Sunway (BUY ←→; EPS ←→)

INDUSTRY: NEUTRAL

EARNINGS EVALUATION

1 March 2018

Price Target: RM2.30 (↑)

Share price: RM1.65

Solid end for the year

Results

- **Within expectations**: FY17 core earnings of RM566.3m came in within expectations at 99.7% and 101.1% of ours and consensus full year forecasts, respectively.

Dividends

- Declared a dividend of 3 sen per share, bringing FY17 dividend to 6 sen (FY16: 5.2 sen) per share.

Highlights

- **QoQ:** Higher revenue (+30.6%) in 4Q17 was contributed by all segments except trading/manufacturing segments. Core earnings improved by 11.0% largely driven by improved performances from property development and construction.
- **YoY:** Core earnings grew by 3.5% on the back of higher revenue (+33.2%) thanks to higher contributions from property investment and construction segments.
- **FY17:** Revenue improved by 15.4% while core earnings inched higher by 3.5%. All segments showed improvements except for property development and quarry segments. Lower contribution from property development was due to lower sales and progress billings from local development in the absence of contribution from Avant Parc.
- **Property development.** Effective property sales for FY17 achieved RM1bn (FY16: RM923m) exceeding full year target of RM900m. RM1.6bn of effective sales target is set for FY18, underpinned by RM2bn of planned launches. Effective property unbilled sales stood at RM861m (3Q: RM766m), representing 0.87x of FY17's property revenue.
- **Property Investment.** Growth was largely attributable to additional contribution from Sunway Velocity Mall (opened in Dec 16), higher visitorship to the theme parks and higher contribution from Sunway Pyramid Hotel which was reopened in 2017 with additional rooms after refurbishment.
- **Construction.** Stronger results achieved due to higher progress from jobs such as Parcel F Putrajaya and MRT2. SunCon's current order book stood at RM6.1bn (3x cover on FY17 revenue). For FY18, SunCon is targeting RM2-2.5bn.

Risks

- Prolonged downturn in property market and execution risk.

Forecasts

- Unchanged

Rating

BUY ←→, TP: RM2.30 ↑

- Sunway is our **Top Pick** within the sector as we believe it should be rerated and trade closer to its peers such as IJM and Gamuda (Figure #5) given its diversified income stream and integrated real estate business model. At a forward P/E of 13x as compared to peers, we opine that it is a deep value stock with mature investment properties and the underappreciated trading and healthcare segments.

Valuation

- TP is revised to **RM2.30** (from RM2.25) based on a 10% holding discount from SOP derived valuation of RM2.56 as we imputed higher TP for SunCon (**BUY, RM2.85**) and SREIT (**HOLD**, **RM1.80**).

Lee Meng Horng

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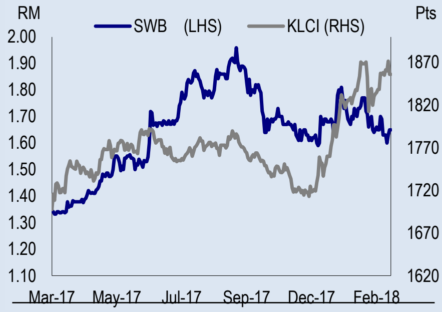
KLCI	1856.2
Expected share price return	36.4%
Expected dividend return	3.9%
Expected total return	40.2%

Share price



Information

Bloomberg Ticker	SWB MK
Bursa Code	5211
Issued Shares (m)	4,896
Market cap (RM m)	8,078
3-mth avg. volume ('000)	4,043
SC Shariah compliant	Yes

Price Performance	1M	3M	12M
Absolute	-6.8	1.2	22.7
Relative	-6.2	-6.3	12.2

Major shareholders

Sungei Way Corp Sdn Bhd	55.1%
EPF	5.7%
Cheah Fook Ling	5.1%

Summary Earnings Table

FYE Dec (RM m)	2016A	2017A	2018F	2019F
Revenue	4,656	5,375	5,000	5,343
EBITDA	852	826	1,015	1,108
EBIT	715	687	745	815
PATAMI	586	640	610	679
Core PATAMI	547	566	610	679
Core EPS (sen)	11.4	11.8	12.7	14.1
DPS (sen)	5.2	6.0	6.4	7.2
DY (%)	3.2	3.6	3.9	4.3
P/E (x)	14.5	14.0	13.0	11.7
BV / share	1.6	1.6	1.7	1.8
P/BV (x)	1.1	1.0	1.0	0.9
Net Gearing	43.2	37.7	32.3	29.9
ROA (%)	2.9	2.8	3.0	3.2
ROE (%)	6.6	6.7	6.7	7.1

HLIB

Figure #1 Quarterly Results Comparison

FYE Dec (RM m)	4Q16	3Q17	4Q17	QoQ (%)	YoY (%)	Comments
Revenue	**1293.4**	**1319.6**	**1722.9**	**30.6**	**33.2**	**Refer to segmental**.
Property Development	406.3	162.2	413.0	154.6	1.7	**QoQ:** Completion and handover of Sunway Velocity V-Residence 2, Sunway Geo Retail Shops and Flexi Suites Phase 2. **YoY:** Higher progress billings.
Property Investment	172.9	225.4	245.7	9.0	42.1	**QoQ:** Better occupancy and visitorships as well as the progressive reopening of Sunway Pyramid Hotel with additional rooms after refurbishment exercise. **YoY:** Additional revenue from Sunway Velocity Mall and Sunway Pyramid Hotel after the refurbishment.
Construction	288.7	416.6	583.3	40.0	102.0	**QoQ/YoY:** Stronger progress billings local construction projects such as Parcel F in Putrajaya and the KVMRT packages V201 from Sg Buloh to Persiaran Dagang and V4 from Seksyen 16 to Semantan Portal.
Trading/Manufacturing	215.1	292.9	232.4	(20.7)	8.0	**QoQ:** Lower sales from building materials, heavy equipment parts and industrial hardware, both locally and overseas. **YoY:** Improved sales due to better overall market condition and sentiment, both locally and overseas.
Quarry	54.1	50.3	52.9	5.2	(2.2)	**QoQ:** Higher selling price and sales volume for premix. **YoY:** Lower sales volume for both aggregates and premix, and lower selling price for aggregates due to temporary halt in operations at Rawang.
Others	162.0	171.4	192.8	12.5	19.0	**QoQ/YoY:** Higher contribution from the healthcare, building materials segments
EBIT	**239.6**	**153.6**	**222.4**	**44.8**	**(7.2)**	Refer to segmental.
Property Development	119.3	20.8	104.8	404.4	(12.2)	**QoQ:** Filtered down from higher revenue with the completions of several local projects. **YoY:** Lower margin for the product mix and high base as there was a gain on land sale in 4Q16.
Property Investment	51.6	60.8	60.6	(0.2)	17.6	**QoQ:** Due to impairment for the BRT Park N' Ride facilities despite higher revenue and fair value gains. **YoY:** Better contribution from all operations, partially offset by lower fair value gain for Sunway Velocity Mall.
Construction	24.0	37.8	52.7	39.6	120.1	**QoQ/YoY:** In line with higher revenue.
Trading/Manufacturing	20.7	17.4	14.2	(18.3)	(31.1)	**QoQ:** Due to lower revenue. **YoY:** Due to high base effect from a provision write-back for inventories of Winstar group of companies.
Quarry	1.5	3.1	(0.6)	NM	NM	**QoQ/ YoY:** Lower operating margins and allowances for impairment of receivables.
Others	22.1	24.6	10.9	(55.6)	(50.7)	**QoQ/YoY:** Due to provisions for impairment of receivables made by group's leasing business.
Net Interest Expense	(13.7)	(6.3)	9.2	NM	NM	
Share of Associates/JCE	44.7	49.5	29.3	(40.8)	(34.5)	
PBT	270.6	196.7	260.9	32.6	(3.6)	Filtered down from EBIT.
PAT	224.6	167.8	206.0	22.8	(8.3)	
PATAMI	**185.8**	**150.9**	**183.8**	**21.8**	**(1.1)**	
EI	(24.0)	0.0	(16.4)	NM	31.7	Fair value gain from SREIT.
Core Earnings	**161.8**	**150.9**	**167.4**	**11.0**	**3.5**	Filtered down from PATAMI ex. EI.
Core EPS (sen)	3.4	3.2	3.5	10.1	2.7	

Sunway, HLIB

Figure #2 Cumulative results comparison

FYE Dec (RM m)	FY16	FY17	YoY (%)	Comments
Revenue	**4655.6**	**5374.8**	**15.4**	**Refer to segmental.**
Property Development	1203.0	989.7	(17.7)	Lower sales and progress billings from local development projects and no contribution from Avant Parc project in Singapore.
Property Investment	692.1	865.4	25.0	Boosted by the newly-opened Sunway Velocity Mall, theme parks and the newly-refurbished Sunway Pyramid Hotels.
Construction	1137.4	1627.7	43.1	Due to higher progress billings and lower intra group revenue elimination.
Trading/Manufacturing	833.3	996.5	19.6	Due to higher sales in heavy equipment, heavy equipment parts and building materials divisions.
Quarry	207.4	202.1	(2.6)	Lower sales volume for aggregates and premix, and a slightly lower selling price for aggregates.
Others	577.3	688.4	19.2	Higher contribution from the healthcare, building materials segments and Group treasury operations.
EBIT	**715.1**	**686.6**	**(4.0)**	**Refer to segmental.**
Property Development	273.4	199.3	(27.1)	Lower sales and progress billings from local development projects and no contribution from Avant Parc project in Singapore.
Property Investment	162.4	208.5	28.4	Boosted by higher revenue and fair value gains.
Construction	124.9	166.0	33.0	Filtered from higher revenue.
Trading/Manufacturing	51.0	58.1	14.0	Filtered down from higher revenue both locally and overseas.
Quarry	26.7	7.5	(72.0)	Lower operating margin, higher depreciation expenses and allowances for impairment of receivables.
Others	69.3	80.8	16.7	Higher contribution from the healthcare, building materials segments and group treasury operations.
Net Interest Expense	(48.0)	(22.6)	52.9	
Share of Associates/JCE	191.9	218.1	13.7	
PBT	859.0	882.2	2.7	
PAT	718.6	732.8	2.0	
PATAMI	**585.9**	**639.5**	**9.2**	
EI	(38.5)	(73.2)	(90.1)	Consist of fair value gain from SREIT.
Core Earnings	**547.4**	**566.3**	**3.5**	
Core EPS (sen)	11.5	11.8	2.6	

Sunway, HLIB

Figure #3 FY17 Results Vs. Consensus & HLIB Estimates

FYE Dec (RM m)	Actual FY17	HLIB FY17	Actual vs HLIB (%)	Consensus FY17	Actual vs Consensus (%)	Comments
Revenue	5374.8	4773.8	112.6	5130.0	104.8	In line
Normalised PAT	566.3	568.1	99.7	560.2	101.1	In line

Company, HLIB, Bloomberg

Figure #4 HLIB vs Consensus

FYE Dec (RM m)		FY18F			FY19F	
	HLIB	Consensus	(%)	HLIB	Consensus	(%)
Revenue	5,000.3	5,621.0	(11.0)	5,343.4	5,965.0	(10.4)
PATAMI	610.1	607.0	0.5	678.6	662.6	2.4

Bloomberg, HLIB

Figure #5 Peers comparison

Company	Segmental Profit Contribution (%) Property Development	Recurring Income	Construction	Others	FYE	Forward PE (x)	Net Gearing (x)	Div Yield (%)
Sunway	29%	30%	24%	Trading & Services - 17%	Dec	13.0	0.44	3.6
(RM1.64)		(Property Investment)		(~10% from Healthcare)				
IJM Corp	14%	48%	15%	Manufacturing & Quarrying - 11%	Mar	15.2	0.40	2.8
(RM2.72)		(Infrastructure)		Plantation - 4%; Others - 8%				
Gamuda	22%	53%	25%		Jul	15.1	0.54	2.4
(RM4.96)		(Water & expressway concessions)						

Company, HLIB

Figure #6 SOP valuation

Division	Stake	Value (RM m)	RM/share	Methodology
Construction (SunCon)	54.4%	2,004	0.42	Based on TP of RM 2.85
Sunway REIT	37.3%	1,979	0.41	Based on TP of RM 1.73
Property Development & Investment	100%	6,491	1.35	35% discount on estimated RNAV
Healthcare	100%	1,840	0.38	25X forward P/E
Trading/Manufacturing	100%	250	0.05	10X trailing P/E
Quarry	100%	191	0.04	10X trailing P/E
		12,756	2.65	
Holding Company Net Debt		(439)	(0.09)	
		12,317	2.56	
10% Holding Company Discount		(1,232)	(0.26)	
Equity Value (RM)		11,085	**2.30**	

HLIB

Financial Projections for Sunway (BUY; TP: RM2.30)

Income statement

FYE 31 Dec (RM m)	2015A	2016A	2017A	2018F	2019F
Revenue	**4,448**	**4,656**	**5,375**	**5,000**	**5,343**
Operating cost	(3,644)	(3,803)	(4,549)	(3,985)	(4,236)
EBITDA	**804**	**852**	**826**	**1,015**	**1,108**
D&A	(117)	(137)	(139)	(270)	(293)
Net Interest	(27)	(48)	(23)	(46)	(39)
Associates	202	125	169	133	140
Jointly controlled entities	68	67	50	67	87
Exceptionals	142	39	73	-	-
Pretax profit	**930**	**859**	**882**	**899**	**1,003**
Taxation	(131)	(140)	(149)	(168)	(186)
Minority Interest	(67)	(133)	(93)	(121)	(138)
PATAMI	732	586	640	610	679
Core Earning	**591**	**547**	**566**	**610**	**679**
Basic shares (m)	4,199	4,814	4,814	4,814	4,814
Core EPS (sen)	**14.1**	**11.4**	**11.8**	**12.7**	**14.1**
FD EPS (sen)	14.1	11.4	10.4	11.2	12.5

Cashflow

FYE 31 Dec (RM m)	2015A	2016A	2017A	2018F	2019F
EBIT	687	715	687	745	815
D&A	117	137	139	270	293
Working capital changes	78	(143)	266	(26)	(278)
Taxation	(144)	(109)	(175)	(168)	(186)
Others	(166)	(240)	(606)	(67)	(87)
Operating cashflow	**940**	**668**	**726**	**1,096**	**932**
Capex & acquisitions	(1,396)	(737)	(1,164)	(500)	(500)
Free cashflow	**(456)**	**(69)**	**(438)**	**596**	**432**
Others	(692)	(898)	40	-	-
Investing cashflow	**(2,088)**	**(1,635)**	**(1,124)**	**(500)**	**(500)**
Equity Raised	180	595	115	-	-
Others	(30)	(57)	(157)	-	-
Net Borrowing	1,764	1,427	1,241	-	-
Financing cashflow	**1,116**	**1,537**	**703**	**(476)**	**(497)**
Net cashflow	**(32)**	**570**	**305**	**120**	**(65)**

Balance sheet

FYE 31 Dec (RM m)	2015A	2016A	2017E	2018F	2019F
Fixed assets	5,296	5,910	6,560	6,394	6,602
Other long-term assets	3,966	3,827	4,030	3,912	3,998
Other short-term assets	2,740	4,503	3,689	4,292	4,520
Working capital	**4,775**	**5,000**	**6,666**	**6,168**	**6,493**
Receivables	1,823	1,892	2,993	2,039	2,156
Payables	2,258	2,438	2,991	3,099	3,236
Inventory	693	670	681	1,030	1,101
Net cash / (debt)	**(4,404)**	**(5,461)**	**(5,998)**	**(4,799)**	**(4,864)**
Cash	1,483	1,950	2,261	2,614	2,549
ST debt	3,069	4,858	4,910	7,413	7,413
LT debt	2,818	2,553	3,349	0	0
Shareholders' funds	**7,213**	**8,233**	**8,483**	**9,102**	**9,609**
Share capital	1,800	2,063	5,371	2,063	2,063
Reserves	3,195	3,549	2,481	4,188	4,556
Minorities	651	764	643	994	1,132
Other liabilities	5,159	5,545	6,463	6,865	7,140

Valuation ratios

FYE 31 Dec (RM m)	2015A	2016A	2017A	2018F	2019F
Net DPS (sen)	15.9	5.2	6.0	6.4	7.2
FCF/ share (sen)	(11)	(1)	(9)	12	9
FCF yield (%)	(6.6)	(0.9)	(5.5)	7.5	5.4
Market capitalization (m	6,929	7,943	7,943	7,943	7,943
Net cash (m)	(4,404)	(5,461)	(5,998)	(4,799)	(4,864)
Enterprise value	11,333	13,404	13,941	12,742	12,807
EV/ EBITDA (x)	14.1	15.7	16.9	12.6	11.6

Growth margins ratios

Growth (%)					
Sales Growth	(2.4)	4.7	15.4	4.7	6.9
Operating expenses	(1.1)	4.4	19.6	3.6	6.3
EBITDA Growth	(8.1)	5.9	(3.1)	9.4	9.1
PBT Growth	(3.1)	(7.7)	2.7	8.3	11.6
PATMI	1.4	(7.3)	3.5	7.4	11.2
Basic EPS Growth	(2.5)	(19.2)	3.5	7.4	11.2

Summary Earnings Table

Revenue	4,448	4,656	5,375	5,000	5,343
EBITDA	804	852	826	1,015	1,108
Core PATAMI	591	547	566	610	679
P/E (x)	11.7	14.5	14.0	13.0	11.7
BV / share	1.6	1.6	1.6	1.7	1.8
P/BV (x)	1.1	1.1	1.0	1.0	0.9
ROA (%)	3.7	2.9	2.8	3.0	3.2
ROE (%)	8.2	6.6	6.7	6.7	7.1

Assumption Metrics

Revenue	4448	4656	4774	5000	5343
Property	1196	1203	1084	1076	1331
Property Investment	639	692	758	777	788
Construction	1222	1137	1271	1405	1405
Trading/Manufacture	650	833	858	901	946
Quarry	242	207	207	218	218
Others	495	577	595	624	656
EBIT margin	15%	15%	14%	15%	15%

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Equity rating definitions

BUY	Positive recommendation of stock under coverage. Expected absolute return of more than +10% over 12-months, with low risk of sustained downside.
TRADING BUY	Positive recommendation of stock not under coverage. Expected absolute return of more than +10% over 6-months. Situational or arbitrage trading opportunity.
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Industry rating definitions

OVERWEIGHT	The sector, based on weighted market capitalization, is expected to have absolute return of more than +5% over 12-months.
NEUTRAL	The sector, based on weighted market capitalization, is expected to have absolute return between –5% and +5% over 12-months.
UNDERWEIGHT	The sector, based on weighted market capitalization, is expected to have absolute return of less than –5% over 12-months.