

# Sunway Bhd

Anticipating Stronger Sales in 4Q

**TP: RM1.75** (+6.7%)

Last Traded: RM1.64

**HOLD**

Thiam Chiann Wen

Tel: +603-2167 9615

cwthiam@ta.com.my

www.taonline.com.my

### Review

- Excluding the fair value gain from Sunway REIT's of RM56.8mn, Sunway's 9M17 normalised net profit of RM398.9mn came in within expectations, accounting for 71% of both ours and consensus' full-year forecasts respectively.
- YoY, Sunway's 9M17 revenue and normalised net profit grew 8.6% and 3.5% to RM3.7bn and RM398.9mn respectively. The improvement was largely due to higher contribution from all business segments, except property development and quarry division. Property development division revenue decreased 27.6% YoY, mainly due to lower sales and progress billings from local development projects. Meanwhile, 9M17 revenue for quarry division declined 2.7% YoY was largely due to lower sales volume and selling prices
- QoQ, 3Q17 normalised net profit increased 7.6% to RM150.9mn, on the back of 6.3% growth in revenue. Lower effective tax rates of 14.7% vs 17.8% a quarter ago also lifted net profit higher. Segmental wise, both property development and quarry division registered lower QoQ revenue, largely due to similar reasons mentioned earlier.
- Sunway reported RM142mn new property sales in 3Q17 (-12% QoQ, -18% YoY), bringing the 9M17 sales to RM583mn (-33% YoY). 9M17 sales were soft largely due to lack of new launches during the period under review. Mount Sophia project in Singapore is the key contributor to sales, making up 59% of YTD sales – see **Figure 1**. Mount Sophia's sales performance improved further, with overall take up rate now increased to 80% from 60% a quarter ago. Unbilled sales eased to RM991mn (effective RM766mn), from RM1.2bn a quarter ago.

### Impact

- While we are maintaining our FY17-19 sales forecasts of RM1.2bn to RM2.0bn, we adjust our progress billings assumptions to reflect the timing of new launches which are scheduled in 4Q17. As a result, our FY17-19 net profit forecasts are revised lower by 1-6%.

### Outlook

- Despite only securing new sales of RM583mn in 9M17, management has maintained its sales target of RM1.1bn in 2017, underpinned by new projects worth RM1.1bn - see **Table 2** and other existing projects. Response for its recent launches is encouraging, with Sunway Industrial Park (GDV: RM100mn, industrial), Sunway Serene (GDV: RM400mn, Condominiums), The Grid @ Sunway Iskandar (GDV: RM200mn, Apartments, Retail & Offices) achieving 50% take up rate (include bookings). Notably, landed homes in Sunway Iskandar, Johor (GDV: RM90mn, RN600k-700k/unit) were 99% booked within a month of launch. Note that all these new sales are expected to be captured in 4Q17.

### Share Information

Bloomberg Code	SWB MK
Stock Code	5211
Listing	Main Market
Share Cap (mn)	4879.8
Market Cap (RMmn)	8,002.8
52-wk Hi/Lo (RM)	1.96/1.24
12-mth Avg Daily Vol ('000 shrs)	5,371.1
Estimated Free Float (%)	30.3
Beta	0.8
<b>Major Shareholders (%)</b>	
	Sungei Way Corp (50.9)
	EPF (5.2)

### Forecast Revision

	FY17	FY18
Forecast Revision (%)	(1.0)	(4.9)
Net profit (RMmn)	553.1	582.9
Consensus	563.9	599.5
TA's / Consensus (%)	98.1	97.2
Previous Rating	Hold (Maintained)	

### Financial Indicators

	FY17	FY18
Net gearing (x)	45.6	42.3
CFPS (sen)	11.5	14.0
P/CFPS (x)	14.3	11.7
ROE (%)	7.4	7.7
ROA (%)	3.0	3.1
NTA/Share (RM)	1.5	1.6
Price/NTA (x)	1.1	1.1

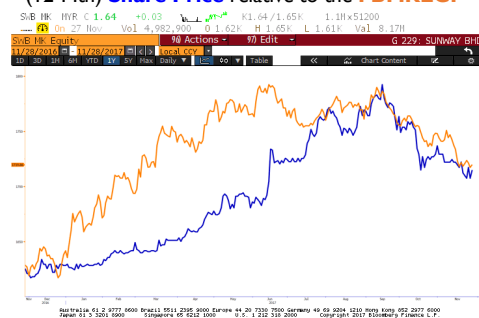
### Scorecard

	% of FY	
vs TA	71.0	Within
vs Consensus	71.0	Within

### Share Performance (%)

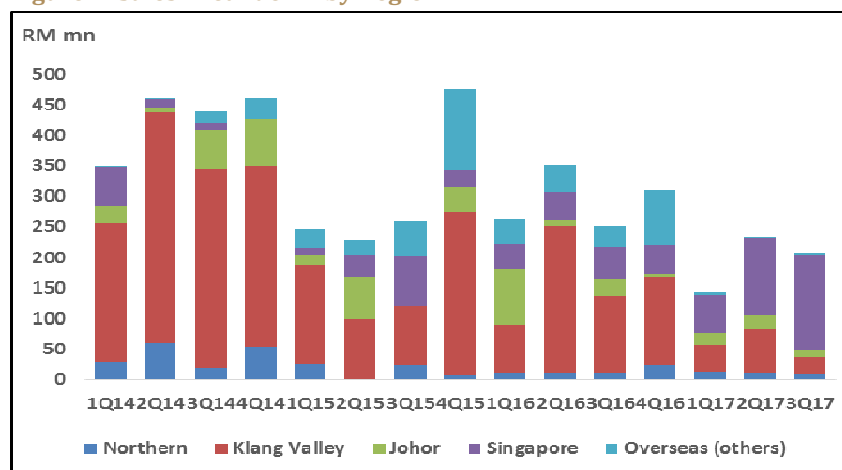
Price Change	SWB	FBM KLCI
1 mth	(3.0)	(1.5)
3 mth	(11.0)	(2.8)
6 mth	6.3	(3.0)
12 mth	28.8	5.6

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



Source: Bloomberg

Figure 1: Sales Breakdown by Region



Source: Sunway, TA Research

- YTD the group has sealed 5 land deals in the Klang Valley and replenished its GDV by RM4.86bn. We believe these land acquisitions will augur well for the group over the long term, as it further expands the group's land bank in the Klang Valley and reduces its concentration risk in Johor.

### Valuation

- Following the change in earnings, our target price is adjusted lower to **RM1.75** (previous RM1.83), based on SOP valuation. Maintained Hold with a potential total return of 9.8%

Table I: SOP Valuation

	Amount (RM mn)	Multiple	Stake	Sunway's Share (RM mn)	Per Share (RM)
CY18 Property Earnings	185.3	14	100%	2593.9	0.54
SunCon @ RM2.65 TP	3426.5	1	54%	1864.0	0.39
SunREIT @ RM1.87 TP	5493.3	1	37%	2049.0	0.43
CY18 Healthcare Earnings	60.0	20	100%	1200.0	0.25
CY18 Other Business Earnings	59.8	12	100%	718.0	0.15
<b>SOP Value</b>				<b>8424.9</b>	<b>1.75</b>

**Table 2: New Launches Status**

Development	Location	Type	GDV (RM mn)	Launch Date	Sales Performance
Sunway Serene	Kelana Jaya	Condominium	400	Sept	50% (include bookings)
The Grid	Sunway Iskandar, Johor	Apartments, retail & Offices	300	Nov	50% (include bookings)
Sunway Industrial Park	Kg Subang	Industrial	120	Aug	launched 30 out of 45 units. 50% include booking
Sunway Iskandar	Sunway Iskandar, Johor	Terrace and Cluster	90	Nov	99% (include bookings)
Sunway Wellesley	Bkt Mertajam, Penang	Shops	15	Nov	30% (include bookings)
Tianjin Eco-City	Tianjin, China	Condominium	200	Dec	To be launche din Dec
<b>Total</b>			<b>1125</b>		

Source: Sunway, TA Research,

**Table 3: Earnings Summary (RM mn)**

YE Dec 31 (RM'mn)	2015	2016	2017F	2018F	2019F
Revenue	4448.4	4725.9	5217.0	5662.0	6140.7
EBITDA	805.3	864.9	851.3	905.6	943.2
EBITDA margin (%)	18.1	18.3	16.3	16.0	15.4
Pretax profit	783.0	803.5	796.6	807.9	865.1
Net profit	732.4	585.9	553.1	922.9	635.8
Net profit -adj	590.7	547.4	553.1	582.9	635.8
EPS (sen)	40.7	28.4	11.5	19.2	13.2
EPS - adj (sen)	12.3	11.4	11.5	12.1	13.2
EPS Growth (Core) (%)	(0.2)	(7.3)	1.0	5.4	9.1
PER (x)	13.4	14.4	14.3	13.5	12.4
GDPS (sen)	13.8	5.2	5.0	5.0	6.0
Div Yield (%)	8.4	3.2	3.0	3.0	3.7
ROE (%)	9.5	7.8	7.4	7.7	8.2

Note: EPS, DPS adjusted for 4 for 3 bonus issue proposed in FY17

**Table 4: 3QFY17 Results Analysis (RM mn)**

YE 31 Dec (RM'mn)	3Q16	2Q17	3Q17	QoQ (%)	YoY (%)	9MFY16	9MFY17	YoY(%)	
<b>Revenue</b>	<b>1,137.5</b>	<b>1241.0</b>	<b>1319.6</b>	<b>6.3</b>	<b>16.0</b>	<b>3362.2</b>	<b>3651.9</b>	<b>8.6</b>	
Property Development	247.6	271.1	162.2	(40.2)	(34.5)	796.7	576.6	(27.6)	
Property Investment	189.9	207.4	225.4	8.7	18.7	519.2	619.7	19.4	
Construction	287.9	310.9	416.6	34.0	44.7	848.7	1044.4	23.1	
Trading & Manufacturing	206.7	226.0	292.9	29.6	41.7	618.2	764.1	23.6	
Quarry	54.0	58.7	50.3	(14.3)	(6.9)	153.3	149.2	(2.7)	
Others	151.4	166.9	172.2	3.2	13.7	426.0	497.9	16.9	
<b>EBIT</b>	<b>164.3</b>	<b>193.9</b>	<b>153.6</b>	<b>(20.8)</b>	<b>(6.6)</b>	<b>475.4</b>	<b>464.2</b>	<b>(2.3)</b>	
Gain on derivative	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Finance income	31.5	43.7	56.2	28.7	78.3	81.3	142.7	75.6	
Finance costs	(34.1)	(62.4)	(62.5)	0.1	83.3	(115.5)	(174.5)	51.0	
Associates	25.1	83.0	29.9	(64.0)	19.0	96.3	139.9	45.2	
JV	21.6	13.3	19.6	46.9	(9.3)	50.8	49.0	(3.6)	
EI	(4.5)	56.8	0.0	nm	nm	14.6	56.8	289.0	
PBT	208.5	271.4	196.7	(27.5)	(5.7)	588.4	621.3	5.6	
<b>Core PBT</b>	<b>213.0</b>	<b>214.6</b>	<b>196.7</b>	<b>(8.3)</b>	<b>(7.7)</b>	<b>573.8</b>	<b>564.5</b>	<b>(1.6)</b>	
Property Development	62.2	75.2	35.5	(52.9)	(43.0)	191.9	135.7	(29.3)	
Property Investment	45.9	27.6	50.0	81.0	9.0	120.7	108.8	(9.9)	
Construction	32.2	42.3	18.9	(55.4)	(41.3)	104.4	98.1	(6.0)	
Trading & Manufacturing	7.3	10.3	4.4	(57.0)	(38.8)	19.3	23.6	22.1	
Quarry	6.7	3.7	1.3	(65.6)	(81.1)	24.2	5.5	(77.4)	
Others	58.8	55.5	86.7	56.2	47.4	113.3	192.9	70.2	
Tax	(37.7)	(38.2)	(29.0)	(24.1)	(23.2)	(94.4)	(94.5)	0.0	
MI	(27.7)	(36.3)	(16.9)	(53.4)	(38.9)	(94.4)	(71.1)	(24.6)	
Net profit	143.6	196.9	150.9	(23.4)	5.0	400.1	455.7	13.9	
Core net profit	148.1	140.1	150.9	7.6	1.9	385.5	398.9	3.5	
Reported EPS	(sen)	7.0	9.6	7.4	(23.3)	5.1	20.6	22.3	8.7
Adj EPS	(sen)	7.2	6.8	7.4	7.8	1.9	19.8	19.6	(1.3)
DPS	(sen)	0.0	7.0	0.0	nm	0.0	5.0	7.0	40.0
EBIT margin	(%)	14.4	15.6	11.6	(4.0)	(2.8)	14.1	12.7	(1.4)
<b>PBT margin</b>	<b>(%)</b>	<b>18.7</b>	<b>17.3</b>	<b>14.9</b>	<b>(2.4)</b>	<b>(3.8)</b>	<b>17.1</b>	<b>15.5</b>	<b>(1.6)</b>
Property Development	(%)	25.1	27.7	21.9	(5.9)	(3.3)	24.1	23.5	(0.6)
Property Investment	(%)	24.2	13.3	22.2	8.9	(2.0)	23.2	17.6	(5.7)
Construction	(%)	11.2	13.6	4.5	(9.1)	(6.6)	12.3	9.4	(2.9)
Trading & Manufacturing	(%)	3.5	4.6	1.5	(3.1)	(2.0)	3.1	3.1	(0.0)
Quarry	(%)	12.4	6.3	2.5	(3.8)	(9.9)	15.8	3.7	(12.1)
Others	(%)	38.9	33.2	50.3	17.1	11.5	26.6	38.7	12.1
Net margin	(%)	13.0	11.3	11.4	0.1	(1.6)	11.5	10.9	(0.5)
Effective tax rate	(%)	17.7	17.8	14.7	(3.1)	(3.0)	16.5	16.7	0.3

### 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 Tuesday, November 28, 2017, 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