

01 March 2019

# Sunway Berhad

## FY18 Above Expectations

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**FY18 CNP of RM591.2m makes up 110%/104% of our/consensus full-year estimates, which is above our, but within consensus, expectations. Property sales of RM1.9b came in a tad higher compared to our RM1.8b expectation. Management declared 2.0 sen cash dividend and share dividend distribution of 1 treasury share for every 100 existing shares held, bringing the full-year dividends to around 7.12 sen, vs. our expected 7.0 sen. No changes to FY19E earnings, introduce FY20E earnings of RM687.4m. Maintain MP with an unchanged SoP-driven TP of RM1.50.**

**Above expectations.** FY18 CNP of RM591.2m makes up 110%/104% of our/consensus full-year estimates, which is above our, but within consensus, expectation. The positive variance stems from an unexpected net interest income of RM61.6m. Property sales of RM1.9b came in a tad higher compared to our expectation of RM1.8b. Management declared 2.0 sen cash dividend and share dividend distribution of 1 treasury share for every 100 existing shares held, bringing the full-year dividends to around 7.12 sen, vs. our expectation of 7.0 sen.

**Results highlight.** FY18 CNP rose 8%, YoY backed by: i) higher net interest income (+215%), ii) better contribution from its associate/joint ventures (+15%), and iii) lower effective tax of 14% (-3ppt). In terms of divisional performance from its pre-tax level, its quarry division registered the highest growth (+62%) driven by higher selling prices, followed by its property investment division (+37%) due to better contribution from properties like Sunway Geo, The Banjaran, and theme park. **QoQ**, 4Q18 revenue declined by 5%, CNP grew 26% driven by: i) net interest income of RM85.4m compared to net interest cost of RM3.4m in 3Q18, ii) higher contribution from its associate/joint venture (+70%), and iii) lower minority interest contribution (-23%).

**Outlook.** Its current unbilled sales stand at RM2.1b providing them at least 2-year visibility. That said, management is looking to launch RM2.0b worth of projects of which 50% are in Singapore. In terms of sales target for the year, management aspires to achieve RM1.3b worth of sales, in-line with our FY19E target of RM1.3b. We also do not rule out any land banking activities to take place for the year. As for its construction division, it has an outstanding order-book of RM6.0b, which is sufficient for 3 years.

**Earnings maintained.** Post results, we are keeping our FY19E earnings for now, and introduce our FY20E earnings of RM687.4m.

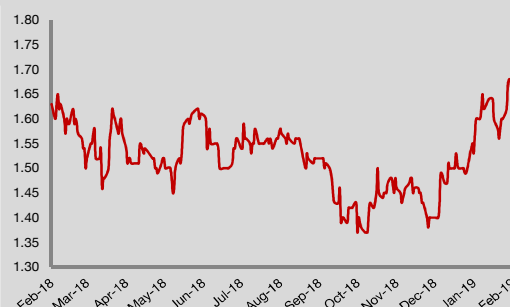
**Maintain MP, with unchanged TP of RM1.50**, after we factor in the recent downgrade in SUNCON's TP to RM1.30 (from RM1.65). Currently, we are comfortable with our valuations as follows; (i) applied property RNAV discount of 64% that is close to the sector average of 68%, (ii) premium valuation of 25.0x Fwd. PER to its healthcare division, and (iii) 11.0x FY19E PER to its construction division, highest multiple ascribed for the construction sector.

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

## MARKET PERFORM ↔

Price : **RM1.62**  
Target Price : **RM1.50** ↔

### Share Price Performance



KLCI	1,707.73
YTD KLCI chg	1.0%
YTD stock price chg	10.2%

### Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	SWB MK Equity
Market Cap (RM m)	7,856.5
Shares Outstanding	4,849.7
52-week range (H)	1.69
52-week range (L)	1.35
3-mth avg daily vol:	1,666,670
Free Float	31%
Beta	1.0

### Major Shareholders

Sungei Way Corp Sdn Bhd	56.2%
Kumpulan Wang Simpanan Pekerja	7.2%
Cheah Fook Ling	5.1%

### Summary Earnings Table

FYE Dec (RM m)	2018A	2019E	2020E
Turnover	5410	5477	5950
EBIT	560	765	804
PBT	851	864	908
<b>Net Profit</b>	<b>658</b>	<b>598</b>	<b>688</b>
<b>Core PATAMI</b>	<b>590</b>	<b>598</b>	<b>688</b>
Consensus (NP)	n.a.	619	681
Earnings Revision	n.a.	n.a.	n.a.
Core EPS (sen)	12.0	12.2	14.0
Core EPS growth (%)	8%	1%	15%
*NDPS (sen)	*5.5	6.5	7.0
NTA per Share (RM)	1.66	1.71	1.78
Price to NTA (x)	1.0	0.9	0.9
PER (x)	13.5	13.3	11.6
Debt-to-Equity ratio (x)	1.0	1.0	0.9
Return on Asset (%)	2.8%	2.9%	3.2%
Return on Equity (%)	7.8%	6.8%	7.6%
Net Div. Yield (%)	3.4%	4.0%	4.3%

\*Only cash dividend is reflected.

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<b>Result Highlight</b>								
	<b>4Q18</b>	<b>3Q18</b>	<b>QoQ</b>	<b>4Q17</b>	<b>YoY</b>	<b>FY18</b>	<b>FY17</b>	<b>YoY</b>
<b>FYE Dec (RM'm)</b>								
<b>Turnover</b>	<b>1,370.2</b>	<b>1,444.6</b>	<b>-5%</b>	<b>1,587.3</b>	<b>-14%</b>	<b>5,410.3</b>	<b>5,239.3</b>	<b>3%</b>
EBITDA	124.8	199.8	-38%	207.6	-40%	635.3	718.9	-12%
Depreciation	-29.3	-40.0	-27%	-35.3	-17%	-143.2	-139.1	3%
<b>EBIT</b>	<b>95.5</b>	<b>159.7</b>	<b>-40%</b>	<b>172.3</b>	<b>-45%</b>	<b>492.1</b>	<b>579.8</b>	<b>-15%</b>
Interest inc/(exp)	85.4	-3.4	n.m.	51.3	66%	61.6	19.6	215%
Associates/JV	64.0	37.7	70%	10.8	491%	229.2	199.7	15%
Exceptional items	8.6	0.0	n.m.	16.4	-48%	67.8	73.2	-7%
Forex gain/(loss)	0.0	0.0	n.m.	0.0	n.m.	0.0	0.0	n.m.
<b>Pretax profit</b>	<b>253.6</b>	<b>194.0</b>	<b>31%</b>	<b>250.9</b>	<b>1%</b>	<b>850.6</b>	<b>872.2</b>	<b>-2%</b>
Taxation	-44.7	-27.1	65%	-54.9	-19%	-121.6	-149.4	-19%
Deferred tax	0.0	0.0	n.m.	0.0	n.m.	0.0	0.0	n.m.
<b>Profit after tax</b>	<b>208.9</b>	<b>166.9</b>	<b>25%</b>	<b>196.0</b>	<b>7%</b>	<b>729.0</b>	<b>722.8</b>	<b>1%</b>
Minority interest	-16.5	-21.6	-23%	-31.1	-47%	-70.0	-102.2	-32%
<b>PATAMI</b>	<b>192.3</b>	<b>145.3</b>	<b>32%</b>	<b>164.9</b>	<b>17%</b>	<b>659.0</b>	<b>620.6</b>	<b>6%</b>
<b>Core PATAMI</b>	<b>183.7</b>	<b>145.3</b>	<b>26%</b>	<b>148.5</b>	<b>24%</b>	<b>591.2</b>	<b>547.4</b>	<b>8%</b>
DPS (sen)	3.6	0.0		3.0		**7.1	6.0	
EBIT margin	7%	11%		11%		9%	11%	
Pretax margin	19%	13%		16%		16%	17%	
NP margin	19%	13%		16%		16%	17%	
CNP margin	13%	10%		9%		11%	10%	
EPS (sen)	3.9	3.0		3.4		13.5	12.7	
Core EPS(sen)	3.8	3.0		3.0		12.1	11.2	
BV/share (RM)	1.74	1.69		1.62		1.74	1.62	
Net gearing (x)	0.44	0.46		0.43		0.44	0.43	
Effective tax	18%	14%		22%		14%	17%	

\*\*Dividend of 7.1 sen includes both cash and share dividend.

Source: Company, Kenanga Research

<b>Segmental Breakdown</b>								
	<b>4Q18</b>	<b>3Q18</b>	<b>QoQ</b>	<b>4Q17</b>	<b>YoY</b>	<b>FY18</b>	<b>FY17</b>	<b>YoY</b>
<b>External Revenue</b>								
Property Development	203.8	194.8	5%	413.0	-51%	619.6	989.7	-37%
Property Investment	140.3	237.8	-41%	245.7	-43%	814.8	865.4	-6%
Construction	489.1	465.4	5%	583.3	-16%	1,847.9	1,627.7	14%
Trading & Manufacturing	241.8	296.9	-19%	232.4	4%	1,103.4	996.5	11%
Quarry	59.2	56.3	5%	52.9	12%	223.4	202.1	11%
Investment	4.3	1.8	135%	2.9	52%	7.7	5.2	49%
Others	231.6	191.7	21%	192.8	20%	793.6	688.4	15%
<b>Pre-tax Segmentation</b>								
Property Development	47.5	40.9	16%	105.4	-55%	158.6	241.1	-34%
Property Investment	78.6	54.6	44%	47.1	67%	291.4	212.7	37%
Construction	50.7	49.8	2%	54.1	-6%	190.1	174.4	9%
Trading & Manufacturing	-0.3	14.2	n.m.	10.6	n.m.	38.9	43.9	-12%
Quarry	2.5	1.7	45%	-1.2	n.m.	8.8	5.4	62%
Investment	54.0	7.6	610%	31.7	71%	76.6	114.7	-33%
Others	23.2	25.2	-8%	4.1	461%	88.8	80.9	10%
<b>Pre-tax margins</b>								
Property Development	23%	21%		26%		26%	24%	
Property Investment	56%	23%		19%		36%	25%	
Construction	10%	11%		9%		10%	11%	
Trading & Manufacturing	0%	5%		5%		4%	4%	
Quarry	4%	3%		-2%		4%	3%	
Investment	n.m.	n.m.		n.m.		n.m.	n.m.	
Others	10%	13%		2%		11%	12%	

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%	7,932	n.a	64%	2,856	(i) Property Dev: DCF of Future Profits @ 11% WACC, 18% net margin property rnav discount of 55% (ii) Property Inv: Zero surplus on Book Value
Sunway Reit	35%	1,681	n.a		1,681	SUNREIT TP RM1.65
Construction	56%	937	12		937	11x 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						
<b>Total SOP</b>		<b>12,191</b>			<b>7,115</b>	
Adjustment for Dilution					1,157	
<b>FD SOP (RM)</b>					<b>2.41</b>	
Implied SOP Discount Rate					-38%	
<b>TP (RM)</b>					<b>1.50</b>	
Diluted no. of shares ('m)					5,539	

Source: Kenanga Research

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## Peer Comparison

Name	Last Price	Market	Shariah	Current	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)	Net Div. Yld. (%)	Target	Rating
	(RM)	Cap (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.	Price (RM)	
<b>PROPERTY DEVELOPERS UNDER COVERAGE</b>																	
AMVERTON BHD	1.00	365.1	Y	12/2019	18.3%	-1.4%	-27.5%	2.2%	15.3	21.1	20.7	0.5	0.5	2.4%	0.0%	1.00	MP
ECO WORLD DEVELOPMENT GROUP	0.950	2,797.2	Y	10/2019	-4.4%	-18.3%	23.4%	23.9%	16.9	13.7	11.0	0.7	0.7	4.5%	1.1%	1.15	OP
HUA YANG BHD	0.405	142.6	Y	03/2019	9.0%	0.3%	149.1%	22.3%	32.3	13.0	10.6	0.2	0.2	1.8%	0.0%	0.410	OP
IOI PROPERTIES GROUP BHD	1.61	8,864.9	Y	06/2019	-15.0%	-6.0%	0.8%	-3.4%	13.4	13.3	13.8	0.5	0.5	3.6%	3.1%	1.65	MP
LBS BINA GROUP BHD	0.680	1,060.1	Y	12/2019	31.3%	0.9%	7.9%	3.4%	12.5	11.5	11.2	0.7	0.7	6.6%	2.6%	0.720	MP
MAGNA PRIMA BHD	0.880	292.7	Y	12/2019	40.0%	11.1%	2295.6%	60.7%	N.A.	278.3	173.2	0.8	0.8	0.3%	0.0%	0.785	UP
MAH SING GROUP BHD	1.00	2,427.7	Y	12/2019	4.5%	7.0%	-2.5%	1.0%	14.8	15.2	15.0	0.7	0.7	5.2%	4.0%	1.05	MP
MALAYSIAN RESOURCES CORP BHD	0.780	3,431.9	Y	12/2019	5.0%	5.0%	26.9%	19.5%	45.4	35.8	29.9	0.7	0.7	2.0%	2.2%	0.750	MP
SIME DARBY PROPERTY BHD	1.05	7,140.9	Y	12/2018	14.6%	15.1%	9.5%	45.5%	19.5	18.1	15.2	0.7	0.8	4.1%	2.2%	1.10	MP
SP SETIA BHD	2.29	9,065.1	Y	12/2019	7.8%	15.3%	71.3%	53.9%	42.1	24.6	16.0	0.6	0.6	2.5%	3.1%	2.45	MP
SUNSURIA BHD	0.630	503.3	Y	09/2019	-36.0%	25.2%	0.7%	2.6%	3.8	6.0	4.8	0.6	0.6	15.1%	0.0%	0.835	OP
SUNWAY BHD	1.62	7,856.5	Y	12/2019	1.2%	8.6%	1.4%	15.1%	13.5	13.3	11.6	1.0	0.9	7.5%	4.0%	1.50	MP
UEM SUNRISE BHD	0.820	3,720.7	Y	12/2019	37.0%	-14.3%	9.0%	-11.7%	11.4	10.5	11.9	0.6	0.5	4.9%	1.2%	0.835	MP
UOA DEVELOPMENT BHD	2.28	4,203.7	Y	12/2019	0.6%	-0.4%	4.6%	0.9%	12.6	12.1	12.0	0.9	0.9	7.4%	6.1%	2.15	MP
<b>Simple Average</b>					<b>8.1%</b>	<b>3.4%</b>	<b>183.6%</b>	<b>16.8%</b>	<b>19.5</b>	<b>34.7</b>	<b>25.5</b>	<b>0.7</b>	<b>0.7</b>	<b>4.9%</b>	<b>2.1%</b>		
*SIMEPROP change of FY-end from 30-Jun to 31-Dec. Our historical numbers are based on FY18A while 1-Yr and 2-Yr Fwd are based on FY19E and FY20E figures																	
<b>CONSENSUS NUMBERS</b>																	
GLOMAC BHD	0.385	300.8	Y	04/2019	-38.8%	43.7%	-77.6%	210.7%	9.6	43.0	13.8	0.3	N.A.	0.7%	1.3%	0.370	SELL
MATRIX CONCEPTS HOLDINGS BHD	1.97	1,483.0	Y	03/2019	25.1%	12.1%	-2.3%	10.9%	7.0	7.1	6.4	1.2	1.1	16.2%	6.2%	2.32	BUY
PARAMOUNT CORP BHD	2.15	920.8	Y	12/2019	-5.1%	9.5%	-3.1%	10.9%	9.7	10.0	9.0	0.9	N.A.	8.3%	4.7%	2.56	BUY
TAMBUN INDAH LAND BHD	0.765	331.5	Y	12/2019	-14.3%	10.6%	-24.0%	9.5%	6.0	7.9	7.2	0.5	N.A.	7.7%	5.5%	0.917	BUY
TITIJAYA LAND BHD	0.315	411.7	Y	06/2019	-12.2%	9.9%	-23.5%	16.4%	5.7	7.4	6.4	0.4	0.3	4.2%	1.6%	0.385	BUY
YONG TAI BHD	0.330	160.3	Y	06/2019	65.7%	87.4%	-143.0%	42.2%	10.3	N.A.	10.1	0.4	0.4	-1.1%	0.0%	0.398	NEUTRAL

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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