

UOBKH HIGHLIGHTS

Sunway Bhd (SWB MK/HOLD/RM1.64/Target: RM1.88)

3Q17: Below Expectations

Year to 31 Dec	3Q17 (RMm)	2Q17 (RMm)	qoq % chg	yoy % chg	9M17 (RMm)	yoy % chg	Year	EPS (sen)	PE (x)
Revenue	1,319.6	1,241.0	6.3	16.0	3,651.9	8.6	2017F	12.2	13.5
- Construction	416.6	310.9	34.0	44.7	1,044.4	23.1	2018F	12.6	13.2
- Property Development	162.2	271.1	(40.2)	(34.5)	576.6	(27.6)	2019F	13.5	12.2
- Investment Property	225.4	207.4	8.7	18.7	619.7	19.4			
Pre-tax Profit	196.7	271.4	(27.5)	(5.7)	621.3	5.6			
- Construction	41.0	42.3	(3.0)	27.5	120.3	15.2			
- Property Development	35.5	75.2	(52.9)	(43.0)	135.7	(29.3)			
- Investment Property	50.0	84.4	(40.8)	9.0	165.6	37.2			
PBT	196.7	271.4	(27.5)	(5.7)	621.3	5.6			
Net Profit	150.9	196.9	(23.4)	5.0	455.7	13.9			
Core Net Profit	146.4	140.1	4.4	(1.2)	394.4	2.3			
Margins (%)			qoq ppt chg	yoy ppt chg		yoy ppt chg			
Pre-tax – Construction	9.8	13.6	(3.8)	(1.3)	11.5	(0.8)			
Pre-tax – Property Development	21.9	27.7	(5.9)	(3.3)	23.5	(0.6)			

Source: Sunway, UOB Kay Hian

WHAT'S NEW

- **Below expectations.** Sunway reported 3Q17 core net profit of RM146.4m (+4.4% qoq, -1.2% yoy) and revenue of RM1,319.6m (+6.3% qoq, +16.0% yoy). 9M17 core net profit (excluding fair value gains of RM56.8m and fair value ESOS of RM4.5m) of RM394.4m (+2.3% yoy) accounts for 66% of our and 71% of consensus' full-year estimates. Results missed estimates due to slower-than-expected progress billings at its property development division.
- **Property: Slow progress billings.** For the quarter, the property division recorded revenue of RM162.2m (-40.2% qoq, -34.5% yoy) and PBT of RM35.5m (-52.9% qoq, -43.0% yoy) with a healthy margin of 21.9%. Revenue was down yoy due to lower sales and billings at its local property development division. Revenue was lower qoq due to the deliveries made in 2Q17.
- **Construction: Continued to be key earnings driver.** Revenue grew 44.7% yoy to RM416.6m which propelled construction PBT to RM41m (+27.5% yoy) on the back of stronger progress billings and lower intra-group eliminations. The division recorded PBT margin of 9.8%, which we deem healthy. Earnings from this division should continue to see steady growth, particularly in 2018 as the MRT Line 2 and LRT3 go to more advanced stage of construction.
- **Investment property: Revenue improved to RM225.4m in 3Q17.** Revenue for the division grew 8.7% qoq and 18.7% yoy due to: a) additional revenue from Sunway Velocity Mall which opened in Dec 16; b) higher revenue from Sunway Pyramid Hotel (following a refurbishment exercise); and c) higher visitorship to its theme parks. The division recorded PBT of RM50.0m, (-40.8% qoq, +9.0% yoy). The qoq decline was due to higher fair value gains in 2Q17.
- **Clinched RM207m of property sales in 3Q17,** lifting 9M17 sales to RM583m. Sales were driven by Sunway Velocity (RM63m), Sunway Iskandar (RM44m) and Singapore projects (RM343m). Earnings for its property division would continue to be steady, given healthy unbilled sales of about RM991m, which represent about 0.8x 2016 property development revenue.

EARNINGS REVISION

- We reduce 2017 net profit estimate by 5% as we assume lower progress billings at the property development division.

RECOMMENDATION

- **Maintain HOLD and target price of RM1.88.** Our target price is based on a 15% discount to our SOTP valuation of RM2.21/share, and implies 14.7x 2018F PE, above its long-term average of 13x. We think the premium valuation is justified, given the growing prominence of its healthcare portfolio, a sector that trades at 35-50x. A good entry price is RM1.50.

ANALYST

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