

26 February 2020

Property | Real Estate

Sunway (SWB MK)

Buy (Maintained)

Stays Resilient Amidst Challenging Market; BUY

Target Price (Return): MYR2.00 (12%)
 Price: MYR1.78
 Market Cap: USD2,061m
 Avg Daily Turnover (MYR/USD) 5.29m/1.28m

- Maintain BUY and MYR2.00 TP, 12% upside plus c.6% yield.** 4Q19 results met our expectations but beat consensus. FY19 property sales reached MYR1.13bn. Although management set a higher sales target of MYR2bn this year, we are cautious that some projects may be delayed due to concerns on the COVID-19 outbreak. Nevertheless, earnings from other business divisions are likely to offset the weakness from its property development. We expect earnings to stay resilient in the current challenging market.
- 4Q19 results.** Earnings from all divisions grew except construction and trading & manufacturing. The property development segment saw recognition of development profits from Sunway's project in Tianjin. Meanwhile, despite encouraging topline growth, income for the healthcare division was partially offset by start-up losses of Sunway Medical Centre Velocity. A 4.5 sen second interim single-tier dividend was declared, bringing full-year DPS to 9.1 sen, higher than FY18's 7.12 sen.
- FY19 property sales exceeded target.** New property sales in 4Q19 hit MYR450m (vs MYR365m in 3Q19). Full-year sales of MYR1.55bn surpassed management's target of MYR1.3bn. Key contributors included Velocity TWO (MYR491m), Avila (MYR289m), South Quay (MYR180m), Serene (MYR135m) and Iskandar (MYR131m). Most projects rolled out last year were well received. Sunway Avila Tower B, launched in mid-Dec 2019, has already reached a take-up rate of 40%.
- MYR3.5bn new launches for FY20F.** Management has set a higher sales target of MYR2bn for FY20F, as 70% of the launches this year will be in Singapore. Key projects in the pipeline are Ki Residence Clementi (GDV: MYR1bn), Park Residence Tampines (GDV: MYR880m), and Parc Canberra (GDV: MYR560m) in Singapore. Locally, the company will roll out Velocity Two Tower C (GDV: MYR300m), Sunway Belfield (GDV: MYR360m) and other smaller projects. In view of the COVID-19 outbreak, we think Sunway is likely to postpone its launches in Singapore, which is one of the highly affected countries in the region.
- Forecasts.** We fine tune our FY20-21 earnings forecasts as we expect growth this year to slow down slightly in view of market headwinds. Unbilled sales remained stable at MYR2.7bn, vs MYR2.8bn as at 3Q19, while outstanding construction orderbook stood at MYR5.2bn from MYR5.6bn as at 3Q19.
- Maintain TP.** Our TP is based on an unchanged 40% discount to RNAV for the property division, with a 10% holding company discount.

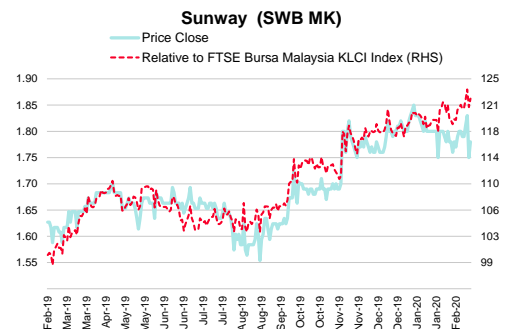
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(1.1)	(1.1)	0.6	9.6	9.4
Relative	4.4	3.6	6.3	16.3	22.4
52-wk Price low/high (MYR)				1.55 – 1.85	



Source: Bloomberg

Forecasts and Valuation	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Total turnover (MYRm)	5,410	4,780	5,034	5,457	5,731
Recurring net profit (MYRm)	591	693	731	789	848
Recurring net profit growth (%)	4.4	17.2	5.5	8.0	7.4
Recurring EPS (MYR)	0.12	0.14	0.15	0.16	0.17
DPS (MYR)	0.07	0.09	0.10	0.11	0.12
Recurring P/E (x)	14.66	12.64	12.09	11.31	10.64
P/B (x)	1.02	1.04	1.03	1.01	0.99
Dividend Yield (%)	4.0	5.1	5.6	6.2	6.7
Return on average equity (%)	8.1	9.1	8.6	9.0	9.4
Net debt to equity (%)	44.4	36.2	32.6	24.7	24.0

Source: Company data, RHB

Financial Exhibits

Asia	Financial summary (MYR)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Malaysia	Recurring EPS	0.12	0.14	0.15	0.16	0.17
Property	EPS	0.14	0.16	0.15	0.16	0.17
Sunway	DPS	0.07	0.09	0.10	0.11	0.12
SWB MK	BVPS	1.74	1.71	1.74	1.77	1.80
Buy	Return on average equity (%)	8.1	9.1	8.6	9.0	9.4
	Return on average assets (%)	3.2	3.4	3.1	3.3	3.4
Valuation basis						
40% discount to property RNAV and 10% holding co discount	Valuation metrics	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Recurring P/E (x)	14.66	12.64	12.09	11.31	10.64
	P/B (x)	1.0	1.0	1.0	1.0	1.0
Key drivers	Dividend Yield (%)	4.0	5.1	5.6	6.2	6.7
New property sales, disposal of investment properties	EV/EBITDA (x)	19.01	19.14	17.96	14.99	14.43
Key risks						
Weaker-than-expected market conditions	Income statement (MYRm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Total turnover	5,410	4,780	5,034	5,457	5,731
	Gross profit	1,404	1,318	1,382	1,500	1,623
	EBITDA	701	683	723	829	873
	Depreciation and amortisation	(141)	(118)	(124)	(129)	(127)
	Operating profit	560	565	599	699	747
	Net interest	62	88	93	102	109
	Pre-tax profit	851	914	975	1,081	1,146
	Taxation	(122)	(78)	(156)	(195)	(206)
	Reported net profit	659	767	731	789	848
	Recurring net profit	591	693	731	789	848
	Cash flow (MYRm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Change in working capital	380	(153)	(637)	(186)	(120)
	Cash flow from operations	1,292	810	295	823	931
	Capex	(758)	(2,099)	0	0	(249)
	Cash flow from investing activities	(846)	(2,553)	760	748	(40)
	Dividends paid	(387)	(494)	(497)	(552)	(608)
	Cash flow from financing activities	802	(563)	(595)	(649)	(704)
	Cash at beginning of period	4,446	5,134	5,889	6,059	6,704
	Net change in cash	1,248	(2,306)	460	922	186
	Ending balance cash	5,693	2,829	6,348	6,981	6,890
	Balance sheet (MYRm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Total cash and equivalents	5,134	5,889	6,059	6,704	6,740
	Tangible fixed assets	10,798	12,878	12,090	11,385	11,507
	Intangible assets	331	331	331	331	331
	Total other assets	721	77	286	401	487
	Total assets	21,086	23,558	23,891	24,362	24,878
	Short-term debt	6,057	7,417	7,417	7,417	7,417
	Total long-term debt	3,118	2,154	2,060	1,964	1,998
	Total liabilities	11,982	13,384	13,396	13,532	13,716
	Shareholders' equity	8,485	8,392	8,627	8,864	9,104
	Minority interests	620	631	719	816	908
	Total equity	9,105	10,174	10,496	10,830	11,162
	Total liabilities & equity	21,086	23,558	23,891	24,362	24,878
	Key metrics	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Revenue growth (%)	0.7	(11.6)	5.3	8.4	5.0
	Recurring net profit growth (%)	4.4	17.2	5.5	8.0	7.4
	Recurrent EPS growth (%)	5.4	16.0	4.5	6.9	6.4
	Gross margin (%)	25.9	27.6	27.4	27.5	28.3
	Recurring net profit margin (%)	10.9	14.5	14.5	14.5	14.8
	Dividend payout ratio (%)	58.7	64.4	0.0	0.0	0.0

Source: Company data, RHB

Results At A Glance

Figure 1: Quarterly results

FYE Dec (MYR mil)	4Q18	3Q19	4Q19	QoQ (%)	YoY (%)	FY18	FY19	YoY (%)	Comments
Turnover	1,370.2	1,226.5	1,353.2	10.3	(1.2)	5,410.3	4,780.4	(11.6)	
Prop dev	203.8	126.2	218.2	72.8	7.0	619.6	545.9	(11.9)	Revenue was higher QoQ due to higher sales and progress billings from local projects.
Prop invt	140.3	209.7	220.9	5.4	57.4	814.8	803.5	(1.4)	The drop in FY19 revenue was due to the loss of rental income after the disposal of Sunway University assets to Sunway REIT
Construction	489.1	315.6	318.0	0.8	(35.0)	1,847.9	1,273.3	(31.1)	
Trading & Manufacturing	241.8	246.2	232.2	(5.7)	(4.0)	1,103.4	959.8	(13.0)	
Quarry	59.2	114.9	136.4	18.8	130.5	223.4	348.1	55.9	
Healthcare	132.8	154.4	162.9	5.5	22.7	459.7	584.8	27.2	Revenue was higher YoY due to increased number of beds and higher outpatient treatments.
Investment holdings	4.3	0.8	2.6	n.m.	n.m.	7.7	5.2	(33.0)	
Others	231.6	58.7	61.9	5.4	(73.3)	793.6	260.0	(67.2)	
EBIT	104.1	174.2	106.0	(39.2)	1.8	559.9	565.2	0.9	
EBIT Margin (%)	7.6%	14.2%	7.8%			10.3%	11.8%		
Prop dev	22.5	45.1	77.7	72.5	246.0	118.0	163.3	38.4	EBIT in 4Q19 was higher, boosted by the recognition of a portion of development profit from the Tianjin project.
Prop invt	40.8	52.2	67.2	28.6	64.8	214.4	239.3	11.6	EBIT was higher due to the fair value gains from revaluation of investment properties in 4Q19 (MYR35.5m).
Construction	48.3	34.9	28.1	(19.5)	(41.8)	180.9	144.5	(20.2)	
Trading & Manufacturing	13.0	16.7	7.0	(57.8)	(45.9)	60.9	41.1	(32.6)	
Quarry	2.4	3.9	6.4	63.2	167.3	10.5	12.6	19.9	
Healthcare	16.9	14.7	13.8	(5.8)	(18.3)	51.9	59.2	14.0	The lower EBIT margin for healthcare was due to the operating losses of MYR11.7m in 4Q19 and MYR6.8m in 3Q19 arising from the newly opened Sunway Medical Centre Velocity, that partially offset the strong performance at Sunway Medical Centre.
Investment holdings	(43.6)	0.5	(55.8)	n.m.	28.0	(104.2)	(73.4)	(29.5)	
Others	20.9	6.2	(38.5)	(717.1)	(284.6)	79.3	(21.4)	(127.0)	
Exceptional items	(8.6)	0.0	(30.3)	n.m.	n.m.	(67.8)	(73.9)	9.0	
Finance cost	85.4	1.1	65.1	5987.5	(23.8)	61.6	87.8	42.6	
Asso & JV	64.0	48.1	89.3	85.9	39.5	229.2	261.2	14.0	
Other Income	0.0	0.0	0.0	n.m.	n.m.	0.0	0.0	0.0	
Pretax profit	253.6	223.3	260.4	16.6	2.7	850.6	914.2	7.5	
PBT margin (%)	18.5%	18.2%	19.2%			15.7%	19.1%		
Tax	(44.7)	(21.1)	(41.3)	96.2	(7.6)	(121.6)	(78.3)	(35.6)	
Tax (%)	17.6%	9.4%	15.9%			14.3%	8.6%		
PAT	208.9	202.3	219.1	8.3	4.9	729.0	835.9	14.7	
MI	(16.5)	(18.8)	(18.8)	(0.3)	13.6	(70.0)	(69.3)	(1.0)	
Net profit	192.3	183.4	200.3	9.2	4.2	659.0	766.6	16.3	
Core net profit	183.7	202.9	170.0	(7.3)	(7.5)	591.2	692.7	17.2	In line with our expectation but above consensus estimate.
Net margin (%)	13.4	15.0	12.6						
EPS (sen)	4.0	3.4	3.8			13.5	14.6		
NTA (RM)	1.62	1.70	1.70			1.62	1.70		
DPS (sen)	7.1	0.0	4.5			10.6	9.1		
EBIT margin:									
Prop dev	11.0%	35.7%	35.7%			19.0%	29.9%		
Prop invt	29.1%	24.9%	24.9%			26.3%	29.8%		
Construction	9.9%	11.1%	11.1%			9.8%	11.3%		
Trading & Manufacturing	5.4%	6.8%	6.8%			5.5%	4.3%		
Quarry	4.1%	3.4%	3.4%			4.7%	3.6%		
Healthcare	12.7%	9.5%	9.5%			11.3%	10.1%		
Investment holdings	n.m.	n.m.	n.m.			n.m.	n.m.		
Others	9.0%	10.6%	10.6%			10.0%	-8.2%		

Source: Company data, RHB

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Property | Real Estate

Figure 2: RNAV estimate

Developments	Remaining		Effective stake	NPV @ 10%	
	Landbank (acre)	GDV (MYR m)			
Selangor/KL					
Sunway Damansara	21.70	2,235.30	60%	226.6	
Sunway South Quay	29.90	2,486.70	100%	350.5	
Sunway Montez	4.40	38.00	60%	3.0	
Sunway Semenyih	526.10	728.59	70%	58.6	
Sunway Cheras	2.90	16.82	100%	1.7	
Sunway Duta	3.16	120.00	60%	7.3	
Sunway Resort City	7.7	660	100%	105.5	
Sunway Velocity	2.20	1,983.98	85%	206.7	
Sunway Velocity 2	5.50	1,360.00	50%	48.4	
Sunway Tower KL 1	1.90	240.00	100%	21.7	
Sunway Termuning	28.90	277.00	80%	16.8	
Sg Long	28.90	277.00	80%	21.6	
Mont Putra, Rawang	163.00	156.00	100%	14.1	
Kelana Jaya	14.00	1,450.00	100%	115.3	
Subang industrial	4.20	52.00	70%	3.8	
Jalan Belfield	4.53	1,100.00	100%	87.4	
Kajang TOD	5.28	460.00	60%	21.2	
USJ 1	14.80	1,400.00	100%	111.8	
Sunway Avila	2.30	270.00	55%	13.6	
New land in Wangsa Maju	3.69	300.00	55%	12.1	
Kota Damansara	9.46	544.00	60%	36.3	
Mutiara Bukit Jalil	11.80	800.00	100%	56.3	
Dengkil (Emerald Tycoon)	74.50	796.60	100%	38.6	
Dengkil (Sunway Mas)	64.30	-	100%	-	
Perak					
Sunway City Ipoh	336.4	928.40	96%	122.9	
Penang					
Sunway Hills	80.70	849.00	100%	74.3	
Sunway Wellesley, Bukit Mertajam	51.47	710.47	100%	73.8	
Paya Terubong	24.90	1,500.00	100%	131.9	
Sunway Tunas, Balik Pulau	9.00	60.00	100%	6.3	
Sunway Betong, Balik Pulau	19.87	110.00	100%	11.5	
S'pore					
Anchorvale Lane, Sengkang (Rivercove EC)	5.19	1,560.00	30%	43.6	
Brookvale Park (Clementi)	8.56	3,000.00	30%	85.3	
Canberra Link, Sembawang	4.46	1,500.00	35%	45.9	
Tampines EC	6.16	2,400.00	35%	63.7	
Johor					
Bukit Lenang	64.79	698.40	80%	53.6	
Medini	632.80	10,616.00	60%	477.8	
Pendas	1,079.07	18,000.00	60%	555.5	
China					
Sunway Guanghao	3.73	66.78	65%	-	
Tianjin Eco City	6.23	575.02	60%	27.7	
Tianjin Phase 3	6.85	780.00	60%	35.5	
India					
Sunway OPUS Grand India	23.80	702.36	50%	21.0	
Sunway MAK Signature Residence (JV with M.A.K Builders)	14.00	181.22	60%	6.8	
Unbilled sales				300.0	
TOTAL	3,449.52	66,943.72		3,716.18	
Investment properties					
	Est. market value (MYR m)	Book value (MYR m)	Equity interest	Net surplus (MYR m)	
Monash University Campus	302.8	302.8	100%	0	
Monash U Residence	239.0	239.0	100%	0	
Sunway Geo Tower	163.2	111.0	100%	52.2	
Sunway Hotel Georgetown	60.0	37.6	100%	22.4	
Sunway Hotel Phnom Penh	19.0	19.0	53%	0	
Sunway Hotel Hanoi	5.0	5.0	100%	0	
Sunway Giza	50.0	50.0	60%	0	
Sunway Pinnacle	435.0	379.0	100%	56.0	
Sunway Velocity Mall	1,350.0	805.0	59%	321.6	
Sunway Citrine Hub	42.0	42.0	60%	0.0	
Sunway Geo Avenue	94.0	94.0	100%	0.0	
Subtotal				4,168.33	
Shareholders' equity (ex cons. & healthcare)				7,374.36	
Total				11,542.70	
Discount to Property RNAV				40%	
Discounted Property RNAV				6,925.62	
Other divisions					
	Market value (MYR m)	Book value (MYR m)	Est. FY20 earnings (MYR m)	PE target (x)	Equity value surplus (MYR m)
40.9% Sunway REIT	2,409.0	1,479.0			930.01
54.4% Sunway Construction	1,470.1	844.1			626.02
Healthcare			65	25	1,625.00
Others			58	15	870.00
Total					10,976.65
ESOS proceeds					151.21
Warrants conversion @ MYR1.86					1,171.74
Total RNAV					12,299.60
Holding company discount					10%
Discounted RNAV					11,069.64
Share base (mil)					5,548.08
TP (MYR)					2.00

Source: RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2019-11-22	Buy	2.00	1.78
2019-10-29	Buy	1.95	1.70
2019-09-27	Buy	1.95	1.66
2019-08-28	Buy	1.85	1.59
2019-07-02	Buy	1.86	1.65
2019-06-04	Buy	1.85	1.66
2019-05-23	Buy	1.85	1.66
2019-04-01	Buy	1.85	1.67
2019-03-01	Buy	1.83	1.62

Source: RHB, Bloomberg

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