

Sunway Bhd

TP: RM1.55 (-4.6%)

Construction and Property Investment Division Shine

Last Traded: RM1.62

Sell

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Review

- Excluding the fair value gain from Sunway REIT of RM89.1mn and additional 5% RPGT provision on investment properties of RM20mn, Sunway's FY18 normalised net profit of RM591.2mn came in above ours but within consensus' expectations. The results accounted for 106% and 98% of ours and consensus full-year forecasts respectively. The variance was largely due to lower-than-expected effective tax rate. FY18 PBT was almost spot on at RM761mn.
- In terms of dividend, a second interim cash dividend of 2sen/share and 1 treasure share for every 100 share held (translating to 1.62sen) was declared in 4Q18, bringing its full-year dividend declared to 7.12sen/share (FY17: 6sen/share), which is higher than our full-year dividend estimate of 6sen/share.
- YoY, Sunway's FY18 revenue and normalised net profit grew 3.3% and 8.0% respectively to RM5.4bn and RM591.2mn. By segment, the group's property development division revenue and PBT decreased by 37% and 34% YoY respectively in FY18, mainly due to lower progress billings from local development projects. Meanwhile, the group's property investment division was the star performer during the period under review, with the division's adjusted PBT (excluding fair value gains) surged 26% YoY in FY18. The increase was underpinned by higher occupancy at the group's portfolio of investment properties, and additional contribution from new properties such as Sunway Velocity Hotel and Sunway Geo in Sunway South Quay.
- QoQ, 4Q18 normalised net profit expanded by 5.0% to RM152.5mn despite revenue contracted by 5.1% QoQ. This stronger sequential profit was largely supported by higher share of profits from JVs.
- Sunway's 4Q18 property sales declined 56% YoY and 67% QoQ to RM257mn. This brings the group's FY18 sales to RM1.9bn (+62% YoY). Overseas projects are the key sales contributor, with Singapore and China accounting for 35% and 24% of the group's total FY18 property sales respectively. Excluding overseas sales, Sunway's domestic sales also more-than-doubled (+144% YoY) to RM1.1bn in FY18. The group's unbilled sales remain stable at RM2.1bn (effective RM1.7bn).

Impact

- Our FY19-20 earnings are revised higher by 2.3% after incorporating the actual FY18 results. We introduce our FY21 earnings forecasts with an EPS growth of 6% YoY.

Outlook

- Sunway is targeting new sales of RM1.3bn this year, underpinned by new projects worth RM2.0bn (see **Figure 2**) and other existing projects. Of the RM2.0bn new launches, 50% of the total launches are comprised of projects in Malaysia and followed by Singapore (50%). The group's

Share Information

| | |
|----------------------------------|-------------|
| Bloomberg Code | SWB MK |
| Stock Code | 5211 |
| Listing | Main Market |
| Share Cap (mn) | 4,849.7 |
| Market Cap (RMmn) | 7,856.5 |
| 52-wk Hi/Lo (RM) | 1.69/1.35 |
| 12-mth Avg Daily Vol ('000 shrs) | 2,148.8 |
| Estimated Free Float (%) | 28.9 |
| Beta | 1.0 |

Major Shareholders (%)

| | |
|--------------------------|--------|
| Sungei Way Corp | (56.2) |
| EPF | (7.2) |
| Tan Sri Dr Jeffrey Cheah | (5.1) |

Forecast Revision

| | FY19 | FY20 |
|-----------------------|-------------------|-------|
| Forecast Revision (%) | 2.3 | 2.3 |
| Net profit (RMmn) | 608.5 | 667.1 |
| Consensus | 619.2 | 682.6 |
| TA's / Consensus (%) | 98.3 | 97.7 |
| Previous Rating | Sell (Maintained) | |

Financial Indicators

| | FY19 | FY20 |
|-----------------|------|------|
| Net gearing (%) | 43.8 | 39.8 |
| CFPS (sen) | 4.8 | 11.2 |
| P/CFPS (x) | 33.9 | 14.5 |
| ROE (%) | 7.0 | 7.4 |
| ROA (%) | 2.9 | 3.1 |
| NTA/Share (RM) | 1.8 | 1.8 |
| Price/NTA (x) | 0.9 | 0.9 |

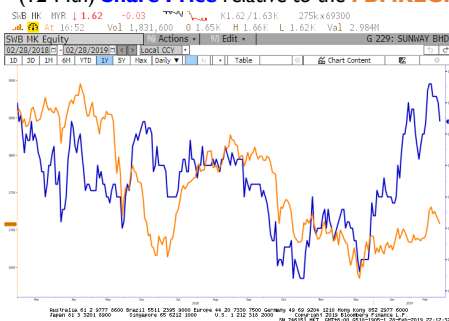
Scorecard

| | % of FY | |
|--------------|---------|--------|
| vs TA | 106.0 | Above |
| vs Consensus | 98.0 | Within |

Share Performance (%)

| Price Change | SWB | FBM KLCI |
|--------------|------|----------|
| 1 mth | 0.0 | 1.4 |
| 3 mth | 11.0 | 1.7 |
| 6 mth | 3.8 | (6.2) |
| 12 mth | 0.0 | (8.2) |

(12-Mth) Share Price relative to the FBMKLCI

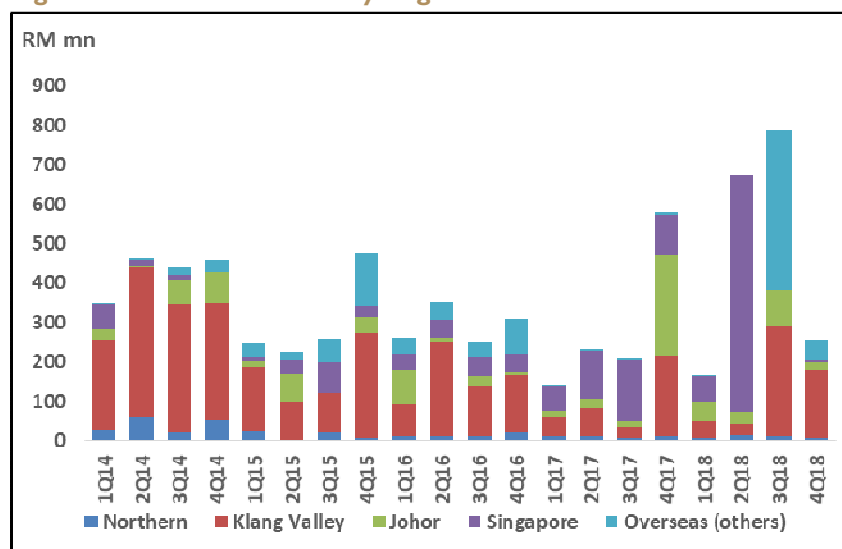


Source: Bloomberg

unbilled sales of RM976mn and outstanding construction order book of RM5.0bn (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.

Figure 1: Sales Breakdown by Region



Source: Sunway

Valuation

- Following the change in earnings, our target price is adjusted higher to RM1.55/share (RM1.51/share previously), based on unchanged target average blended CY19 PE/PB of 12x/0/9x. Maintain Sell.

Figure 2: New Launches for 2019

| Development | Location | Type | GDV (RM mn) |
|------------------------------------|-------------------|---------------------|-------------|
| Sunway Velocity Two (Phase 2) | Jalan Peel, KL | Service Apartments | 300 |
| Sunway Avila | Wangsa Maju | Service Apartments | 230 |
| Sunway GeoLake Townhouse | Sunway South Quay | Townhouses | 100 |
| Sunway Onsen Suites | Sunway City Ipoh | Service Apartments | 120 |
| Sunway Citrine Lakehomes (Phase 3) | Sunway Iskandar | Townhouses | 100 |
| Sunway Lenang Heights | Johor Bahru | Semi-detached homes | 150 |
| Brookvale, Clementi | Singapore | Private Condominium | 1000 |
| Total | | | 2000 |

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 | 2.9 | 9.6 | 6.0 |
| PER (x) | 14.2 | 13.4 | 12.8 | 11.7 | 11.0 |
| GDPS (sen) | 6.0 | 7.1 | 7.5 | 7.5 | 7.5 |
| Div Yield (%) | 3.7 | 4.4 | 4.6 | 4.6 | 4.6 |
| ROE (%) | 7.1 | 7.2 | 7.0 | 7.4 | 7.6 |

4Q18 Results Analysis (RM mn)

| YE 31 Dec (RM'mn) | 4Q17 | 3Q18 | 4Q18 | QoQ (%) | YoY (%) | FY17 | FY18 | YoY(%) |
|-----------------------------|----------------|----------------|----------------|--------------|---------------|----------------|----------------|--------------|
| Revenue | 1,722.9 | 1,444.6 | 1,370.2 | (5.1) | (20.5) | 5,239.3 | 5,410.3 | 3.3 |
| Property Development | 413.0 | 194.8 | 203.8 | 4.7 | (50.6) | 989.7 | 619.6 | (37.4) |
| Property Investment | 245.7 | 237.8 | 140.3 | (41.0) | (42.9) | 865.4 | 814.8 | (5.8) |
| Construction | 583.3 | 465.4 | 489.1 | 5.1 | (16.1) | 1,627.7 | 1,847.9 | 13.5 |
| Trading & Manufacturing | 232.4 | 296.9 | 241.8 | (18.5) | 4.1 | 996.5 | 1,103.4 | 10.7 |
| Quarry | 52.9 | 56.3 | 59.2 | 5.2 | 11.9 | 202.1 | 223.4 | 10.5 |
| Others | 195.6 | 193.5 | 235.9 | 21.9 | 20.6 | 693.6 | 801.3 | 15.5 |
| EBIT | 222.4 | 159.7 | 104.1 | (34.8) | (53.2) | 653.0 | 559.9 | (14.3) |
| Gain on derivative | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Finance income | 55.0 | 66.5 | 98.4 | 48.0 | 79.1 | 223.1 | 276.1 | 23.8 |
| Finance costs | (45.8) | (70.0) | (13.0) | (81.4) | (71.6) | (203.6) | (214.6) | 5.4 |
| Associates | 28.8 | 29.9 | 30.0 | 0.5 | 4.3 | 168.6 | 177.3 | 5.2 |
| JV | 0.5 | 7.8 | 34.0 | 335.5 | 6,477.8 | 31.1 | 56.8 | 83.0 |
| EI | 14.9 | 0.0 | 29.9 | >100 | 100.7 | 71.7 | 89.1 | 24.3 |
| PBT | 260.9 | 194.0 | 253.6 | 30.7 | (2.8) | 872.2 | 850.6 | (2.5) |
| Core PBT | 246.0 | 194.0 | 223.7 | 15.3 | (9.1) | 800.5 | 761.5 | (4.9) |
| Property Development | 105.4 | 40.9 | 47.5 | 16.2 | (54.9) | 241.1 | 158.6 | (34.2) |
| Property Investment | 51.6 | 54.6 | 48.7 | (10.8) | (5.6) | 160.4 | 202.3 | 26.1 |
| Construction | 76.2 | 49.8 | 50.7 | 1.8 | (33.5) | 174.4 | 190.1 | 9.0 |
| Trading & Manufacturing | 20.4 | 14.2 | 9.2 | (35.3) | (54.9) | 43.9 | 48.3 | 10.0 |
| Quarry | 2.9 | 1.7 | 2.2 | 30.4 | (22.5) | 8.3 | 8.6 | 3.3 |
| Others | (10.5) | 32.8 | 65.4 | 99.4 | (725.4) | 182.4 | 153.6 | (15.8) |
| Tax | (54.9) | (27.1) | (44.7) | 65.3 | (18.6) | (149.4) | (121.6) | (18.6) |
| MI | (22.2) | (21.6) | (16.5) | (23.4) | (25.4) | (102.2) | (70.0) | (31.5) |
| Net profit | 183.8 | 145.3 | 162.4 | 11.8 | (11.6) | 620.6 | 659.0 | 6.2 |
| Core net profit | 167.4 | 145.3 | 152.5 | 5.0 | (8.9) | 547.4 | 591.2 | 8.0 |
| Reported EPS (sen) | 3.8 | 3.0 | 4.0 | 32.4 | 3.7 | 12.9 | 13.5 | 4.9 |
| Adj EPS (sen) | 3.5 | 3.0 | 3.7 | 24.4 | 6.9 | 11.4 | 12.1 | 5.9 |
| DPS (sen) | 3.0 | 0.0 | 3.6 | >100 | 20.7 | 6.0 | 7.1 | 18.7 |
| EBIT margin (%) | 12.9 | 11.1 | 7.6 | (3.5) | (5.3) | 12.5 | 10.3 | (2.1) |
| PBT margin (%) | 14.3 | 13.4 | 16.3 | 2.9 | 2.0 | 15.3 | 14.1 | (1.2) |
| Property Development (%) | 25.5 | 21.0 | 23.3 | 2.3 | (2.2) | 24.4 | 25.6 | 1.2 |
| Property Investment (%) | 21.0 | 23.0 | 34.7 | 11.7 | 13.7 | 18.5 | 24.8 | 6.3 |
| Construction (%) | 13.1 | 10.7 | 10.4 | (0.3) | (2.7) | 10.7 | 10.3 | (0.4) |
| Trading & Manufacturing (%) | 8.8 | 4.8 | 3.8 | (1.0) | (5.0) | 4.4 | 4.4 | (0.0) |
| Quarry (%) | 5.4 | 3.0 | 3.7 | 0.7 | (1.7) | 4.1 | 3.8 | (0.3) |
| Others (%) | (5.3) | 16.9 | 27.7 | 10.8 | 33.1 | 26.3 | 19.2 | (7.1) |
| Net margin (%) | 9.7 | 10.1 | 11.1 | 1.1 | 1.4 | 10.4 | 10.9 | 0.5 |
| Effective tax rate (%) | 22.3 | 13.9 | 20.0 | 6.0 | (2.3) | 18.7 | 16.0 | (2.7) |

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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, March 01, 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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