

# Sunway Bhd

Sales Target Intact

**TP: RM1.84 (+4.0%)**

Last Traded: RM1.77

**Hold**

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### Review

- Excluding the fair value gain from revaluation of Sunway REIT properties of RM43.6mn and disposal gain on Sunway University asset of RM37.7mn, Sunway's 9M19 normalised net profit of RM485.0mn came in at 79% and 78% of ours and consensus' full-year forecasts respectively.
- However, we deem the results to be above expectations, as we expect the group will sustain the strong 3Q results in 4Q. Note that Sunway's 9M normalised net profit typically accounted for c.70% of full-year earnings.
- Despite revenue decreasing by 13.4% YoY, Sunway's 9M19 normalised net profit grew 19.7% YoY to RM485.0mn, mainly due to: 1) better EBIT margin (+2.2 %-pts YoY to 13.4%), 2) higher finance income (+20% YoY), 3) lower finance cost (-10% YoY), and 4) lower effective tax rate.
- QoQ, Sunway's 3Q normalised net profit grew 11.0% to RM183.4mn on the back of a 13.9% growth in revenue. Stronger sequential results were driven by property development and construction divisions.
- Sunway reported RM325mn sales in 3Q19 (-31%QoQ, -59% YoY), bringing 9M19 sales to RM1.1bn (-35% YoY). Property sales were softer YoY due to absence of new launches in Singapore. Excluding overseas contribution, Sunway's 9M19 sales increased 67% YoY to RM936mn.
- The group's 3Q19 unbilled sales inched slightly to RM2.8bn (effective RM2.1bn), from RM2.7bn a quarter ago.

### Impact

- To be in line with 9M results, we factor in: 1) lower SunCon contribution – refer SunCon 3Q results, 2) higher blended EBIT margin assumptions by c.1%-pts to 14 - 15%; 3) lower net finance cost and effective tax rate, and 4) recent acquisitions, into our earnings models. Correspondingly, our FY19-21 earnings are revised higher by 4-11%.

### Outlook

- Sunway's recent launches have attracted warm responses, achieving >70% take up for the high-rise projects, whereas the town houses also recorded sales/bookings of 55% - see **Figure 1**. The group has scaled down the FY19 launch target to RM1.2bn from RM2.0bn previously. The key revision is the delay of private condominiums in Brookvale, Clementi launch (GDV: RM1.0bn) to next year. Nonetheless, the group has decided to roll out Sunway Avila Tower B in December given Tower A, which was launched in May-19, is now 90% sold.
- Despite the revision in launch target, we believe the group is on track to meet our FY19 sales assumptions and management's sales target of RM1.3bn (maintained) supported by: 1) 9M19 sales of RM1.1bn (82% of target) and 2) RM360mn new launches in 4Q.

### Share Information

Bloomberg Code	SWB MK
Stock Code	5211
Listing	Main Market
Share Cap (mn)	4,908.4
Market Cap (RMmn)	8,687.9
52-wk Hi/Lo (RM)	1.84/1.33
12-mth Avg Daily Vol ('000 shrs)	2,961.5
Estimated Free Float (%)	24.9
Beta	0.8
<b>Major Shareholders (%)</b>	

Sungei Way Corp (56.7)
EPF (7.2)
Tan Sri Dr Jeffrey Cheah (4.2)

### Forecast Revision

	FY19	FY20
Forecast Revision (%)	11.1	5.3
Net profit (RMmn)	678.9	706.6
Consensus	622.1	682.1
TA's / Consensus (%)	109.1	103.6
Previous Rating	Hold (Maintained)	

### Financial Indicators

	FY19	FY20
Net gearing (%)	32.4	28.4
CFPS (sen)	23.6	12.3
P/CFPS (x)	7.5	14.4
ROE (%)	7.8	7.8
ROA (%)	3.3	3.4
NTA/Share (RM)	1.8	1.8
Price/NTA (x)	1.0	1.0

### Scorecard

	% of FY	
vs TA	79.0	Above
vs Consensus	78.0	Above

### Share Performance (%)

Price Change	SWB	FBM KLCI
1 mth	4.7	1.1
3 mth	11.0	(0.6)
6 mth	5.8	(0.7)
12 mth	22.0	(6.1)

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



Source: Bloomberg

- The group's unbilled sales of RM2.8bn and outstanding construction order book of RM3.5bn (external jobs only) should provide earnings visibility for the next 2-3 years.

### Valuation

- Factoring in the change in earnings, we arrive at a new TP of **RM1.84** (previous RM1.78), based on target average blended CY20 PE/PB of 14x/0.9x. It has been a busy year for Sunway as it has locked in 5 land deals, expanded its quarry business, opened its new medical centre in Sunway Velocity in September and invested in purpose-built student accommodations in UK. With a potential total return of 8.5%, we maintain our **Hold** recommendation on Sunway.

**Figure 1: New Launches for 2019**

Development	Location	Type	GDV (RM mn)	Status
Sunway Velocity Two (Tower B)	Jalan Peel, KL	Service Apartments	300	Launched in Mar. 99% take up (inc. bookings)
Sunway Avila (Tower A)	Wangsa Maju	Service Apartments	230	Launched in May. 90% take up (inc. bookings)
Sunway GeoLake Townhouse	Sunway South Quay	Townhouses	100	Launched in Jun. 55% take up (inc. bookings)
Sunway Onsen Suites	Sunway City Ipoh	Service Apartments	120	Launched in Jun. 70% take up (inc. bookings)
Sunway Citrine Lakehomes (Phase 3)	Sunway Iskandar	Townhouses	100	Launched in Jul. 98% take up (inc. bookings)
Sunway Lenang Heights	Johor Bahru	Semi-detached homes	130	Targeted for launch in Nov
Sunway Avila (Tower B)	Wangsa Maju	Service Apartments	230	Targeted for launch in Dec
Brookvale, Clementi	Singapore	Private Condominium	N/A	Delay to 1H2020
<b>Total</b>			<b>1210</b>	

Source: Sunway

### Earnings Summary (RM mn)

YE Dec 31 (RM'mn)	2017	2018	2019F	2020F	2021F
Revenue	5239.3	5410.3	5198.6	5855.4	6033.7
EBITDA	763.5	648.9	827.0	858.7	895.3
EBITDA margin (%)	14.6	12.0	15.9	14.7	14.8
Pretax profit	800.5	761.5	837.9	897.6	943.1
Net profit	620.6	659.0	721.9	706.6	738.4
Net profit -adj	547.4	591.2	678.9	706.6	738.4
EPS (sen)	12.9	13.5	14.8	14.5	15.1
EPS - adj (sen)	11.4	12.1	13.9	14.5	15.1
EPS Growth (Core) (%)	0.0	6.7	14.8	4.1	4.5
PER (x)	15.6	14.6	12.7	12.2	11.7
GDPS (sen)	6.0	7.1	8.0	8.0	8.0
Div Yield (%)	3.4	4.0	4.5	4.5	4.5
ROE (%)	7.1	7.2	7.8	7.8	7.9

### 3Q19 Results Analysis (RM mn)

YE 31 Dec (RM'mn)	3Q18 <sup>^</sup>	2Q19	3Q19	QoQ (%)	YoY (%)	9MFY18 <sup>^</sup>	9MFY19	YoY (%)	
<b>Revenue</b>	<b>1,416.1</b>	<b>1,077.2</b>	<b>1,226.5</b>	<b>13.9</b>	<b>(13.4)</b>	<b>3,957.8</b>	<b>3,427.3</b>	<b>(13.4)</b>	
Property Development	194.8	113.6	126.2	11.1	(35.2)	415.8	327.7	(21.2)	
Property Investment	209.3	176.1	209.7	19.1	0.2	592.2	582.5	(1.6)	
Construction	465.4	293.5	315.6	7.5	(32.2)	1,358.8	955.2	(29.7)	
Trading & Manufacturing	296.9	230.0	246.2	7.0	(17.1)	861.6	727.6	(15.5)	
Quarry	56.3	52.6	114.9	118.2	104.2	164.2	211.7	29.0	
Healthcare	116.9	140.8	154.4	9.6	32.1	327.0	422.0	29.1	
Others	76.6	70.6	59.5	(15.7)	(22.4)	238.4	200.6	(15.9)	
<b>EBIT</b>	<b>150.0</b>	<b>167.3</b>	<b>174.2</b>	<b>4.1</b>	<b>16.1</b>	<b>443.9</b>	<b>459.2</b>	<b>3.5</b>	
Gain on derivative	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Finance income	73.4	70.6	67.0	(5.0)	(8.6)	124.2	149.3	20.2	
Finance costs	(74.2)	(66.8)	(66.0)	(1.2)	(11.0)	(142.0)	(127.7)	(10.1)	
Associates	29.9	70.4	37.4	(46.9)	25.3	112.5	100.9	(10.3)	
JV	11.8	11.7	10.6	(9.3)	(9.9)	13.6	23.0	68.5	
EI	0.0	81.3	0.0	nm	0.0	59.2	81.3	37.3	
PBT	190.9	253.2	223.3	(11.8)	17.0	593.1	653.8	10.2	
<b>Core PBT</b>	<b>194.0</b>	<b>171.9</b>	<b>223.3</b>	<b>29.9</b>	<b>15.1</b>	<b>533.9</b>	<b>572.5</b>	<b>7.2</b>	
Property Development	44.6	37.3	59.0	58.3	32.3	122.2	129.1	5.7	
Property Investment	52.6	41.0	67.0	63.2	27.3	155.2	165.4	6.6	
Construction	40.2	47.4	33.1	(30.1)	(17.6)	132.5	124.2	(6.3)	
Trading & Manufacturing	15.5	6.6	13.8	109.5	(11.2)	43.0	26.9	(37.5)	
Quarry	2.9	2.1	4.9	129.9	67.2	10.0	8.7	(13.0)	
Healthcare	15.8	19.3	15.8	(18.0)	(0.1)	37.5	50.5	34.5	
Others	19.3	18.3	29.8	62.9	54.6	33.5	67.7	102.4	
Tax	(27.0)	9.4	(21.1)	(324.0)	(21.9)	(75.9)	(37.0)	(51.3)	
MI	(19.0)	(16.2)	(18.8)	16.7	(0.8)	(52.9)	(50.5)	(4.4)	
Net profit	144.9	246.5	183.4	(25.6)	26.6	464.3	566.3	22.0	
Core net profit	144.9	165.2	183.4	11.0	26.6	405.1	485.0	19.7	
Reported EPS	(sen)	3.0	4.7	3.4	(27.3)	15.1	9.5	10.9	14.1
Adj EPS	(sen)	3.0	3.2	3.4	8.4	15.1	8.3	9.3	12.0
DPS	(sen)	0.0	4.6	0.0	nm	0.0	3.5	4.6	30.6
EBIT margin	(%)	10.6	15.5	14.2	(1.3)	3.6	11.2	13.4	2.2
<b>PBT margin</b>	<b>(%)</b>	<b>13.5</b>	<b>16.0</b>	<b>18.2</b>	<b>2.2</b>	<b>4.7</b>	<b>13.5</b>	<b>16.7</b>	<b>3.2</b>
Property Development	(%)	22.9	32.8	46.7	13.9	23.8	29.4	39.4	10.0
Property Investment	(%)	25.1	23.3	31.9	8.6	6.8	26.2	28.4	2.2
Construction	(%)	8.6	16.2	10.5	(5.7)	1.9	9.8	13.0	3.3
Trading & Manufacturing	(%)	5.2	2.9	5.6	2.7	0.4	5.0	3.7	(1.3)
Quarry	(%)	5.2	4.0	4.2	0.2	(0.9)	6.1	4.1	(2.0)
Healthcare	(%)	13.5	13.7	10.2	(3.4)	(3.3)	11.5	12.0	0.5
Others	(%)	25.2	25.9	50.1	24.2	24.9	14.0	33.8	19.7
Net margin	(%)	10.2	15.3	15.0	(0.4)	4.7	10.2	14.2	3.9
Effective tax rate	(%)	14.1	(5.5)	9.4	14.9	(4.7)	14.2	6.5	(7.8)

<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 Friday, November 22, 2019, the analyst, Thiam Chiann Wen, who prepared this report, has interest in the following securities covered in this report:  
(a) nil

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