

Sunway Berhad

1H18 Below Expectations

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We deem its 1H18 CNP of RM262.2m as below expectations, albeit making up 46%/43% of our/consensus estimates. 1H18 property sales of RM840.0m are ahead to meet our/management's full-year sales target of RM1.2b/RM1.3b. A 3.5 sen dividend declared, making up 56% of our full-year expectation. Raised sales target from RM1.2b to RM1.4b but trimmed FY18-19E CNP by 5-3%, respectively. Reiterate MP with a lower SoP-driven TP of RM1.55 (from, RM1.60).

Below expectations. 1H18 CNP of RM262.2m makes up 46%/43% of our and consensus full-year estimates. However, we deem that it came short of our/consensus expectations primarily due to the recent disappointing construction division performance and weaker-than-expected billings from local projects which we believe will remain slow in subsequent quarters. Positively, it registered property sales of RM840.0m (bulk from Singapore) in 1H18 and is ahead to meet our and management's target of RM1.2b and RM1.3b, respectively. A 3.5 sen dividend declared, making up 56% of our full-year expectation.

Results highlight. 1H18 CNP grew 6%, YoY underpinned by: (i) its construction, property investment, and trading & manufacturing segments which registered growth in pre-tax profits ranging from 12% to 37%, underpinned by revenue growth of 11-42%, (ii) lower net financing cost (-20%), (iii) decline in minority interest contribution (-41%) as most of its on-going projects are under group level, and (iv) lower effective tax rate of 12% vis-à-vis 15% in 1H17. **QoQ**, 2Q18 CNP grew 15% albeit marginal decline in revenue (-2%) due to improvement in margins for most of its business division. Its property development division pre-tax margin expanded by 34ppt to 52% despite revenue declining by 33% as it is driven by recognition of accumulated profits from its development in Singapore.

Outlook. While management has scaled back its planned launches from RM2.0b to RM1.8b, we believe the management and our sales targets of RM1.3b and RM1.2b, respectively, are achievable due to the encouraging take-up in both local and overseas projects. To recap, its Singapore project, i.e. Rivercove, received full take-up upon its launch in April 2018, while its local projects, i.e. Geolake and Citrine Lakehome, sales and bookings are currently recorded at 60-70%. Property unbilled sales of RM1.5b with 1-year visibility and a vigorous outstanding order-book of RM5.8b provide 2-3 years' visibility. However, we highlight that SUNWAY is only able to recognise RM0.9b of its RM1.5b unbilled sales progressively as the remaining RM0.6b can only be recognised upon completion of its project, i.e. Rivercove, due to the adoption of MFRS 15.

Lowers FY18-19 estimates. Post results, we raised our FY18E sales assumption from RM1.2b to RM1.4b to reflect higher sales from Singapore, but lowered our FY18-19E CNP by 5-3%, respectively, as there is minimal earnings contribution from its Singapore project as its billings can only be recognised upon completion of the project due to MFRS 15 coupled with the downward revision in earnings for SUNCON, and also fine-tuned our development margins.

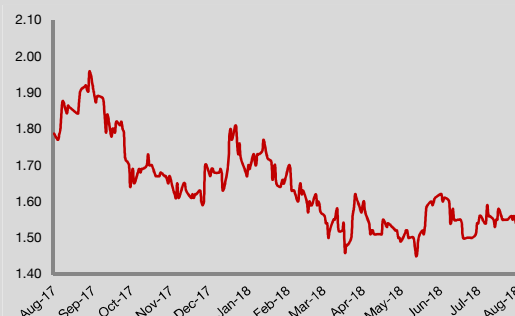
Maintain MARKET PERFORM, with lower Target Price of RM1.55 (from RM1.60). Currently, we are comfortable with our valuations as follows; (i) applied property RNAV discount of 64% that is close to the sector average of 68%, (ii) premium valuation of 25.0x Fwd. PER to its healthcare division, and (iii) 12.0x FY19E PER to its construction division, which is in line with our big-caps' range of 12-14x.

Risks include: Weaker-than-expected property sales and construction replenishment, higher-than-expected administrative costs, negative real estate policies, and tighter lending environment.

MARKET PERFORM ↔

Price : RM1.56
Target Price : RM1.55 ↓

Share Price Performance



KLCI	1,798.11
YTD KLCI chg	0.1%
YTD stock price chg	-4.3%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	SWB MK Equity
Market Cap (RM m)	7,587.5
Shares Outstanding	4,863.8
52-week range (H)	1.96
52-week range (L)	1.44
3-mth avg daily vol:	2,080,242
Free Float	32%
Beta	0.8

Major Shareholders

Sungei Way Corp Sdn Bhd	55.9%
Employees Provident Fund Board	6.6%
Fook Ling Cheah	5.1%

Summary Earnings Table

FYE Dec (RM m)	2017A	2018E	2019E
Turnover	5375	5238	5477
EBIT	654	730	765
PBT	882	821	865
Net Profit	639	545	589
Core PATAMI	566	545	589
Consensus (NP)	n.a.	605	657
Earnings Revision	n.a.	-5%	-3%
Core EPS (sen)	11.5	11.1	12.0
Core EPS growth (%)	5%	-4%	8%
NDPS (sen)	6.0	7.0	7.0
NTA per Share (RM)	1.59	1.64	1.69
Price to NTA (x)	1.0	1.0	0.9
PER (x)	13.5	14.1	13.0
Debt-to-Equity ratio (x)	1.1	1.0	1.0
Return on Asset (%)	2.8%	2.6%	2.8%
Return on Equity (%)	8.2%	6.8%	7.1%
Net Div. Yield (%)	3.8%	4.5%	4.5%



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Result Highlight

	2Q18	1Q18	QoQ	2Q17	YoY	1H18	1H17	YoY
FYE Dec (RM'm)								
Turnover	1,287.1	1,308.4	-2%	1,241.0	4%	2,595.5	2,332.3	11%
EBITDA	144.0	166.6	-14%	263.8	-45%	310.7	380.6	-18%
Depreciation	-37.2	-36.6	2%	-67.8	-45%	-73.8	-67.8	9%
EBIT	106.8	130.0	-18%	196.0	-46%	236.8	312.7	-24%
Interest inc/(exp)	-12.8	-7.6	68%	-18.7	-32%	-20.4	-25.5	-20%
Associates/JV	89.0	38.5	131%	37.4	138%	127.5	80.5	58%
Exceptional items	59.2	0.0	n.m.	56.8	4%	59.2	56.8	4%
Pretax profit	242.2	160.9	51%	271.4	-11%	403.1	424.6	-5%
Taxation	-26.5	-23.4	13%	-38.2	-31%	-49.9	-65.5	-24%
Deferred tax	0.0	0.0	n.m.	0.0	n.m.	0.0	0.0	n.m.
Profit after tax	215.8	137.5	57%	233.3	-8%	353.3	359.1	-2%
Minority interest	-16.3	-15.6	5%	-36.3	-55%	-31.9	-54.2	-41%
PATAMI	199.4	121.9	64%	196.9	1%	321.4	304.9	5%
Core PATAMI	140.2	121.9	15%	140.1	0%	262.2	248.1	6%
DPS (sen)	3.5	0.0		3.0		3.5	3.0	
EBIT margin	8%	10%		16%		9%	13%	
Pre-tax margin	19%	12%		22%		16%	18%	
NP margin	19%	12%		22%		16%	18%	
CNP margin	11%	9%		11%		10%	11%	
EPS (sen)	4.1	2.5		4.0		6.6	6.3	
Core EPS (sen)	2.9	2.5		2.9		5.4	5.1	
BV/share (RM)	1.66	1.66		1.59		1.66	1.59	
Net gearing (x)	0.48	0.42		0.45		0.48	0.45	
Effective tax	11%	15%		14%		12%	15%	

Source: Company, Kenanga Research

Segmental Breakdown

	2Q18	1Q18	QoQ	2Q17	YoY	1H18	1H17	YoY
External Revenue								
Property Development	88.7	132.3	-33%	271.1	-67%	221.0	414.4	-47%
Property Investment	216.7	220.0	-1%	207.4	5%	436.7	394.3	11%
Construction	449.7	443.7	1%	310.9	45%	893.4	627.7	42%
Trading & Manufacturing	286.4	278.3	3%	226.0	27%	564.7	471.2	20%
Quarry	57.9	50.0	16%	58.7	-1%	107.9	98.9	9%
Investment	0.8	0.8	9%	-0.2	-447%	1.6	1.6	-2%
Others	186.9	183.4	2%	167.1	12%	370.3	324.2	14%
Pre-tax Segmentation								
Property Development	46.4	23.8	95%	75.2	-38%	70.2	100.3	-30%
Property Investment	102.5	55.6	84%	84.4	21%	158.2	115.6	37%
Construction	49.6	40.1	24%	42.3	17%	89.7	79.2	13%
Trading & Manufacturing	13.4	11.5	16%	10.3	30%	24.9	19.1	30%
Quarry	2.9	1.8	66%	3.7	-21%	4.7	4.2	12%
Investment	4.7	10.3	-55%	28.2	-83%	15.0	56.8	-74%
Others	22.7	17.8	28%	27.3	-17%	40.5	49.4	-18%
Pre-tax margins								
Property Development	52%	18%		28%		32%	24%	
Property Investment	47%	25%		41%		36%	29%	
Construction	11%	9%		14%		10%	13%	
Trading & Manufacturing	5%	4%		5%		4%	4%	
Quarry	5%	4%		6%		4%	4%	
Investment	n.m.	n.m.		n.m.		n.m.	n.m.	
Others	12%	10%		16%		11%	15%	

Source: Company, Kenanga Research

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Sum-of-Parts						
	Stake	Value @ Stake	PER	Discount	Value	Assumptions
		RM'm	(x)	(%)	RM'm	
Property Development & Investment	100%	7,862	n.a	64%	2,830	(i) Property Dev: DCF of Future Profits @ 11% WACC, 18% net margin property mnav discount of 55% (ii) Property Inv: Zero surplus on Book Value
Sunway Reit	35%	1,630	n.a		1,630	SUNREIT TP RM1.60
Construction	56%	1,298	12		1,298	12x FY19E PER (Sum-of-Parts)
Quarry & Buildings Mat	100%	163	8		163	8x FY19E PER
Trading & manufacturing	100%	260	8		260	8x FY19E PER
Healthcare	100%	1,217	25		1,217	25x FY19E PER
Group Shareholders Funds						
Total SOP		12,431			7,399	
Adjustment for Dilution					1,157	
FD SOP (RM)					2.45	
Implied SOP Discount Rate					-37%	
TP (RM)					1.55	
Diluted no. of shares ('m)					5,539	
Source: Kenanga Research						

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Peer Comparison

Name	Last Price	Market Cap	Shariah	Current	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)	Net Div. Yld. (%)	Target Price	Rating
	(RM)	(RM'm)	Compliant	FYE	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	(RM)	
PROPERTY DEVELOPERS UNDER COVERAGE																	
AMVERTON BHD	1.08	394.3	Y	12/2018	3.0%	4.8%	-0.5%	9.5%	18.0	18.0	16.4	0.6	0.6	3.4%	0.0%	1.00	MP
CRESCENDO CORPORATION BHD	1.33	302.5	Y	01/2019	12.2%	1.6%	-10.4%	3.7%	10.7	11.9	11.5	0.4	0.4	3.5%	4.5%	1.30	MP
ECO WORLD DEVELOPMENT GROUP	1.25	3,680.5	Y	10/2018	-1.7%	-0.3%	45.7%	55.7%	32.6	22.3	14.3	1.0	1.0	3.8%	0.0%	1.30	MP
HUA YANG BHD	0.480	169.0	Y	03/2019	-3.2%	2.2%	134.4%	9.4%	38.3	16.3	14.9	0.3	0.3	1.7%	0.0%	0.465	MP
IOI PROPERTIES GROUP BHD	1.76	9,690.8	Y	06/2018	-25.0%	-5.0%	-22.4%	4.1%	10.9	14.1	13.5	0.6	0.6	4.0%	3.4%	1.70	MP
MAGNA PRIMA BHD	0.980	326.0	Y	12/2018	37.8%	0.4%	73.3%	2.6%	61.3	41.6	40.5	0.8	0.8	1.9%	1.1%	0.955	MP
MAH SING GROUP BHD	1.22	2,961.8	Y	12/2018	-0.8%	-0.3%	-23.7%	0.7%	11.5	15.1	15.0	0.9	0.8	6.5%	4.5%	1.10	MP
MALAYSIAN RESOURCES CORP BHD	0.810	3,556.5	Y	12/2018	-6.1%	9.1%	32.6%	6.6%	38.6	29.1	27.3	0.8	0.8	2.8%	2.2%	0.700	MP
SP SETIA BHD	2.94	11,469.3	Y	12/2018	1.3%	1.9%	-20.8%	17.3%	13.1	16.6	14.1	0.8	0.8	4.8%	3.9%	3.50	OP
SUNSURIA BHD	0.930	742.9	Y	09/2018	-1.7%	21.8%	-7.3%	27.9%	8.2	8.8	6.9	1.0	0.8	10.3%	0.0%	1.10	OP
SUNWAY BHD	1.56	7,587.5	Y	12/2018	-2.6%	4.6%	-3.8%	8.1%	13.5	14.1	13.0	1.0	1.0	6.8%	4.5%	1.55	MP
UEM SUNRISE BHD	0.925	4,197.1	Y	12/2018	6.1%	9.8%	23.3%	6.8%	15.4	12.5	11.7	0.7	0.6	4.7%	1.1%	0.970	OP
UOA DEVELOPMENT BHD	2.38	4,388.1	Y	12/2018	5.0%	8.9%	-17.0%	10.9%	10.5	12.7	11.4	1.0	1.0	7.7%	5.9%	2.30	MP
Simple Average					1.9%	4.6%	15.6%	12.6%	21.7	17.9	16.2	0.8	0.7	4.8%	2.4%		
CONSENSUS NUMBERS																	
GLOMAC BHD	0.440	348.7	Y	04/2019	-17.5%	27.5%	-26.1%	46.8%	11.3	15.3	10.4	0.3	N.A.	1.8%	3.0%	0.530	NEUTRAL
LBS BINA GROUP BHD	0.905	1,410.0	Y	12/2018	3.1%	14.7%	19.2%	12.2%	13.6	11.4	10.2	1.2	1.0	8.6%	3.6%	1.25	BUY
MATRIX CONCEPTS HOLDINGS BHD	2.10	1,580.0	Y	03/2019	24.4%	14.0%	17.1%	9.1%	7.4	6.3	5.8	1.3	1.1	19.0%	6.7%	2.37	BUY
PARAMOUNT CORP BHD	1.87	800.9	Y	12/2018	8.2%	5.0%	-33.3%	3.4%	6.0	9.0	8.7	0.8	0.7	8.3%	4.8%	2.40	BUY
SIME DARBY PROPERTY BHD	1.28	8,705.1	Y	12/2018	-3.3%	2.1%	-15.3%	-14.1%	13.9	16.5	19.2	0.9	0.9	7.4%	2.4%	1.63	BUY
TAMBUN INDAH LAND BHD	0.990	429.0	Y	12/2018	-32.1%	0.4%	-37.3%	2.4%	5.1	8.2	8.0	0.7	0.8	7.9%	4.5%	0.868	NEUTRAL
TITIJAYA LAND BHD	0.385	517.5	Y	06/2018	6.9%	2.9%	8.9%	5.6%	6.8	6.3	5.9	0.4	0.4	11.3%	5.7%	0.570	BUY
YONG TAI BHD	1.05	509.9	Y	06/2018	160.8%	179.5%	155.9%	590.4%	77.0	30.1	4.4	1.3	1.0	6.3%	0.0%	1.87	BUY

Source: Kenanga Research

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Stock Ratings are defined as follows:**Stock Recommendations**

OUTPERFORM	: A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM	: A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM	: A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT	: A particular sector's Expected Total Return is MORE than 10%
NEUTRAL	: A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT	: A particular sector's Expected Total Return is LESS than -5%

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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