

Sunway Bhd

RM1.3bn Sales Target Met in 8M

TP: RM1.64 (+5.1%)

Last Traded: RM1.56

HOLD

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Review

- Excluding the fair value gain from Sunway REIT of RM59.2mn, Sunway's IH18 normalised net profit of RM262.2mn, which accounted for 46% and 43% of ours and consensus' full-year forecasts respectively.
- However, results would have been in-line and accounted for 51% and 48% of ours and consensus' full-year forecasts respectively, if not for the adoption of MFRS 15. Note that, the group has adopted MFRS 15 on the Group's Rivercove Residences project in Singapore, for which the Group can only recognise the development profits upon its completion. As a result, the progressive profits of RM28.3mn from this project, which could have been recognised in the current quarter under the progressive revenue recognition treatment, has to be deferred accordingly.
- An interim dividend of 3.5sen/share was declared, 0.5sen higher than the corresponding period of last year.
- YoY, Sunway's IH18 revenue and normalised net profit grew 11% and 6% respectively to RM2.6bn and RM262.2mn. The improvement was largely due to higher contribution from property investment and construction division.
- Segmental wise, the group's property development division revenue and PBT decreased 47% and 30% YoY respectively in IHFY18, 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 revenue and adjusted PBT (excluding fair value gains) increasing 11% and 64% YoY in IHFY18 - driven 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, 2Q18 normalised net profit surged 15% to RM140.2mn, primarily due to realisation of the foreign exchange gains from the Group's accumulated profits arising from its Singapore property development projects.
- Sunway property sales more-than-doubled in 2Q18, surging 188% YoY to RM674mn. This bring the group's IHFY18 sales to RM840mn (+123% YoY). 79% of the total sales achieved was derived from Singapore projects. Stronger sales performance lifted the group's unbilled sales higher to RM1.5bn (effective RM1.4bn), from RM947mn a quarter ago.

Share Information

Bloomberg Code	SWB MK
Stock Code	5211
Listing	Main Market
Share Cap (mn)	4,863.8
Market Cap (RMmn)	7,587.5
52-wk Hi/Lo (RM)	1.96/1.44
12-mth Avg Daily Vol ('000 shrs)	3,926.5
Estimated Free Float (%)	28.1
Beta	0.8

Major Shareholders (%)

Sungei Way Corp (55.9)
EPF (6.6)
Tan Sri Dr Jeffrey Cheah (5.1)

Forecast Revision

	FY18	FY19
Forecast Revision (%)	(0.5)	(1.6)
Net profit (RMmn)	566.0	588.7
Consensus	604.7	657.1
TA's / Consensus (%)	93.6	89.6
Previous Rating	Hold (Maintained)	

Financial Indicators

	FY18	FY19
Net gearing (x)	42.2	37.0
CFPS (sen)	12.3	11.2
P/CFPS (x)	12.7	13.9
ROE (%)	7.1	7.1
ROA (%)	2.8	2.9
NTA/Share (RM)	1.6	1.7
Price/NTA (x)	1.0	0.9

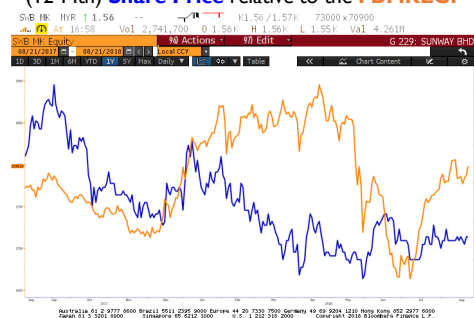
Scorecard

	% of FY	
vs TA	51.0	Within
vs Consensus	48.0	Within

Share Performance (%)

Price Change	SWB	FBM KLCI
1 mth	1.3	2.5
3 mth	2.6	(2.5)
6 mth	(4.3)	(3.1)
12 mth	(13.3)	1.3

(12-Mth) Share Price relative to the FBMKLCI



Source: Bloomberg

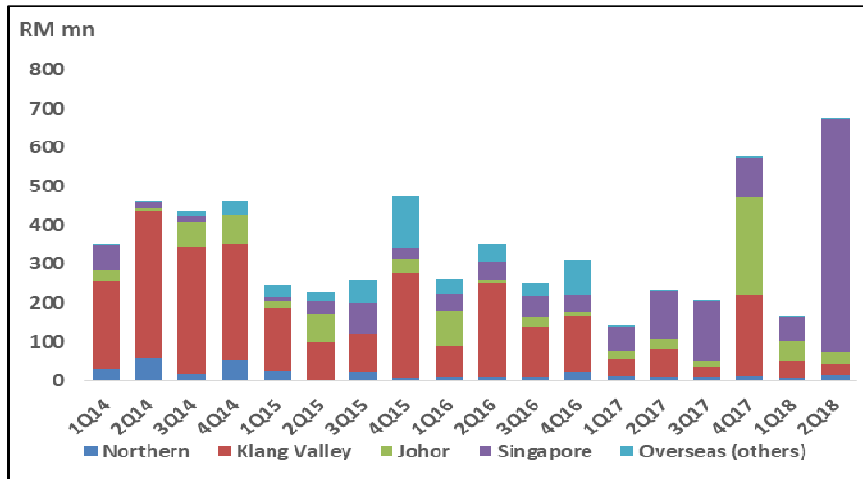
Impact

- We adjust our FY18-20 earnings to reflect the revenue recognition of Rivercove Residences project in Singapore, which has now be deferred until its completion with the adoption of MFRS 15. We also raise our FY18 sales assumptions higher to RM1.5bn from RM1.3bn previously. Net impact to our FY18/19/20 earnings is -0.5%/-1.6%/+3.5% respectively.

Outlook

- The group's recent launches were well-received – see **Figure 2**. Management estimates that it has secured RM1.3bn sales as at Aug-18. This implies that the group's FY18 sales target of RM1.3bn has already been met. Meanwhile, we understand that the official launch of Sunway Velocity Two is targeted in 3Q (GDV: RM320mn) with project awareness campaigns on the go. As such, we do not discount the possibility that the group may revise its FY18 sales target higher.
- The group's unbilled sales of RM1.5bn and outstanding construction order book of RM4.1bn (external jobs only) should provide earnings visibility for the next 2-3 years.

Figure 1: Sales Breakdown by Region



Source: Sunway

Valuation

- Following the change in earnings, our target price is adjusted slightly to **RM1.64** (previous RM1.65), based on unchanged target average blended CY19 PE/PB of 13x/1.0x. Maintain **Hold** with a potential total return of 9.0%

Figure 2: New Launches for 2018

Development	Location	Type	GDV (RM mn)	Status
Sunway Geo Lake	Sunway South Quay	Condominium	480	Launched in Jul-18. 60% taken up (inclusive of bookings)
Sunway Velocity TWO	Jalan Peel, KL	Service Apartments	320	Targeted for launch in 3Q
Sunway Wangsa Maju	Wangsa Maju	Service Apartments	220	Targeted for launch in 4Q
Sunway Citrine Lakehomes	Sunway Iskandar, Johor	Townhouse & Cluster	80	Launched in Jul-18. 70% taken up (inclusive of bookings)
Sunway Onsen Suites	Sunway City, Ipoh	Service Apartments	135	Targeted for launch in 4Q
Sunway Wellesley	Bukit Mertajam, Penang	Shops	25	Targeted for launch in 4Q
Rivercove Residences	Sengkang, Singapore	Executive Condominium	590	Launched in Apr-18. (99% taken up via balloting)
Tianjin Eco-City	Tianjin, China	Condominium	600	Launched in Jul-18. 60% taken up (inclusive of bookings)
Total			2450	

Earnings Summary (RM mn)

YE Dec 31 (RM'mn)	2016	2017	2018F	2019F	2020F
Revenue	4655.6	5374.8	5513.6	5967.3	6182.0
EBITDA	853.1	797.2	871.5	902.4	948.6
EBITDA margin (%)	18.3	14.8	15.8	15.1	15.3
Pretax profit	803.6	810.5	772.1	802.9	891.9
Net profit	585.9	639.5	595.4	588.7	658.5
Net profit -adj	547.4	566.3	566.0	588.7	658.5
EPS (sen)	28.4	13.3	12.4	12.2	13.7
EPS - adj (sen)	11.4	11.8	11.8	12.2	13.7
EPS Growth (Core) (%)	(7.3)	3.5	(0.1)	4.0	11.9
PER (x)	13.7	13.3	13.3	12.8	11.4
GDPS (sen)	5.2	6.0	6.0	6.0	6.0
Div Yield (%)	3.3	3.8	3.8	3.8	3.8
ROE (%)	7.8	7.4	7.1	7.1	7.6

Note: EPS, DPS adjusted for 4 for 3 bonus issue completed in FY 17

2Q18 Results Analysis (RM mn)

YE 31 Dec (RM'mn)	2Q17	1Q18	2Q18	QoQ (%)	YoY (%)	1HFY17	1HFY18	YoY(%)	
Revenue	1,241.0	1,308.4	1,287.1	(1.6)	3.7	2,329.3	2,595.5	11.4	
Property Development	271.1	132.3	88.7	(33.0)	(67.3)	414.4	221.0	(46.7)	
Property Investment	207.4	220.0	216.7	(1.5)	4.5	394.3	436.7	10.8	
Construction	310.9	443.7	449.7	1.3	44.6	627.7	893.4	42.3	
Trading & Manufacturing	226.0	278.3	286.4	2.9	26.7	471.2	564.7	19.8	
Quarry	58.7	50.0	57.9	15.8	(1.4)	98.9	107.9	9.1	
Others	166.9	184.2	187.7	1.9	12.5	325.8	371.9	14.1	
EBIT	193.9	130.0	166.0	27.7	(14.4)	308.0	296.0	(3.9)	
Gain on derivative	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Finance income	43.7	54.9	56.3	2.4	28.8	86.5	111.2	28.5	
Finance costs	(62.4)	(62.6)	(69.1)	10.4	10.6	(112.0)	(131.6)	17.5	
Associates	83.0	27.5	90.0	227.1	8.4	109.9	117.5	6.8	
JV	13.3	11.0	4.0	(63.1)	(69.6)	29.2	15.0	(48.6)	
EI	56.8	0.0	59.2	>100	4.2	56.8	59.2	4.2	
PBT	271.4	160.9	242.2	50.6	(10.8)	421.8	403.1	(4.4)	
Core PBT	214.6	160.9	183.0	13.8	(14.7)	367.8	343.9	(6.5)	
Property Development	75.2	23.8	46.4	95.4	(38.3)	100.3	70.2	(30.0)	
Property Investment	27.6	55.6	102.5	84.3	270.9	58.8	99.0	68.4	
Construction	42.3	40.1	49.6	23.5	17.1	79.2	89.7	13.2	
Trading & Manufacturing	10.3	11.5	13.4	16.3	29.7	19.1	24.9	30.4	
Quarry	3.7	1.8	2.9	65.9	(20.8)	4.2	4.7	11.7	
Others	55.5	28.1	(31.8)	(213.2)	(157.3)	106.2	55.5	(47.7)	
Tax	(38.2)	(23.4)	(26.5)	13.0	(30.7)	(65.4)	(49.9)	(23.7)	
MI	(36.3)	(15.6)	(16.3)	4.9	(55.1)	(53.5)	(31.9)	(40.3)	
Net profit	196.9	121.9	199.4	63.6	1.3	302.9	321.4	6.1	
Core net profit	140.1	121.9	140.2	15.0	0.1	248.1	262.2	5.7	
Reported EPS	(sen)	4.1	2.5	4.1	64.3	(0.8)	6.4	6.6	2.7
Adj EPS	(sen)	2.9	2.5	2.9	15.5	(2.0)	5.2	5.4	2.8
DPS	(sen)	3.0	0.0	3.5	>100	16.7	3.0	3.5	16.7
EBIT margin	(%)	15.6	9.9	12.9	3.0	(2.7)	13.2	11.4	(1.8)
PBT margin	(%)	17.3	12.3	14.2	1.9	(3.1)	15.8	13.3	(2.5)
Property Development	(%)	27.7	18.0	52.3	34.4	24.6	24.2	31.8	7.6
Property Investment	(%)	13.3	25.3	47.3	22.0	34.0	14.9	22.7	7.8
Construction	(%)	13.6	9.0	11.0	2.0	(2.6)	12.6	10.0	(2.6)
Trading & Manufacturing	(%)	4.6	4.1	4.7	0.5	0.1	4.1	4.4	0.4
Quarry	(%)	6.3	3.5	5.0	1.5	(1.2)	4.2	4.3	0.1
Others	(%)	33.2	15.3	(16.9)	(32.2)	(50.2)	32.6	14.9	(17.7)
Net margin	(%)	11.3	9.3	10.9	1.6	(0.4)	10.6	10.1	(0.5)
Effective tax rate	(%)	17.8	14.5	14.5	(0.1)	(3.3)	17.8	14.5	(3.3)

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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 Thursday, August 23, 2018, 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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