

### COMPANY RESULTS

## Sunway Bhd (SWB MK)

9M19: Core Net Profit Up 20% yoy

Sunway's core net profit grew 20% yoy in 1H19, thanks to its core property development & investment and healthcare businesses, which contributed about 80% to bottom line. The healthcare business continued to show yoy growth momentum. Meanwhile, we expect earnings momentum to sustain in the coming quarters, underpinned by its property development & investment contribution, but dragged by its construction arm. Maintain BUY and target price of RM2.11.

### 9M19 RESULTS

Year to 31 Dec (RMm)	3Q19	2Q19	qoq % chg	yoy % chg	9M19	yoy % chg
Revenue	1,226.5	1,077.2	13.9	(13.4)	3,427.3	(13.4)
Construction	315.6	293.5	7.5	(32.2)	955.2	(29.7)
Property Development	126.2	113.6	11.1	(35.2)	327.7	(21.2)
Investment Property	209.7	176.1	19.1	0.2	582.5	(1.6)
Pre-tax profit	223.3	253.2	(11.8)	17.0	653.8	10.2
- Construction	33.1	47.4	(30.1)	(17.6)	124.2	(6.3)
- Property Development	59.0	37.3	58.3	32.3	129.1	5.7
- Investment Property	67.0	122.3	(45.3)	27.3	246.7	15.1
Net profit	183.4	246.5	(25.6)	26.6	566.3	22.0
Core net profit	183.4	165.2	11.0	26.6	485.0	19.7
<b>Margins (%)</b>			<b>qoq ppt chg</b>	<b>yoy ppt chg</b>		<b>yoy ppt chg</b>
Pre-tax - Construction	10.5	16.2	(5.7)	1.9	13.0	3.3
Pre-tax - Property Development	46.7	32.8	13.9	23.8	39.4	10.0

Source: Sunway, UOB Kay Hian

### RESULTS

• **Slightly above expectations.** Sunway Bhd (Sunway) reported 3Q19 core net profit of RM183m (+11% qoq, +27% yoy) on revenue of RM1.3b (+14% qoq, -13% yoy). Excluding one-offs, revaluation gains of RM44m and disposal gains of RM38m, 9M19 core net profit came in at 78% of our full-year estimate. Core net profit and blended margins grew on: a) a stellar healthcare performance; b) higher net interest income; and c) lower tax expense. 9M19 earnings were partially offset by the weak trading & manufacturing and quarry segments due to sluggish demand and lower ASP, as well as a weak construction segment.

### KEY FINANCIALS

Year to 31 Dec (RMm)	2017	2018	2019F	2020F	2021F
Net turnover	5,239	5,410	5,516	5,766	5,190
EBITDA	630	470	858	923	992
Operating profit	491	327	715	772	833
Net profit (rep./act.)	621	659	622	678	740
Net profit (adj.)	548	591	622	678	740
EPS (sen)	10.7	11.5	11.3	12.3	13.4
PE (x)	16.6	15.4	15.7	14.4	13.2
P/B (x)	1.0	1.0	1.0	0.9	0.9
EV/EBITDA (x)	20.9	27.9	15.3	14.2	13.2
Dividend yield (%)	2.7	2.7	2.8	3.1	3.4
Net margin (%)	11.9	12.2	11.3	11.8	14.3
Net debt/(cash) to equity (%)	47.6	47.6	41.8	35.9	29.9
Interest cover (x)	n.a.	n.a.	7.7	9.3	11.4
ROE (%)	7.6	7.8	7.2	7.5	7.8
Consensus net profit	-	-	622	682	755
UOBKH/Consensus (x)	-	-	1.00	0.99	0.98

Source: Sunway, Bloomberg, UOB Kay Hian

## BUY

(Maintained)

Share Price	RM1.77
Target Price	RM2.11
Upside	+18.8%

### COMPANY DESCRIPTION

A leading construction company and property developer in Malaysia.

### STOCK DATA

GICS sector	Real Estate
Bloomberg ticker:	SWB MK
Shares issued (m):	4,908.4
Market cap (RMm):	8,737.0
Market cap (US\$m):	2,097.7
3-mth avg daily t'over (US\$m):	1.4

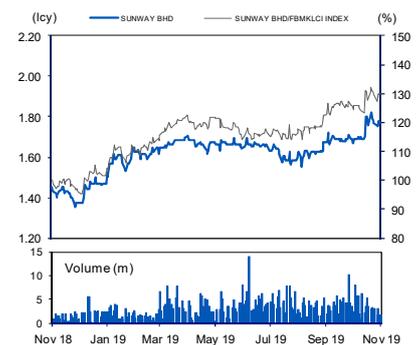
### Price Performance (%)

52-week high/low	RM1.82/RM1.35			
<b>1mth</b>	<b>3mth</b>	<b>6mth</b>	<b>1yr</b>	<b>YTD</b>
4.1	12.4	6.4	22.7	23.5

### Major Shareholders

Shareholder	%
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.** The property arm reported 9M19 PBT of RM129m (+6%) on higher progressive profits recognised and a 3ppt yoy rise in operating margin to 26%. But revenue dropped due to lower billings from domestic property projects as well as a high base in 2018 on the completion of Sunway GEOSense project in 9M18. We expect billings to gradually pick up in the coming quarters on strong unbilled sales of RM2.1b (effective stake).
- Healthcare: Higher patient occupancy.** More new beds and higher outpatient treatments contributed to bottom line but this was partly dragged by start-up cost of RM6.8m from the opening of Sunway Velocity Medical Centre in 3Q19. The segment reported a strong 9M19 operating profit of RM45m (+32% yoy) but EBIT margin was flat at 10.8% (+0.4ppt yoy).
- Construction.** 9M19 core net profit declined 6% yoy due to completion of the Parcel F project in 1Q19, lower billings recognition from the LRT3 project due to cost optimisation for station works and precast deliveries yielding lower margins.
- Hospitality: Subdued.** Despite reporting higher PBT of RM247m (+15%) in 9M19 due to one-off disposal gains, the hospitality and theme park segment reported lower revenue on lower occupancy and visitor arrivals. The segment also reported lower share of fair value gains of RM44m (2Q18: RM59m) from the revaluation of Sunway REIT's properties.

### STOCK IMPACT

- Property development: Sturdy property sales.** The company remains upbeat to secure RM1b sales in 2019, driven by new property launches worth RM1.2b, while expecting stronger sales in the coming quarters. Ytd, its property sales stood at RM720m which came from just new property launches in 2019 with GDV of RM850m. Sunway plans to launch its remaining two properties - Sunway Lenang Heights (GDV: RM130m) and Sunway Avila Tower B (RM230m) - in Nov 19 and Dec 19 respectively.
- Healthcare: The unpolished gem.** The healthcare arm is expected to grow sturdily in the coming quarters, driven by its Sunway Medical Center (SMC) and Sunway Velocity Medical Center (SVMC) operations. We understand SMC is on track to securing net profit of RM80m in 2019 (2018: RM60m), thanks to more new beds and higher outpatient treatments. SVMC, which opened in Sep 19, may see operating losses in the short term, and is expected to return to the black in 12-18 months' time. We expect the two medical centres and upcoming hospitals such as Seberang Perai (end-20), Kota Damansara (2022) and Ipoh (2023) would further grow Sunway's long-term profits. Sunway hopes to unlock value via a listing of its healthcare business to fetch up to RM4.5b in IPO proceeds based on annual profits of RM150m pegged to 30x PE.
- Strong diversified outstanding orderbook.** SunCon's outstanding orderbook backlog of RM5.6b provides earnings visibility for Sunway's construction arm for the next 3-4 years. Ytd, the company has secured new contracts worth RM1.7b from various construction and precast contracts. SunCon expects to secure new orders of RM2b in 2020, underpinned by internal and external construction works.

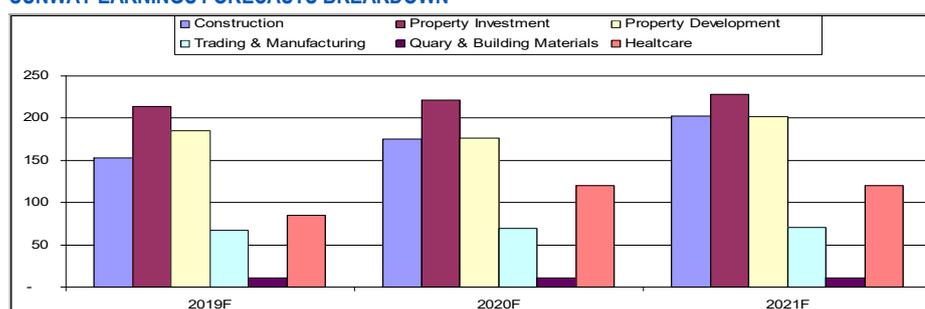
### EARNINGS REVISION/RISK

- None.

### VALUATION/RECOMMENDATION

- Maintain BUY and target price of RM2.11**, based on a 15% discount to our SOTP valuation of RM2.49/share (post dilution), and implies 17.3x 2020F fully-diluted PE. Our target price factors in the potential value of its healthcare division that could be worth RM2.5b (RM2b previously, rolling forward to 2020 healthcare earnings) based on a conservative PE of 25x and net profit of RM100m (representing RM0.51/share).

### SUNWAY EARNINGS FORECASTS BREAKDOWN



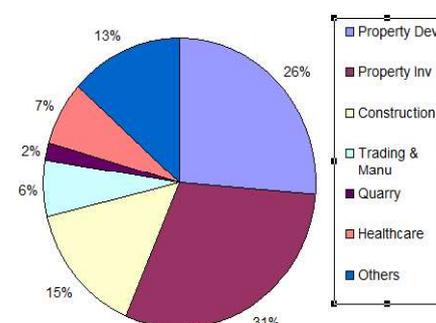
Source: Sunway, UOB Kay Hian

### SOTP VALUATION

	(RMm)	Remarks
Property development	5,670.1	Property RNAV
REIT	2,288.6	Valuation based on TP of RM1.90, based on DDM
Construction	1,398.7	Valuation based on TP of RM1.99, 14x 2020F PE
Quarry & building materials	74.7	10x PE pegged to 2020 quarry profits
Trading	581.5	10x PE pegged to 2020 trading profits
Investment Properties	641.0	
Healthcare	2,500	Valuation based on 25x PE on 2020F profit of RM100m
Less: Holding co debt	(404.3)	
<b>Total SOTP value (A)</b>	<b>12,894</b>	
Share base (B)	4,918	
Warrants proceeds (C)	908.6	Conservatively assumes conversion price at RM1.44/share (expiring in Oct 24)
<b>Total SOP value post warrants proceeds (A+C)</b>	<b>13,802</b>	
Enlarged share base	5,549	
SOTP/share (RM)	2.49	
Discount	15%	
<b>Target price (RM)</b>	<b>2.11</b>	

Source: UOB Kay Hian

### SUNWAY 9M19 PBT BREAKDOWN



Source: Sunway Bhd, UOB Kay Hian

### PROFIT & LOSS

Year to 31 Dec (RMm)	2018	2019F	2020F	2021F
<b>Net turnover</b>	<b>5,410</b>	<b>5,516</b>	<b>5,766</b>	<b>5,190</b>
EBITDA	470	858	923	992
Deprec. & amort.	143	143	151	158
EBIT	327	715	772	833
Total other non-operating income	233	n.a.	n.a.	n.a.
Associate contributions	229	229	229	229
Net interest income/(expense)	62	(111)	(100)	(87)
<b>Pre-tax profit</b>	<b>851</b>	<b>833</b>	<b>902</b>	<b>975</b>
Tax	(122)	(142)	(153)	(166)
Minorities	(70)	(70)	(70)	(70)
<b>Net profit</b>	<b>659</b>	<b>622</b>	<b>678</b>	<b>740</b>
Net profit (adj.)	591	622	678	740

### CASH FLOW

Year to 31 Dec (RMm)	2018	2019F	2020F	2021F
<b>Operating</b>	<b>794</b>	<b>835</b>	<b>899</b>	<b>968</b>
Pre-tax profit	851	833	902	975
Tax	(107)	(142)	(153)	(166)
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
<b>Investing</b>	<b>(912)</b>	<b>(250)</b>	<b>(250)</b>	<b>(250)</b>
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
<b>Financing</b>	<b>868</b>	<b>(249)</b>	<b>(271)</b>	<b>(296)</b>
Dividend payments	(393)	(249)	(271)	(296)
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
<b>Net cash inflow (outflow)</b>	<b>750</b>	<b>336</b>	<b>378</b>	<b>422</b>
<b>Beginning cash &amp; cash equivalent</b>	<b>2,237</b>	<b>2,975</b>	<b>3,311</b>	<b>3,689</b>
Changes due to forex impact	2,147	2,159	2,159	2,159
<b>Ending cash &amp; cash equivalent</b>	<b>5,134</b>	<b>5,470</b>	<b>5,848</b>	<b>6,270</b>

### 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	5,470	5,848	6,270
Other current assets	4,587	4,587	4,587	4,587
<b>Total assets</b>	<b>21,086</b>	<b>21,529</b>	<b>22,006</b>	<b>22,520</b>
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	8,858	9,265	9,708
Minority interest	620	690	760	830
<b>Total liabilities &amp; equity</b>	<b>21,086</b>	<b>21,529</b>	<b>22,006</b>	<b>22,520</b>

### KEY METRICS

Year to 31 Dec (%)	2018	2019F	2020F	2021F
<b>Profitability</b>				
EBITDA margin	8.7	15.6	16.0	19.1
Pre-tax margin	15.7	15.1	15.6	18.8
Net margin	12.2	11.3	11.8	14.3
ROA	3.1	2.9	3.1	3.3
ROE	7.8	7.2	7.5	7.8
<b>Growth</b>				
Turnover	3.3	2.0	4.5	(10.0)
EBITDA	(25.3)	82.5	7.6	7.4
Pre-tax profit	(2.5)	(2.1)	8.2	8.2
Net profit	6.1	(5.7)	9.2	9.0
Net profit (adj.)	7.9	5.1	9.2	9.0
EPS	7.8	(2.0)	9.1	8.9
<b>Leverage</b>				
Debt to total capital	50.2	49.0	47.8	46.5
Debt to equity	108.1	103.6	99.0	94.5
Net debt/(cash) to equity	47.6	41.8	35.9	29.9
Interest cover (x)	n.a.	7.7	9.3	11.4