

Sunway Bhd

Anticipates Strong Sales from 2Q Onwards

TP: RM1.60 (+6.0%)

Last Traded: RM1.51

HOLD

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Review

- Sunway's IQ18 net profit of RM121.9mn came in with expectations, accounting for 21% and 22% of ours and consensus' full-year forecasts respectively.
- YoY, Sunway IQ18 revenue and net profit grew 20% and 13% respectively to RM1.3bn and RM121.9mn. The improvement was largely due to higher contribution from all business divisions, except property development. Property development division revenue decreased 7.7% YoY to RM132.3mn, mainly due to lower sales and progress billings from local development projects.
- Nevertheless, the group's property investment division was the star performer during the quarter, with the division's revenue increasing 18% YoY to RM220mn. The better performance was driven by higher contribution from: 1) Sunway Pyramid Hotel following the completion of refurbishment exercise, 2) Sunway Velocity Hotel which commenced operations in Sep-17, and 3) improved performance of Sunway Velocity Mall.
- QoQ, IQ18 net profit decreased 28%, largely due to lower revenue contribution from its property development (-68% QoQ) and construction division (-24% QoQ). Meanwhile, the property investment division reported weaker results attributed to seasonal factors as the leisure and hospitality business usually see earnings peak in the 4Q.
- Sunway reported RM166mn sales in IQ18 (+17% YoY). Key contributor to IQ18 sales are Sunway Iskandar and Singapore projects. Unbilled sales eased to RM947mn (effective RM811mn), from RM976mn a quarter ago.

Impact

- No change to our FY18-20 earnings forecasts.

Outlook

- Despite only securing new sales of RM166mn in IQ18, management has maintained its sales target of RM1.3bn for 2018, underpinned by new projects worth RM2.1bn (see **Figure 2**) and other existing projects. Specifically, Sunway and its Singapore JV partners launched Rivercove Residences in Singapore last month. Sales performance is encouraging with 80% of the 628 units sold during its first ballot and booking exercise in April.
- The group's unbilled sales of RM947mn and outstanding construction order book of RM4.6bn (external jobs only) should provide earnings visibility for the next 2-3 years.

Share Information

Bloomberg Code	SWB MK
Stock Code	5211
Listing	Main Market
Share Cap (mn)	4,872.5
Market Cap (RMmn)	7,357.5
52-wk Hi/Lo (RM)	1.96/1.46
12-mth Avg Daily Vol ('000 shrs)	5,406.6
Estimated Free Float (%)	29.3
Beta	1.0

Major Shareholders (%)

Sungei Way Corp (55.1)
EPF (6.1)

Forecast Revision

	FY18	FY19
Forecast Revision (%)	0.0	0.0
Net profit (RMmn)	569.1	598.5
Consensus	607.0	662.0
TA's / Consensus (%)	93.8	90.4
Previous Rating	Hold (Maintained)	

Financial Indicators

	FY18	FY19
Net gearing (x)	47.5	47.9
CFPS (sen)	12.3	11.2
P/CFPS (x)	12.3	13.5
ROE (%)	7.2	7.6
ROA (%)	2.9	3.0
NTA/Share (RM)	1.6	1.6
Price/NTA (x)	1.0	1.0

Scorecard

	% of FY	
vs TA	21.0	Within
vs Consensus	22.0	Within

Share Performance (%)

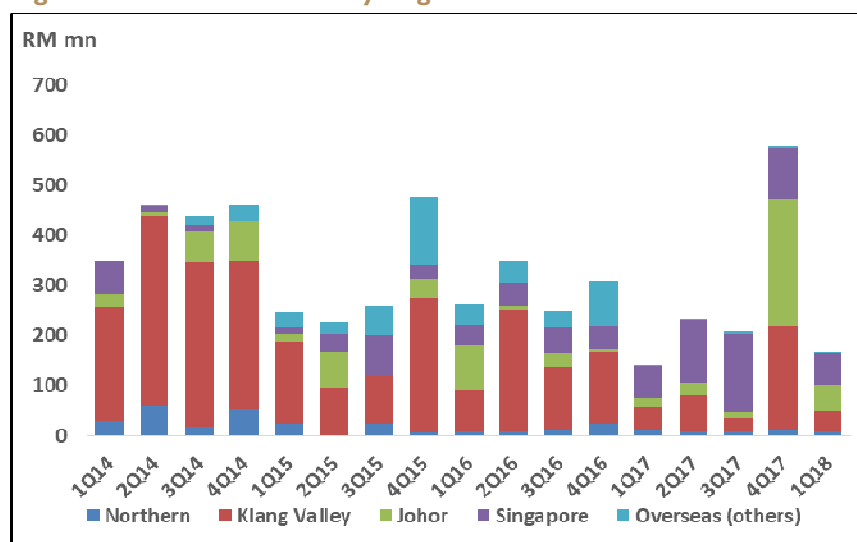
Price Change	SWB	FBM KLCI
1 mth	(3.8)	(1.8)
3 mth	(7.4)	(0.1)
6 mth	(6.2)	7.5
12 mth	(2.6)	4.4

(12-Mth) Share Price relative to the FBMKLCI



Source: Bloomberg

Figure 1: Sales Breakdown by Region



Source: Sunway

Valuation

- Rolling forward our valuation base year to CY19. We value Sunway at **RM1.60**, based on target average blended CY19 PE/PB of 13x/1.0x. Maintain **Hold**.

Figure 2: New Launches for 2018

Development	Location	Type	GDV (RM mn)	Status
Sunway Geo Lake	Sunway South Quay	Condominium	550	Targeted for launch in 2Q/3Q
Sunway Velocity TWO	Jalan Peel, KL	Service Apartments	320	Targeted for launch in 2Q/3Q
Sunway Wangsa Maju	Wangsa Maju	Service Apartments	220	Targeted for launch in 4Q
Sunway Citrine Lakehomes	Sunway Iskandar, Johor	Townhouse & Cluster	80	Targeted for launch in 2H
Sunway Onsen Suites	Sunway City, Ipoh	Service Apartments	135	Targeted for launch in 2H
Sunway Wellesley	Bukit Mertajam, Penang	Shops	25	Targeted for launch in 2H
Rivercove Residences	Sengkang, Singapore	Executive Condominium	585	Launched in Apr-18. 80% taken up via balloting
Tianjin Eco-City	Tianjin, China	Condominium	200	Targeted for launch in 2H
Total			2115	

Earnings Summary (RM mn)

YE Dec 31 (RM'mn)	2016	2017	2018F	2019F	2020F
Revenue	4655.6	5374.8	5523.6	6008.3	6220.4
EBITDA	853.1	797.2	874.0	911.9	957.5
EBITDA margin (%)	18.3	14.8	15.8	15.2	15.4
Pretax profit	803.6	810.5	775.8	815.7	866.4
Net profit	585.9	639.5	598.5	598.5	635.9
Net profit -adj	547.4	566.3	569.1	598.5	635.9
EPS (sen)	28.4	13.3	12.4	12.4	13.2
EPS - adj (sen)	11.4	11.8	11.8	12.4	13.2
EPS Growth (Core) (%)	(7.3)	3.5	0.5	5.2	6.3
PER (x)	13.3	12.8	12.8	12.1	11.4
GDPS (sen)	5.2	6.0	6.0	6.0	6.0
Div Yield (%)	3.4	4.0	4.0	4.0	4.0
ROE (%)	7.8	7.4	7.2	7.6	8.1

Note: EPS, DPS adjusted for 4 for 3 bonus issue completed in FY17

IQ18 Results Analysis (RM mn)

YE 3I Dec (RM'mn)		IQ17	4Q17	IQ18	QoQ (%)	YoY (%)
Revenue		1,091.3	1722.9	1308.4	(24.1)	19.9
EBIT		116.8	222.4	130.0	(41.5)	11.4
Gain on derivative		0.0	0.0	0.0	0.0	0.0
Finance income		42.9	55.0	54.9	(0.0)	28.2
Finance costs		(49.6)	(45.8)	(62.6)	36.7	26.1
Associates		27.0	28.8	27.5	(4.4)	2.0
JV		16.1	0.5	11.0	>100	(31.9)
EI		0.0	14.9	0.0	nm	nm
PBT		153.1	260.9	160.9	(38.3)	5.1
Core PBT		153.1	246.0	160.9	(34.6)	5.1
Tax		(27.3)	(54.9)	(23.4)	(57.4)	(14.4)
MI		(17.9)	(22.2)	(15.6)	(29.8)	(12.9)
Net profit		107.9	183.8	121.9	(33.7)	13.0
Core net profit		107.9	167.4	121.9	(27.2)	13.0
Reported EPS	(sen)	2.3	3.8	2.5	(34.8)	9.0
Adj EPS	(sen)	2.3	3.5	2.5	(28.4)	9.0
DPS	(sen)	0.0	3.0	0.0	nm	nm
EBIT margin	(%)	10.7	12.9	9.9	(3.0)	(0.8)
PBT margin	(%)	14.0	14.3	12.3	(2.0)	(1.7)
Net margin	(%)	9.9	9.7	9.3	(0.4)	(0.6)
Effective tax rate	(%)	17.9	22.3	14.5	(7.8)	(3.3)

Stock Recommendation Guideline

- BUY** : Total return within the next 12 months exceeds required rate of return by 5%-point.
HOLD : Total return within the next 12 months exceeds required rate of return by between 0-5%-point.
SELL : Total return is lower than the required rate of return.
Not Rated: The company is not under coverage. The report is for information only.

Total Return is defined as expected share price appreciation plus gross dividend over the next 12 months. Gross dividend is excluded from total return if dividend discount model valuation is used to avoid double counting.

Required Rate of Return of 7% is defined as the yield for one-year Malaysian government treasury plus assumed equity risk premium.

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As of Tuesday, May 22, 2018, the analyst, Thiam Chiann Wen, who prepared this report, has interest in the following securities covered in this report:
(a) nil

Kaladher Govindan – Head of Research

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