0)	19.5	(29.0)	89.6	(149.4)	(140.4)	6.4
Minority interest	(22.2)	(38.8)	(42.9)	(16.9)	31.0	(93.3)	(132.7)	(29.7)
Net profit	183.8	185.8	(1.1)	150.9	21.8	639.5	585.9	9.2
Net profit ex-EI	167.4	151.1	10.8	150.9	11.0	566.3	547.3	3.5
Exceptional item (pretax)	(14.9)	(40.9)	(63.6)	0.0	NA	(71.7)	(55.4)	29.4
			+/- ppt		+/- ppt			+/- ppt
EBIT margin (%)	12.9	18.4	(5.5)	11.6	1.3	12.8	15.4	(2.6)
- Property dev	25.4	28.8	(3.5)	12.8	12.6	20.1	32.6	(12.4)
- Property inv	24.7	29.9	(5.2)	26.9	(2.3)	24.1	23.5	0.6
- Construction	9.0	8.5	0.6	9.1	(0.0)	10.2	10.9	(0.7)
- Trading	6.1	9.6	(3.5)	6.0	0.2	5.8	6.1	(0.3)
- Quarry	(1.2)	2.7	(3.9)	6.1	(7.3)	3.7	12.9	(9.2)
- Others	5.7	13.9	(8.3)	14.4	(8.7)	11.7	12.1	(0.3)
Tax rate (%)	22.3	20.0	2.4	14.7	7.6	18.4	17.5	1.0

Source: Company, Maybank KE

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	BV	Surplus
			(MYR m)	(MYR m)	(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 based on Maybank IB's MYR1.85 TP					571.2
54.4% stake in SCG based on Maybank IB's MYR2.63 TP					1,699.9
Healthcare (20x 2018 PER)					720.0
Building material (10x 2018 PER)					386.7
Trading (10x 2018 PER)					575.5
Grand total:					5,748.2
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)					14,759.8
Number of shares (m)					4,852.5
Number of warrants (m)					630.0
FD RNAV/share (MYR)					2.69
Target price (MYR) - based on 0.75x RNAV					2.02

Source: Maybank KE

FYE 31 Dec	FY16A	FY17A	FY18E	FY19E	FY20E
Key Metrics					
P/E (reported) (x)	9.5	11.9	13.2	12.2	11.3
Core P/E (x)	13.1	14.0	13.2	12.2	11.3
Core FD P/E (x)	14.5	14.0	13.2	12.2	11.3
P/BV (x)	1.1	1.0	1.0	0.9	0.9
P/NTA (x)	0.9	1.0	0.9	0.9	0.9
Net dividend yield (%)	3.4	3.6	3.4	3.7	4.0
FCF yield (%)	1.6	nm	1.4	2.1	2.6
EV/EBITDA (x)	6.1	16.9	13.5	12.7	12.0
EV/EBIT (x)	13.5	17.9	14.1	13.4	12.6

INCOME STATEMENT (MYR m)

Revenue	4,655.6	5,374.8	6,574.1	6,980.4	7,545.3
Gross profit	1,596.1	725.4	932.4	996.1	1,061.2
EBITDA	1,596.1	725.4	932.4	996.1	1,061.2
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	889.5	949.0	1,009.7
Net interest income / (exp)	(48.0)	(22.6)	(141.7)	(143.8)	(153.0)
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	937.2	1,002.5	1,066.4
Income tax	(140.4)	(149.4)	(224.9)	(240.6)	(255.9)
Minorities	(132.7)	(93.3)	(111.5)	(113.1)	(109.7)
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	600.7	648.8	700.8
Core net profit	547.4	566.3	600.7	648.8	700.8

BALANCE SHEET (MYR m)

Cash & Short Term Investments	4,080.1	4,445.6	4,270.0	4,164.3	5,080.8
Accounts receivable	1,891.5	2,992.7	2,992.7	2,992.7	2,992.7
Inventory	670.0	681.3	833.4	884.9	956.5
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	7,771.8	8,262.4	8,823.1
Total assets	18,752.0	20,214.0	21,271.2	21,854.2	23,554.1
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	3,659.0	3,885.1	4,199.5
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	12,393.9	12,620.1	13,934.5
Shareholders Equity	7,469.7	7,839.9	8,234.2	8,591.0	8,976.4
Minority Interest	763.5	643.1	643.1	643.1	643.1
Total shareholder equity	8,233.2	8,483.1	8,877.3	9,234.2	9,619.6
Perpetual securities	0.0	0.0	0.0	0.0	0.0
Total liabilities and equity	18,752.0	20,214.0	21,271.2	21,854.2	23,554.1

CASH FLOW (MYR m)

Pretax profit	859.0	882.2	937.2	1,002.5	1,066.4
Depreciation & amortisation	0.0	0.0	0.0	0.0	0.0
Adj net interest (income)/exp	282.1	340.5	(141.7)	(143.8)	(153.0)
Change in working capital	(251.2)	(235.7)	0.0	0.0	0.0
Cash taxes paid	(108.7)	(175.3)	(224.9)	(240.6)	(255.9)
Other operating cash flow	(250.3)	(85.6)	0.0	0.0	0.0
Cash flow from operations	668.1	726.2	612.9	664.7	708.5
Capex	(556.2)	(1,111.5)	(500.0)	(500.0)	(500.0)
Free cash flow	111.8	(385.3)	112.9	164.7	208.5
Dividends paid	(260.8)	(228.1)	(288.5)	(270.3)	(292.0)
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	(175.6)	(105.6)	(83.5)

FYE 31 Dec	FY16A	FY17A	FY18E	FY19E	FY20E
Key Ratios					
Growth ratios (%)					
Revenue growth	4.7	15.4	22.3	6.2	8.1
EBITDA growth	273.6	(54.6)	28.5	6.8	6.5
EBIT growth	4.1	(4.0)	29.5	6.7	6.4
Pretax growth	(7.7)	2.7	6.2	7.0	6.4
Reported net profit growth	(20.0)	9.2	(6.1)	8.0	8.0
Core net profit growth	(7.3)	3.5	6.1	8.0	8.0
Profitability ratios (%)					
EBITDA margin	34.3	13.5	14.2	14.3	14.1
EBIT margin	15.4	12.8	13.5	13.6	13.4
Pretax profit margin	18.5	16.4	14.3	14.4	14.1
Payout ratio	42.0	45.1	45.0	45.0	45.0
DuPont analysis					
Net profit margin (%)	12.6	11.9	9.1	9.3	9.3
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 (%)	na	na	na	na	na
ROAA (%)	3.2	2.9	2.9	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	44.9	44.3	43.4
Net gearing (%) (excl. perps)	40.5	45.0	44.9	44.3	43.4
Net interest cover (x)	14.9	30.4	6.3	6.6	6.6
Debt/EBITDA (x)	4.6	11.4	8.9	8.3	8.7
Capex/revenue (%)	11.9	20.7	7.6	7.2	6.6
Net debt/ (net cash)	3,336.8	3,813.8	3,989.4	4,095.1	4,178.6

Source: Company; Maybank

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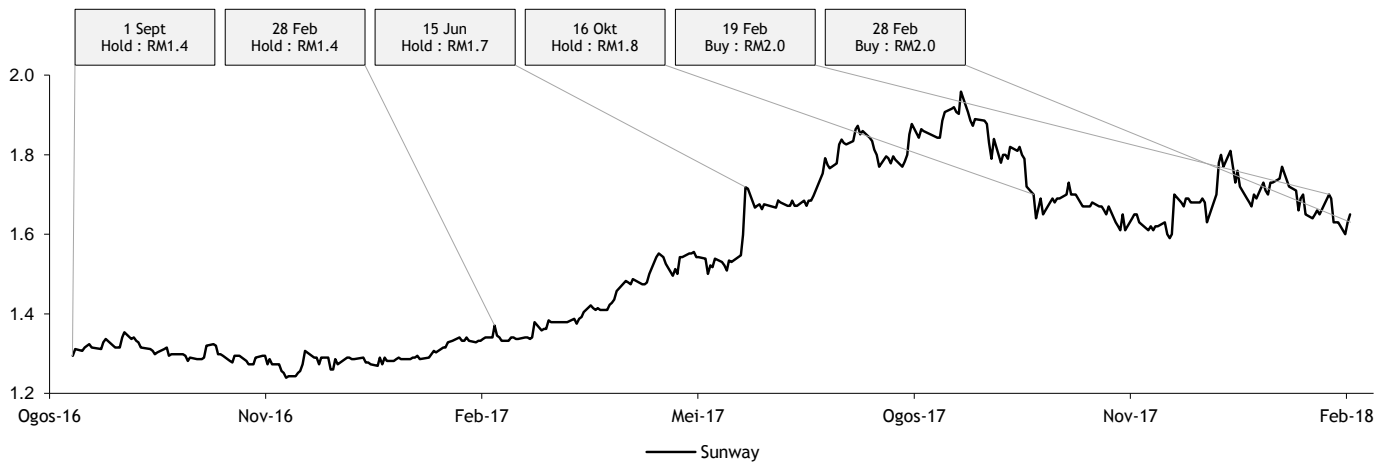
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