

COMPANY RESULTS

Sunway Bhd (SWB MK)

1Q19: Great Kick-off

Sunway started 2019 positively, reporting 1Q19 net profit growth of 14% yoy, coming in at 22% of our full-year estimate. All segments contributed positively to bottom-line except for trading & manufacturing and quarry. The company believes its diversified businesses would propel group earnings in the coming quarters. Maintain HOLD with a higher target price of RM1.81. Entry price: RM1.55.

1Q19 RESULTS

Year to 31 Dec (RMm)	1Q19	qoq % chg	yoy % chg
Revenue	1,123.6	(18.0)	(12.3)
Construction	346.2	(29.2)	(22.0)
Property Development	87.9	(56.9)	(33.6)
Investment Property	196.7	40.2	1.9
Pretax profit	177.3	(27.4)	11.4
- Construction	43.7	(16.2)	5.4
- Property Development	32.8	(35.7)	19.6
- Investment Property	57.4	(31.9)	0.5
PATAMI	136.4	(25.4)	13.8
Core PATAMI	136.4	(21.7)	13.8
Margins (%)		qoq ppt chg	yoy ppt chg
Pre-tax - Construction	12.6	2.0	3.3
Pre-tax - Property Development	37.4	12.3	16.6

Source: Sunway, UOB Kay Hian

RESULTS

• **In line.** Sunway reported 1Q19 core net profit of RM136.4m (-26% qoq, +14% yoy) on revenue of RM1.1b (-18% qoq, -12% yoy). 1Q19 core net profit came in at 22% of our full-year estimate, driven by: a) improved property development earnings; b) higher rental income from investment properties; c) stronger billings with improved margins from construction orderbook backlog; and d) better occupancy rate at its healthcare business. However, the trading & manufacturing and quarry segments dragged overall 1Q19 performance due to sluggish demand and lower ASP.

KEY FINANCIALS

Year to 31 Dec (RMm)	2017	2018	2019F	2020F	2021F
Net turnover	5,239	5,410	5,672	5,825	5,260
EBITDA	792	703	863	917	984
Operating profit	653	560	720	766	826
Net profit (rep./act.)	621	659	625	673	734
Net profit (adj.)	547	591	625	673	734
EPS (sen)	10.7	11.5	12.2	13.1	14.3
PE (x)	15.9	14.7	13.9	13.0	11.9
P/B (x)	1.1	1.0	0.9	0.9	0.9
EV/EBITDA (x)	15.9	17.9	14.6	13.8	12.8
Dividend yield (%)	2.6	2.8	3.0	3.2	3.5
Net margin (%)	11.8	12.2	11.0	11.5	13.9
Net debt/(cash) to equity (%)	45.8	47.6	41.8	35.9	30.0
Interest cover (x)	n.a.	n.a.	7.8	9.2	11.3
ROE (%)	8.6	8.0	7.2	7.4	7.7
Consensus net profit	-	-	631	692	747
UOBKH/Consensus (x)	-	-	0.99	0.97	0.98

Source: Sunway, Bloomberg, UOB Kay Hian

HOLD

(Maintained)

Share Price	RM1.69
Target Price	RM1.81
Upside	+11.4%
(Previous TP)	RM1.63

COMPANY DESCRIPTION

A leading construction company and property developer in Malaysia.

STOCK DATA

GICS sector	Real Estate
Bloomberg ticker:	SWB MK
Shares issued (m):	4,886.5
Market cap (RMm):	8,258.1
Market cap (US\$m):	1,977.3
3-mth avg daily t'over (US\$m):	1.0

Price Performance (%)

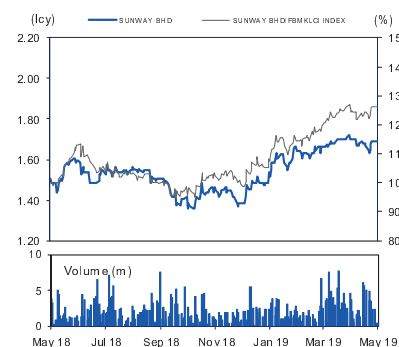
52-week high/low	RM1.72/RM1.36			
1mth	3mth	6mth	1yr	YTD
(1.2)	1.6	15.3	14.6	16.1

Major Shareholders

Sungei Way Corp Sdn Bhd	51.6
Skim Amanah Saham Bumiputera	5.7
Sharp Ventures Sdn Bhd	4.0

FY19 NAV/Share (RM)	1.80
FY19 Net Debt/Share (RM)	0.75

PRICE CHART



Source: Bloomberg

ANALYST(S)

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- Property development:** Slower property billings slashed segment revenue by 57% qoq and 34% yoy. On the other hand, the 20% yoy improvement in earnings was attributed to reversal of RM15m in 1Q18 (reversal of profits due to the adoption of MFRS15 accounting standard), while the 36% qoq earnings decline was attributed to lower billings as well as the completion and handover of several local development projects in 4Q18. Core margin inched up 12ppt qoq and 5ppt yoy, higher than our assumption. We expect margins to normalise in the coming quarters to mid-20s level. We expect progress billings to accelerate in the coming quarters on the back of its strong unbilled sales of RM1.8b.
- Construction: Better progress billings.** 1Q19 construction PBT grew 5% yoy, thanks to good progress billings at ongoing projects. However, net profit dropped 16% qoq, dragged by lower progress billings at local projects, sluggish precast business largely due lower ASP realised (per m3) coupled with soft margins which were affected by high raw material prices.
- Investment properties: Marginal improvement.** Investment property PBT edged up 0.5% yoy in 1Q19, attributed to contribution from Sunway Geo and improved contribution from theme parks. However, this was offset by the leisure and hospitality business which reported seasonally strong earnings coupled with fair value gains from revaluation of investment properties of RM30m in 4Q18.

STOCK IMPACT

- Resilient earnings from property development.** We expect the property development arm will continue to deliver sturdy earnings, thanks to its strong unbilled sales of RM1.8b as of Mar 19. Additionally, the company remains upbeat to secure its RM1b sales target in 2019, driven by new property launches worth RM1.7b, while expecting stronger sales in the coming quarters. Ytd, its effective property sales stood at RM172m.
- Strong diversified outstanding orderbook.** Sunway Construction's (SunCon) outstanding orderbook backlog of RM5.7b provides earnings visibility for its construction arm for the next 3-4 years, with ytd job wins of RM1b. The company remains upbeat of achieving its RM1.5b annual orderbook replenishment target in 2019 and expects to secure building jobs locally from its existing client, and local piling jobs. Also, the recent tie-up with its JV partner, Capital Construction, a subsidiary of Capital Diamond Star Group (CDSG), will allow SunCon to jointly develop major infrastructure and construction projects in Yangon and Mandalay, while expecting new construction jobs to flow in as early as end-19, such as hospitals and office buildings.

EARNINGS REVISION/RISK

- None.

VALUATION/RECOMMENDATION

- Maintain HOLD with a higher target price of RM1.81 (from RM1.63)**, based on a 15% discount to our SOTP valuation of RM2.13/share (post dilution), and implies 16.0x 2019F PE. We revised our target price after excluding our conservative discount of 20% to its property division amid its strong ability to meet its property sales target historically coupled with strong take-up rates at its property projects (strong demand for its mid- to high-end properties due to strong propositions, ie location and value) and low inventory levels. Separately, our target price has imputed the potential value of its healthcare division that could be worth RM1b based on a conservative PE of 25x and net profit of RM40m (representing RM0.20/share). A good entry price is RM1.55.

SOTP VALUATION

	(RMm)	Remarks
Property development	5,670.1	Property RNAV
REIT	2,095.9	Valuation based on TP of RM1.74, implying 17.8x 2019F PE
Construction	1,258.1	Valuation based on TP of RM1.79, 14x 2019F PE
Quarry & building materials	74.7	10x PE pegged to 2019 quarry profits
Trading	581.5	10x PE pegged to 2019 trading profits
Investment Properties	619.8	
Healthcare	1,000	Potential value derived based on 25x PE on RM40m profit
Less: Holding co debt	(404.3)	
Total SOTP value (A)	10,895.7	
Share base (B)	4,918.0	
Warrants proceeds (C)	908.6	Conservatively assumes conversion price at RM1.44/share (expiring in Oct 24)
Total SOP value post warrants proceeds (A+C)	11,804.4	
Enlarged share base	5,549	
SOTP/share (RM)	2.13	
Discount	15%	
Target price (RM)	1.81	

Source: UOB Kay Hian

OUTSTANDING ORDERBOOK AS OF MAR 19

	(RMm)
LRT3	1,929
MRT2	359
Tenaga HQ Campus*	781
PPA1M Kelantan	141
LRT3 piling*	48
Mixed development Putrajaya piling*	39
Others	534
Total External (A)	3,831
Sunway Medical Centre – Phase 4	429
Sunway Serene	306
Sunway Carnival (Extension)	247
Sunway GeoLAKE	161
Big Box Hotel, Medini*	45
Others	735
Total Internal (B)	1,923
Precast (C)	316
Total (A+B+C)	5,731

* New contracts secured in 2019

Source: UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (RMm)	2018	2019F	2020F	2021F
Net turnover	5,410	5,672	5,825	5,260
EBITDA	703	863	917	984
Deprec. & amort.	143	143	151	158
EBIT	560	720	766	826
Associate contributions	229	229	229	229
Net interest income/(expense)	62	(111)	(100)	(87)
Pre-tax profit	851	838	895	968
Tax	(122)	(142)	(152)	(165)
Minorities	(70)	(70)	(70)	(70)
Net profit	659	625	673	734
Net profit (adj.)	591	625	673	734

CASH FLOW

Year to 31 Dec (RMm)	2018	2019F	2020F	2021F
Operating	794	839	894	962
Pre-tax profit	851	838	895	968
Tax	(107)	(142)	(152)	(165)
Deprec. & amort.	143	143	151	158
Associates	(16)	0	0	0
Working capital changes	(195)	0	0	0
Other operating cashflows	119	0	0	0
Investing	(912)	(250)	(250)	(250)
Capex (growth)	(690)	(250)	(250)	(250)
Investments	(16)	0	0	0
Proceeds from sale of assets	360	0	0	0
Others	(566)	0	0	0
Financing	868	(250)	(269)	(293)
Dividend payments	(393)	(250)	(269)	(293)
Issue of shares	0	0	0	0
Proceeds from borrowings	1,144	0	0	0
Loan repayment	0	0	0	0
Others/interest paid	117	0	0	0
Net cash inflow (outflow)	750	338	375	418
Beginning cash & cash equivalent	2,237	2,975	3,313	3,688
Changes due to forex impact	2,147	2,159	2,159	2,159
Ending cash & cash equivalent	5,134	5,473	5,847	6,266

BALANCE SHEET

Year to 31 Dec (RMm)	2018	2019F	2020F	2021F
Fixed assets	1,856	1,963	2,062	2,154
Other LT assets	9,509	9,509	9,509	9,509
Cash/ST investment	5,134	5,473	5,847	6,266
Other current assets	4,587	4,587	4,587	4,587
Total assets	21,086	21,532	22,005	22,515
ST debt	6,057	6,057	6,057	6,057
Other current liabilities	2,663	2,663	2,663	2,663
LT debt	3,118	3,118	3,118	3,118
Other LT liabilities	144	144	144	144
Shareholders' equity	8,485	8,860	9,264	9,704
Minority interest	620	690	760	830
Total liabilities & equity	21,086	21,532	22,005	22,515

KEY METRICS

Year to 31 Dec (%)	2018	2019F	2020F	2021F
Profitability				
EBITDA margin	13.0	15.2	15.7	18.7
Pre-tax margin	15.7	14.8	15.4	18.4
Net margin	12.2	11.0	11.5	13.9
ROA	3.2	2.9	3.1	3.3
ROE	8.0	7.2	7.4	7.7
Growth				
Turnover	3.3	4.8	2.7	(9.7)
EBITDA	(11.2)	22.7	6.2	7.4
Pre-tax profit	(2.5)	(1.5)	6.8	8.2
Net profit	6.2	(5.1)	7.6	9.0
Net profit (adj.)	8.0	5.8	7.6	9.0
EPS	7.9	5.7	7.5	9.0
Leverage				
Debt to total capital	50.2	49.0	47.8	46.6
Debt to equity	108.1	103.6	99.0	94.6
Net debt/(cash) to equity	47.6	41.8	35.9	30.0
Interest cover (x)	n.a.	7.8	9.2	11.3