

Sunway (SWB MK)

Earnings in line

HOLD

Share Price MYR 1.64
 12m Price Target MYR 1.84 (+12%)
 Previous Price Target MYR 1.84

Led by construction business

Sunway's 9M17 net profit is within expectations. While its construction outstanding orderbook (under Sunway Construction Group or SCG) is at an all-time high of MYR6.8b, Sunway's 9-month locked in property sales fell short at MYR533m due to the lack of new launches in 9M17. We maintain our earnings forecasts and MYR1.84 RNAV-TP (on an unchanged 0.7x P/RNAV peg). Maintain HOLD.

9M17 results in line

Sunway reported a core net profit of MYR151m (+2% YoY, +8% QoQ) which lifted 9M17 core net profit to MYR399m (+4% YoY, excluding fair value gain of MYR57m in 2Q17), accounting for 73%/72% of our/consensus full-year estimates. Most businesses are growing except for property development and quarrying.

Property sales to pick up in 4Q17

In 9M17, Sunway has locked in MYR533m in effective property sales, meeting just 59% of its 2017 target of MYR900m - below expectations due to the lack of new launches. Property sales should however pick up in 4Q17 with MYR865m worth of new projects to be launched from Aug 2017 onwards. Effective unbilled sales stood at MYR766m at end Sep 2017, 0.5x our FY18F revenue. Elsewhere, 54%-owned SCG's (SCGB MK; BUY; TP MYR2.63) YTD job wins were MYR4b - on track. YTD wins have lifted SCG's outstanding orderbook to a record MYR6.8b.

More than just a developer

There is no change to our earnings forecasts. We value Sunway at MYR1.84/sh based on an unchanged 0.7x P/RNAV peg. Unlike the other big cap developers, Sunway has a more diversified earnings base with a 54% stake in SCG and 37.3% in SunREIT (SREIT MK; BUY; TP MYR1.90). The listing of its healthcare business will likely materialize in 2022. As at end-Sep 2017, Sunway's net gearing stood at 0.37x.

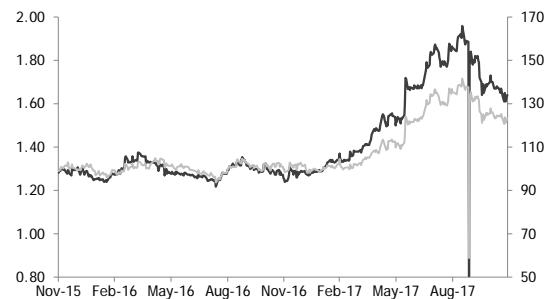
Statistics

Shariah status	Yes
52w high/low (MYR)	1.96/0.80
3m avg turnover (USDm)	2.2
Free float (%)	33.4
Issued shares (m)	4,918
Market capitalisation	MYR8.1B USD2.0B

Major shareholders:

Sungei Way Corp. Sdn. Bhd.	49.8%
Permodalan Nasional Bhd.	7.2%
Employees Provident Fund	5.3%

Price Performance



	-1M	-3M	-12M
Absolute (%)	(3)	(13)	29
Relative to index (%)	(1)	(10)	22

Source: FactSet

FYE Dec (MYR m)	FY15A	FY16A	FY17E	FY18E	FY19E
Revenue	4,448	4,656	5,398	7,008	6,731
EBITDA	427	1,596	788	1,085	1,013
Core net profit	591	547	544	662	671
Core EPS (sen)	14.4	12.6	11.2	13.6	13.8
Core EPS growth (%)	(1.6)	(12.5)	(11.3)	21.7	1.4
Net DPS (sen)	17.0	5.7	5.0	6.1	6.2
Core P/E (x)	11.4	13.0	14.6	12.0	11.9
P/BV (x)	1.1	1.0	1.0	1.0	0.9
Net dividend yield (%)	10.4	3.5	3.1	3.7	3.8
ROAA (%)	4.1	3.2	2.9	3.5	3.4
EV/EBITDA (x)	21.7	6.1	16.4	12.8	14.8
Net gearing (%) (incl perps)	45.2	40.5	48.7	57.8	67.2
Consensus net profit	-	-	558	606	671
MKE vs. Consensus (%)	-	-	6.0	9.2	0.1

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Table 1: Results summary table - Sunway

FY Dec (MYRm)	Quarterly					Cumulative			Comments
	3Q17	3Q16	%YoY	2Q17	%QoQ	9M17	9M16	%YoY	
Revenue	1,319.6	1,137.5	16.0	1,241.0	6.3	3,651.9	3,362.2	8.6	9M17: YoY improvement in all business divisions except for property development and quarry businesses.
- Property dev	162.2	247.6	(34.5)	271.1	(40.2)	576.6	796.7	(27.6)	Effective locked-in sales for 9M17 were MYR533m, or 59% of its 2017 sales target of MYR900m - below expectation. Sales should pick up in 4Q17 with more new launches.
- Property inv	225.4	189.9	18.7	207.4	8.7	619.7	519.2	19.4	
- Construction	416.6	287.9	44.7	310.9	34.0	1,044.4	848.7	23.1	9M17: YTD, job wins were MYR4.0b, lifting outstanding order book to MYR6.8b.
- Trading	292.9	206.7	41.7	226.0	29.6	764.1	618.2	23.6	
- Quarry	50.3	54.0	(6.9)	58.7	(14.3)	149.2	153.3	(2.7)	
- Others	171.4	147.1	16.5	167.1	2.6	495.6	415.4	19.3	
EBIT	153.6	164.3	(6.6)	193.9	(20.8)	464.2	475.4	(2.3)	
- Property dev	20.8	45.3	(54.1)	65.8	(68.4)	94.5	154.0	(38.7)	
- Property inv	60.8	50.0	21.4	43.0	41.3	147.8	110.9	33.4	
- Construction	37.8	31.3	20.5	40.8	(7.4)	113.3	100.9	12.3	
- Trading	17.4	11.3	53.9	13.9	25.0	43.9	30.3	44.8	
- Quarry	3.1	7.2	(57.6)	4.2	(26.7)	8.1	25.3	(67.9)	
- Others	24.6	16.3	50.6	25.3	(2.7)	69.9	47.1	48.5	
Finance costs	(6.3)	(2.6)	>+100	(18.7)	(66.4)	(31.8)	(34.2)	(7.2)	9M17: Net gearing stood at 0.37x in end-Sep 2017, from 0.45x at end June 2017.
Other income	49.5	46.7	5.9	96.3	(48.6)	188.9	147.2	28.3	
Pretax profit	196.7	208.5	(5.6)	271.4	(27.5)	621.3	588.4	5.6	
Pretax profit-EI	196.7	213.0	(7.7)	214.6	(8.3)	564.5	573.9	(1.6)	
Taxation	(29.0)	(37.7)	(23.2)	(38.2)	(24.1)	(94.5)	(94.4)	0.0	
Minority interest	(16.9)	(27.2)	(37.8)	(36.3)	(53.4)	(71.1)	(93.9)	(24.2)	
Net profit	150.9	143.6	5.0	196.9	(23.4)	455.7	400.1	13.9	
Net profit ex-EI	150.9	148.1	1.9	140.1	7.6	398.9	385.5	3.5	9M17: Within our and consensus full-year estimates.
Exceptional item (pretax)	0.0	4.5	NA	(56.8)	NA	(56.8)	(14.5)	>+100	
			+/- ppt		+/- ppt			+/- ppt	
EBIT margin (%)	11.6	14.4	(2.8)	15.6	(4.0)	12.7	14.1	(1.4)	
- Property dev	12.8	18.3	(5.5)	24.3	(11.4)	16.4	19.3	(2.9)	
- Property inv	26.9	26.4	0.6	20.7	6.2	23.9	21.3	2.5	
- Construction	9.1	10.9	(1.8)	13.1	(4.1)	10.8	11.9	(1.0)	
- Trading	6.0	5.5	0.5	6.2	(0.2)	5.7	4.9	0.8	
- Quarry	6.1	13.4	(7.3)	7.1	(1.0)	5.4	16.5	(11.0)	
- Others	14.4	11.1	3.2	15.1	(0.8)	14.1	11.3	2.8	
Tax rate (%)	14.7	17.7	(3.0)	14.1	0.7	16.7	16.5	0.3	

The exceptional items relate to fair value gain, loss on derivatives, fair value of ESOS, disposal gain and listing expenses

Source: Company, Maybank KE

Cautiousness prevails, cut new launches target

Sunway remains cautious on the property market and has cut its new launches target by 42% to MYR865m for FY17. New launches for 4Q 2017 include: 1) *The Grid* at Sunway Iskandar (launched in Nov 2017; MYR300m in GDV; 501 units of apartment, retail and offices; 50%-booked at MYR650 psf ASP with size ranging from 584-772 sq.ft.; mostly local buyers), 2) *Sunway Iskandar* (MYR90m; 127 units of townhouse and linked-clusters; 99%-booked at MYR709k/unit ASP), 3) Sunway Wellesley (Bukit Mertajam; MYR15m in GDV; 10 units of shop; 30%-booked) and 4) Tianjin Eco City (to be launched in Dec 2017; in China; MYR200m in GDV; condominium).

Despite delaying some of the new launches to 2018, management is keeping its effective sales target of MYR900m for FY17 in view of good bookings/take-ups received so far.

Sunway Bhd's RNAV estimates

1. Landbank - MARKET VALUE	Stake	Acres	MV (MYR m)	BV (MYR m)	Surplus (MYR m)
Sunway Semenyih	70%	398.1	346.8	128.0	153.2
Suncity Ipoh	65%	440.5	76.8	58.7	11.7
Sunway Integrated Resort	100%	14.9	9.3	8.3	1.1
Sunway Tower KL 1	100%	1.0	56.6	28.3	28.3
Sunway JB, Bukit Lenang	80%	64.8	50.8	134.5	(67.0)
Sg Long Balakong	80%	111	140.2	21.8	94.8
Mont Putra Rawang	100%	163	49.7	35.1	14.6
Sunway Iskandar - Pendas, freehold	60%	1079	705.1	596.6	65.1
Sub-total:					301.8

2. Active developments - WACC: 10.5-13.1%

	Stake			(MYR m)
South Quay	80%			131.4
Sunway Cheras	100%			1.7
Sunway Damansara	60%			20.1
Sunway Kayangan	100%			0.5
Sunway Duta	60%			6.4
Bangi	100%			6.5
Sunway Melawati	100%			14.1
Casa Kiara III	80%			14.7
Sunway Alam Suria	50%			1.7
Sunway Velocity	85%			162.1
Penang projects	100%			49.4
Wonderland Business Park, Australia	31%			5.5
Singapore Yi Shun	30%			4.8
Singapore Sembawang	100%			4.4
Thomson/Irrawady	30%			45.5
Mount Sophia	30%			40.3
Sunway Iskandar -leasehold (Medini)	51%			443.7
Kelana Jaya	100%			119.8
Industrial projects at Kelana Jaya and Subang	100%			25.1
Sunway Velocity extension	50%			53.4
Belfield	100%			75.2
Kajang	100%			27.1
Subang	100%			37.5
Wangsamaju	100%			39.5
Sub-total:				1,330.3

3. Investment properties - MV

	Stake	MV (MYR m)	BV (MYR m)	Surplus (MYR m)
Sunway Velocity Mall	59%	1,600	1,172	252.3
Sunway Univeristy Campus	100%	481	481	0.0
Sunway Pinnacle	100%	351	351	0.0
Monash University	100%	303	303	0.0
Sunway Giza	60%	60	60	0.0
Sub-total:				252.3

4. Other businesses or assets

37.3% stake in SunREIT based on Maybank IB's MYR1.90 TP				626.1
54.4% stake in SCG based on Maybank IB's MYR2.63 TP				1,699.9
Healthcare (20x 2017 PER)				720.0
Building material (10x 2017PER)				359.5
Trading (10x 2017 PER)				437.5
Disposal gain				47.0
Grand total:				5,774.5
Shareholders fund (MYR m) - Dec 2016				7,469.7
Proceeds from warrants (MYR1.86 exercise price; expired in Oct 2024)				1,171.7
RNAV (MYR m)				14,416.0
Number of shares (m)				4,852.5
Number of warrants (m)				630.0
FD RNAV/share (MYR)				2.63
Target price (MYR) - based on 0.7x RNAV				1.84

Source: Maybank KE

FYE 31 Dec	FY15A	FY16A	FY17E	FY18E	FY19E
Key Metrics					
P/E (reported) (x)	8.0	9.5	13.5	12.0	11.9
Core P/E (x)	11.4	13.0	14.6	12.0	11.9
P/BV (x)	1.1	1.0	1.0	1.0	0.9
P/NTA (x)	1.0	0.9	1.0	0.9	0.9
Net dividend yield (%)	10.4	3.5	3.1	3.7	3.8
FCF yield (%)	14.0	9.4	nm	nm	nm
EV/EBITDA (x)	21.7	6.1	16.4	12.8	14.8
EV/EBIT (x)	13.5	13.5	17.2	13.3	15.5

INCOME STATEMENT (MYR m)

Revenue	4,448.4	4,655.6	5,398.2	7,007.9	6,730.6
Gross profit	427.2	1,596.1	787.8	1,085.2	1,013.1
EBITDA	427.2	1,596.1	787.8	1,085.2	1,013.1
Depreciation	0.0	0.0	0.0	0.0	0.0
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	687.0	715.1	749.1	1,042.3	966.0
Net interest income / (exp)	(26.6)	(48.0)	(137.0)	(156.8)	(178.6)
Associates & JV	269.9	191.9	221.9	202.0	263.1
Exceptionals	147.4	55.4	47.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	930.4	859.0	880.9	1,087.6	1,050.5
Income tax	(130.9)	(140.4)	(211.4)	(261.0)	(252.1)
Minorities	(67.0)	(132.7)	(78.5)	(164.6)	(127.1)
Perpetual securities	0.0	0.0	0.0	0.0	0.0
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	732.4	585.9	591.0	662.0	671.3
Core net profit	590.7	547.4	544.0	662.0	671.3

BALANCE SHEET (MYR m)

Cash & Short Term Investments	2,631.0	4,080.1	2,965.9	1,977.0	889.3
Accounts receivable	2,326.3	1,891.5	1,551.0	1,551.0	1,551.0
Inventory	693.1	670.0	666.5	865.2	831.0
Property, Plant & Equip (net)	1,333.6	1,879.9	1,411.9	1,554.2	1,700.8
Intangible assets	320.1	344.7	344.7	344.7	344.7
Investment in Associates & JVs	3,181.2	3,229.9	3,229.9	3,229.9	3,229.9
Other assets	5,515.7	6,655.9	8,112.4	9,846.4	11,066.5
Total assets	16,000.9	18,752.0	18,282.2	19,368.4	19,613.2
ST interest bearing debt	3,070.9	4,860.0	4,583.2	4,583.2	4,583.2
Accounts payable	2,450.9	2,438.2	2,421.4	3,143.5	3,019.1
LT interest bearing debt	2,818.2	2,556.8	2,561.5	2,561.5	2,561.5
Other liabilities	448.0	664.0	137.0	137.0	137.0
Total Liabilities	8,787.6	10,518.7	9,702.8	10,424.9	10,300.5
Shareholders Equity	6,562.7	7,469.7	7,815.9	8,180.0	8,549.2
Minority Interest	650.6	763.5	763.5	763.5	763.5
Total shareholder equity	7,213.3	8,233.2	8,579.4	8,943.5	9,312.7
Perpetual securities	0.0	0.0	0.0	0.0	0.0
Total liabilities and equity	16,000.9	18,752.0	18,282.2	19,368.4	19,613.2

CASH FLOW (MYR m)

Pretax profit	930.4	859.0	880.9	1,087.6	1,050.5
Depreciation & amortisation	0.0	0.0	0.0	0.0	0.0
Adj net interest (income)/exp	235.8	282.1	(137.0)	(156.8)	(178.6)
Change in working capital	152.9	(251.2)	(900.0)	(900.0)	(900.0)
Cash taxes paid	(143.7)	(108.7)	(211.4)	(261.0)	(252.1)
Other operating cash flow	(235.8)	(250.3)	(47.0)	0.0	0.0
Cash flow from operations	939.6	668.1	(376.3)	(187.9)	(233.6)
Free cash flow	939.6	668.1	(376.3)	(187.9)	(233.6)
Dividends paid	(673.2)	(260.8)	(246.4)	(244.8)	(297.9)
Equity raised / (purchased)	145.8	538.1	0.0	0.0	0.0
Perpetual securities	0.0	0.0	0.0	0.0	0.0
Change in Debt	1,763.8	1,427.4	0.0	0.0	0.0
Perpetual securities distribution	0.0	0.0	0.0	0.0	0.0
Other invest/financing cash flow	(2,207.9)	(1,803.1)	(216.2)	(556.2)	(556.2)
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	(32.0)	569.7	(838.9)	(988.9)	(1,087.7)

FYE 31 Dec	FY15A	FY16A	FY17E	FY18E	FY19E
Key Ratios					
Growth ratios (%)					
Revenue growth	(8.1)	4.7	16.0	29.8	(4.0)
EBITDA growth	(15.3)	273.6	(50.6)	37.7	(6.6)
EBIT growth	(10.6)	4.1	4.8	39.1	(7.3)
Pretax growth	(4.0)	(7.7)	2.6	23.5	(3.4)
Reported net profit growth	(1.5)	(20.0)	0.9	12.0	1.4
Core net profit growth	(0.2)	(7.3)	(0.6)	21.7	1.4
Profitability ratios (%)					
EBITDA margin	9.6	34.3	14.6	15.5	15.1
EBIT margin	15.4	15.4	13.9	14.9	14.4
Pretax profit margin	20.9	18.5	16.3	15.5	15.6
Payout ratio	94.9	42.0	41.4	45.0	45.0
DuPont analysis					
Net profit margin (%)	16.5	12.6	10.9	9.4	10.0
Revenue/Assets (x)	0.3	0.2	0.3	0.4	0.3
Assets/Equity (x)	2.4	2.5	2.3	2.4	2.3
ROAE (%)	na	na	na	na	na
ROAA (%)	4.1	3.2	2.9	3.5	3.4
Leverage & Expense Analysis					
Asset/Liability (x)	1.8	1.8	1.9	1.9	1.9
Net gearing (%) (incl perps)	45.2	40.5	48.7	57.8	67.2
Net gearing (%) (excl. perps)	45.2	40.5	48.7	57.8	67.2
Net interest cover (x)	25.8	14.9	5.5	6.6	5.4
Debt/EBITDA (x)	13.8	4.6	9.1	6.6	7.1
Capex/revenue (%)	na	na	na	na	na
Net debt/ (net cash)	3,258.2	3,336.8	4,178.8	5,167.7	6,255.4

Source: Company; Maybank

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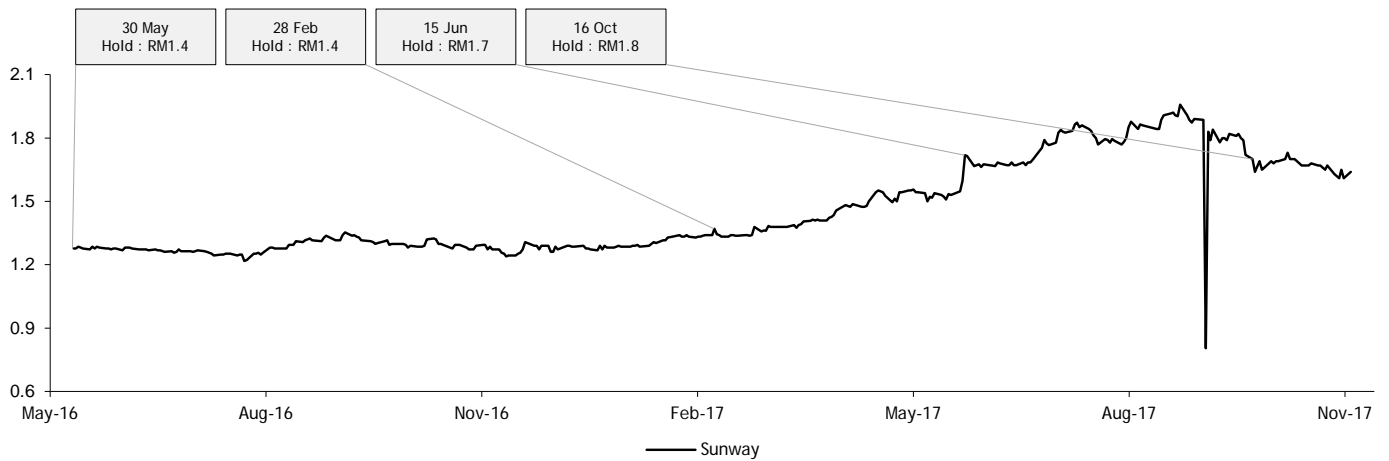
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