

### UOBKH HIGHLIGHTS

## Sunway Bhd (SWB MK/HOLD/RM1.51/Target: RM1.63)

1Q18: Within Expectations

Year to 31 Dec	1Q18 (RMm)	4Q17 (RMm)	qoq % chg	yoy % chg	Year	EPS (sen)	PE (x)
Revenue	1,308.4	1,722.9	(24.1)	19.9	2018F	12.0	12.5
- Construction	443.7	583.3	(23.9)	40.0	2019F	12.7	11.9
- Property Development	132.3	413.0	(68.0)	(7.7)	2020F	13.1	11.5
- Investment Property	220.0	245.7	(10.5)	17.7			
Pre-tax Profit	160.9	260.9	(38.3)	5.1			
- Construction	40.1	54.1	(25.8)	8.7			
- Property Development	23.8	105.4	(77.5)	(5.2)			
- Investment Property	55.6	47.1	18.1	78.7			
PBT	160.9	260.9	(38.3)	5.1			
Net Profit	121.9	183.8	(33.7)	13.0			
Core Net Profit	121.9	167.4	(27.2)	13.0			
<b>Margins:</b>	<b>(%)</b>	<b>(%)</b>	<b>qoq ppt chg</b>	<b>yoy ppt chg</b>			
Pre-tax – Construction	9.0	9.3	(0.2)	(2.6)			
Pre-tax – Property Development	18.0	25.5	(7.6)	0.5			

Source: Sunway, UOB Kay Hian

### RESULTS

- **Within expectations.** Sunway reported 1Q18 core net profit of RM121.9m (-18% qoq, +13% yoy) and revenue of RM1,308.4m (-24% qoq, +20% yoy). Core net profit accounts for 21% of our and 20% of consensus' full-year estimates. Seasonally, the first quarter tends to be weaker and earnings will accelerate in the coming quarters on more progress billings.
- **Property: Slower progress billings.** For the quarter, the property division recorded revenue of RM132.3m (-68% qoq, -8% yoy) and PBT of RM23.8m (-78% qoq, +5% yoy) with a pre-tax margin of 18%. The segment was impacted by lower sales and progress billings from local development projects. In addition, there is high-base effect in 1Q18 due to completion and handover of several local development projects in 4Q17.
- **Construction: Continued to drive earnings.** Revenue grew 40% yoy to RM443.7m which propelled segment PBT to RM40.1m (+9% yoy) on the back of stronger progress billings and lower intra-group elimination. The division recorded a still healthy pre-tax margin of 9.0%, albeit a slight decline from 4Q17's 9.3%, due to lower progress billings. Earnings should continue to see steady growth, particularly in 2018 as the MRT Line 2 and LRT3 move into more advanced stage of construction.
- **Investment property: Revenue declined to RM220m in 1Q18.** Revenue for the division grew 18% yoy due higher revenue from Sunway Pyramid Hotel as well as additional contribution from Sunway Velocity Hotel which began operation in Sep 17. However, qoq performance was impacted by high base effect in 4Q17 when the hospitality division posted stronger contribution.

### RECOMMENDATION

- **Maintain HOLD with a lower target price of RM1.63** (from RM1.88) as we ascribe a larger RNAV discount on property development given the soft property market outlook given the ongoing the supply glut. Our target price is based on SOTP valuation and implies 13.3x 2018F PE. A good entry price is RM1.45.

### ANALYST

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