

22 May 2018

Property | Real Estate

Sunway

Buy (Maintained)

Singapore Project To Boost 2Q18 Sales

Target Price: MYR1.82
 Price: MYR1.51
 Market Cap: USD1,852m
 Bloomberg Ticker: SWB MK

Maintain BUY and MYR1.82 TP, with a 21% upside. The positive momentum in Singapore's property market should boost property sales this year. Unbilled sales of MYR947m and outstanding construction orderbook of MYR6.1bn are expected to drive earnings over the next 1-2 years. Weaker 1Q18 earnings were in line with its historical trend, and earnings outlook should remain solid, given its diversified business segments.

Within expectations. Sunway's 1Q18 results were in line, as 1Q earnings are traditionally weaker. The drop in the property development division was due to slower property sales over the last two years. Also, the completion of Sunway Velocity V-Residence 2, Sunway Geo retail shops and the flexi suites Phase 2 in 4Q17 resulted in a QoQ decline in EBIT and margin during this reporting quarter. The seasonality factor led to a sequential drop in property investment, as demand for leisure & hospitality services is normally stronger at year-end.

Achieved MYR166m new sales in 1Q18. New sales reached MYR166m in 1Q18 (vs MYR617m in 4Q17). Sunway did not launch any new projects during the quarter, and hence, sales were mainly from existing projects launched in 2H17. Major contributors included The Grid and Citrine Lakehomes in Sunway Iskandar (MYR48m), as well as the remaining medical suites at Royal Square @ Novena Singapore (MYR64m).

Singapore project to boost sales. Rivercove Residences in Singapore (executive condominium) was launched in April. The take-up rate hit 80% within a week, given the reasonable ASP of SGD950-965 psf. This project has a SGD650m GDV (Sunway owns 30%) and with this, Sunway should achieve its MYR1.3bn sales target by year-end. Demand within this price range has been very strong since the property market picked up momentum two years ago.

Management should be selective with its local pipeline launches, given the recent change in Malaysia's political landscape. Sunway GEO Lake (GDV: MYR550m), a condominium project in Bandar Sunway, will be rolled out in the coming months. We expect a strong demand for the project, as the township is quite matured. Other projects may be launched when market conditions improve.

Forecasts. We retain our earnings forecasts, as 1Q earnings are typically weaker in the year. Unbilled sales was MYR947m vs MYR976m (4Q17). Outstanding construction orderbook remained unchanged at MYR6.1bn.

Maintain BUY. Our MYR1.82 TP is based on a 40% discount to property RNAV and 10% holding company discount. Given Sunway's exposure to other business segments, we believe its earnings and hence, dividend, would be more resilient compared to other pure property plays.

Share Data

Avg Daily Turnover (MYR/USD) 4.50m/1.16m
 52-wk Price low/high (MYR) 1.46 - 1.96
 Free Float (%) 39
 Shares outstanding (m) 1,724
 Estimated Return 21%

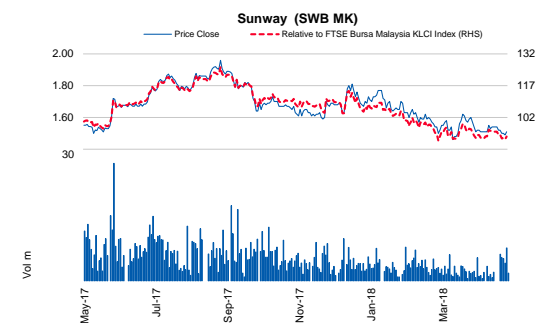
Shareholders (%)

Tan Sri Dato' Jeffrey Cheah 60.3
 Employees Provident Fund 5.7

Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(7.4)	(3.8)	(7.4)	(6.8)	(2.1)
Relative	(10.6)	(2.0)	(7.1)	(14.5)	(6.9)

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)	13.6	13.1	12.4	11.6	10.8
P/B (x)	1.00	0.95	0.92	0.90	0.87
Dividend Yield (%)	3.4	4.0	4.3	4.5	4.8
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) (%)			(2.9)	(3.7)	

Source: Company data, RHB

Analyst

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Financial Exhibits

Financial model updated on : 2018-05-21

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)	13.6	13.1	12.4	11.6	10.8
	P/E (x)	12.7	11.6	12.4	11.6	10.8
	P/B (x)	1.00	0.95	0.92	0.90	0.87
Key drivers	FCF Yield (%)	(1.9)	14.5	(1.6)	0.4	10.0
i. New property sales;	Dividend Yield (%)	3.4	4.0	4.3	4.5	4.8
ii. Disposal of investment properties	EV/EBITDA (x)	13.0	14.4	14.8	14.3	12.8
	EV/EBIT (x)	15.9	17.3	17.9	17.2	15.4
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 company 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: Sunway's quarterly results

FYE Dec (MYR mil)	1Q17	4Q17	1Q18	QoQ (%)	YoY (%)	Comments
Turnover	1,091.3	1,722.9	1,308.4	(24.1)	19.9	
Prop dev	143.3	413.0	132.3	(68.0)	(7.7)	The YoY decline was due to slower property sales and progress billings
Prop invt	186.9	245.3	220.0	(10.3)	17.7	The sequential drop was due to seasonality as the leisure & hospitality divisions delivered stronger performance in 4Q17
Construction	316.8	583.3	443.7	(23.9)	40.0	
Trading & Manufacturing	245.2	232.4	278.3	19.8	13.5	
Quarry	40.2	52.9	50.0	(5.5)	24.4	
Investment holdings	1.8	2.9	0.8	n.m.	n.m.	
Others	157.1	192.8	183.4	(4.9)	16.8	
EBIT	116.8	222.4	130.0	(41.5)	11.4	
EBIT Margin (%)	10.7%	12.9%	9.9%			
Prop dev	7.9	104.8	17.6	(83.2)	121.9	The sharper QoQ drop was due to the completion of Sunway Velocity V Residence 2 and Sunway Geo retail shops and flexi suites in 4Q17
Prop invt	44.1	60.6	59.3	(2.2)	34.5	
Construction	34.7	52.7	38.8	(26.4)	11.9	
Trading & Manufacturing	12.5	14.2	14.0	(1.9)	11.5	
Quarry	0.9	(0.6)	2.2	(442.5)	149.2	
Investment holdings	(3.5)	(20.3)	(16.7)	n.m.	382.4	
Others	20.1	10.9	14.8	35.8	(26.2)	
Exceptional items	0.0	(14.9)	0.0	n.m.	n.m.	
Finance cost	(6.7)	9.2	(7.6)	(183.1)	13.2	
Asso & jv	43.1	29.3	38.5	31.4	(10.7)	
Other Income	0.0	0.0	0.0	n.m.	n.m.	
Pretax profit	153.1	260.9	160.9	(38.3)	5.1	
PBT margin (%)	14.0%	15.1%	12.3%			
Tax	(27.3)	(54.9)	(23.4)	(57.4)	(14.4)	
Tax (%)	17.9%	21.0%	14.5%			
PAT	125.8	206.0	137.5	(33.3)	9.3	
MI	(17.9)	(22.2)	(15.6)	(29.8)	(12.9)	
Net profit	107.9	183.8	121.9	(33.7)	13.0	Within expectations
Core net profit	107.9	167.4	121.9	(27.2)	13.0	
Net margin (%)	9.9	9.7	9.3			
EPS (sen)	5.3	3.8	2.5			
NTA (RM)	3.68	1.59	1.65			
DPS (sen)	0.0	3.0				
EBIT margin:						
Prop dev	5.5%	25.4%	13.3%			
Prop invt	23.6%	24.7%	26.9%			
Construction	11.0%	9.0%	8.8%			
Trading & Manufacturing	5.1%	6.1%	5.0%			
Quarry	2.2%	-1.2%	4.4%			
Investment holdings	n.m.	n.m.	n.m.			
Others	12.8%	5.7%	8.1%			

Source: Company data. RHB

Figure 2: RNAV estimate

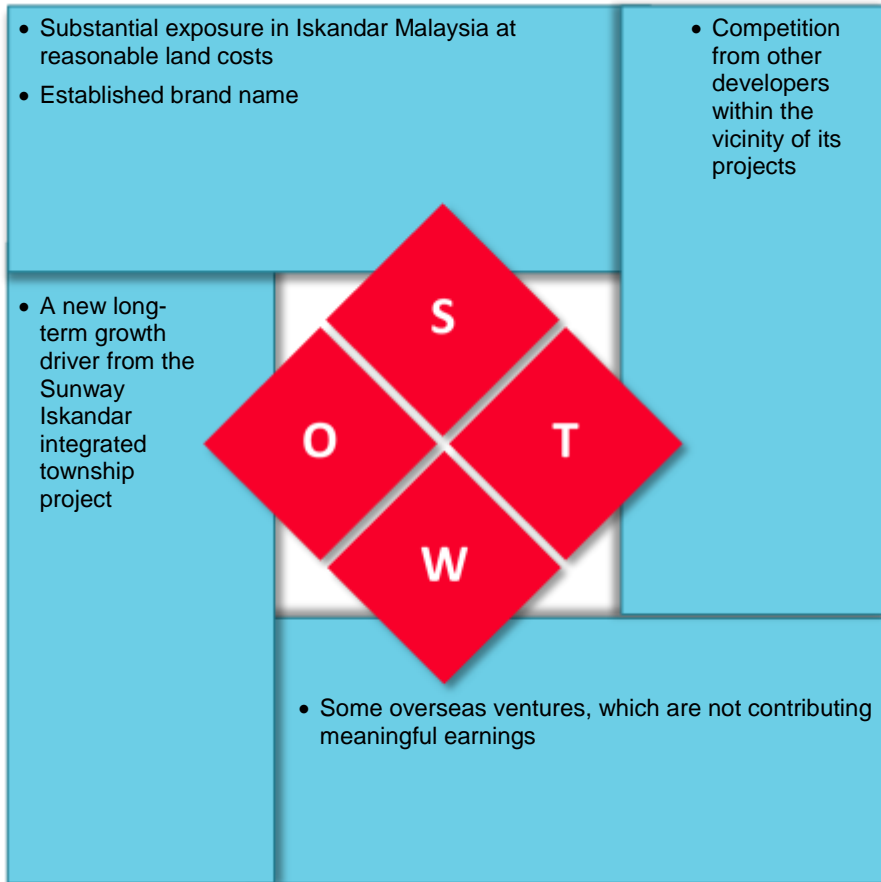
Developments	Remaining		Effective stake	NPV @ 10%
	Landbank (acre)	GDV (MYR m)		
Selangor/KL				
Sunway Damansara	15.36	1,691.28	60%	172.9
Sunway South Quay	40.16	3,086.66	100%	439.4
Sunway Monterez	4.40	38.00	60%	3.0
Sunway Semenyih	398.11	728.59	70%	59.1
Sunway Cheras	5.97	16.82	100%	1.7
Sunway Duta	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
2018-04-12	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
2016-02-22	Buy	3.60	1.26

Source: RHB, Bloomberg

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