

Outthink. Outperform.

Fair value gain boost

Sunway's 1H18 result was within expectations. Net profit grew 5% yoy to RM321m in 1H18 on higher contributions from all divisions except its property development arm. Fair value gain of RM59m for Sunway REIT also contributed to its bottom line. Property pre-sales of RM1.3bn YTD August is on track to meet its RM2bn target in FY18. Sunway remains our top BUY among large-cap property stocks with a reduced RM2.00 target price, based on 20% discount to RNAV.

Held back by change in accounting practise

Sunway's net profit of RM321m in 1H18 comprises 49-53% of market and our full-year estimate of RM605-653m. Revenue increased 11% yoy to RM2.6bn in 1H18, driven by positive growth for all key divisions except its property development arm (-47% yoy). Core net profit declined 2% yoy to RM295m in 1H18. The adoption of MFRS 15 accounting standard led to the change in revenue and profit recognition for its Singapore project on a completion basis compared to the percentage completion basis previously. Sunway's core net profit would have been 16% yoy higher if not for the adoption of MFRS 15. *This note marks a transfer of coverage.*

High unbilled sales

PBT for its property development arm declined 28% yoy to RM70m in 1H18 due to the adoption of MFRS 15 and completion of several major projects last year, which was partly offset by higher forex gain of RM28m. Of the RM1.3bn sales YTD August, RM0.66bn came from its new Rivercove Residences project in Singapore that was launched in April 2018 (99% booked). It plans to launch RM1.16bn worth of new projects in 2H18, ie, Sunway GEOLake Condominium, Sunway Citrine Lakehomes (Phase 2) and Sunway Gardens (Tianjin) projects. High unbilled sales of RM1.5bn as at June 2018 and additional contribution from new investment properties such as Sunway Velocity Hotel and Sunway Geo will support property earnings growth.

Top large-cap sector BUY

We trim our EPS forecasts to reflect lower Suncon earnings and reduce our RNAV/share estimate to RM2.50 from RM2.56 to reflect higher net debt as at 30 June 2018. We maintain our BUY call with 12-month TP reduced to RM2.00 from RM2.05, based on the same 20% discount to RNAV. Key risks to our positive view are weaker-than-expected property sales and low construction contract wins.

Earnings & Valuation Summary

FYE 31 Dec	2016	2017	2018E	2019E	2020E
Revenue (RMm)	4,655.6	5,374.8	5,296.0	5,839.9	6,074.2
EBITDA (RMm)	776.1	774.4	756.8	793.4	959.7
Pretax profit (RMm)	859.0	882.2	868.1	956.0	1,166.9
Net profit (RMm)	585.9	549.6	652.7	709.6	877.9
EPS (sen)	12.9	13.3	13.5	14.7	18.1
PER (x)	12.1	11.7	11.5	10.6	8.6
Core net profit (RMm)	558.3	523.5	652.7	709.6	877.9
Core EPS (sen)	10.5	10.8	13.5	14.7	18.0
Core EPS growth (%)	(24.9)	3.5	24.9	8.6	22.9
Core PER (x)	14.9	14.4	11.5	10.6	8.6
Net DPS (sen)	5.2	6.0	6.0	6.0	6.0
Dividend Yield (%)	3.3	3.8	3.8	3.8	3.8
EV/EBITDA (x)	7.5	15.5	14.2	13.0	10.1
Chg in EPS (%)			(0.5)	(0.4)	(2.2)
Affin/Consensus (x)			1.1	1.1	1.2

Source: Company, Bloomberg, Affin Hwang forecasts

Affin Hwang Investment Bank Bhd (14389-U)

Results Note

Sunway Berhad

SWB MK
Sector: Property

RM1.56 @ 21 August 2018

BUY (maintain)

Upside: 28%

Price Target: RM2.00

Previous Target: RM2.05



Price Performance

	1M	3M	12M
Absolute	0.0%	3.3%	-11.9%
Rel to KLCI	-2.4%	6.5%	-13.2%

Stock Data

Issued shares (m)	4,864
Mkt cap (RMm)/(US\$m)	7,588/1,852
Avg daily vol - 6mth (m)	2.6
52-wk range (RM)	1.44-1.96
Est free float	28.1%
BV per share (RM)	1.65
P/BV (x)	0.94
Net cash/ (debt) (RMm) (2Q18)	(3,881)
ROE (2018E)	7.3%
Derivatives	Yes
(Warr 19/24, WP RM0.37, EP RM1.00)	
Shariah Compliant	Yes

Key Shareholders

Tan Sri Dr Jeffrey Cheah Fook Ling	61.0%
EPF	6.6%
Amanah Saham Bumiputera	3.7%

Source: Affin Hwang, Bloomberg

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Integrated property model advantage

We continue to like Sunway for its integrated property-development business model, complemented by its construction, trading, quarry, healthcare and education businesses (non-property businesses contributed 43% of PBT). Construction order book of RM5.8bn and in-house projects will sustain its construction earnings despite the slowdown in public-sector project awards.

Fig 1: Results Comparison

FYE 31 Dec (RMm)	2Q17	1Q18	2Q18	QoQ % chg	YoY % chg	1H17	1H18	YoY % chg	Comment
Revenue	1,240.5	1,308.4	1,287.1	(1.6)	3.8	2,329.3	2,595.5	11.4	1H18: Higher revenue for all segments except property development (-47% yoy). Construction (+42%) and trading (+20%) divisions were the key revenue and growth contributors to the group.
Op costs	(1,020.2)	(1,142.0)	(1,112.1)	(2.6)	9.0	(1,955.2)	(2,251.9)	15.2	
EBITDA	220.3	166.4	175.0	5.1	(20.6)	374.0	343.6	(8.1)	
<i>EBITDA margin (%)</i>	<i>17.8</i>	<i>12.7</i>	<i>13.6</i>	<i>0.9ppt</i>	<i>(4.2ppt)</i>	<i>16.1</i>	<i>13.2</i>	<i>(2.8ppt)</i>	
Depn and amort	(33.3)	(36.6)	(37.2)	1.8	11.9	(67.8)	(73.8)	8.8	
EBIT	187.0	129.9	137.7	6.1	(26.4)	306.2	269.8	(11.9)	1H18: Higher EBIT for all division except property development (-16% yoy). Key EBIT growth drivers were property investment (+30%), mainly due to fair value gain on investment properties) and trading (+15%) divisions.
<i>EBIT margin (%)</i>	<i>15.1</i>	<i>9.9</i>	<i>10.7</i>	<i>0.8ppt</i>	<i>(4.4ppt)</i>	<i>13.1</i>	<i>10.4</i>	<i>(2.8ppt)</i>	
Interest income	43.7	54.9	56.3	1.3	12.6	86.5	111.2	28.5	
Interest expense	(62.4)	(62.6)	(69.1)	10.4	10.6	(112.0)	(131.6)	17.5	
Associates	96.1	38.5	89.0	131.3	(7.4)	139.2	127.5	(8.4)	Includes fair value gain of RM59m in 2Q18.
Forex gain (losses)	0.3	(0.9)	28.9	NA	>100	1.2	28.0	>100	Forex gain on translation of Singapore operation's accumulated profits.
Exceptional items	5.5	1.1	(0.6)	NA	NA	0.6	(1.7)	NA	
Pretax profit	270.2	160.9	242.2	50.6	(10.3)	421.8	403.1	(4.4)	
Core pretax	264.4	160.7	213.9	33.1	(19.1)	419.9	376.9	(10.3)	
Tax	(38.1)	(23.4)	(26.5)	13.0	(30.6)	(65.4)	(49.9)	(23.7)	
<i>Tax rate (%)</i>	<i>21.9</i>	<i>19.1</i>	<i>17.3</i>	<i>(1.9ppt)</i>	<i>(4.6ppt)</i>	<i>23.1</i>	<i>18.1</i>	<i>(5.0ppt)</i>	
Minority interests	(36.0)	(15.6)	(16.3)	(0.8)	19.6	(53.5)	(31.9)	(40.3)	
Net profit	196.1	121.9	199.4	63.6	1.7	302.9	321.4	6.1	Within expectations.
EPS (sen)	9.6	2.5	4.1	64.3	(57.5)	15.0	6.6	(56.0)	
Core net profit	190.3	121.7	171.2	40.6	(10.1)	301.1	295.1	(2.0)	Exclude one-off gains.

Source: Affin Hwang, Company data

Fig 2: Segmental revenue breakdown

FYE 31 Dec (RMm)	2Q17	1Q18	2Q18	QoQ % chg	YoY % chg	1H17	1H18	YoY % chg
Ppty dev	271.1	132.3	88.7	(33.0)	(67.3)	414.4	221.0	(46.7)
Ppty inv	207.4	220.0	216.7	(1.5)	4.5	394.3	436.7	10.8
Construction	310.9	443.7	449.7	1.3	44.6	627.7	893.4	42.3
Trading	226.0	278.3	286.4	2.9	26.7	471.2	564.7	19.8
Quarry	58.7	50.0	57.9	15.8	(1.4)	98.9	107.9	9.1
Other	166.9	184.2	187.7	1.9	12.5	325.8	371.9	14.1
Total	1,241.0	1,308.4	1,287.1	(1.6)	3.7	2,332.3	2,595.5	11.3

Source: Affin Hwang estimates, company data

Fig 3: Segmental PBT breakdown

FYE 31 Dec (RMm)	2Q17	1Q18	2Q18	QoQ % chg	YoY % chg	1H17	1H18	YoY % chg
Ppty dev	73.9	23.8	46.4	95.4	(37.2)	97.4	70.2	(28.0)
Ppty inv	84.4	55.6	102.5	84.3	21.4	115.6	158.2	36.9
Construction	42.3	40.1	49.6	23.5	17.1	79.2	89.7	13.2
Trading	10.3	11.5	13.4	16.3	29.7	19.1	24.9	30.4
Quarry	3.7	1.8	2.9	65.9	(20.8)	4.2	4.7	11.7
Other	55.5	28.1	27.4	(2.5)	(50.6)	106.2	55.5	(47.7)
Total	270.2	160.9	242.2	50.6	(10.3)	421.8	403.1	(4.4)

Source: Affin Hwang estimates, company data

Fig 4: Change in RNAV and target price

Segment	Current RNAV (RMm)	Previous RNAV (RMm)
NPV/Market value/RNAV	16,024	16,255
Net cash/(debt)	(3,881)	(3,759)
RNAV	12,142	12,496
Number of shares	4,864	4,880
RNAV/share (RM)	2.50	2.56
Target price @ 20% discount to RNAV (RM)	2.00	2.05

Source: Affin Hwang estimates

Fig 5: RNAV breakdown by business segments

Segment	PER	RNAV (RMm)
Property development		6,086
Property investment		4,473
Construction	16	1,915
Building materials	16	1,040
Quarry	16	560
Healthcare	30	1,950
Total		16,024
Net cash/(debt)		(3,881)
RNAV		12,142
Number of shares		4,864
RNAV/share (RM)		2.50
Target price @ 20% discount to RNAV (RM)		2.00

Source: Affin Hwang estimates

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

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