

Sunway Berhad

Spectacular Sales!

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9M18 CNP of RM407.5m came in within expectations, making up 75%/70% of our/consensus full-year estimates. 9M18 property sales of RM1.6b beat our/management's full-year sales target of RM1.4b/RM1.3b. No dividend declared, as expected. Raised sales target from RM1.4b to RM1.8b but make no changes to our FY18-19E CNPs. Downgrade to MP with a lower SoP-driven TP of RM1.50 (previously, OP; TP: RM1.55).

Within expectations. 9M18 CNP of RM407.5m came in within expectation, making up 75%/70% of our/consensus full-year estimates. As for property sales, they raked in RM1.6b worth of sales in 9M18 beating our and managements full year target of RM1.4b and RM1.3b, respectively. The spectacular property sales are mainly from its overseas projects of which China and Singapore made up c.63% of the RM1.6b sales. No dividends declared, as expected.

Results highlight. 9M18 CNP grew marginally by 2%, YoY underpinned by: (i) its construction, property investment, and trading & manufacturing segments, which registered growth in pre-tax profits ranging from 16% to 28%, on revenue growth of 9-30%, (ii) lower net financing cost (-25%), (iii) decline in minority interest contribution (-25%) as most of its on-going projects are under group level, and (iv) lower effective tax rate of 13% (15% in 9M17) which further cushioned the decline in pre-tax profits from its development division (-18%). **QoQ**, 3Q18 CNP grew 4% on the back of revenue growth of 12%, attributable to the sharp growth in development revenue (+120%) due to the handing over of Sunway GEOSense.

Outlook. Given the encouraging sales, management revised their property launches higher to RM2.1b from their initial target of RM2.0b. The latest launch is Sunway Velocity 2 (GDV: RM320.m) with the construction contract recently awarded to SUNCON. To recap, its Singapore project, i.e. Rivercove, received full take-up upon its launch in April 2018, while for its local projects, i.e. Geolake and Citrine Lakehome, sales and bookings are currently recorded at 60-80%. Unbilled sales of RM2.1b with 1-year visibility and a vigorous outstanding order-book of c.RM5.6b provide 2-3 years' visibility.

Earnings maintained. Post results, we make no changes to our FY18-19E earnings, albeit raising our FY18E sales target to RM1.8b as we factor in higher sales from China and Singapore. Note that SUNWAY can only recognise billings from China and Singapore upon completion in the next 2-3 years due to the adoption of MFRS15.

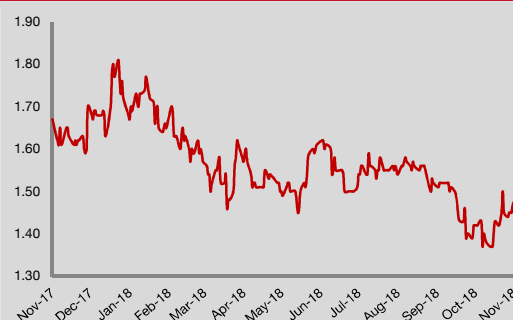
Downgrade to MP, with a lower TP of RM1.50 (from RM1.55), after we factor in the recent downgrade in SUNCON's TP to RM1.30 (from RM1.65). Currently, we are comfortable with our valuations as follows; (i) applied property RNAV discount of 64% that is close to the sector average of 68%, (ii) premium valuation 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. However, we do not think the strong sales performance can be replicated next year. Hence, we believe our downgrade to MP is warranted.

Risks to our call include: Higher-than-expected property sales and construction replenishment, lower-than-expected administrative costs, positive real estate policies, and less stringent lending environment.

MARKET PERFORM

Price : **RM1.45** ↓
Target Price : **RM1.50** ↓

Share Price Performance



KLCI	1,695.37
YTD KLCI chg	-5.6%
YTD stock price chg	-11.0%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	SWB MK Equity
Market Cap (RM m)	7,037.1
Shares Outstanding	4,853.2
52-week range (H)	1.82
52-week range (L)	1.35
3-mth avg daily vol:	2,116,147
Free Float	32%
Beta	0.9

Major Shareholders

Sungei Way Corp Sdn Bhd	56.2%
Employees Provident Fund Board	7.1%
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	822	865
Net Profit	639	545	589
Core PATAMI	566	545	589
Consensus (NP)	n.a.	585	628
Earnings Revision	n.a.	0%	0%
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)	0.9	0.9	0.9
PER (x)	12.6	13.1	12.1
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 (%)	4.1%	4.8%	4.8%

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Result Highlight								
	3Q18	2Q18	QoQ	3Q17	YoY	9M18	9M17	YoY
FYE Dec (RM'm)								
Turnover	1,444.6	1,287.1	12%	1,319.6	9%	4,040.1	3,651.9	11%
EBITDA	199.8	144.0	39%	130.7	53%	510.4	511.2	0%
Depreciation	-40.0	-37.2	8%	-36.0	11%	-113.9	-103.8	10%
EBIT	159.7	106.8	50%	94.7	69%	396.6	407.4	-3%
Interest inc/(exp)	-3.4	-12.8	-73%	-6.3	-45%	-23.9	-31.8	-25%
Associates/JV	37.7	89.0	-58%	108.3	-65%	165.2	188.9	-13%
Exceptional items	0.0	59.2	-100%	0.0	n.m.	59.2	56.8	4%
Forex gain/(loss)	0.0	0.0	n.m.	0.0	n.m.	0.0	0.0	n.m.
Pretax profit	194.0	242.2	-20%	196.7	-1%	597.1	621.3	-4%
Taxation	-27.1	-26.5	2%	-29.0	-7%	-76.9	-94.5	-19%
Deferred tax	0.0	0.0	n.m.	0.0	n.m.	0.0	0.0	n.m.
Profit after tax	166.9	215.8	-23%	167.8	-1%	520.1	526.8	-1%
Minority interest	-21.6	-16.3	32%	-16.9	28%	-53.5	-71.1	-25%
PATAMI	145.3	199.4	-27%	150.9	-4%	466.7	455.7	2%
Core PATAMI	145.3	140.2	4%	150.9	-4%	407.5	398.9	2%
DPS (sen)	0.0	3.5		0.0		3.5	3.0	
EBIT margin	11%	8%		7%		10%	11%	
Pretax margin	13%	19%		15%		15%	17%	
NP margin	13%	19%		15%		15%	17%	
CNP margin	10%	11%		11%		10%	11%	
EPS (sen)	3.0	4.1		3.1		9.6	9.4	
Core EPS(sen)	3.0	2.9		3.1		8.4	8.2	
BV/share (RM)	1.69	1.66		1.64		1.69	1.64	
Net gearing (x)	0.46	0.51		0.37		0.46	0.37	
Effective tax	14%	11%		15%		13%	15%	

Source: Company, Kenanga Research

Segmental Breakdown								
	3Q18	2Q18	QoQ	3Q17	YoY	9M18	9M17	YoY
External Revenue								
Property Development	194.8	88.7	120%	162.2	20%	415.8	576.6	-28%
Property Investment	237.8	216.7	10%	225.4	5%	674.5	619.7	9%
Construction	465.4	449.7	3%	416.6	12%	1,358.8	1,044.4	30%
Trading & Manufacturing	296.9	286.4	4%	292.9	1%	861.6	764.1	13%
Quarry	56.3	57.9	-3%	50.3	12%	164.2	149.2	10%
Investment	1.8	0.8	123%	0.8	144%	3.4	2.4	45%
Others	191.7	186.9	3%	171.4	12%	562.0	495.6	13%
Pre-tax Segmentation								
Property Development	40.9	46.4	-12%	35.5	15%	111.1	135.7	-18%
Property Investment	54.6	102.5	-47%	50.0	9%	212.8	165.6	28%
Construction	49.8	49.6	0%	41.0	21%	139.4	120.3	16%
Trading & Manufacturing	14.2	13.4	6%	14.2	0%	39.1	33.3	18%
Quarry	1.7	2.9	-42%	2.5	-31%	6.4	6.7	-4%
Investment	7.6	4.7	63%	26.3	-71%	22.6	83.0	-73%
Others	25.2	22.7	11%	27.3	-8%	65.7	76.8	-14%
Pre-tax margins								
Property Development	21%	52%		22%		27%	24%	
Property Investment	23%	47%		22%		32%	27%	
Construction	11%	11%		10%		10%	12%	
Trading & Manufacturing	5%	5%		5%		5%	4%	
Quarry	3%	5%		5%		4%	4%	
Investment	414%	567%		3482%		661%	3515%	
Others	13%	12%		16%		12%	15%	

Source: Company, Kenanga Research

Sum-of-Parts						
	Stake	Value @ Stake	PER	Discount	Value	Assumptions
		RM'm	(x)	(%)	RM'm	
Property Development & Investment	100%	7,887	n.a	64%	2,839	(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 SUNREIT TP RM1.60
Sunway Reit	35%	1,630	n.a		1,630	
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						
Total SOP		12,095			7,047	
Adjustment for Dilution					1,157	
FD SOP (RM)					2.39	
Implied SOP Discount Rate					-37%	
TP (RM)					1.50	
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 Price (RM)	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)	
PROPERTY DEVELOPERS UNDER COVERAGE																	
AMVERTON BHD	0.970	354.1	Y	12/2018	-8.4%	-6.0%	-28.7%	-0.7%	14.6	20.4	20.6	0.6	0.5	2.7%	0.0%	1.00	MP
CRESCENDO CORPORATION BHD	1.25	349.3	Y	01/2019	12.2%	1.6%	-10.4%	3.7%	10.0	11.2	10.8	0.4	0.3	3.5%	4.8%	1.30	MP
ECO WORLD DEVELOPMENT GROUP	1.02	3,003.3	Y	10/2018	-1.7%	-0.3%	45.7%	55.7%	26.6	18.2	11.7	0.8	0.8	3.8%	0.0%	1.15	MP
HUA YANG BHD	0.375	132.0	Y	03/2019	-3.2%	2.2%	48.0%	20.5%	29.9	20.2	16.8	0.2	0.2	1.1%	0.0%	0.410	MP
IOI PROPERTIES GROUP BHD	1.69	9,305.4	Y	06/2019	-15.0%	-6.0%	-5.3%	-2.7%	14.1	14.9	15.3	0.5	0.5	3.4%	3.0%	1.65	OP
MAGNA PRIMA BHD	0.910	302.7	Y	12/2018	37.8%	0.4%	73.3%	2.6%	56.9	38.6	37.6	0.7	0.7	1.9%	1.2%	0.955	MP
MAH SING GROUP BHD	1.01	2,452.0	Y	12/2018	-5.5%	4.2%	-29.9%	4.0%	9.6	13.6	13.1	0.7	0.7	6.0%	5.4%	1.10	OP
MALAYSIAN RESOURCES CORP BHD	0.735	3,230.4	Y	12/2018	-6.1%	9.1%	32.6%	6.6%	35.0	26.4	24.8	0.8	0.8	2.8%	2.4%	0.800	MP
SIME DARBY PROPERTY BHD	1.00	6,800.8	Y	12/2018	13.3%	17.6%	14.4%	44.5%	18.5	16.2	11.2	0.7	0.7	4.2%	2.5%	1.10	OP
SP SETIA BHD	2.12	8,388.7	Y	12/2018	-17.0%	6.1%	-64.0%	24.2%	10.7	29.7	23.9	0.7	0.6	4.8%	7.3%	2.45	OP
SUNSURIA BHD	0.780	623.1	Y	09/2018	10.9%	11.4%	5.7%	16.8%	6.9	6.5	5.6	0.8	0.7	11.7%	0.0%	0.860	MP
SUNWAY BHD	1.45	7,037.1	Y	12/2018	-2.6%	4.6%	-3.8%	8.1%	12.6	13.1	12.1	0.9	0.9	6.9%	4.8%	1.50	MP
UEM SUNRISE BHD	0.780	3,539.2	Y	12/2018	-2.8%	28.0%	23.3%	6.8%	13.0	10.5	9.9	0.5	0.5	4.7%	1.3%	0.850	OP
UOA DEVELOPMENT BHD	2.11	3,890.3	Y	12/2018	5.0%	8.9%	-17.0%	10.9%	9.3	11.2	10.1	0.9	0.9	7.7%	6.6%	2.15	OP
Simple Average					1.2%	5.8%	6.0%	14.4%	19.1	17.9	16.0	0.7	0.6	4.6%	2.8%		
<i>*SIMEPROP change of FY-end from 30-Jun to 31-Dec. Out historical numbers are based on FY18A while 1-Yr and 2-Yr Fwd are based on FY19E and FY20E figures</i>																	
CONSENSUS NUMBERS																	
GLOMAC BHD	0.405	318.4	Y	04/2019	-35.7%	42.0%	-60.5%	103.6%	10.2	25.8	12.7	0.3	N.A.	1.2%	2.5%	0.410	SELL
LBS BINA GROUP BHD	0.690	1,075.7	Y	12/2018	-4.1%	15.5%	6.8%	12.3%	10.4	9.7	8.7	0.9	0.7	7.2%	4.8%	1.17	BUY
MATRIX CONCEPTS HOLDINGS BHD	1.98	1,490.6	Y	03/2019	22.9%	14.2%	9.1%	11.6%	7.0	6.4	5.7	1.2	1.1	18.0%	6.7%	2.37	BUY
PARAMOUNT CORP BHD	2.08	890.8	Y	12/2018	8.2%	5.0%	-33.7%	4.0%	6.7	10.1	9.7	0.9	0.8	7.0%	4.3%	2.48	BUY
TAMBUN INDAH LAND BHD	0.800	346.7	Y	12/2018	-29.3%	-1.4%	-36.1%	0.9%	4.2	6.5	6.4	0.6	0.6	8.2%	6.0%	1.00	BUY
TITIJAYA LAND BHD	0.335	443.2	Y	06/2019	6.6%	5.5%	5.9%	6.4%	6.1	5.8	5.4	0.4	0.3	5.7%	38.2%	0.445	BUY
YONG TAI BHD	0.620	301.1	Y	06/2019	146.7%	40.4%	62.6%	93.8%	19.4	11.9	6.2	0.8	0.7	4.4%	0.0%	0.855	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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