

Sunway Bhd

Steady Results

TP: RM1.65 (+5.0%)

Last Traded: RM1.57

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 IH19 normalised net profit of RM301.6mn came in within expectations, accounting for 49% of both ours and consensus' full-year forecasts.
- In terms of dividend, a first interim cash dividend of 3sen/share and 1 treasure share for every 100 share held (translating to 1.57sen based on yesterday's close) was declared, 1.07sen higher than the corresponding period of last year.
- Despite revenue decreased by 13% YoY, Sunway's IH19 normalised net profit grew 16% YoY to RM301.6mn, mainly due to 1) better EBIT margin (+1.4%-pts YoY to 13%), 2) higher finance income (+20% YoY), 3) lower finance cost (-10% YoY) and 4) lower effective tax rate. The weaker revenue in IH19 was largely due to lower progress billing from local property and construction projects. While Sunway's key divisions reported weaker results YoY, the healthcare division was a rising star. The healthcare division PBT surged 60% YoY, driven by higher occupancy.
- Sunway reported RM472mn sales in 2Q19 (+79%QoQ, -30% YoY), bringing the IH19 sales to RM735mn (-13% YoY). Property sales were softer YoY due to absence of new launches in Singapore. Note that oversea sales only accounted for 17% of Sunway's IH19 sales vs IH18's 79%. Nonetheless, as compared to a quarter ago, property sales picked up significantly in 2Q, driven by maiden sales contribution from Sunway Avila Wangsa Maju (GDV: RM230mn). Launched in May-19, we understand that 80% the units were taken up as of Jul-19.
- Stronger 2Q sales have lifted the group's unbilled sales to RM2.7bn (effective RM2.1bn), from RM2.2bn a quarter ago.

Impact

- FY19-21 earnings are adjusted slightly by -0.1% to +0.2% as we fine-tune our progress billing assumptions. Separately, we raise our dividend assumptions higher to 8sen/share from 7.5sen/share previously as IH dividend came in slightly ahead of our projections.

Outlook

- Sunway's recent launches attract warm responses, achieving >70% take up for the high-rise projects, whereas the town houses also recorded sales/bookings of 45% - see **Figure I**. With IH19 sales amounted to RM735mn, we believe the group is on track to meet our FY19 sales assumptions and management's sales target of RM1.3bn. The group's unbilled sales of RM2.7bn and outstanding construction order book of RM3.9bn (external jobs only) should provide earnings visibility for the next 2-3 years.

Share Information

Bloomberg Code	SWB MK
Stock Code	5211
Listing	Main Market
Share Cap (mn)	4,876.6
Market Cap (RMmn)	7,656.2
52-wk Hi/Lo (RM)	1.72/1.34
12-mth Avg Daily Vol ('000 shrs)	2,614.1
Estimated Free Float (%)	25.1
Beta	0.8

Major Shareholders (%)

Sungei Way Corp	(56.5)
EPF	(7.3)
Tan Sri Dr Jeffrey Cheah	(4.1)

Forecast Revision

	FY19	FY20
Forecast Revision (%)	(0.1)	0.2
Net profit (RMmn)	611.0	671.0
Consensus	620.2	681.4
TA's / Consensus (%)	98.5	98.5
Previous Rating	Sell (Upgraded)	

Financial Indicators

	FY19	FY20
Net gearing (%)	32.7	28.7
CFPS (sen)	23.5	12.3
P/CFPS (x)	6.7	12.7
ROE (%)	7.1	7.5
ROA (%)	3.0	3.2
NTA/Share (RM)	1.7	1.8
Price/NTA (x)	0.9	0.9

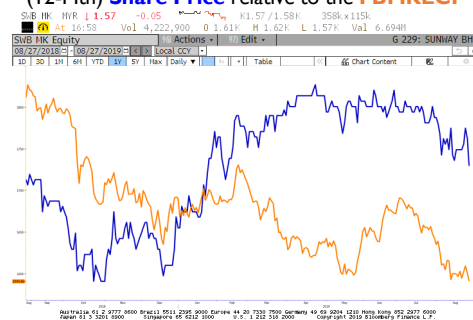
Scorecard

	% of FY	
vs TA	49.3	Within
vs Consensus	48.6	Within

Share Performance (%)

Price Change	SWB	FBM KLCI
1 mth	(6.5)	(3.5)
3 mth	(4.8)	(1.5)
6 mth	(2.1)	(6.8)
12 mth	2.3	(12.9)

(12-Mth) Share Price relative to the FBMKLCI



Source: Bloomberg

- 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.
- On the other hand, the group is also expanding its quarry division. It has completed the acquisition of Blacktop Industries S/B in July, increasing the total number of quarries under Sunway's operations to 8 (from 6) and premix plants to 22 (from 13). Sunway's quarry division's market share in the central region is expected to improve further to 22% from 15% currently with the completion of acquisition of Dolomite Quarry in 3Q19.

Valuation

- No change to our target price of RM1.65/share based on target average blended CY20 PE/PB of 12x/0.9x. Share price has retraced 6.5% in the past month, we upgrade Sunway to Hold from Sell previously. Total return is 10.1% (capital upside 5.0% + dividend yield 5.1%).

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. 90% take up (inc. bookings)
Sunway Avila	Wangsa Maju	Service Apartments	230	Launched in May. 80% take up (inc. bookings)
Sunway GeoLake Townhouse	Sunway South Quay	Townhouses	100	Launched in Jun. 45% 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. 45% take up (inc. bookings)
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
Total			2000	

Source: Sunway

Earnings Summary (RM mn)

YE Dec 31 (RM'mn)	2017	2018	2019F	2020F	2021F
Revenue	5239.3	5410.3	5727.6	6022.7	6610.4
EBITDA	763.5	648.9	875.4	868.3	938.9
EBITDA margin (%)	14.6	12.0	15.3	14.4	14.2
Pretax profit	800.5	761.5	791.5	861.5	917.2
Net profit	620.6	659.0	654.0	671.0	707.8
Net profit -adj	547.4	591.2	611.0	671.0	707.8
EPS (sen)	12.9	13.5	13.4	13.8	14.5
EPS - adj (sen)	11.4	12.1	12.5	13.8	14.5
EPS Growth (Core) (%)	0.0	6.7	3.3	9.8	5.5
PER (x)	13.8	12.9	12.4	11.3	10.7
GDPS (sen)	6.0	7.1	8.0	8.0	8.0
Div Yield (%)	3.8	4.5	5.1	5.1	5.1
ROE (%)	7.1	7.2	7.1	7.5	7.6

2Q19 Results Analysis (RM mn)

YE 31 Dec (RM'mn)	2Q18 [^]	1Q19	2Q19	QoQ (%)	YoY (%)	1HFY18 [^]	1HFY19	YoY(%)	
Revenue	1,260.2	1,123.6	1,077.2	(4.1)	(14.5)	2,541.7	2,200.8	(13.4)	
Property Development	88.7	87.9	113.6	29.3	28.1	221.0	201.4	(8.8)	
Property Investment	189.8	196.7	176.1	(10.5)	(7.2)	382.8	372.8	(2.6)	
Construction	449.7	346.2	293.5	(15.2)	(34.7)	893.4	639.6	(28.4)	
Trading & Manufacturing	286.4	251.3	230.0	(8.5)	(19.7)	564.7	481.4	(14.8)	
Quarry	57.9	44.2	52.6	19.1	(9.1)	107.9	96.8	(10.3)	
Healthcare	108.2	126.8	140.8	11.1	30.2	210.1	267.6	27.4	
Others	79.5	70.5	70.6	0.1	(11.2)	161.8	141.1	(12.8)	
EBIT	165.3	117.8	167.3	42.0	1.2	293.9	285.0	(3.0)	
Gain on derivative	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Finance income	62.9	78.7	70.6	(10.3)	12.2	124.2	149.3	20.2	
Finance costs	(73.2)	(60.9)	(66.8)	9.6	(8.7)	(142.0)	(127.7)	(10.1)	
Associates	85.0	30.4	70.4	131.3	(17.1)	112.5	100.9	(10.3)	
JV	3.0	11.3	11.7	4.0	295.2	13.6	23.0	68.5	
EI	59.2	0.0	81.3	>100	37.3	59.2	81.3	37.3	
PBT	243.0	177.3	253.2	42.9	4.2	402.2	430.5	7.0	
Core PBT	183.8	177.3	171.9	(3.0)	(6.5)	343.0	349.2	1.8	
Property Development	50.1	32.8	37.3	13.6	(25.6)	77.6	70.1	(9.6)	
Property Investment	45.4	57.4	41.0	(28.5)	(9.7)	102.6	98.4	(4.0)	
Construction	50.9	43.7	47.4	8.5	(6.8)	92.3	91.1	(1.3)	
Trading & Manufacturing	14.7	6.6	6.6	(0.0)	(55.4)	27.5	13.1	(52.3)	
Quarry	4.1	1.7	2.1	21.5	(48.9)	7.1	3.9	(45.8)	
Healthcare	11.0	15.4	19.3	24.9	75.7	21.7	34.7	59.7	
Others	7.6	19.6	18.3	(6.8)	141.5	14.2	37.9	167.3	
Tax	(26.0)	(25.3)	9.4	(137.1)	(136.1)	(49.0)	(15.9)	(67.5)	
MI	(17.5)	(15.5)	(16.2)	4.0	(8.0)	(33.9)	(31.7)	(6.4)	
Net profit	199.5	136.4	246.5	80.7	23.6	319.4	382.9	19.9	
Core net profit	140.3	136.4	165.2	21.1	17.8	260.2	301.6	15.9	
Reported EPS	(sen)	4.1	2.7	4.7	74.8	15.4	6.5	7.4	13.6
Adj EPS	(sen)	2.9	2.7	3.2	17.2	10.0	5.3	5.9	10.3
DPS	(sen)	3.5	0.0	4.6	>100	30.6	3.5	4.6	30.6
EBIT margin	(%)	13.1	10.5	15.5	5.0	2.4	11.6	13.0	1.4
PBT margin	(%)	14.6	15.8	16.0	0.2	1.4	13.5	15.9	2.4
Property Development	(%)	56.5	37.4	32.8	(4.5)	(23.7)	35.1	34.8	(0.3)
Property Investment	(%)	23.9	29.2	23.3	(5.9)	(0.6)	26.8	26.4	(0.4)
Construction	(%)	11.3	12.6	16.2	3.5	4.8	10.3	14.2	3.9
Trading & Manufacturing	(%)	5.1	2.6	2.9	0.2	(2.3)	4.9	2.7	(2.1)
Quarry	(%)	7.1	3.9	4.0	0.1	(3.1)	6.6	4.0	(2.6)
Healthcare	(%)	10.1	12.2	13.7	1.5	3.5	10.3	13.0	2.6
Others	(%)	9.5	27.8	25.9	(1.9)	16.4	8.8	26.9	18.1
Net margin	(%)	11.1	12.1	15.3	3.2	4.2	10.2	13.7	3.5
Effective tax rate	(%)	14.2	14.3	(5.5)	(19.8)	(19.6)	14.3	4.6	(9.7)

[^]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, August 28, 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

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