

Outthink. Outperform.

Within expectations

Sunway's 2017 results were above the market's but within our expectations. Core net profit grew by 12.8% yoy to RM588.1m in 2017, driven by all business segments except property development and quarry. The group plans to launch RM2bn worth of property projects in 2018 and current unbilled sales of RM976m should sustain its future earnings growth. We reiterate our BUY call with a RNAV-based 12-month TP of RM2.05. A DPS of 6 sen was declared for 2017 (2016: 5.2 sen).

Within expectations

After excluding Sunway REIT's fair-value gain RM71.1m and other exceptional items, Sunway achieved a core net profit of RM588.1m (+12.8% yoy) in 2017. The result was 5% above the consensus estimate but within our 2017 forecast.

Most business segments saw revenue growth in 2017

Construction (+37.6% yoy), property investment (+25.1% yoy), trading (+19.6% yoy) and others (30.8%) saw higher revenues in 2017. However, property development and quarry reported declines of 18.2% and 2.6% yoy, resulting in lower group revenue growth of 15.4% yoy to RM5.4bn in 2017.

Dragged down by property development and quarry businesses

For 2017, EBIT fell 4.1% yoy to RM635.3m despite the higher EBIT contributions from all business segments except property development (lower domestic sales and progress billings) and quarry (lower sales volume and temporary operation suspension in Rawang quarry for relocation).

Property sales maintained

Sunway matched its previous year's property sales of RM1.2bn in 2017 with the majority contributed by Singapore (39%), followed by Iskandar, Johor (24%) and the rest by Klang Valley. Sunway is focusing on selling its unsold units following the launch revision to RM1.bn from RM2bn in 2017. For 2018, the group plans RM2bn worth of property launches. We expect unbilled sales of RM976m to support future earnings growth.

Maintain BUY with unchanged target price of RM2.05

We made some minor adjustments to our 2018-19E EPS post-2017 results and introduce 2020E EPS. We maintain our BUY call with an unchanged 12-month TP of RM2.05, based on a 20% discount to RNAV. We continue to like Sunway for its integrated business model with its healthcare and education segments complementing its property business.

Earnings & Valuation Summary

FYE 31 Dec	2016	2017	2018E	2019E	2020E
Revenue (RMm)	4,655.6	5,374.8	5,420.8	5,980.0	6,202.4
EBITDA (RMm)	776.1	774.4	774.2	807.7	970.3
Pre-tax profit (RMm)	859.0	882.2	885.0	969.4	1,177.0
Net profit (RMm)	585.9	639.5	663.3	719.4	905.9
EPS (sen)	12.9	13.3	13.6	14.7	18.6
PER (x)	12.8	12.3	12.1	11.1	8.8
Core net profit	521.3	588.1	663.3	719.4	901.1
Core EPS (sen)	10.7	12.1	13.6	14.7	18.5
Core EPS growth (%)	(23.3)	12.8	12.8	8.5	25.3
Core PER (x)	15.4	13.6	12.1	11.1	8.9
Net DPS (sen)	5.2	6.0	6.0	6.0	6.0
Dividend Yield (%)	3.2	3.7	3.7	3.7	3.7
EV/EBITDA (x)	7.7	16.0	14.5	13.3	10.4
Chg. in EPS (%)			(3.6)	(0.3)	New
Affin core/Consensus (x)			1.1	1.1	-

Source: Company, Affin Hwang estimates

Affin Hwang Investment Bank Bhd (14389-U)

Results Note

Sunway

SWB MK
Sector: Property

RM1.65 @ 28 February 2018

BUY (maintain)

Upside 24%

Price Target: RM2.05

Previous Target: RM2.05



Price Performance

	1M	3M	12M
Absolute	-6.8%	1.2%	20.4%
Rel to KLCI	-6.2%	-6.3%	9.9%

Stock Data

Issued shares (m)	4,895.7
Mkt cap (RMm)/(US\$m)	8078/2060.1
Avg daily vol - 6mth (m)	5.2
52-wk range (RM)	1.31-1.96
Est free float	30.0%
BV per share (RM)	3.61
P/BV (x)	0.46
Net cash/ (debt) (RMm)	3,814
ROE (2018E)	7.4%
Derivatives	Nil
Shariah Compliant	Yes

Key Shareholders

Sungei Way Corp Sdn Bhd	55.2%
EPF	5.2%
Cheah Fook Ling	5.1%

Source: Affin Hwang, Bloomberg

Cassandra Ooi
(603) 2146 7481
cassandra.ooi@affinhwang.com

Outthink. Outperform.

Key risks

Key risks to our positive call are: 1) prolonged property market weakness; 2) execution risks for construction projects; and 3) rising building material and labour costs.

Fig 1: Results Comparison

FYE 31 Dec (RMm)	4Q17	QoQ % chg	YoY % chg	2017	YoY % chg	Comment
Revenue	1,722.9	30.6	33.2	5,374.8	15.4	2017: Higher contribution from most business segments except property development (-18.2% yoy) and quarry business (-2.6% yoy).
Op costs	(1,462.7)	25.6	41.0	(4,600.5)	18.6	Higher operating costs with the opening of Sunway Velocity Mall.
EBITDA	260.2	67.3	1.5	774.4	(0.2)	
<i>EBITDA margin (%)</i>	<i>15.1</i>	<i>3.3</i>	<i>(4.7)</i>	<i>14.4</i>	<i>(2.3)</i>	
Depn and amort	(35.3)	(2.0)	>100	(139.1)	22.2	
EBIT	224.9	88.1	(7.1)	635.3	(4.1)	2017: Lower EBIT dragged down by property development (-39% yoy) and quarry operation (-68% yoy). Partly offset by higher EBIT for construction (+12% yoy), property investment (+33% yoy), trading and manufacturing (+45% yoy).
<i>EBIT margin (%)</i>	<i>13.1</i>	<i>4.0</i>	<i>(5.7)</i>	<i>11.8</i>	<i>(2.4)</i>	
Interest income	55.0	(2.2)	107.0	197.7	83.3	
Interest expense	(45.8)	(26.8)	(12.3)	(220.3)	31.4	
Associates	29.3	(40.8)	(34.7)	218.1	13.6	2017: Includes fair value gain of RM71.7m for Sunway REIT.
Forex gain (losses)	3.4	>100	(67.1)	5.2	(238.0)	
Exceptional items	(5.9)	NA	>100	46.2	(32.4)	
Pretax profit	260.9	32.6	(3.6)	882.2	2.7	
Core pretax	263.4	61.9	0.7	830.8	4.6	
Tax	(54.9)	89.6	19.5	(149.4)	6.4	
<i>Tax rate (%)</i>	<i>23.7</i>	<i>4.0</i>	<i>3.3</i>	<i>22.5</i>	<i>1.4</i>	
Minority interests	(22.2)	(54.0)	42.3	(93.3)	(56.6)	
Net profit	183.8	21.8	(1.1)	639.5	9.1	
EPS (sen)	3.8	(48.2)	(57.9)	13.3	3.4	
Core net profit	186.3	59.4	5.5	588.1	12.8	Above consensus but within our expectations.

Source: Affin Hwang, Company data

Fig 2: Segmental revenue

FYE 31 Dec (RMm)	4Q16	3Q17	4Q17	QoQ % chg	YoY % chg	2016	2017	YoY % chg
Ppty dev	412.7	162.2	413.0	154.6	0.1	1,209.4	989.7	(18.2)
Ppty inv	172.8	225.4	245.7	9.0	42.2	692.0	865.4	25.1
Construction	334.4	416.6	583.3	40.0	74.4	1,183.1	1,627.7	37.6
Trading	215.1	292.9	232.4	(20.7)	8.0	833.3	996.5	19.6
Quarry	54.1	50.3	52.9	5.2	(2.2)	207.4	202.1	(2.6)
Other	174.7	172.2	195.6	13.6	12.0	530.3	693.6	30.8
Total	1,363.7	1,319.6	1,722.9	30.6	26.3	4,655.6	5,374.8	15.4

Source: Affin Hwang, Company data

Fig 3: Segmental pre-tax margin

FYE 31 Dec (%)	4Q16	3Q17	4Q17	QoQ ppt	YoY ppt	2016	2017	YoY ppt
Ppty dev	32.9	21.9	25.5	3.7	(22.5)	27.1	24.4	(2.7)
Ppty inv	22.0	22.2	19.2	(3.0)	(12.7)	22.9	24.6	1.6
Construction	8.9	9.8	9.3	(0.6)	4.5	11.3	10.7	(0.6)
Trading	7.6	4.8	4.6	(0.3)	(39.8)	4.3	4.4	0.1
Quarry	1.5	4.9	(2.3)	(7.2)	(248.3)	12.1	2.7	(9.4)
Others	28.5	31.1	22.9	(8.2)	(19.6)	33.5	29.5	(4.0)
Total	19.8	14.9	15.1	0.2	(23.7)	18.5	16.4	(2.0)

Source: Affin Hwang, Company data

Equity Rating Structure and Definitions

BUY	Total return is expected to exceed +10% over a 12-month period
HOLD	Total return is expected to be between -5% and +10% over a 12-month period
SELL	Total return is expected to be below -5% over a 12-month period
NOT RATED	Affin Hwang Investment Bank Berhad does not provide research coverage or rating for this company. Report is intended as information only and not as a recommendation

The total expected return is defined as the percentage upside/downside to our target price plus the net dividend yield over the next 12 months.

OVERWEIGHT	Industry, as defined by the analyst's coverage universe, is expected to outperform the KLCI benchmark over the next 12 months
NEUTRAL	Industry, as defined by the analyst's coverage universe, is expected to perform inline with the KLCI benchmark over the next 12 months
UNDERWEIGHT	Industry, as defined by the analyst's coverage universe is expected to under-perform the KLCI benchmark over the next 12 months

This report is intended for information purposes only and has been prepared by Affin Hwang Investment Bank Berhad (14389-U) ("the Company") based on sources believed to be reliable. However, such sources have not been independently verified by the Company, and as such the Company does not give any guarantee, representation or warranty (express or implied) as to the adequacy, accuracy, reliability or completeness of the information and/or opinion provided or rendered in this report. Facts, information, views and/or opinion presented in this report have not been reviewed by, may not reflect information known to, and may present a differing view expressed by other business units within the Company, including investment banking personnel. Reports issued by the Company, are prepared in accordance with the Company's policies for managing conflicts of interest arising as a result of publication and distribution of investment research reports. Under no circumstances shall the Company, its associates and/or any person related to it be liable in any manner whatsoever for any consequences (including but are not limited to any direct, indirect or consequential losses, loss of profit and damages) arising from the use of or reliance on the information and/or opinion provided or rendered in this report. Any opinions or estimates in this report are that of the Company, as of this date and subject to change without prior notice. Under no circumstances shall this report be construed as an offer to sell or a solicitation of an offer to buy any securities. The Company and/or any of its directors and/or employees may have an interest in the securities mentioned therein. The Company may also make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report.

Comments and recommendations stated here rely on the individual opinions of the ones providing these comments and recommendations. These opinions may not fit to your financial status, risk and return preferences and hence an independent evaluation is essential. Investors are advised to independently evaluate particular investments and strategies and to seek independent financial, legal and other advice on the information and/or opinion contained in this report before investing or participating in any of the securities or investment strategies or transactions discussed in this report.

Third-party data providers make no warranties or representations of any kind relating to the accuracy, completeness, or timeliness of the data they provide and shall not have liability for any damages of any kind relating to such data.

The Company's research, or any portion thereof may not be reprinted, sold or redistributed without the consent of the Company.

The Company, is a participant of the Capital Market Development Fund-Bursa Research Scheme, and will receive compensation for the participation.

This report is printed and published by:
 Affin Hwang Investment Bank Berhad (14389-U)
 A Participating Organization of Bursa Malaysia Securities Berhad

22nd Floor, Menara Boustead,
 69, Jalan Raja Chulan,
 50200 Kuala Lumpur, Malaysia.

T : + 603 2142 3700
 F : + 603 2146 7630
 research@affinhwang.com

www.affinhwang.com