

23 May 2019

Property | Real Estate

## Sunway (SWB MK)

**Buy** (Maintained)

### Decent 1Q19 Numbers; Keep BUY

Target Price (Return)	MYR1.85 (+10%)
Price:	MYR1.69
Market Cap:	USD1,991m
Avg Daily Turnover (MYR/USD)	4.31m/1.03m

- Keep BUY, MYR1.85 TP, 10% upside plus 4% FY19F yield.** Sunway's 1Q19 results are in line, since 1Q is typically its weakest quarter. The weaker performance from most divisions is not a big concern, due to seasonal factors. Meanwhile, its property arm's numbers were affected by MFRS 15 implementation. We expect its property investment and healthcare divisions to exhibit earnings resilience ahead. We continue to like Sunway's diversified exposure, which is important to drive growth – especially amidst weak market conditions.
- Velocity Two the key sales contributor.** New property sales were at MYR263m in 1Q19, vs MYR280m in 4Q18. Velocity Two Tower B (GDV: MYR300m), which contributed MYR100m in sales, was the only project that was launched during the quarter. It has take-up/bookings of about 70% so far. The project, located opposite Sunway Velocity, has been well-received. Tower A, which was launched in Oct 2018, is already >80%-sold. Meanwhile, Sunway Gardens in Tianjin contributed MYR71m in sales during the quarter.
- Pipeline launches in 2019.** Management is maintaining its sales target of MYR1.3bn for FY19. The bulk of launches are scheduled for 2H, including Brookvale in Clementi Singapore (GDV: MYR1bn). Sunway Avila Wangsa Maju (GDV: MYR230m) will be rolled out in end-May, and we expect an encouraging take-up rate from this project due to its good location. Other projects in the pipeline are Sunway Onsen Suites Ipoh (GDV: MYR120m), and Sunway Lenang Heights in Johor Bahru (GDV: MYR150m).
- We make no changes to our earnings forecasts.** Earnings in 2H are expected to be stronger. Apart from seasonal factors in 4Q, Sunway Gardens will see its completion at the year-end. Note that, due to the implementation of MFRS 15, its progressive development profits of MYR39.5m could have been recognised in 1Q19. Unbilled sales remained relatively unchanged at MYR2.2bn (vs MYR2.1bn as at 4Q18), while its outstanding construction orderbook rose to MYR5.7bn (vs MYR5.22bn end-2018).
- No change to our TP.** Our SOP-based TP is based on a 40% discount to RNAV for the property division and 10% holding company discount applied. Given its exposure to multiple businesses, its earnings quality and prospects stand out among other developers under our coverage.

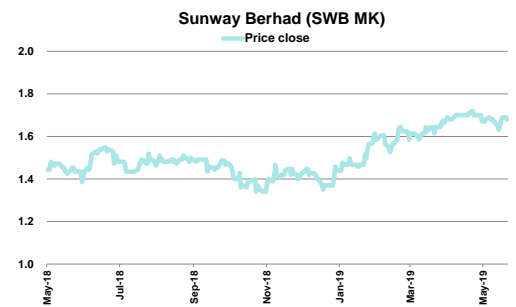
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#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	14.7	(2.3)	0.4	16.3	11.7
Relative	19.5	(1.6)	7.2	22.2	24.9
52-wk Price low/high (MYR)	1.34 – 1.72				



Source: Bloomberg

Forecasts and Valuation	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
Total turnover (MYRm)	5,375	5,410	5,543	5,818	6,139
Recurring net profit (MYRm)	566	591	623	695	710
Recurring net profit growth (%)	3.5	4.4	5.4	11.6	2.2
Recurring EPS (MYR)	0.12	0.12	0.13	0.14	0.14
DPS (MYR)	0.06	0.07	0.08	0.09	0.09
Recurring P/E (x)	14.7	13.9	13.3	12.1	11.9
P/B (x)	1.06	0.97	0.95	0.93	0.91
Dividend Yield (%)	3.6	4.2	4.4	5.0	5.0
Return on average equity (%)	8.4	8.1	7.2	7.8	7.8
Net debt to equity (%)	48.6	47.6	46.3	45.6	45.3
Interest coverage (x)	3.1	2.6	2.2	2.4	2.5

Source: Company data, RHB

## Results At a Glance

Figure 1: Quarterly results

FYE Dec (MYRm)	1Q18	4Q18	1Q19	QoQ (%)	YoY (%)	Comments
<b>Turnover</b>	<b>1,308.4</b>	<b>1,370.2</b>	<b>1,123.6</b>	<b>(18.0)</b>	<b>(14.1)</b>	
Prop dev	132.3	203.8	87.9	(56.9)	(33.6)	Revenue was lower QoQ as 4Q18 saw the completion and handover of Emerald Residences and Emerald Boulevard in Sunway Iskandar.
Prop invt	220.0	140.3	196.7	40.2	(10.6)	
Construction	443.7	489.1	346.2	(29.2)	(22.0)	
Trading & Manufacturing	278.3	241.8	251.3	3.9	(9.7)	
Quarry	50.0	59.2	44.2	(25.3)	(11.6)	
Healthcare	101.9	132.8	126.8	(4.5)	24.4	Revenue was lower QoQ due to the festive period and reduced number of working days in 1Q19.
Investment holdings	0.8	4.3	0.8	n.m.	n.m.	
Others	183.4	231.6	69.7	(69.9)	(62.0)	
<b>EBIT</b>	<b>130.0</b>	<b>104.1</b>	<b>117.8</b>	<b>13.1</b>	<b>(9.4)</b>	
<i>EBIT Margin (%)</i>	<i>9.9%</i>	<i>7.6%</i>	<i>10.5%</i>			
Prop dev	17.6	22.5	18.9	(16.0)	7.2	EBIT was higher YoY despite the YoY drop in revenue. This was mainly due to the reversal of provisions made previously which are now not required.
Prop invt	59.3	40.8	52.8	29.5	(10.9)	
Construction	38.8	48.3	40.0	(17.2)	2.9	
Trading & Manufacturing	14.0	13.0	8.8	(32.1)	(36.8)	
Quarry	2.2	2.4	1.1	(55.6)	(52.0)	
Healthcare	10.8	16.9	13.1	(22.6)	21.8	
Investment holdings	(16.7)	(43.6)	(21.5)	n.m.	28.7	
Others	14.8	20.9	4.6	(78.0)	(69.0)	
Exceptional items	0.0	(8.6)	0.0	n.m.	n.m.	
Finance cost	(7.6)	85.4	17.8	(79.2)	(333.2)	
Asso & jv	38.5	64.0	41.7	(34.8)	8.4	
Other Income	0.0	0.0	0.0	n.m.	n.m.	
Pretax profit	160.9	253.6	177.3	(30.1)	10.2	
<i>PBT margin (%)</i>	<i>12.3%</i>	<i>18.5%</i>	<i>15.8%</i>			
Tax	(23.4)	(44.7)	(25.3)	(43.4)	8.2	
<i>Tax (%)</i>	<i>14.5%</i>	<i>17.6%</i>	<i>14.3%</i>			
PAT	137.5	208.9	151.9	(27.2)	10.5	
MI	(15.6)	(16.5)	(15.5)	(6.1)	(0.2)	
<b>Net profit</b>	<b>121.9</b>	<b>192.3</b>	<b>136.4</b>	<b>(29.1)</b>	<b>11.9</b>	
<b>Core net profit</b>	<b>121.9</b>	<b>183.7</b>	<b>136.4</b>	<b>(25.8)</b>	<b>11.9</b>	Within expectations
<i>Net margin (%)</i>	<i>9.3</i>	<i>13.4</i>	<i>12.1</i>			
EPS (sen)	2.5	4.0	2.7			
NTA (RM)	1.65	1.62	1.66			
DPS (sen)	0.0	7.1	0.0			
EBIT margin:						
Prop dev	13.3%	11.0%	21.5%			
Prop invt	26.9%	29.1%	26.8%			
Construction	8.8%	9.9%	11.5%			
Trading & Manufacturing	5.0%	5.4%	3.5%			
Quarry	4.4%	4.1%	2.4%			
Healthcare	10.6%	12.7%	10.3%			
Investment holdings	n.m.	n.m.	n.m.			
Others	8.1%	9.0%	6.6%			

Source: Company data, RHB

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Property | Real Estate

Figure 2: RNAV estimate

Developments	Remaining	Remaining	Effective stake	NPV @ 10%
	Landbank (acre)	GDV (MYR m)		
<b>Selangor/KL</b>				
Sunway Damansara	15.36	1,691.28	60%	166.9
Sunway South Quay	33.67	2,586.66	100%	353.7
Sunway Monterez	4.40	38.00	60%	2.9
Sunway Semenyih	398.11	728.59	70%	57.2
Sunway Cheras	5.97	16.82	100%	1.7
Sunway Duta	3.16	120.00	60%	7.1
Sunway Montana	1.99	55.51	100%	6.7
Sunway Resort City	14.9	660	100%	103.5
Sunway Velocity	10.00	1,983.98	85%	201.9
Sunway Velocity 2	8.45	2,000.00	50%	66.8
Sunway Tower KL 1	1.00	240.00	100%	21.0
Melawati	2.00	43.00	100%	4.4
Sg Long	111.00	277.00	80%	20.9
Mont Putra, Rawang	163.00	156.00	100%	13.6
Kelana Jaya	17.88	1,450.00	100%	110.3
Subang industrial	6.35	110.00	80%	8.9
Jalan Belfield	4.53	1,100.00	100%	83.7
Kajang TOD	5.28	460.00	60%	20.6
USJ 1	14.80	1,400.00	100%	107.8
Wangsa Maju	4.34	500.00	55%	24.5
<b>Perak</b>				
Sunway City Ipoh	440.5	1,048.38	96%	135.5
<b>Penang</b>				
Sunway Hills	80.70	849.00	100%	72.2
Sunway Wellesley, Bukit Mertajam	51.47	710.47	100%	72.4
Paya Terubong	24.46	1,500.00	100%	129.3
Sunway Tunas, Balik Pulau	9.00	60.00	100%	6.2
Sunway Betong, Balik Pulau	19.87	110.00	100%	11.4
<b>S'pore</b>				
Anchorvale Lane, Sengkang (Rivercove EC)	5.19	1,560.00	30%	42.0
Brookvale Park (Clementi)	8.56	3,000.00	30%	83.0
Canberra Link, Sembawang	4.46	1,500.00	35%	44.7
Tampines EC	6.16	2,400.00	35%	61.1
<b>Johor</b>				
Bukit Lenang	64.79	698.40	80%	52.5
Medini	642.93	10,743.00	60%	426.1
Pendas	1,079.07	18,000.00	60%	523.7
<b>China</b>				
Sunway Guanghao	3.73	66.78	65%	4.3
Tianjin Eco City	6.23	575.02	60%	26.8
<b>India</b>				
Sunway OPUS Grand India	23.80	702.36	50%	20.3
Sunway MAK Signature Residence (JV with M.A.K Builders)	14.00	181.22	60%	6.6
Unbilled sales				216.0
<b>TOTAL</b>	<b>3,345.56</b>	<b>64,220.03</b>		<b>3,318.07</b>

Investment properties	Est. market value	Book value	Equity	Net surplus
	(MYR m)	(MYR m)	interest	(MYR m)
Monash University Campus	302.8	302.8	100%	0
Monash U Residence	271.1	271.1	100%	0
Sunway Geo Tower	168.0	120.0	100%	48.0
Sunway Hotel Georgetown	74.0	37.6	100%	36.4
Sunway Hotel Phnom Penh	17.3	17.3	53%	0
Sunway Hotel Hanoi	8.8	8.8	100%	0
Sunway Giza	55.1	55.1	60%	0
Sunway Pinnacle	493.0	360.7	100%	125.7
Sunway Velocity Mall	1,800.0	1,205.2	59%	333.4
Subtotal				3,861.52
Shareholders' equity (ex cons. & healthcare)				6,905.72
Total				10,767.24
Discount to Property RNAV				40%
Discounted Property RNAV				6,460.34

Other divisions	Market value	Book value	Est. FY19 earnings	PE target	Equity value surplus
	(MYR m)	(MYR m)	(MYR m)	(x)	(MYR m)
40.9% Sunway REIT	2,312.6	1,479.0			833.65
54.4% Sunway Construction	1,512.3	844.1			668.22
Healthcare			50	25	1,250.00
Others			55	15	825.00
Gain on disposal of Sunway CLIO					29.40
Gain on disposal of Sunway University					43.00
Total					10,109.62
ESOS proceeds					151.21
Warrants conversion @ MYR1.86					1,171.74
Total RNAV					11,432.57
Holding company discount					10%
Discounted RNAV					10,289.32
Share base (mil)					5,548.08
TP (MYR)					1.85

Source: RHB

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