

22 November 2018

Property | Real Estate

Sunway

Buy (Maintained)

3Q Property Sales Buck Industry Trend

Maintain BUY, MYR1.82 TP, 26% upside with 5% FY19F yield. 3Q18 results missed expectations, but 9M new property sales hit MYR1.6bn. As a result, management has revised up its sales target to MYR1.7bn. The take-up/booking rates for most of its projects have been encouraging, and we expect some of these sales to flow through to 1Q19. We continue to like Sunway's diversified business model that provides resilient earnings, as well as the opportunity to recycle its assets.

Sunway's 3Q18 results fell below our and Street expectations as earnings were partly affected by the adoption of MFRS 15. The performance of almost all divisions improved QoQ, as the property development division was boosted by the completion of Sunway GEOSense in South Quay, while the property investment division was driven by contributions from new properties.

New sales in 3Q18 were at MYR760m, vs MYR674m in 2Q18. This was mainly attributed to the Rivercove Residences project in Singapore, which was launched in 2Q, as well as the launch of Sunway GEOLake in South Quay, Sunway Citrine in Iskandar and Sunway Gardens in Tianjin in July. The take-up and booking rates of these projects have reached >80%, except for Sunway GEOLake, which is at 60%. These brought 9M total new sales to MYR1.6bn.

Sales target increased to MYR1.7bn. Given the strong sales in the first 9M, management has revised up its sales target to MYR1.7bn, from MYR1.3bn. This means that the company expects to rake in only MYR100m in new sales in 4Q. We believe management also shares the view that most buyers will hold back purchases in 4Q until 2019, in order to enjoy the stamp duty exemption. Meanwhile, sales from Sunway Velocity TWO service apartments, which were launched in October, are expected to flow through to 1Q19. The project has already received an encouraging booking rate of 80%.

Forecast. Going forward, Sunway's earnings are expected to be affected by MFRS 15, as development profits from Rivercove Residences in Singapore and Sunway Gardens in Tianjin will now be recognised only upon completion. As such, we trim FY18-20F earnings by 3-8%, as Rivercove and Sunway Gardens are expected to be completed in 2020/2021 and 2H19 respectively. Due to the encouraging property sales, unbilled sales increased to MYR2.1bn vs MYR1.5bn as at 2Q18 while its outstanding construction orderbook declined slightly to MYR5.2bn, from MYR5.8bn in 2Q18.

Maintain BUY. Our TP is unchanged at MYR1.82, based on a 40% discount to property RNAV, with a 10% holding company discount. Despite the current macro-economic headwinds, management has been able to roll out marketable projects and minimise the risk of accumulating unsold stocks. Also, in spite of the slight earnings disappointment, we are confident that all divisions should continue to perform. Some of its property assets are also ripe for monetisation, and this could be another share price catalyst.

Target Price:	MYR1.82
Price:	MYR1.45
Market Cap:	USD1,700m
Bloomberg Ticker:	SWB MK

Share Data

Avg Daily Turnover (MYR/USD)	3.12m/0.74m
52-wk Price low/high (MYR)	1.35 - 1.82
Free Float (%)	27
Shares outstanding (m)	4,853
Estimated Return	26%

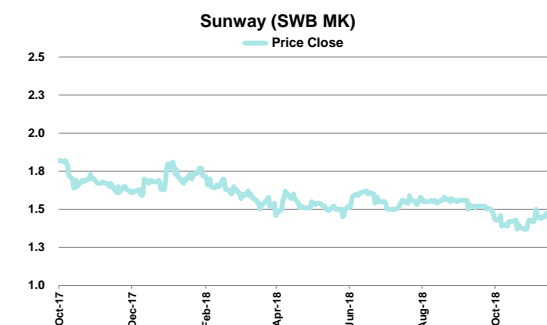
Shareholders (%)

Tan Sri Dato' Jeffrey Cheah	60.3
Employees Provident Fund	5.7

Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(11.7)	1.4	(7.7)	(4.6)	(11.1)
Relative	(6.0)	3.5	(2.5)	4.0	(9.8)

Source: Bloomberg



Source: Bloomberg

Forecasts and Valuations	Dec-16	Dec-17	Dec 18 F	Dec 19 F	Dec 20 F
Total turnover (MYRm)	4,725.90	5,374.83	5,667.30	6,216.48	6,621.01
Reported net profit (MYRm)	585.91	639.51	583.09	613.23	652.39
Recurring net profit (MYRm)	547.36	566.31	583.09	613.23	652.39
Recurring net profit growth (%)	(8.29)	3.46	2.96	5.17	6.39
Recurring EPS (MYR)	0.11	0.12	0.12	0.12	0.13
DPS (MYR)	0.05	0.06	0.07	0.07	0.07
Recurring P/E (x)	13.03	12.59	12.35	11.86	11.26
P/B (x)	0.96	0.91	0.89	0.87	0.85
Dividend Yield (%)	3.59	4.14	4.48	4.69	4.97
Return on average equity (%)	8.37	8.36	7.32	7.45	7.66
Return on average assets (%)	3.36	3.28	2.84	2.91	3.02
Net debt to equity (%)	45.08	48.65	55.15	51.84	44.37
Our vs consensus EPS (adjusted) (%)			(3.78)	(6.69)	(9.33)

Source: Company data, RHB

Analyst

 Loong Kok, Wen CFA
 +603 9280 8861

loong.kok.wen@rhbgroup.com


Figure 1: Quarterly results review

FYE Dec (MYR mil)	3Q17	2Q18	3Q18	QoQ (%)	YoY (%)	9MFY17	9MFY18	YoY (%)	Comments
Turnover	1,319.6	1,287.1	1,444.6	12.2	9.5	3,651.9	4,040.1	10.6	
Prop dev	162.2	88.7	194.8	119.6	20.1	576.6	415.8	(27.9)	The higher revenue was due to higher billings from local projects as well as the completion of Sunway GEOSense
Prop invt	225.4	216.7	237.8	9.7	5.5	619.7	674.5	8.8	The higher revenue was contributed by new properties such as Sunway Velocity Hotel and Sunway Geo, and improved income from Sunway Velocity Mall and theme parks
Construction	416.6	449.7	465.4	3.5	11.7	1,044.4	1,358.8	30.1	Driven by higher billings from local projects
Trading & Manufacturing	292.9	286.4	296.9	3.6	1.3	764.1	861.6	12.8	
Quarry	50.3	57.9	56.3	(2.8)	11.9	149.2	164.2	10.1	
Investment holdings	0.8	0.8	1.8	n.m.	n.m.	2.4	3.4	44.8	
Others	171.4	186.9	191.7	2.6	11.8	495.6	562.0	13.4	
EBIT	153.6	166.0	159.7	(3.8)	4.0	464.2	455.8	(1.8)	
EBIT Margin (%)	11.6%	12.9%	11.1%			12.7%	11.3%		
Prop dev	20.8	44.0	33.9	(23.0)	63.0	94.5	95.5	1.1	EBIT in 2Q18 was lifted by the realisation of forex gains from the accumulated profits from Singapore
Prop invt	60.8	54.1	60.2	11.2	(0.9)	147.8	173.6	17.4	
Construction	37.8	46.2	47.6	3.1	26.0	113.3	132.7	17.1	
Trading & Manufacturing	17.4	16.4	17.6	6.9	0.7	43.9	47.9	9.2	
Quarry	3.1	3.6	2.4	(33.9)	(23.0)	8.1	8.1	0.2	
Investment holdings	(10.8)	(20.0)	(23.9)	n.m.	120.2	(13.3)	(60.5)	353.7	
Others	24.6	21.6	22.0	1.6	(10.6)	69.9	58.4	(16.5)	
Exceptional items	0.0	(59.2)	0.0	n.m.	n.m.	(56.8)	(59.2)	4.2	
Finance cost	(6.3)	(12.8)	(3.4)	(73.1)	(45.4)	(31.8)	(23.9)	(24.9)	
Asso & jv	49.5	89.0	37.7	(57.7)	(23.9)	188.9	165.2	(12.5)	
Other Income	0.0	0.0	0.0	n.m.	n.m.	0.0	0.0	0.0	
Pretax profit	196.7	242.2	194.0	(19.9)	(1.4)	621.3	597.1	(3.9)	
PBT margin (%)	14.9%	18.8%	13.4%			17.0%	14.8%		
Tax	(29.0)	(26.5)	(27.1)	2.3	(6.6)	(94.5)	(76.9)	(18.6)	
Tax (%)	14.7%	10.9%	13.9%			15.2%	12.9%		
PAT	167.8	215.8	166.9	(22.6)	(0.5)	526.8	520.1	(1.3)	
MI	(16.9)	(16.3)	(21.6)	32.2	27.6	(71.1)	(53.5)	(24.8)	
Net profit	150.9	199.4	145.3	(27.1)	(3.7)	455.7	466.7	2.4	
Core net profit	150.9	140.2	145.3	3.6	(3.7)	398.9	407.5	2.1	Below expectations
Net margin (%)	11.4	10.9	10.1						
EPS (sen)	7.4	4.1	3.0			22.3	9.6		
NTA (RM)	3.77	1.65	1.67			3.77	1.67		
DPS (sen)	0.0	3.5	0.0			3.0	3.5		
EBIT margin:									
Prop dev	12.8%	49.6%	17.4%			16.4%	23.0%		
Prop invt	26.9%	25.0%	25.3%			23.9%	25.7%		
Construction	9.1%	10.3%	10.2%			10.8%	9.8%		
Trading & Manufacturing	6.0%	5.7%	5.9%			5.7%	5.6%		
Quarry	6.1%	6.1%	4.2%			5.4%	5.0%		
Investment holdings	n.m.	n.m.	n.m.			n.m.	n.m.		
Others	14.4%	11.6%	11.5%			14.1%	10.4%		

Source: Company data. RHB

Figure 2: RNAV estimate

Developments	Remaining		Effective stake	NPV @ 10%
	Landbank (acre)	GDV (MYR m)		
Selangor/KL				
Sunway Damansara	15.36	1,691.28	60%	172.9
Sunway South Quay	40.16	3,086.66	100%	439.4
Sunway Monterez	4.40	38.00	60%	3.0
Sunway Semenyih	398.11	728.59	70%	59.1
Sunway Cheras	5.97	16.82	100%	1.7
Sunway Duta	3.16	120.00	60%	7.4
Sunway Montana	1.99	55.51	100%	6.8
Sunway Resort City	14.9	660	100%	116.8
Sunway Velocity	10.00	1,983.98	85%	221.3
Sunway Velocity 2	8.45	2,000.00	50%	77.6
Sunway Tower KL 1	1.00	240.00	100%	21.9
Melawati	2.00	43.00	100%	4.5
Sg Long	111.00	277.00	80%	21.8
Mont Putra, Rawang	163.00	156.00	100%	14.2
Kelana Jaya	21.84	1,900.00	100%	153.2
Subang industrial	6.35	110.00	80%	9.3
Jalan Belfield	4.53	1,100.00	100%	88.7
Kajang TOD	5.28	460.00	100%	42.2
Perak				
Sunway City Ipoh	440.5	1,048.38	65%	94.7
Penang				
Sunway Hills	80.70	849.00	100%	75.0
Sunway Wellesley, Bukit Mertajam	52.80	725.47	100%	75.9
Paya Terubong	24.46	1,500.00	100%	132.8
Sunway Tunas, Balik Pulau	9.00	60.00	100%	6.3
Sunway Betong, Balik Pulau	19.87	110.00	100%	11.6
S'pore				
Anchorvale Lane, Sengkang	5.19	1,560.00	30%	44.1
Johor				
Bukit Lenang	64.79	698.40	80%	67.4
Medini	655.73	11,293.00	56%	600.8
Pendas	1,079.07	18,000.00	60%	772.5
China				
Sunway Guanghao	3.73	66.78	65%	4.4
Tianjin Eco City	6.23	575.02	60%	28.1
India				
Sunway OPUS Grand India	23.80	702.36	50%	21.3
Sunway MAK Signature Residence (JV with M.A.K Builders)	14.00	181.22	60%	6.9
Australia				
Wonderland Business Park (Sydney)	12.99	43.80	45%	1.1
Unbilled sales				270.0
TOTAL	3,331.82	56,935.03		3,674.79

Investment properties	EBITDA (MYR m)	Est. market value (MYR m)	Book value (MYR m)	Equity interest	Net surplus (MYR m)
Monash University Campus	17	299.5	299.5	100%	0
Monash U Residence	15	226.6	226.6	100%	0
Sunway University College	10	255.0	255.0	100%	0
Sunway Hotel Georgetown	4	74.0	37.6	100%	36.4
Sunway Hotel Phnom Penh	2	17.3	17.3	53%	0
Sunway Hotel Hanoi	2	8.8	8.8	100%	0
Sunway Giza	5	55.1	55.1	60%	0
Sunway Pinnacle	N/A	522.0	350.7	100%	162.8
Sunway Velocity Mall	N/A	1,980.0	1,172.3	59%	452.7
Subtotal					4,326.67
Shareholders' equity (ex cons. & healthcare)					6,905.72
Total					11,232.39
Discount to Property RNAV					40%
Discounted Property RNAV					6,739.43

Other divisions	Market value (MYR m)	Book value (MYR m)	Est. FY17 earnings (MYR m)	PE target (x)	Equity value surplus (MYR m)
34% Sunway REIT	1,654.2	1,479.0			175.16
54.4% Sunway Construction	1,758.5	844.1			914.41
Healthcare			48	25	1,200.00
Others			68	12	816.00
Gain on disposal of Sunway CLIO					29.40
Total					9,874.40
ESOS proceeds					151.21
Warrants conversion @ MYR1.86					1,171.74
Total RNAV					11,197.36
Holding company discount				10%	
Discounted RNAV					10,077.63
Share base (mil)					5,548.08
TP (MYR)					1.82

Source: RHB

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Kuala Lumpur	Hong Kong	Singapore
RHB Research Institute Sdn Bhd Level 3A, Tower One, RHB Centre Jalan Tun Razak Kuala Lumpur 50400 Malaysia Tel : +(60) 3 9280 8888 Fax : +(60) 3 9200 2216	RHB Securities Hong Kong Ltd. 12 th Floor World-Wide House 19 Des Voeux Road Central, Hong Kong Tel : +(852) 2525 1118 Fax : +(852) 2810 0908	RHB Research Institute Singapore Pte Ltd. 10 Collyer Quay #09-08 Ocean Financial Centre Singapore 049315 Tel : +(65) 6533 1818 Fax : +(65) 6532 6211
Jakarta		Bangkok
PT RHB Sekuritas Indonesia Wisma Mulia, 20th Floor Jl. Jenderal Gatot Subroto No. 42 Jakarta 12710, Indonesia Tel : +(6221) 2783 0888 Fax : +(6221) 2783 0777		RHB Securities (Thailand) PCL 10th Floor, Sathorn Square Office Tower 98, North Sathorn Road, Silom Bangrak, Bangkok 10500 Thailand Tel: +(66) 2 088 9999 Fax : +(66) 2 088 9799