



AmInvestment Bank

## Company report

## SUNWAY

(SWB MK EQUITY, SWAY.KL)

1 March 2019

New property sales up 50% YoY

BUY

(Maintained)

Thong Pak Leng

thong-pak-leng@ambankgroup.com

03-2036 2025

Rationale for report: Company results

Price	RM1.62
Fair Value	RM1.73
52-week High/Low	RM1.69/RM1.35

## Key Changes

Fair value	↔
EPS	↔

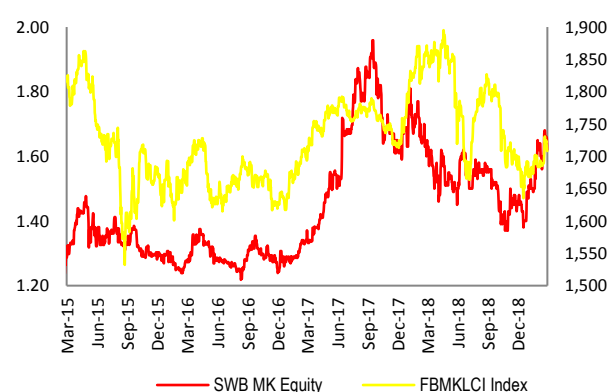
YE to Dec	FY18	FY19F	FY20F	FY21F
Revenue (RM mil)	5,410.3	5,640.8	6,001.7	6,401.3
Core net profit (RM mil)	581.4	594.2	626.0	648.2
FD Core EPS (sen)	12.0	12.2	12.9	13.4
FD Core EPS growth (%)	(1.0)	2.2	5.4	3.5
Consensus Net Profit (RM mil)	-	619.4	680.6	669.0
DPS (sen)	5.5	5.6	5.9	6.1
PE (x)	13.5	13.2	12.6	12.1
EV/EBITDA (x)	16.5	14.6	14.1	13.8
Div yield (%)	3.4	3.4	3.6	3.7
ROE (%)	7.1	6.9	7.0	6.9
Net Gearing (%)	44.4%	45.6%	46.4%	47.4%

## Stock and Financial Data

Shares Outstanding (million)	4,849.70
Market Cap (RM mil)	7,856.5
Book Value (RM/share)	1.7
P/BV (x)	1.0
ROE (%)	8.02
Net Gearing (%)	44.4

Major Shareholders	Sungei Way Corp SB	56.2%
	EPF	7.2%
	Tan Sri Jeffrey Cheah	5.1%
Free Float	31.4%	
Avg Daily Value (RM mil)	2.90	

Price performance	3mth	6mth	12mth
Absolute (%)	11.0	6.2	2.4
Relative (%)	(1.4)	9.1	6.7



## Investment Highlights

- We maintain our BUY call on Sunway Bhd (Sunway) with an unchanged fair value of RM1.73 per share based on SOP valuation (Exhibit 2). We made no changes to our FY19–20 numbers while introducing FY21 earnings forecast at RM648.2mil.
- Sunway reported its FY18 revenue and core PATMI of RM5,410.3mil (+3.3% YoY) and RM581.4mil (-1.0% YoY) respectively. Core PATMI of RM581.4mil is within our and consensus full-year estimates.
- The property development division reported an FY18 revenue of RM619.6mil (-31.8% YoY) and PBT of RM158.6mil (-32.6%) mainly due to the adoption of the the MFRS 15 whereby profits of property development projects in Singapore and China can only be recognised upon completion. Nonetheless, Sunway reported strong new sales of RM1.88bil (+50% YoY) while unbilled sales of RM2.1bil will provide good earnings visibility in short to mid-term.
- The property investment segment reported FY18 revenue of RM818.4mil (+3.9% YoY) and PBT of RM291.4mil (+14.1% YoY) mainly due to additional contribution from new properties such as Sunway Velocity Hotel and Sunway Geo in Sunway South Quay, as well as from the opening of additional room inventory at The Banjaran Hotsprings Retreat & Spa in Ipoh.
- The construction segment FY18 PBT grew 1.4% YoY to RM190.1mil driven by higher construction profits (arising from the Parcel F building job in Putrajaya, Package V201 of the MRT2 and International School of Kuala Lumpur building contract in Ampang), partially offset by lower precast profits (due to the completion of several projects coupled with higher rebar prices). YTD, Sunway Construction has secured new jobs worth a total of RM1.55bil while its outstanding construction order book stands at RM5.2bil.
- Management declared a second interim dividend of 2 sen per share, bringing the total dividend payout to 5.5 sen for FY18, representing a payout ratio of 50%.
- We believe the outlook for Sunway remains positive premised on its unbilled sales of RM2.1bil, strong income contribution from property investment and a robust outstanding order book of RM5.2bil. Maintain BUY.

## EXHIBIT 1: EARNINGS SUMMARY

YE to Dec (RM mil)	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	QoQ %	YoY %	FY17	FY18	YTD %
Revenue	1,587.3	1,308.4	1,287.1	1,444.6	1,370.2	-5.1%	-13.7%	5,239.3	5,410.3	3.3%
Operating costs	(1,363.4)	(1,141.8)	(1,083.8)	(1,244.8)	(1,235.0)	-0.8%	-9.4%	(4,447.3)	(4,705.5)	5.8%
<b>EBITDA</b>	<b>224.0</b>	<b>166.6</b>	<b>203.2</b>	<b>199.8</b>	<b>135.2</b>	<b>-32.3%</b>	<b>-39.7%</b>	<b>792.0</b>	<b>704.8</b>	<b>-11.0%</b>
Depreciation	(35.2)	(36.6)	(37.2)	(40.0)	(29.3)	-26.8%	-16.8%	(139.0)	(143.2)	3.0%
Finance costs	51.3	(7.6)	(12.8)	(3.4)	83.7	-2536.4%	63.1%	19.6	59.9	206.1%
Associate contributions	10.8	38.5	89.0	37.7	64.0	69.9%	491.1%	199.7	229.2	14.8%
Profit before tax	250.9	160.9	242.2	194.0	253.6	30.7%	1.1%	872.2	850.6	-2.5%
Taxation	(54.9)	(23.4)	(26.5)	(27.1)	(44.7)	65.3%	-18.5%	(149.4)	(121.6)	-18.6%
<b>PATMI</b>	<b>164.9</b>	<b>121.9</b>	<b>199.4</b>	<b>145.3</b>	<b>192.3</b>	<b>32.4%</b>	<b>16.6%</b>	<b>620.6</b>	<b>659.0</b>	<b>6.2%</b>
Adjustments	(37.1)	(23.2)	(33.3)	(8.7)	(12.4)	42.9%	-66.7%	(33.2)	(77.6)	133.9%
<b>Core PATMI</b>	<b>127.8</b>	<b>98.7</b>	<b>166.2</b>	<b>136.6</b>	<b>179.9</b>	<b>31.7%</b>	<b>40.9%</b>	<b>587.4</b>	<b>581.4</b>	<b>-1.0%</b>
EPS (sen)	3.4	2.5	4.1	3.0	4.0	32.4%	16.6%	12.8	13.6	6.2%
EBITDA margin (%)	14.1%	12.7%	15.8%	13.8%	9.9%			15.1%	13.0%	
Effective tax rate (%)	21.9%	14.5%	10.9%	13.9%	17.6%			17.1%	14.3%	
Core PATMI margin (%)	8.0%	7.5%	12.9%	9.5%	13.1%			11.2%	10.7%	

Source: Company

## EXHIBIT 2: SOP VALUATIONS

DEVELOPMENT PROPERTIES	Outstanding GDV (RMmil)	NPV @9% (RMmil)	Stake	Segment	Value (RMmil)	% of SOP
<b>Selangor/KL</b>				Property (30% discount to RNAV)	1,823.0	18.3%
Sunway Damansara	1,691.3	63.7	60.0%	Investment properties	3,075.1	30.9%
Sunway South Quay	2,586.7	175.3	100.0%	Sunway Construction (54.4% stake @ AmResearch Valuation)	893.2	9.0%
Sunway Montez	38.0	1.5	60.0%	Sunway REIT(40.9% stake @ AmResearch Valuation)	2,034.7	20.4%
Sunway Semenyih	728.6	34.6	70.0%	Healthcare (25x FY19 earnings)	1,273.3	12.8%
Sunway Cheras	16.8	1.1	100.0%	Quarry & building materials (8x FY19 earnings)	478.3	4.8%
Sunway Duta	120.0	4.9	60.0%	Trading & manufacturing (8x FY19 earnings)	387.2	3.9%
Sunway Montana	55.5	3.8	100.0%	Total SOP	9,964.8	
Sunway Resort City	660.1	45.0	100.0%	Net cash/(debt) @ Company level	(404.3)	
Sunway Velocity	1,984.0	115.0	85.0%	<b>Fair value</b>	<b>9,560.5</b>	
Sunway Velocity TWO	2,000.0	68.2	50.0%			
Sunway Tower KL 1	240.0	16.4	100.0%	Enlarged share base (mil shares)	5,538.8	
Melawati	43.0	2.9	100.0%	<b>Fair value per share</b>	<b>1.73</b>	
Sg Long	277.0	15.1	80.0%			
Mont Putra, Rawang	156.0	10.6	100.0%			
Kelana Jaya	1,450.0	100.9	100.0%			
Jalan Belfield	1,100.0	76.5	100.0%			
Lot One, Kajang	460.0	32.0	100.0%			
USJ 1, Subang Jaya	1,400.0	97.4	100.0%			
Wangsa Maju	500.0	19.1	55.0%			
<b>Perak</b>						
Sunway City Ipoh	1,048.4	61.1	96.0%			
<b>Penang</b>						
Sunway Hills	849.0	57.2	100.0%			
Sunway Wellesley, Bukit Mertajam	710.5	47.9	100.0%			
Paya Terubong	1,500.0	101.1	100.0%			
Sunway Tunas, Balik Pulau	60.0	4.0	100.0%			
Sunway Bebong, Balik Pulau	110.0	7.4	100.0%			
<b>Johor</b>						
Bukit Lenang	698.4	33.9	80.0%			
Medini	10,743.0	391.0	60.0%			
Pendas	18,000.0	655.2	60.0%			
<b>Singapore</b>						
Brookvale Park	3,000.0	37.7	30.0%			
Canberra Link, Sembawang	1,500.0	22.0	35.0%			
Tampines	2,424.0	67.9	35.0%			
<b>China</b>						
Sunway Guanghao	66.8	1.5	65.0%			
<b>India</b>						
Sunway OPUS Grand India	702.4	12.5	50.0%			
Sunway MAK Signature Residence	181.2	3.9	60.0%			
Unbilled sales	0.0	216.0	0.0%			
<b>Subtotal</b>		<b>2,604.3</b>				

Source: AmlInvestment Bank Bhd

## EXHIBIT 3: FINANCIAL DATA

Income Statement (RMmil, YE 31 Dec)	FY17	FY18	FY19F	FY20F	FY21F
Revenue	5,239.3	5,410.3	5,640.8	6,001.7	6,401.3
EBITDA	792.0	704.8	812.3	861.6	899.0
Depreciation/Amortisation	(139.0)	(143.2)	(149.3)	(158.8)	(169.4)
Operating income (EBIT)	653.0	561.6	663.0	702.8	729.6
Other income & associates	199.7	229.2	175.0	183.7	192.1
Net interest	19.6	59.9	(24.3)	(25.9)	(27.6)
Exceptional items	33.2	77.6	0.0	0.0	0.0
<b>Pretax profit</b>	<b>872.2</b>	<b>850.6</b>	<b>813.7</b>	<b>860.7</b>	<b>894.2</b>
Taxation	(149.4)	(121.6)	(146.5)	(154.9)	(160.9)
Minority interests	(102.2)	(70.0)	(73.1)	(79.7)	(85.1)
<b>Net profit</b>	<b>620.6</b>	<b>659.0</b>	<b>594.2</b>	<b>626.0</b>	<b>648.2</b>
Core net profit	587.4	581.4	594.2	626.0	648.2
Balance Sheet (RMmil, YE 31 Dec)	FY17	FY18	FY19F	FY20F	FY21F
PPE	2,050.5	1,856.2	1,949.0	2,046.5	2,148.8
Intangible assets	327.2	313.9	313.9	313.9	313.9
Other long-term assets	8,584.7	7,267.7	7,567.7	7,867.7	8,067.7
<b>Total non-current assets</b>	<b>10,962.4</b>	<b>9,437.8</b>	<b>9,830.6</b>	<b>10,228.0</b>	<b>10,530.3</b>
Cash & equivalent	4,426.6	5,134.4	4,844.7	5,032.4	5,226.9
Inventories	681.4	1,857.9	1,866.0	1,986.8	2,120.8
Trade receivables	1,930.2	1,945.6	1,995.3	2,164.1	2,291.5
Other current assets	2,043.5	783.4	852.1	867.0	883.4
<b>Total current assets</b>	<b>9,081.8</b>	<b>9,721.3</b>	<b>9,558.1</b>	<b>10,050.2</b>	<b>10,522.6</b>
Trade payables	1,595.9	2,423.3	2,475.8	2,636.0	2,813.8
Short-term borrowings	4,911.0	6,057.4	5,901.8	6,130.4	6,367.3
Other current liabilities	1,459.3	239.4	240.9	243.3	245.9
<b>Total current liabilities</b>	<b>7,966.2</b>	<b>8,720.1</b>	<b>8,618.5</b>	<b>9,009.6</b>	<b>9,427.1</b>
Long-term borrowings	3,348.3	2,840.8	2,961.8	3,151.3	3,361.1
Other long-term liabilities	405.7	421.0	281.0	207.2	(44.8)
<b>Total long-term liabilities</b>	<b>3,754.0</b>	<b>3,261.8</b>	<b>3,242.7</b>	<b>3,358.6</b>	<b>3,316.3</b>
<b>Shareholders' funds</b>	<b>7,844.1</b>	<b>8,484.7</b>	<b>8,808.6</b>	<b>9,149.8</b>	<b>9,503.5</b>
Minority interests	643.3	619.8	646.2	687.6	733.3
BV/share (RM)	1.62	1.75	1.82	1.89	1.96
Cash Flow (RMmil, YE 31 Dec)	FY17	FY18	FY19F	FY20F	FY21F
Pretax profit	872.2	850.6	813.7	860.7	894.2
Depreciation/Amortisation	139.0	143.2	149.3	158.8	169.4
Net change in working capital	610.6	(195.5)	(72.4)	(141.9)	(97.4)
Others	(819.1)	(4.0)	(358.0)	(425.8)	(621.6)
<b>Cash flow from operations</b>	<b>802.7</b>	<b>794.3</b>	<b>532.5</b>	<b>451.8</b>	<b>344.5</b>
Capital expenditure	(513.7)	(487.1)	(92.8)	(97.5)	(102.3)
Net investments & sale of fixed assets	0.0	0.0	0.0	0.0	0.0
Others	(106.9)	(425.4)	(300.0)	(300.0)	(200.0)
<b>Cash flow from investing</b>	<b>(620.6)</b>	<b>(912.5)</b>	<b>(392.8)</b>	<b>(397.5)</b>	<b>(302.3)</b>
Debt raised/(repaid)	1,023.1	1,329.7	(34.6)	418.1	446.8
Equity raised/(repaid)	118.0	0.0	0.0	0.0	0.0
Dividends paid	(228.1)	(316.5)	(270.3)	(284.8)	(294.4)
Others	(669.5)	(144.8)	0.0	0.0	0.0
<b>Cash flow from financing</b>	<b>243.4</b>	<b>868.4</b>	<b>(304.9)</b>	<b>133.4</b>	<b>152.3</b>
<b>Net cash flow</b>	<b>425.6</b>	<b>750.2</b>	<b>(165.2)</b>	<b>187.7</b>	<b>194.5</b>
<b>Adjustments</b>	<b>(12.2)</b>	<b>(12.2)</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>Net cash/(debt) b/f</b>	<b>1,823.5</b>	<b>2,236.9</b>	<b>2,974.9</b>	<b>2,809.7</b>	<b>2,997.4</b>
<b>Net cash/(debt) c/f</b>	<b>2,236.9</b>	<b>2,974.9</b>	<b>2,809.7</b>	<b>2,997.4</b>	<b>3,191.9</b>
Key Ratios (YE 31 Dec)	FY17	FY18	FY19F	FY20F	FY21F
Revenue growth (%)	12.5	3.3	4.3	6.4	6.7
EBITDA growth (%)	(7.1)	(11.0)	15.3	6.1	4.3
Pretax margin (%)	16.6	15.7	14.4	14.3	14.0
Net profit margin (%)	11.8	12.2	10.5	10.4	10.1
Interest cover (x)	nm	nm	27.3	27.2	26.5
Effective tax rate (%)	17.1	14.3	18.0	18.0	18.0
Dividend payout (%)	46.7	40.3	45.5	45.5	45.4
Receivable turnover (days)	134.5	131.3	129.1	131.6	130.7
Inventory turnover (days)	47.1	85.7	120.5	117.2	117.1
Payable turnover (days)	102.5	135.6	158.5	155.4	155.4

Source: AmlInvestment Bank Bhd estimates

**DISCLOSURE AND DISCLAIMER**

This report is prepared for information purposes only and it is issued by AmInvestment Bank Berhad (“AmInvestment”) without regard to your individual financial circumstances and objectives. Nothing in this report shall constitute an offer to sell, warranty, representation, recommendation, legal, accounting or tax advice, solicitation or expression of views to influence any one to buy or sell any real estate, securities, stocks, foreign exchange, futures or investment products. AmInvestment recommends that you evaluate a particular investment or strategy based on your individual circumstances and objectives and/or seek financial, legal or other advice on the appropriateness of the particular investment or strategy.

The information in this report was obtained or derived from sources that AmInvestment believes are reliable and correct at the time of issue. While all reasonable care has been taken to ensure that the stated facts are accurate and views are fair and reasonable, AmInvestment has not independently verified the information and does not warrant or represent that they are accurate, adequate, complete or up-to-date and they should not be relied upon as such. All information included in this report constitute AmInvestment’s views as of this date and are subject to change without notice. Notwithstanding that, AmInvestment has no obligation to update its opinion or information in this report. Facts and views presented in this report may not reflect the views of or information known to other business units of AmInvestment’s affiliates and/or related corporations (collectively, “AmBank Group”).

This report is prepared for the clients of AmBank Group and it cannot be altered, copied, reproduced, distributed or republished for any purpose without AmInvestment’s prior written consent. AmInvestment, AmBank Group and its respective directors, officers, employees and agents (“Relevant Person”) accept no liability whatsoever for any direct, indirect or consequential losses, loss of profits and/or damages arising from the use or reliance of this report and/or further communications given in relation to this report. Any such responsibility is hereby expressly disclaimed.

AmInvestment is not acting as your advisor and does not owe you any fiduciary duties in connection with this report. The Relevant Person may provide services to any company and affiliates of such companies in or related to the securities or products and/or may trade or otherwise effect transactions for their own account or the accounts of their customers which may give rise to real or potential conflicts of interest.

This report is not directed to or intended for distribution or publication outside Malaysia. If you are outside Malaysia, you should have regard to the laws of the jurisdiction in which you are located.

If any provision of this disclosure and disclaimer is held to be invalid in whole or in part, such provision will be deemed not to form part of this disclosure and disclaimer. The validity and enforceability of the remainder of this disclosure and disclaimer will not be affected.