

COMPANY RESULTS

Sunway Bhd (SWB MK)

1H19: Core Net Profit Up 16% yoy

Sunway's core net profit grew 16% yoy in 1H19, thanks to its core businesses, namely construction, property development and investment, which contributed about 80% to bottom line. The healthcare business continued to show yoy growth momentum in 1H19. We expect 2H19 earnings to pick up, driven by recognition of property and construction billings, and growth in the healthcare business. Maintain BUY and target price of RM1.96.

1H19 RESULTS

Year to 31 Dec (RMm)	2Q19	1Q19	qoq % chg	yoy % chg	1H19	yoy % chg
Revenue	1,077.2	1,123.6	(4.1)	(14.5)	2,200.8	(13.4)
Construction	293.5	346.2	(15.2)	(34.7)	639.6	(28.4)
Property Development	113.6	87.9	29.3	28.1	201.4	(8.8)
Investment Property	176.1	196.7	(10.5)	(7.2)	372.8	(2.6)
Pretax profit	253.2	177.3	42.9	4.2	430.5	7.0
- Construction	47.4	43.7	8.5	(6.8)	91.1	(1.3)
- Property Development	37.3	32.8	13.6	(25.6)	70.1	(9.6)
- Investment Property	122.3	57.4	113.1	16.9	179.7	11.1
PBT	253.2	177.3	42.9	4.2	430.5	7.0
PATAMI	246.5	136.4	80.7	23.6	382.9	19.9
Core PATAMI	165.2	136.4	21.1	17.8	301.6	15.9

Margins (%)		qoq ppt chg	yoy ppt chg		yoy ppt chg
Pre-tax - Construction	16.2	12.6	3.5	14.2	3.9
Pre-tax - Property Development	32.8	37.4	(4.5)	34.8	(0.3)

Source: Sunway, UOB Kay Hian

RESULTS

• **In line.** Sunway reported 2Q19 core net profit of RM165m (+21% qoq, +18% yoy) on revenue of RM1.08b (-4% qoq, -15% yoy). Excluding one-offs, revaluation gains of RM44m and disposal gains of RM38m, 1H19 core net profit came in at 49% 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. 1H19 earnings were dragged by the weak trading & manufacturing and quarry segments due to sluggish demand and lower ASP, as well as a weak property performance.

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	630	470	863	917	984
Operating profit	491	327	720	766	826
Net profit (rep./act.)	621	659	625	673	734
Net profit (adj.)	548	591	625	673	734
EPS (sen)	10.7	11.5	12.2	13.1	14.3
PE (x)	14.7	13.6	12.9	12.0	11.0
P/B (x)	0.9	0.9	0.9	0.8	0.8
EV/EBITDA (x)	19.1	25.6	14.0	13.1	12.2
Dividend yield (%)	3.1	3.1	3.2	3.5	3.8
Net margin (%)	11.9	12.2	11.0	11.5	13.9
Net debt/(cash) to equity (%)	47.6	47.6	41.8	35.9	30.0
Interest cover (x)	n.a.	n.a.	7.8	9.2	11.3
ROE (%)	7.6	7.8	7.2	7.4	7.7
Consensus net profit	-	-	620	681	742
UOBKH/Consensus (x)	-	-	1.01	0.99	0.99

Source: Sunway, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	RM1.57
Target Price	RM1.96
Upside	+24.9%

COMPANY DESCRIPTION

A leading construction company and property developer in Malaysia.

STOCK DATA

GICS sector	Real Estate
Bloomberg ticker:	SWB MK
Shares issued (m):	4,876.5
Market cap (RMm):	7,656.2
Market cap (US\$m):	1,820.8
3-mth avg daily t'over (US\$m):	1.5

Price Performance (%)

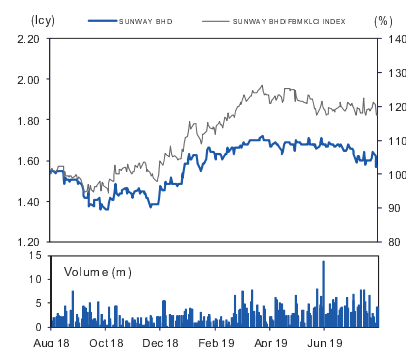
52-week high/low	RM1.72/RM1.36			
1mth	3mth	6mth	1yr	YTD
(6.5)	(6.5)	(3.9)	1.6	7.9

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.** The property arm reported 2Q19 PBT of RM37m (+14% qoq, -26% yoy) as the company recognised higher billings from a local project, while the yoy drop was attributed to forex gains in 2Q18 from accumulated profits distributed from its Singapore property development projects. Meanwhile, slower property billings in 1H19 caused segment earnings to drop by 10% yoy to RM70m, while net margin eased marginally by 0.3ppt yoy to 35%. We expect margins to normalise to mid-20s in the coming quarters on accelerated progress billings on the back of strong unbilled sales of RM2.1b.
- Healthcare: Higher patient occupancy.** The increased number of new beds coupled with higher outpatient treatment contributed positively to bottom line. The division reported a strong 1H19 operating profit of RM31m (+48% yoy), or 11% of group EBIT, while net margin improved 1.6ppt yoy to 11.5%.
- Construction.** The division's 1H19 core net profit declined 11% yoy due to completion of the Parcel F project in 1Q19 and lower billings recognition on the LRT3 due to cost optimisation for station works coupled with current precast deliveries yielding lower margins.
- Investment properties: Boosted by disposal gains.** The disposal of Sunway University contributed RM38m gains to the segment's bottom line in 2Q19, bringing 1H19 PBT to RM180m. However, this was offset by lower revenue from the hospitality business and theme parks, as well as lower share of fair value gains of RM44m (2Q18: RM59m) from the revaluation of Sunway REIT's properties.

STOCK IMPACT

- Resilient earnings from property development.** We expect the property development arm will continue to deliver sturdy earnings, thanks to strong unbilled sales of RM2.1b as of Jun 19. 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 property sales stood at RM510m while Sunway has launched a new property project with GDV of RM850m.
- Strong diversified outstanding orderbook.** SunCon's outstanding orderbook backlog of RM5.8b provides earnings visibility for its construction arm for the next 3-4 years. Ytd, the company has secured new contracts worth RM1.5b from various construction and precast contracts. SunCon is hopeful of securing another contract from Myanmar via its recent tie-up with Capital Construction Ltd. The JV will allow SunCon to jointly develop major infrastructure and construction projects in Yangon and Mandalay, while expecting other new construction jobs, such as hospitals and office buildings, to flow in from 2020
- Expect a stronger 2H19 performance.** We expect its core businesses in construction and property to deliver stronger performances in 2H19 on the back of accelerated billings from its outstanding orderbook of RM5.8b and unbilled sales of RM2.1b.

EARNINGS REVISION/RISK

- None.

VALUATION/RECOMMENDATION

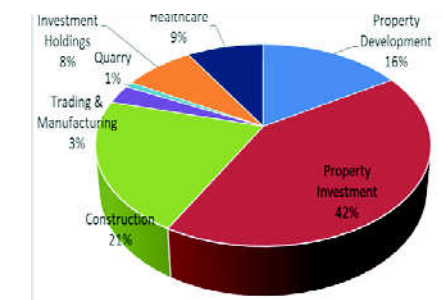
- Maintain BUY and target price of RM1.96**, based on a 15% discount to our SOTP valuation of RM2.31/share (post dilution), and implies 16.2x 2020F PE. Our target price factors in the potential value of its healthcare division that could be worth RM2b based on a conservative PE of 25x and net profit of RM80m (representing RM0.41/share).

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	2,000	Potential value derived based on 25x PE on RM80m profit
Less: Holding co debt	(404.3)	
Total SOTP value (A)	11,895.7	
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)	12,804.4	
Enlarged share base	5,549	
SOTP/share (RM)	2.31	
Discount	15%	
Target price (RM)	1.96	

Source: UOB Kay Hian

SUNWAY 1H19 PBT BREAKDOWN



Source: Sunway

PROFIT & LOSS

Year to 31 Dec (RMm)	2018	2019F	2020F	2021F
Net turnover	5,410	5,672	5,825	5,260
EBITDA	470	863	917	984
Deprec. & amort.	143	143	151	158
EBIT	327	720	766	826
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)
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	8.7	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	3.1	2.9	3.1	3.3
ROE	7.8	7.2	7.4	7.7
Growth				
Turnover	3.3	4.8	2.7	(9.7)
EBITDA	(25.3)	83.5	6.2	7.4
Pre-tax profit	(2.5)	(1.5)	6.8	8.2
Net profit	6.1	(5.1)	7.6	9.0
Net profit (adj.)	7.9	5.8	7.6	9.0
EPS	7.8	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