

# Sunway Bhd

A Solid Set of Results

**TP: RM1.98** (+11.2%)

Last Traded: RM1.78

**Buy**

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### Review

- Sunway's FY19 normalised net profit of RM694.6mn came in within ours but above consensus estimates, accounting for 102% and 108% of ours and consensus full year forecasts respectively. Our normalised net profit was derived after excluding 1) fair value gain from revaluation of the group's investment properties of RM30.3mn as well as Sunway REIT investment properties of RM43.6mn, 2) disposal gain on Sunway University asset of RM37.7mn and 3) impairment of building material asset of RM39.6mn.
- In terms of dividend, a second interim dividend of 4.5sen/share was declared in 4Q19, bringing its full-year dividend declared to 9.07sen/share (FY18: 7.12sen/share). This came in higher than our FY19 full-year dividend estimate of 8sen/share.
- Despite revenue decreased by 12% YoY, Sunway's FY19 normalised net profit grew 21% YoY to RM694.6mn, mainly due to 1) better EBIT margin (+0.8 %-pts YoY to 11.8%), 2) higher finance income (+16% YoY), 3) lower finance cost (-11% YoY) 4) higher contribution from associates and JV (collectively +14% YoY) and 5) lower effective tax rate. The weaker revenue in FY19 was largely due to lower progress billing from local property and construction projects.
- While Sunway's key divisions reported weaker results YoY, the healthcare and quarry division were the rising stars. The healthcare division PBT surged 14% YoY, driven by higher occupancy from increased number of new beds and higher outpatient treatments at Sunway Medical Centre. Meanwhile, the quarry division PBT jumped 23% YoY, boosted by contribution from newly acquired quarry and premix operator (Blacktop Industries) and higher average selling price of premix.
- Sunway reported RM491mn sales in 4Q19 (+51%QoQ, +91% YoY), bringing the FY19 sales to RM1.55bn (-18% YoY). Property sales were softer YoY due to absence of new launches in Singapore. Excluding overseas contribution, Sunway's FY19 sales increased 89% YoY to RM1.4bn.
- The group's latest unbilled sales eased slightly to RM2.7bn (effective RM2.1bn), from RM2.8bn a quarter ago.

### Impact

- Our FY20-21 earnings are revised higher by c.2% after incorporating the actual FY19 results. We introduce our FY22 earnings forecasts with an EPS growth of 0.3% YoY.

### Outlook

- Sunway plans to launch RM3.5bn worth of new properties this year with 70% the total launches are comprised of projects in Singapore and the balance, launches in Malaysia – see **Figure 2**. We understand that a

### Share Information

Bloomberg Code	SWB MK
Stock Code	5211
Listing	Main Market
Share Cap (mn)	4,902.7
Market Cap (RMmn)	8,726.8
52-wk Hi/Lo (RM)	1.87/1.54
12-mth Avg Daily Vol ('000 shrs)	3,306.0
Estimated Free Float (%)	28.8
Beta	0.7

### Major Shareholders (%)

Sungei Way Corp	56.8
EPF	7.3

### Forecast Revision

	FY20	FY21
Forecast Revision (%)	2.0	1.7
Net profit (RMmn)	759.0	779.6
Consensus	695.1	761.9
TA's / Consensus (%)	109.2	102.3
Previous Rating	Buy (Maintained)	

### Financial Indicators

	FY20	FY21
Net gearing (%)	37.3	32.5
CFPS (sen)	16.7	14.4
P/CFPS (x)	10.7	12.3
ROE (%)	8.9	8.8
ROA (%)	3.2	3.2
NTA/Share (RM)	1.7	1.8
Price/NTA (x)	1.0	1.0

### Scorecard

	% of FY	
vs TA	102.0	Within
vs Consensus	108.0	Above

### Share Performance (%)

Price Change	SWB	FBM KLCI
1 mth	(1.1)	(4.6)
3 mth	(0.6)	(5.2)
6 mth	11.0	(6.2)
12 mth	9.4	(12.7)

### (12-Mth) Share Price relative to the FBMKLCI

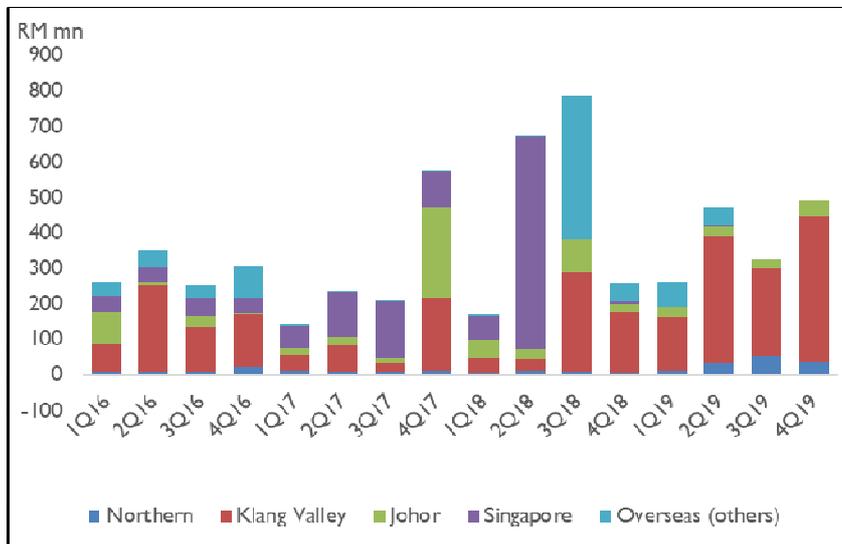


Source: Bloomberg

majority of the new launches in Malaysia would be priced from RM600k to RM800k, leveraging on resilient demand for properties which enjoy superb connectivity with convenient amenities in the urban area. With that, Sunway is targeting new sales of RM2.0bn this year. Both local and international properties are expected to contribute about 50:50 to the sales target for the year.

- The group's unbilled sales of RM2.7bn and outstanding construction order book of RM3.6bn (external jobs only) should provide earnings visibility for the next 2-3 years.
- Recall, Sunway added a total of 38 acres of prime land to its portfolio in 2019, bringing its remaining land bank to approximately 3,359 acres with a potential GDV of RM58.9bn. Going into 2020, we believe the group will continue to ramp up landbanking activities focusing on strategic lands suitable for transit oriented development both in Malaysia and overseas. The group's solid financial position with net gearing of 0.4x and cash balance of RM5.9bn as at Dec-19 should bode well for its expansion plans.

Figure 1: Sales Breakdown by Region



Source: Sunway

### Valuation

- Our TP is largely unchanged at RM1.98, based on target average blended CY20 PE/PB of 14x/1.0x. We like Sunway for its 1) diversified and resilient earnings base (FY19 core PBT breakdown: property development: 29%, property investment: 27%, construction: 19% and others: 25%); 2) strong balance sheet with net gearing ratio of 0.4x, 3) above sector average ROE of >8% vs. other big-cap peers of 4% and 4) attractive dividend yields of c.5%. With a potential total return of 16.5%, we maintain our Buy recommendation on Sunway.

**Figure 2: New Launches for 2020**

Development	Location	Type	GDV (RM mn)
Sunway Avila Retail	Wangsa Maju, KL	Retail Shops	31
Sunway Velocity Two (Tower C)	Jalan Peel, KL	Service Apartments	300
Sunway Belfield	Jalan Belfield, KL	Service Apartments	360
Sunway Valley City	Shops & Offices	Paya Terubong, Penang	250
Sunway Maple Residence	Sunway Iskandar	Townhouses	100
Parc Canberra, Canberra	Singapore	Executive Condominium	560
Ki Residence, Clementi	Singapore	Private Condominium	1000
Park Residence, Tampines	Singapore	Executive Condominium	880
<b>Total</b>			<b>3481</b>

Source: Sunway

**Earnings Summary (RM mn)**

YE Dec 31 (RM'mn)	2018	2019	2020F	2021F	2022F
Revenue	5410.2	4780.4	5893.6	5762.1	5879.9
EBITDA	683.8	716.7	963.0	969.5	977.5
EBITDA margin (%)	12.6	15.0	16.3	16.8	16.6
Pretax profit	747.7	842.2	958.7	992.2	996.0
Net profit	645.5	766.6	759.0	779.6	781.7
Net profit -a dj	577.7	694.6	759.0	779.6	781.7
EPS (sen)	13.1	14.6	15.6	16.0	16.0
EPS - a dj (sen)	11.5	13.1	15.6	16.0	16.0
EPS Growth (Core) (%)	1.4	13.9	18.6	2.7	0.3
PER (x)	15.4	13.6	11.4	11.1	11.1
GDPS (sen)	7.1	9.1	9.5	9.5	9.5
Div Yield (%)	4.0	5.1	5.3	5.3	5.3
ROE (%)	7.3	8.5	8.9	8.8	8.5

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## 4Q19 Results Analysis (RM mn)

YE 31 Dec (RM'mn)	4Q18 <sup>^</sup>	3Q19	4Q19	QoQ (%)	YoY (%)	FY18	FY19	YoY(%)	
<b>Revenue</b>	<b>1,452.4</b>	<b>1,226.5</b>	<b>1,353.2</b>	<b>10.3</b>	<b>(6.8)</b>	<b>5,410.2</b>	<b>4,780.4</b>	<b>(11.6)</b>	
Property Development	203.8	126.2	218.2	72.8	7.0	619.6	545.9	(11.9)	
Property Investment	222.6	209.7	220.9	5.4	(0.8)	814.8	803.5	(1.4)	
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	358.6	584.8	63.1	
Others	103.0	59.5	64.5	8.5	(37.4)	442.6	265.1	(40.1)	
<b>EBIT</b>	<b>150.8</b>	<b>174.2</b>	<b>106.0</b>	<b>(39.2)</b>	<b>(29.8)</b>	<b>594.7</b>	<b>565.2</b>	<b>(5.0)</b>	
Gain on derivative	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Finance income	78.6	67.0	104.9	56.5	33.5	276.1	321.3	16.3	
Finance costs	(47.2)	(66.0)	(39.8)	(39.7)	(15.7)	(263.3)	(233.4)	(11.4)	
Associates	30.0	37.4	54.5	45.5	81.5	172.3	192.8	11.9	
JV	31.5	10.6	34.9	227.9	10.7	56.9	68.5	20.3	
EI	29.9	0.0	(9.3)	nm	(131.1)	89.1	72.0	(19.2)	
PBT	244.7	223.3	260.4	16.6	6.4	836.8	914.2	9.3	
<b>Core PBT</b>	<b>214.8</b>	<b>223.3</b>	<b>274.9</b>	<b>23.1</b>	<b>28.0</b>	<b>747.7</b>	<b>847.4</b>	<b>13.3</b>	
Property Development	51.0	59.0	117.2	98.6	129.8	173.2	246.3	42.2	
Property Investment	47.1	67.0	64.4	(3.8)	36.8	202.3	229.8	13.6	
Construction	48.4	33.1	38.1	15.1	(21.2)	180.9	162.3	(10.3)	
Trading & Manufacturing	10.1	13.8	4.5	(67.1)	(55.1)	53.1	31.4	(40.8)	
Quarry	3.6	4.9	8.0	64.5	122.8	13.6	16.7	22.8	
Healthcare	16.9	15.8	11.4	(27.8)	(32.6)	54.4	61.9	13.7	
Others	29.5	29.8	31.2	4.7	5.9	73.7	98.9	34.3	
Tax	(45.5)	(21.1)	(41.3)	96.2	(9.2)	(121.4)	(78.3)	(35.5)	
MI	(17.0)	(18.8)	(18.8)	(0.3)	10.5	(69.9)	(69.3)	(0.8)	
Net profit	181.2	183.4	200.3	9.2	10.5	645.5	766.6	18.8	
Core net profit	171.3	183.4	209.6	14.3	22.3	576.4	694.6	20.5	
Reported EPS	(sen)	3.5	3.4	3.8	10.5	7.4	13.1	14.6	12.3
Adj EPS	(sen)	3.3	3.4	4.0	15.6	18.8	11.5	13.1	14.0
DPS	(sen)	3.6	0.0	4.5	>100	24.3	7.1	9.1	27.4
EBIT margin	(%)	10.4	14.2	7.8	(6.4)	(2.6)	11.0	11.8	0.8
<b>PBT margin</b>	<b>(%)</b>	<b>14.8</b>	<b>18.2</b>	<b>20.3</b>	<b>2.1</b>	<b>5.5</b>	<b>13.8</b>	<b>17.7</b>	<b>3.9</b>
Property Development	(%)	25.0	46.7	53.7	7.0	28.7	28.0	45.1	17.2
Property Investment	(%)	21.2	31.9	29.2	(2.8)	8.0	24.8	28.6	3.8
Construction	(%)	9.9	10.5	12.0	1.5	2.1	9.8	12.7	3.0
Trading & Manufacturing	(%)	4.2	5.6	1.9	(3.6)	(2.2)	4.8	3.3	(1.5)
Quarry	(%)	6.1	4.2	5.9	1.6	(0.2)	6.1	4.8	(1.3)
Healthcare	(%)	12.7	10.2	7.0	(3.2)	(5.7)	15.2	10.6	(4.6)
Others	(%)	28.6	50.1	48.3	(1.8)	19.7	16.6	37.3	20.7
Net margin	(%)	11.8	15.0	15.5	0.5	3.7	10.7	14.5	3.9
Effective tax rate	(%)	21.2	9.4	15.0	5.6	(6.1)	16.2	9.2	(7.0)

<sup>^</sup>Restated

## Stock Recommendation Guideline

- BUY** : Total return within the next 12 months exceeds required rate of return by 5%-point.  
**HOLD** : Total return within the next 12 months exceeds required rate of return by between 0-5%-point.  
**SELL** : Total return is lower than the required rate of return.  
**Not Rated**: The company is not under coverage. The report is for information only.

**Total Return** is defined as expected share price appreciation plus gross dividend over the next 12 months. Gross dividend is excluded from total return if dividend discount model valuation is used to avoid double counting.

**Required Rate of Return** of 7% is defined as the yield for one-year Malaysian government treasury plus assumed equity risk premium.

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As of Wednesday, February 26, 2020, the analyst, Thiam Chiann Wen, who prepared this report, has interest in the following securities covered in this report:

(a) nil

**Kaladher Govindan – Head of Research**

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