

UOBKH HIGHLIGHTS

Sunway Bhd (SWB MK/HOLD/RM4.35/Target: RM4.38)

2Q17: Below Expectations

Year to 31 Dec	2Q17 (RMm)	1Q17 (RMm)	qoq % chg	yoy % chg	1H17 (RMm)	yoy % chg	Year	EPS (sen)	PE (x)
Revenue	1,241.0	1,091.3	13.7	7.4	2,332.3	4.8	2017F	29.0	15.0
- Construction	310.9	316.8	(1.9)	24.7	627.7	11.9	2018F	29.8	14.6
- Property Development	271.1	143.3	89.2	(13.9)	414.4	(24.5)	2019F	32.0	13.6
- Investment Property	207.4	186.9	10.9	29.5	394.3	19.7			
Pre-tax Profit	271.4	153.1	77.3	33.2	424.6	11.8			
- Construction	42.3	36.9	14.6	22.8	79.2	9.7			
- Property Development	75.2	25.1	>100	24.1	100.3	(22.7)			
- Investment Property	84.4	31.1	171.3	104.5	115.6	54.5			
PBT	271.4	153.1	77.3	33.2	424.6	11.8			
PATAMI	196.9	107.9	82.5	27.6	304.9	18.9			
Core PATAMI	140.1	107.9	29.9	5.5	248.1	4.5			
Margins	(%)	(%)	ppt	ppt	(%)	ppt			
Pre-tax – Construction	13.6	11.7	2.0	(0.2)	12.6	(0.3)			
Pre-tax – Property Development	27.7	17.5	10.2	8.5	24.2	0.6			

Source: Sunway, UOB Kay Hian

RESULTS

- **Below expectations.** 2Q17 core net profit was RM140.1m (+29.9% qoq, +5.5% yoy) on revenue of RM1,241.0m (+13.7% qoq, +7.4% yoy). 1H17 core net profit (excluding fair value gains of RM56.8m) accounts for 41% of our and 44% of consensus' full-year estimates. Results missed estimates due to the slower-than-expected progress billings for its property development division.
- **Property: PBT margin boosted by unit deliveries.** While revenue was down yoy, PBT rose on healthier margins as: a) vacant possession of Sunway Geo Residences led to the boost in margins due to efficient cost control; and b) higher profit recognitions from local and overseas projects. For the quarter, the property division recorded revenue of RM271.1m (+89.2% qoq, -13.9% yoy) and PBT of RM75.2m (+>100% qoq, +24.1% yoy) with a healthy margin of 27.7%.
- **Construction: Revenue grew 24.7% yoy to RM310.9m in 2Q17** due to stronger progress billings and lower intra-group eliminations. The division recorded PBT margin of 13.6%, which we deem healthy. Earnings from this division should continue to see steady growth, particularly in 2017 as the MRT Line 2 job goes to more advanced stage of construction.
- **Investment property: Revenue improved to RM207.4m.** Revenue for the division grew 10.9% qoq and 29.5% yoy due to: a) additional revenue from Sunway Velocity Mall which was 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 RM84.4m, (+171.3% qoq, +104.5% yoy) on higher fair value gains.
- **Clinched about RM234m of property sales in 2Q17**, lifting 1H17 sales to RM376m. Sales were mainly driven by Sunway Velocity (RM59m), Sunway Iskandar (RM32m) and its Singapore developments (RM187m). Earnings for its property division would continue to be steady, given healthy unbilled sales of about RM1.2b (which represent about 1x 2016 property development revenue).

EARNINGS REVISION

- **We trim 2017 net profit estimate by 3%** but raise earnings estimates by 2% and 1.5% for 2018-19 as we push back our progress billings assumptions for the property development division.

RECOMMENDATION

- **Maintain HOLD with a target price of RM4.38.** Our target price is based on a 15% discount to our SOTP valuation of RM5.15/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 RM4.00. The group is in the midst of completing a 4-for-3 bonus issue. Upon completion of the bonus issue, our target price would be adjusted to RM1.88.

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