

HLIB Research

PP 9484/12/2012 (031413)

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BUY (Maintain)

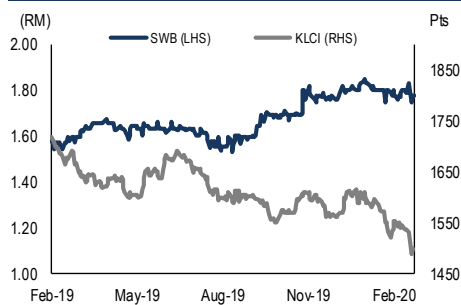
Target Price: RM2.23
Previously: RM2.17
Current Price: RM1.78

Capital upside	25.3%
Dividend yield	6.0%
Expected total return	31.3%

Sector coverage: Property

Company description: Sunway is a conglomerate that engages in property development, property investment, construction, leisure and hospitality, education, trading and manufacturing, building materials and healthcare.

Share price



	1M	3M	12M
Absolute	-1.1	0.6	9.4
Relative	3.6	6.6	25.7

Stock information

Bloomberg Ticker	SWB MK
Bursa Code	5211
Issued Shares (m)	4,903
Market cap (RM m)	8,727
3-mth avg. volume ('000)	3,054
SC Shariah-compliant	Yes

Major shareholders

Sungei Way Corp Sdn Bhd	56.8%
EPF	7.3%

Earnings summary

FYE (Dec)	FY19	FY20f	FY21f
PATMI – core (RM m)	638.8	742.4	754.1
EPS – core (sen)	12.9	15.2	15.5
P/E (x)	13.7	11.7	11.5

Sunway

FY20 to ascend higher

Sunway's FY19 core PATMI of RM638.8m (+14% YoY) was within expectations. Declared a second interim dividend of 4.5 sen per share, bringing FY19 to 9.07 sen per share (FY18: 7.12 sen per share). New effective sales of RM380m was achieved in 4Q19, bringing FY19 effective sales to RM1.1bn (110% of full year target). Sunway has set a higher effective sales target for FY20 (RM1.4bn) which is backed by a much stronger effective GDV launch target (RM3.3bn) whereby a majority of it will be located in Singapore. We increase our FY20/21 earnings forecasts by +6.4%/+0.1% to reflect stronger foreign contributions. Maintain BUY with a higher TP of RM2.23 (from RM2.17) based on a 10% holding discount to SOP-derived value of RM2.52

Within expectations. Sunway's 4QFY19 core PATMI of RM221.9m (+33% QoQ, +45.3% YoY), brings the FY19 sum to RM638.8m (+14% YoY), forming 102.9% and 98.9% of our and consensus full year forecasts, respectively. FY19 core PATMI sum has been arrived after excluding +RM73.4m worth of EIs, which mainly includes +RM73.9m in revaluation gains, +RM30.2m in reversal of provision for deferred taxation, -RM79.6m in impairment and write offs, and a +RM49.3m of disposal gain.

Dividend. Declared a second interim dividend of 4.5 sen per share, bringing FY19 to 9.07 sen per share (FY18: 7.12 sen per share). Dividend Reinvestment Scheme will apply to the entire second interim dividend whereby details on pricing, book closure and payment date will be made at a later date.

QoQ. 4Q19 core PATMI increased +33% to RM221.9m largely due to the improved contributions of the property development segment (which also saw the partial recognition of the Tianjin project) and improved treasury operations.

YoY. Core PATMI rose +45.3% to RM221.9m on the back of a much stronger progressive billing recognition in the property development segment and a higher share of profits from Sunway REIT.

YTD. FY19 recorded an increase of +14% to RM638.8m in core PATMI which was mainly supported by improved property development segment (including JV contributions), improved treasury operations and a lower effective tax rate.

Property development. New effective sales of RM380m was achieved in 4Q19, bringing FY19 effective sales to RM1.1bn, representing 110% of its full year target. Unbilled sales stood at RM2.1bn, representing a strong cover ratio of 3.8x on FY19's property revenue. Sunway has set a higher effective sales target for FY20 (RM1.4bn) which is backed by a much stronger effective GDV launch target (RM3.3bn) whereby a majority of it will be located in Singapore. We remain positive on the Singapore launches as we note that Parc Canberra (Executive Condominium) which was launched only a month ago has already garnered a take up of c.60%.

Construction. SunCon reported FY19 core earnings of RM134.1m (-7% YoY) while current orderbook stands at RM5.2bn which implies a healthy cover of 3x on FY19 construction revenue.

Healthcare. The segment reported a healthy RM61.8m PAT as the strong performance of SMC3 could offset the initial operating losses of the new hospital.

Forecast. We increase our FY20/21 earnings forecasts by +6.4%/+0.1% to reflect a higher lumpy foreign contribution i.e. the remaining Tianjin units which have yet to be handed over coupled with better than expected margins from the Rivercove Residences project due to managed construction costs.

Maintain BUY with a higher **TP** of **RM2.23** (from RM2.17) based on a 10% holding discount to SOP-derived value of RM2.52 after imputing the change in forecast and minor bookkeeping. Sunway remains our top pick given its well integrated property and construction segments. Its hidden gem, the healthcare business (with 4 new hospitals coming on stream over the next three years) has yet to be appreciated as it is embedded within the parent-co. These coupled with the resilient earnings from mature investment properties alongside its growing building materials business and quarry operations justifies for the re-rating of the stock.

Figure #1 4Q Results

FYE Dec (RM m)	FY17	FY18	FY19	FY20f	FY21f
Revenue	5,239.3	5,410.2	4,780.4	5,684.1	6,081.1
EBIT	653.1	559.2	565.2	690.0	745.6
PBT	879.1	850.0	914.2	1,059.9	1,093.8
PAT	627.5	658.4	835.9	742.4	754.1
PAT – Core	554.3	569.4	638.8	742.4	754.1
% change YoY – Core PAT		2.7%	12.2%	16.2%	1.6%
HLIB/ Consensus (%) – Core PAT			99%	107%	99%
Core EPS (sen)	11.5	11.7	12.9	15.2	15.5
P/E (x)	15.5	15.2	13.7	11.7	11.5
EV/EBITDA (x)	15.2	17.5	19.9	12.9	12.2
DPS (sen)	6.0	7.1	9.1	10.7	10.8
Yield (%)	3.4	4.0	5.1	6.0	6.1
BVPS (RM/share)	1.8	1.9	1.7	2.0	2.1
P/B (x)	1.0	1.0	1.0	0.9	0.9
ROE (%)	6.5	6.3	6.3	7.5	7.4
Net Gearing (%)	0.39	0.41	0.36	0.33	0.33

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Figure #2 Quarterly results comparison

FYE Dec (RM m)	4Q18	3Q19	4Q19	QoQ	YoY	FY18	FY19	YoY
Revenue	1370.2	1226.5	1353.2	10.3%	-1.2%	5410.3	4780.4	-11.6%
Property Development	203.8	126.2	218.2	72.8%	7.0%	619.6	545.9	-11.9%
Property Investment	140.3	209.7	220.9	5.4%	57.4%	814.8	803.5	-1.4%
Construction	489.1	315.6	318.0	0.8%	-35.0%	1847.9	1273.3	-31.1%
Trading/Manufacturing	241.8	246.2	232.2	-5.7%	-4.0%	1103.4	959.8	-13.0%
Quarry	59.2	114.9	136.4	18.8%	130.5%	223.4	348.1	55.9%
Healthcare	0.0	154.4	162.9	5.5%	N.M.	0.0	584.8	N.M.
Investment Holdings	4.3	2.5	2.6	4.1%	-38.8%	7.7	5.2	-33.0%
Others*	231.6	57.0	61.9	8.7%	-73.3%	793.6	260.0	-67.2%
EBIT	104.1	174.2	106.0	-39.2%	1.8%	559.9	565.2	0.9%
Property Development	22.5	45.1	77.7	72.5%	246.0%	118.0	163.3	38.4%
Property Investment	40.8	52.2	67.2	28.6%	64.8%	214.4	239.3	11.6%
Construction	48.3	34.9	28.1	-19.5%	-41.8%	180.9	144.5	-20.2%
Trading/Manufacturing	13.0	16.7	7.0	-57.8%	-45.9%	60.9	41.1	-32.6%
Quarry	2.4	3.9	6.4	63.2%	167.3%	10.5	12.6	19.9%
Healthcare	0.0	14.7	13.8	-5.8%	N.M.	0.0	59.2	N.M.
Investment Holdings	-43.6	0.5	-55.8	N.M.	28.0%	-104.2	-73.4	-29.5%
Others*	20.9	6.2	-38.5	-717.1%	-284.6%	79.3	-21.4	-127.0%
Net Interest	85.4	1.1	65.1	N.M.	-23.8%	61.6	87.8	42.6%
Share of Associates/JCE	64.0	48.1	89.3	85.9%	39.5%	229.2	261.2	14.0%
PBT	253.6	223.3	260.4	16.6%	2.7%	850.6	914.2	7.5%
PAT	208.9	202.3	219.1	8.3%	4.9%	729.0	835.9	14.7%
MI	-16.5	-18.8	-18.8	-0.3%	13.6%	-70.0	-69.3	-1.0%
Holder of Perpetual Sukuk	-9.8	-16.5	-16.5	0.0%	68.6%	-9.8	-54.5	456.3%
PATAMI	182.5	166.9	183.8	10.1%	0.7%	649.2	712.1	9.7%
EI	-29.8	0.0	38.1	N.M.	-228.0%	-89.0	-73.4	-17.5%
Core Earnings	152.7	166.9	221.9	33.0%	45.3%	560.2	638.8	14.0%
EBIT margin	7.6%	14.2%	7.8%	-6.4%	0.2%	10.3%	11.8%	1.5%
PBT margin	18.5%	18.2%	19.2%	1.0%	0.7%	15.7%	19.1%	3.4%
PAT margin	11.1%	13.6%	16.4%	2.8%	5.3%	10.4%	13.4%	3.0%

Sunway, HLIB

*Others segment previously included the Healthcare segment in FY18

Figure #3 SOP table

Division	Stake	Value (RM m)	RM/share	Methodology
Construction (SunCon)	54.56%	1,621	0.33	Based on TP of RM 2.16
Sunway REIT	40.88%	2,432	0.50	Based on TP of RM 1.84
Property Development & Investment	100%	5,997	1.23	Discounted RNAV
Healthcare	100%	1,734	0.36	25X forward P/E
Trading/Manufacturing	100%	388	0.08	10X trailing P/E
Quarry	100%	90	0.02	10X trailing P/E
		12,262	2.52	
Holding Company Net Debt		(188)	(0.04)	
		12,074	2.48	
10% Holding Company Discount		-1,207	(0.25)	
Equity Value (RM)		10,867	2.23	

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Published & printed by:

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BUY	Expected absolute return of +10% or more over the next 12 months.
HOLD	Expected absolute return of -10% to +10% over the next 12 months.
SELL	Expected absolute return of -10% or less over the next 12 months.
UNDER REVIEW	Rating on the stock is temporarily under review which may or may not result in a change from the previous rating.
NOT RATED	Stock is not or no longer within regular coverage.

Sector rating guide

OVERWEIGHT	Sector expected to outperform the market over the next 12 months.
NEUTRAL	Sector expected to perform in-line with the market over the next 12 months.
UNDERWEIGHT	Sector expected to underperform the market over the next 12 months.

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