

23 August 2018

Property | Real Estate

Sunway

Buy (Maintained)

Sales Target May Increase

Maintain BUY, TP of MYR1.82 offers 16% upside. Sunway has already hit FY18 MYR1.3bn sales target this month, driven mainly by the Rivercove Residences project in Singapore. We believe management will likely lift sales target to around MYR1.8bn, in view of the encouraging response to some newly-launched projects. FY18F-19F earnings are well underpinned by MYR1.5bn in unbilled sales and MYR5.8bn outstanding construction orderbook.

2Q results were broadly in line with our and market expectations, as earnings in 2H were typically stronger in the past. Revenue for the property development division weakened from slower progress billings, as Sunway Geo Residences was completed in 2H17, while Sunway V-Residence Suites was handed over in 1Q. Meanwhile, the construction segment booked stronger YoY revenue growth due to higher billings from local projects, but EBIT growth was much lower, as a result of smaller profit contributions from the precast unit.

Hit full-year target. New sales were at MYR674m in 2Q, vs MYR166m in 1Q. As at August, Sunway had already raked in MYR1.3bn in sales, which was management's sales target for FY18. Rivercove Residences and some old projects in Singapore were the key sales drivers, contributing MYR663m in sales. The launch of Rivercove was timely, as the Singapore Government just announced some additional tightening measures on 5 Jul.

In July, Sunway also had a few major launches that included Sunway GEO Lake, Sunway Citrine Lakehomes and Sunway Gardens (in Tianjin). These projects have achieved take-up and booking rates of 60-70%. This signals that the demand for projects at strategic locations (such as GEO Lake) is still strong, despite the uncertainties post-general election.

Management could revise up sales target to around MYR1.8bn, in view of the positive response to the newly-launched projects. Also, the first phase of Velocity 2 service apartment (GDV: MYR320m) may be rolled out, as response during the soft launch was quite positive. We understand that the units will be priced around MYR850 psf, slightly lower than that of neighbouring projects.

We make no changes to our earnings forecasts. Unbilled sales rose to MYR1.5bn, vs MYR947m as at 1Q18, while outstanding construction orderbook declined slightly to MYR5.8bn, from MYR6.1bn in 1Q18. Note that Sunway would now only be able to recognise the development profits for the Rivercove Residences project in Singapore upon completion under the Malaysian Financial Reporting Standard (MFRS) 15.

Maintain BUY. Our MYR1.82 TP is based on 40% discount to property RNAV, with 10% holding company discount applied. Despite the current macro-economic headwinds, we like management's ability to roll out strategic property projects and the resilience of other business divisions that should help to sustain decent earnings growth.

Target Price:	MYR1.82
Price:	MYR1.56
Market Cap:	USD1,852m
Bloomberg Ticker:	SWB MK

Share Data

Avg Daily Turnover (MYR/USD)	3.11m/0.77m
52-wk Price low/high (MYR)	1.45 - 1.96
Free Float (%)	39
Shares outstanding (m)	1,724
Estimated Return	16%

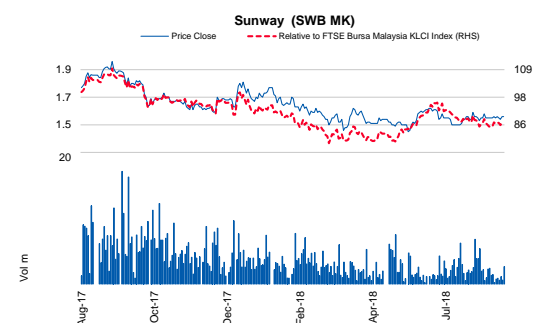
Shareholders (%)

Tan Sri Dato' Jeffrey Cheah	60.3
Employees Provident Fund	5.7

Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(4.3)	0.0	3.3	(4.3)	(11.9)
Relative	(4.4)	(2.5)	6.3	(1.1)	(13.4)

Source: Bloomberg



Source: Bloomberg

Forecasts and Valuations	Dec-16	Dec-17	Dec-18F	Dec-19F	Dec-20F
Total turnover (MYRm)	4,726	5,375	5,712	6,523	6,991
Reported net profit (MYRm)	586	640	603	652	710
Recurring net profit (MYRm)	547	566	603	652	710
Recurring net profit growth (%)	(8.3)	3.5	6.5	8.2	8.8
Recurring EPS (MYR)	0.11	0.12	0.12	0.13	0.14
DPS (MYR)	0.05	0.06	0.07	0.07	0.07
Recurring P/E (x)	14.0	13.5	12.9	12.0	11.1
P/B (x)	1.03	0.98	0.95	0.93	0.90
Dividend Yield (%)	3.3	3.8	4.2	4.4	4.6
Return on average equity (%)	8.4	8.4	7.6	7.9	8.2
Return on average assets (%)	3.4	3.3	2.9	3.1	3.2
Net debt to equity (%)	40.9	45.0	51.0	51.6	43.6
Our vs consensus EPS (adjusted) (%)			(2.1)	(2.2)	3.7

Source: Company data, RHB

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Financial Exhibits

Financial model updated on : 2018-08-21

Asia	Financial summary	Dec-16	Dec-17	Dec-18F	Dec-19F	Dec-20F
Malaysia	Recurring EPS (MYR)	0.11	0.12	0.12	0.13	0.14
Property	EPS (MYR)	0.12	0.13	0.12	0.13	0.14
Sunway	DPS (MYR)	0.05	0.06	0.07	0.07	0.07
Bloomberg	BVPS (MYR)	1.52	1.59	1.63	1.68	1.73
SWB MK	Weighted avg adjusted shares (m)	4,919	4,919	4,967	5,017	5,067
Buy						
Valuation basis	Valuation metrics	Dec-16	Dec-17	Dec-18F	Dec-19F	Dec-20F
40% discount to property RNAV and 10% holding co discount	Recurring P/E (x)	14.0	13.5	12.9	12.0	11.1
	P/E (x)	13.1	12.0	12.9	12.0	11.1
	P/B (x)	1.03	0.98	0.95	0.93	0.90
Key drivers	FCF Yield (%)	(1.9)	14.1	(1.5)	0.4	9.7
i. New property sales;	Dividend Yield (%)	3.3	3.8	4.2	4.4	4.6
ii. Disposal of investment properties	EV/EBITDA (x)	13.2	14.7	15.1	14.5	13.1
	EV/EBIT (x)	16.2	17.7	18.2	17.5	15.7
Key risks						
Weaker-than-expected market conditions						
Company Profile	Income statement (MYRm)	Dec-16	Dec-17	Dec-18F	Dec-19F	Dec-20F
Sunway is a well-known developer in the Klang Valley. Its flagship project, Bandar Sunway, is a well-established integrated township. The group has successfully transformed a mining land to a matured residential and commercial cluster	Total turnover	4,726	5,375	5,712	6,523	6,991
	Gross profit	1,355	1,532	1,603	1,778	1,878
	EBITDA	892	826	860	927	1,003
	Depreciation and amortisation	(165)	(139)	(147)	(157)	(168)
	Operating profit	727	687	714	769	835
	Net interest	(60)	(23)	(34)	(39)	(31)
	Income from associates & JVs	192	218	263	289	304
	Pre-tax profit	859	882	942	1,019	1,109
	Taxation	(140)	(149)	(236)	(255)	(277)
	Minority interests	(133)	(93)	(104)	(112)	(122)
	Recurring net profit	547	566	603	652	710
	Cash flow (MYRm)	Dec-16	Dec-17	Dec-18F	Dec-19F	Dec-20F
	Change in working capital	(391)	521	(658)	(345)	89
	Cash flow from operations	569	1,444	203	560	1,056
	Capex	(713)	(364)	(322)	(526)	(292)
	Cash flow from investing activities	(971)	(1,018)	(322)	(261)	(97)
	Proceeds from issue of shares	594	78	0	0	0
	Dividends paid	(274)	(333)	(323)	(341)	(365)
	Cash flow from financing activities	1,750	482	(423)	(440)	(463)
	Cash at beginning of period	2,627	4,060	4,446	3,768	3,506
	Net change in cash	1,347	908	(542)	(142)	496
	Ending balance cash	3,974	4,968	3,904	3,627	4,002
	Balance sheet (MYRm)	Dec-16	Dec-17	Dec-18F	Dec-19F	Dec-20F
	Total cash and equivalents	4,060	4,446	3,768	3,506	3,901
	Tangible fixed assets	9,051	10,066	10,241	10,609	10,734
	Intangible assets	343	327	327	327	327
	Total other assets	286	491	754	730	620
	Total assets	18,831	20,214	20,849	21,731	22,315
	Short-term debt	4,831	4,910	4,910	4,910	4,910
	Total long-term debt	2,591	3,349	3,384	3,387	3,241
	Other liabilities	438	406	406	406	406
	Total liabilities	10,612	11,731	11,982	12,441	12,558
	Shareholders' equity	7,456	7,840	8,120	8,431	8,776
	Minority interests	764	643	747	859	981
	Total equity	8,219	8,483	8,867	9,290	9,757
	Net debt	3,361	3,814	4,526	4,791	4,251
	Total liabilities & equity	18,831	20,214	20,849	21,731	22,315
	Key metrics	Dec-16	Dec-17	Dec-18F	Dec-19F	Dec-20F
	Revenue growth (%)	6.2	13.7	6.3	14.2	7.2
	Recurrent EPS growth (%)	(8.3)	3.5	5.4	7.1	7.7
	Gross margin (%)	28.7	28.5	28.1	27.3	26.9
	Operating EBITDA margin (%)	18.9	15.4	15.1	14.2	14.3
	Net profit margin (%)	12.4	11.9	10.6	10.0	10.2
	Dividend payout ratio (%)	46.7	52.1	52.1	52.1	52.1
	Capex/sales (%)	15.1	6.8	5.6	8.1	4.2
	Interest cover (x)	4.33	3.12	3.08	3.31	3.63

Source: Company data, RHB

Figure 1: Quarterly results

FYE Dec (MYR mil)	2Q17	1Q18	2Q18	QoQ (%)	YoY (%)	1H17	1H18	YoY (%)	Comments
Turnover	1,241.0	1,308.4	1,287.1	(1.6)	3.7	2,332.3	2,595.5	11.3	
Prop dev	271.1	132.3	88.7	(33.0)	(67.3)	414.4	221.0	(46.7)	The decline was mainly due to slower progress billings as Sunway Geo Residences was completed in 2Q17, and Sunway V-Residence Suites was handed over in 1Q18.
Prop invt	207.4	220.0	216.7	(1.5)	4.5	394.3	436.7	10.8	
Construction	310.9	443.7	449.7	1.3	44.6	627.7	893.4	42.3	
Trading & Manufacturing	226.0	278.3	286.4	2.9	26.7	471.2	564.7	19.8	
Quarry	58.7	50.0	57.9	15.8	(1.4)	98.9	107.9	9.1	
Investment holdings	(0.2)	0.8	0.8	n.m.	n.m.	1.6	1.6	(1.7)	
Others	167.1	183.4	186.9	1.9	11.8	324.2	370.3	14.2	
EBIT	193.9	130.0	166.0	27.7	(14.4)	310.7	296.0	(4.7)	
EBIT Margin (%)	15.6%	9.9%	12.9%			13.3%	11.4%		
Prop dev	65.8	17.6	44.0	150.0	(33.1)	73.7	61.6	(16.4)	
Prop invt	43.0	59.3	54.1	(8.7)	25.9	87.1	113.4	30.2	
Construction	40.8	38.8	46.2	19.0	13.3	75.5	85.0	12.6	The lower YoY growth (vs revenue growth) was due to a lower profit contribution from the precast division.
Trading & Manufacturing	13.9	14.0	16.4	17.6	17.8	26.5	30.4	14.8	
Quarry	4.2	2.2	3.6	60.1	(14.6)	5.1	5.8	14.2	
Investment holdings	1.0	(16.7)	(20.0)	n.m.	(2172.6)	(2.5)	(36.7)	1367.8	
Others	25.3	14.8	21.6	46.1	(14.4)	45.3	36.4	(19.6)	
Exceptional items	(56.8)	0.0	(59.2)	n.m.	n.m.	(56.8)	(59.2)	4.2	
Finance cost	(18.7)	(7.6)	(12.8)	67.7	(31.7)	(25.5)	(20.4)	(19.8)	
Asso & JV	96.3	38.5	89.0	131.3	(7.6)	139.4	127.5	(8.5)	
Other Income	0.0	0.0	0.0	n.m.	n.m.	0.0	0.0	-	
Pretax profit	271.4	160.9	242.2	50.6	(10.8)	424.6	403.1	(5.1)	
PBT margin (%)	21.9%	12.3%	18.8%			18.2%	15.5%		
Tax	(38.2)	(23.4)	(26.5)	13.0	(30.7)	(65.5)	(49.9)	(23.9)	
Tax (%)	14.1%	14.5%	10.9%			15.4%	12.4%		
PAT	233.3	137.5	215.8	56.9	(7.5)	359.1	353.3	(1.6)	
MI	(36.3)	(15.6)	(16.3)	4.9	(55.1)	(54.2)	(31.9)	(41.2)	
Net profit	196.9	121.9	199.4	63.6	1.3	304.9	321.4	5.4	
Core net profit	140.1	121.9	140.2	15.0	0.1	248.1	262.2	5.7	Within expectations.
Net margin (%)	11.3	9.3	10.9						
EPS (sen)	9.6	2.5	4.1			15.0	6.6		
NTA (RM)	3.72	1.65	1.65			3.72	1.65		
DPS (sen)	3.0					3.0	0.0		
EBIT margin:									
Prop dev	24.3%	13.3%	49.6%			17.8%	27.9%		
Prop invt	20.7%	26.9%	25.0%			22.1%	26.0%		
Construction	13.1%	8.8%	10.3%			12.0%	9.5%		
Trading & Manufacturing	6.2%	5.0%	5.7%			5.6%	5.4%		
Quarry	7.1%	4.4%	6.1%			5.1%	5.4%		
Investment holdings	n.m.	n.m.	n.m.			n.m.	n.m.		
Others	15.1%	8.1%	11.6%			14.0%	9.8%		

Source: Company data, RHB

Figure 2: RNAV estimate

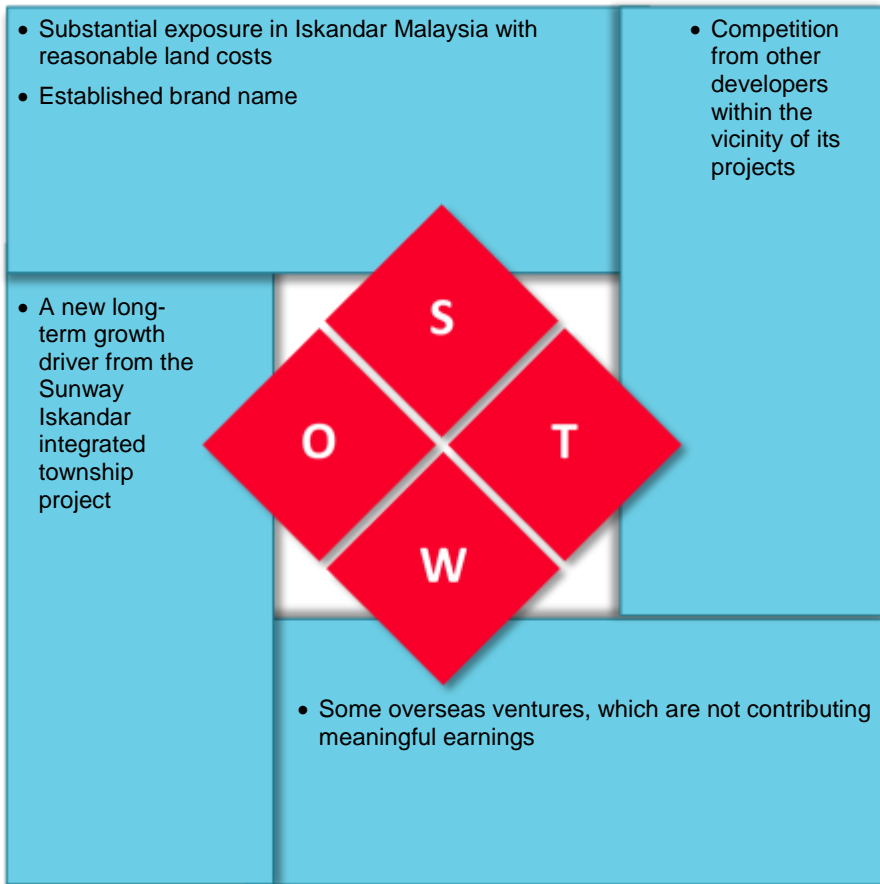
Developments	Remaining		Effective stake	NPV @ 10%
	Landbank (acre)	GDV (MYR m)		
Selangor/KL				
Sunway Damansara	15.36	1,691.28	60%	172.9
Sunway South Quay	40.16	3,086.66	100%	439.4
Sunway Monterez	4.40	38.00	60%	3.0
Sunway Semenyih	398.11	728.59	70%	59.1
Sunway Cheras	5.97	16.82	100%	1.7
Sunway Duta	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

SWOT Analysis



Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2018-05-21	Buy	1.82	1.51
2018-04-12	Buy	1.82	1.62
2017-08-04	Neutral	4.33	1.86
2017-06-15	Buy	4.28	1.72
2017-05-29	Buy	3.95	1.54
2017-02-28	Buy	3.55	1.37
2016-11-27	Buy	3.40	1.27
2016-08-29	Buy	3.40	1.28
2016-05-29	Buy	3.40	1.29
2016-02-29	Buy	3.40	1.27

Source: RHB, Bloomberg

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