

# Sunway Bhd

On Track

**TP: RM1.65** (-2.5%)

Last Traded: RM1.69

**Sell**

Thiam Chiann Wen

Tel: +603-2167 9615

cwthiam@ta.com.my

www.taonline.com.my

### Review

- Sunway's IQ19 net profit of RM136.4mn came in within expectations, accounting for 22% of both ours and consensus' full-year forecasts.
- YoY, IQ19 revenue decreased 12% YoY, largely due to lower progress billing from local projects. Nevertheless, the group's IQ19 net profit grew 14% YoY to RM136.4mn driven by higher contribution from its associates and JVs (+9% YoY).
- QoQ, IQ19 net profit plunged 21%, largely due to lower revenue contribution from its property development (-57% QoQ) and construction division (-29% QoQ). Both divisions reported weaker results attributed to lower sales and progress billing from local projects. Meanwhile, the property investment division reported weaker results (-12%) attributed to seasonal factors as the leisure and hospitality business usually see earnings peak in the 4Q.
- Sunway reported RM263mn sales in IQ19 (+58% YoY). Key contributors to IQ19 sales are Velocity TWO and China Projects. Unbilled sales inched up slightly to RM2.2bn (effective RM1.8bn), from RM2.1bn a quarter ago.

### Impact

- No change to our FY19-21 earnings forecasts.

### Outlook

- Sunway is maintaining its sales target of RM1.3bn this year, underpinned by new projects worth RM2.0bn (see **Figure 1**) and other existing projects. Velocity TWO tower B, which was launched in March, has received encouraging response. To date, the newly launched tower B has achieved 70% take up. The group's unbilled sales of RM2.2bn and outstanding construction order book of RM3.5bn (external jobs only) should provide earnings visibility for the next 2-3 years.
- Given the challenging outlook in the property market, the group plans to grow its non-property related businesses such as Healthcare, Trading & Manufacturing, Leisure, Quarry and Building Materials to become market leaders in their respective sectors. Specifically, the healthcare division is the key division that Sunway is looking to expand. The group targets to set up 4 new hospitals in the Klang Valley, Penang and Ipoh. This could potentially increase the group's total bed from 618 beds to >1,500 beds by 2023. In addition, the group is expanding its quarry business. It has proposed to acquire a quarry company which will increase the total number of quarries under Sunway to 8 (from 6) and premix plants to 22 (from 13).

### Valuation

- No change to our target price of RM1.65/share based on target average blended CY20 PE/PB of 12x/0.9x. Maintain Sell on valuation ground.

### Share Information

Bloomberg Code	SWB MK
Stock Code	5211
Listing	Main Market
Share Cap (mn)	4,886.5
Market Cap (RMmn)	8,258.1
52-wk Hi/Lo (RM)	1.72/1.34
12-mth Avg Daily Vol ('000 shrs)	2,113.0
Estimated Free Float (%)	28.8
Beta	0.9

### Major Shareholders (%)

Sungei Way Corp (56.4)
EPF (7.2)
Tan Sri Dr Jeffrey Cheah (5.2)

### Forecast Revision

	FY19	FY20
Forecast Revision (%)	0.0	0.0
Net profit (RMmn)	608.5	667.1
Consensus	620.2	684.4
TA's / Consensus (%)	98.1	97.5
Previous Rating	Sell (Maintained)	

### Financial Indicators

	FY19	FY20
Net gearing (%)	32.4	28.0
CFPS (sen)	23.5	12.4
P/CFPS (x)	7.2	13.7
ROE (%)	7.0	7.4
ROA (%)	2.9	3.1
NTA/Share (RM)	1.8	1.8
Price/NTA (x)	1.0	0.9

### Scorecard

	% of FY	
vs TA	22.4	Within
vs Consensus	22.0	Within

### Share Performance (%)

Price Change	SWB	FBM KLCI
1 mth	(0.6)	(1.1)
3 mth	2.8	(6.8)
6 mth	16.9	(5.4)
12 mth	12.3	(13.1)

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



Source: Bloomberg

**Figure 1: New Launches for 2019**

Development	Location	Type	GDV (RM mn)	Status
Sunway Velocity Two (Phase 2)	Jalan Peel, KL	Service Apartments	300	Launched in Mar. 70% booked
Sunway Avila	Wangsa Maju	Service Apartments	230	Targeted for launch in 2Q
Sunway GeoLake Townhouse	Sunway South Quay	Townhouses	100	Targeted for launch in 2Q
Sunway Onsen Suites	Sunway City Ipoh	Service Apartments	120	Targeted for launch in 2Q
Sunway Citrine Lakehomes (Phase 3)	Sunway Iskandar	Townhouses	100	Targeted for launch in 2H
Sunway Lenang Heights	Johor Bahru	Semi-detached homes	150	Targeted for launch in 2H
Brookvale, Clementi	Singapore	Private Condominium	1000	Targeted for launch in 2H
<b>Total</b>			<b>2000</b>	

Source: Sunway

**Earnings Summary (RM mn)**

YE Dec 31 (RM'mn)	2017	2018	2019F	2020F	2021F
Revenue	5239.3	5410.3	6063.3	6384.1	6884.8
EBITDA	763.5	648.9	889.7	870.4	930.7
EBITDA margin (%)	14.6	12.0	14.7	13.6	13.5
Pretax profit	800.5	761.5	805.8	863.6	909.0
Net profit	620.6	659.0	651.5	667.1	707.2
Net profit -adj	547.4	591.2	608.5	667.1	707.2
EPS (sen)	12.9	13.5	13.4	13.7	14.5
EPS - adj (sen)	11.4	12.1	12.6	13.9	14.7
EPS Growth (Core) (%)	0.0	6.7	4.2	9.6	6.0
PER (x)	14.9	13.9	13.4	12.2	11.5
GDPS (sen)	6.0	7.1	7.5	7.5	7.5
Div Yield (%)	3.6	4.2	4.4	4.4	4.4
ROE (%)	7.1	7.2	7.0	7.4	7.6

## IQ19 Results Analysis (RM mn)

YE 31 Dec (RM'mn)	IQ18 <sup>^</sup>	4Q19 <sup>^</sup>	IQ19	QoQ (%)	YoY (%)	
<b>Revenue</b>	<b>1,281.5</b>	<b>1,452.4</b>	<b>1,123.6</b>	<b>(22.6)</b>	<b>(12.3)</b>	
Property Development	132.3	203.8	87.9	(56.9)	(33.6)	
Property Investment	193.0	222.6	196.7	(11.6)	1.9	
Construction	443.7	489.1	346.2	(29.2)	(22.0)	
Trading & Manufacturing	278.3	241.8	251.3	3.9	(9.7)	
Quarry	50.0	59.2	44.2	(25.3)	(11.6)	
Others	184.2	235.8	197.3	(16.3)	7.1	
<b>EBIT</b>	<b>128.6</b>	<b>104.1</b>	<b>117.8</b>	<b>13.1</b>	<b>(8.4)</b>	
Gain on derivative	0.0	0.0	0.0	0.0	0.0	
Finance income	61.3	98.4	78.7	(20.0)	28.5	
Finance costs	(68.8)	(13.0)	(60.9)	369.2	(11.5)	
Associates	27.5	30.0	30.4	1.5	10.7	
JV	10.7	34.0	11.3	(66.9)	5.5	
EI	0.0	29.9	0.0	nm	0.0	
<b>PBT</b>	<b>159.2</b>	<b>244.1</b>	<b>177.3</b>	<b>(27.4)</b>	<b>11.4</b>	
<b>Core PBT</b>	<b>159.2</b>	<b>214.2</b>	<b>177.3</b>	<b>(17.2)</b>	<b>11.4</b>	
Property Development	27.5	51.0	32.8	(35.7)	19.6	
Property Investment	57.1	48.7	57.4	17.8	0.5	
Construction	41.4	52.1	43.7	(16.2)	5.4	
Trading & Manufacturing	12.8	10.5	6.6	(37.2)	(48.8)	
Quarry	3.0	3.6	1.7	(51.1)	(41.5)	
Others	17.4	48.3	35.0	(27.4)	101.9	
Tax	(23.0)	(44.7)	(25.3)	(43.4)	10.3	
MI	(16.3)	(16.5)	(15.5)	(6.1)	(4.8)	
<b>Net profit</b>	<b>119.9</b>	<b>182.8</b>	<b>136.4</b>	<b>(25.4)</b>	<b>13.8</b>	
<b>Core net profit</b>	<b>119.9</b>	<b>172.9</b>	<b>136.4</b>	<b>(21.1)</b>	<b>13.8</b>	
Reported EPS	(sen)	2.4	4.0	2.7	(31.8)	10.7
Adj EPS	(sen)	2.4	3.7	2.7	(27.9)	10.7
DPS	(sen)	0.0	3.6	0.0	nm	0.0
EBIT margin	(%)	10.0	7.2	10.5	3.3	0.4
<b>PBT margin</b>	<b>(%)</b>	<b>12.4</b>	<b>14.7</b>	<b>15.8</b>	<b>1.0</b>	<b>3.4</b>
Property Development	(%)	20.8	25.0	37.4	12.3	16.6
Property Investment	(%)	29.6	21.9	29.2	7.3	(0.4)
Construction	(%)	9.3	10.7	12.6	2.0	3.3
Trading & Manufacturing	(%)	4.6	4.3	2.6	(1.7)	(2.0)
Quarry	(%)	6.0	6.0	3.9	(2.1)	(2.0)
Others	(%)	9.4	20.5	17.8	(2.7)	8.3
Net margin	(%)	9.4	11.9	12.1	0.2	2.8
Effective tax rate	(%)	14.4	20.9	14.3	(6.6)	(0.1)

<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.

## Disclaimer

The information in this report has been obtained from sources believed to be reliable. Its accuracy and/ or completeness is not guaranteed and opinions are subject to change without notice. This report is for information only and not to be construed as a solicitation for contracts. We accept no liability for any direct or indirect loss arising from the use of this document. We, our associates, directors, employees may have an interest in the securities and/or companies mentioned herein.

As of Thursday, May 23, 2019, 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**

TA SECURITIES HOLDINGS BERHAD (14948-M)

A Participating Organisation of Bursa Malaysia Securities Berhad

Menara TA One | 22 Jalan P. Ramlee | 50250 Kuala Lumpur | Malaysia | Tel: 603 – 2072 1277 | Fax: 603 – 2032 5048  
www.ta.com.my