

28 November 2017

Sunway Berhad

9M17 In line

By Adrian Ng | adrian.ng@kenanga.com.my; Sarah Lim | sarahlim@kenanga.com.my

OUTPERFORM ↑

Price : **RM1.64**
Target Price : **RM1.82** ↔

9M17 CNP of RM398.9m is in line, making up 76%/71% of our/street's full-year estimates. 9M17 property sales of RM583.0m are deemed to be in line as we are banking on a strong 4Q17 performance. No dividend declared as expected. No changes to FY17/18E earnings. Upgrade to OUTPERFORM (previously, MARKET PERFORM) with an unchanged SoP-driven Target Price of RM1.82.

In line. 9M17 CNP of RM398.9m is broadly in line, making up 76% and 71% of our and street's full-year estimates. While its 9M17 property sales of RM583.0m appears sluggish compared to our and management's full-year target of RM1.1b, we deem it is still on-track, banking on a strong 4Q17 where bulk of its new launches of RM1.1b are skewed towards late 3Q17. Furthermore, most of its launched projects have achieved estimated take up rates of 50%. No dividend declared as expected.

Results highlight. 9M17 CNP grew 6% YoY underpinned: (i) revenue growth of 9%, (ii) reduction in net financing cost (-7%), (iii) decline in minority contributions by 24%, (iv) improvements in associate/joint controlled entity (JCEs) contributions (+7%), and (v) lower effective tax rate of 15% (-1ppt). QoQ, 3Q17 CNP grew 8% due to similar reasons mentioned above i.e. (i) lower net financing cost (-66%), (ii) lower minority interest (-53%), and (iii) better contribution from associates/JCEs (+25%). Positively, its net gearing also came down to 0.37x vis-à-vis 0.46x back in 2Q17 due to proceeds from the conversion of ESOS and lower net borrowings.

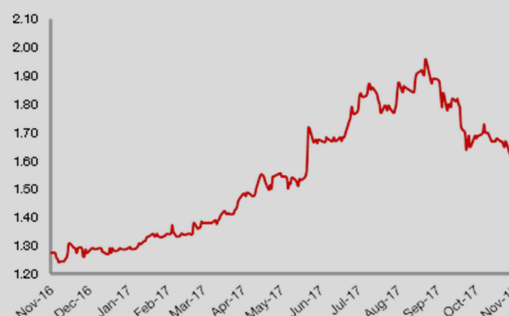
Outlook. Moving ahead, we are confident that SUNWAY would be able to deliver our forecast earnings and targeted sales of RM1.1b for the year. This is premised on its property unbilled sales of RM0.9b with 1.5-year visibility, a vigorous outstanding order-book of RM6.8b that provides 2-3 year visibility and other divisions that have been generating decent growth. As for its property sales, we are expecting a strong performance in 4Q17 given that most of the new local launches have achieved take up rate of 50%, coupled with an unsold GDV of RM400.0m.

Earnings unchanged. Post results, there are no changes to our FY17-18E CNP of RM522.0-543.0m.

Upgrade to OUTPERFORM (previously, MARKET PERFORM) as share price has retraced in line with weak market sentiment and overreactions to negative news flow, while we bank on a strong sales performance in 4Q17. Our SoP-driven TP of RM1.82 remains unchanged. Furthermore, we remain comfortable with our valuations as follows; (i) applied property RNAV discount is 52% which is steeper than big-cap developers' average of 45%, (ii) already pegging premium valuations of 27.0x Fwd PER to its healthcare division, and (iii) 16.0x FY18E PER to its construction division which is in line with our big-cap range of 16-18x.

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

Share Price Performance



KLCI	1,719.86
YTD KLCI chg	4.8%
YTD stock price chg	27.6%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	SWB MK Equity
Market Cap (RM m)	8,002.8
Issued shares	4,879.8
52-week range (H)	1.96
52-week range (L)	1.24
3-mth avg daily vol:	6,458,237
Free Float	35%
Beta	0.7

Major Shareholders

Sungei Way Corp Sdn Bhd	55.2%
Employees Provident Fund	5.2%
Fook Ling Cheah	5.1%

Summary Earnings Table

FYE Dec (RM m)	2016A	2017E	2018E
Turnover	4,726	5,262	5,584
EBIT	727	728	772
PBT	859	797	846
Net Profit (NP)	586	551	543
Core NP	542	522	543
Consensus (CNP)	n.a.	559	606
Earnings Revision	n.a.	n.a.	n.a.
Core Basic EPS	11.0	10.6	11.0
Core EPS growth(%)	-20%	-6%	-2%
NDPS (sen)	12.1	5.9	5.9
Basic PER (x)	14.9	15.4	14.9
BVPS (RM)	1.52	1.57	1.62
Net Gearing (x)	0.5	0.5	0.5
Dividend Yield (%)	7.4%	3.6%	3.6%

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Result Highlight								
FYE 31 Dec (RM'm)	3Q17	2Q17	QoQ%	3Q16	YoY%	9M17	9M16	QoQ
Revenue	1,319.6	1,241.0	6%	1,137.5	16%	3,651.9	3,362.2	9%
Op costs w/o depn/amort	-1,192.0	-1,071.6	11%	-1,014.9	17%	-3,255.7	-2,982.2	9%
Other Op Income	25.9	24.5	6%	41.7	-38%	68.0	95.4	-29%
EBITDA	189.6	227.2	-17%	203.7	-7%	568.0	575.1	-1%
EBIT	153.6	193.9	-21%	164.3	-7%	464.2	475.4	-2%
Net Interest	-6.3	-18.7	-66%	-2.6	144%	-31.8	-34.2	-7%
Associate & JCE	49.5	39.5	25%	46.7	6%	132.1	123.5	7%
Fair Value Adjustments on IP	0.0	56.8	-100%	0.0	n.m.	56.8	23.7	140%
Pretax profit	196.7	271.4	-28%	208.5	-6%	621.3	588.3	6%
Taxation	-29.0	-38.2	-24%	-37.7	-23%	-94.5	-94.4	0%
Minority Interests	-16.9	-36.3	-53%	-27.2	-38%	-71.1	-93.9	-24%
Net profit	150.9	196.9	-23%	143.5	5%	455.7	400.0	14%
Core Net profit	150.9	140.1	8%	143.5	5%	398.9	376.3	6%
EPS (sen)	7.3	9.5	-23%	7.0	4%	22.0	19.7	11%
Diluted EPS (sen)	7.0	6.5	8%	6.6	5%	18.4	17.4	6%
NDPS (sen)	0.0	7.0		0.0		7.0	5.0	
NTA/share (RM)	3.39	3.45		3.45		3.39	3.45	
Net gearing/(cash) (x)	0.37	0.46		0.41		0.37	0.41	
EBITDA margin	14%	18%		18%		16%	17%	
EBIT margin	12%	16%		14%		13%	14%	
Pre-tax margin	15%	22%		18%		17%	17%	
Effective tax rate	15%	14%		18%		15%	16%	

Source: Company, Kenanga Research

Segmental Breakdown								
	3Q17	2Q17	QoQ	3Q16	YoY	9M17	9M16	QoQ
Revenue								
Property Development	206.2	270.2	-24%	279.6	-26%	620.8	860.7	-28%
Property Investment	269.0	249.3	8%	223.7	20%	746.4	621.0	20%
Construction	622.5	521.5	19%	381.1	63%	1675.0	1235.7	36%
Trading & Manufacturing	331.3	303.0	9%	226.0	47%	933.0	683.0	37%
Quarry	51.3	61.5	-17%	54.9	-7%	160.4	159.8	0%
Investment Holdings	147.0	102.2	44%	58.0	154%	538.5	379.2	42%
Others	198.7	191.0	4%	174.8	14%	570.2	471.8	21%
Pre-tax Profit								
Property Development	35.5	75.2	-53%	62.2	-43%	135.7	191.9	-29%
Property Investment	50.0	27.6	81%	45.9	9%	108.8	97.0	12%
Construction	41.0	42.3	-3%	32.2	27%	120.3	104.4	15%
Trading & Manufacturing	14.2	10.3	37%	11.2	26%	33.3	19.3	73%
Quarry	2.5	3.7	-33%	11.1	-78%	6.7	24.2	-72%
Investment Holdings	26.3	28.2	-7%	39.6	-34%	83.0	76.2	9%
Others	27.3	27.3	0%	23.0	19%	76.8	51.7	48%
Pre-tax Margin								
Property Development	17%	28%		22%		22%	22%	
Property Investment	40%	11%		31%		22%	19%	
Construction	7%	8%		8%		7%	8%	
Trading & Manufacturing	4%	3%		5%		4%	3%	
Quarry	5%	6%		20%		4%	15%	
Investment Holdings	18%	28%		68%		15%	20%	
Others	14%	14%		13%		13%	11%	

Source: Company, Kenanga Research

Sum-of-Parts						
	Stake	Value @ Stake	PER	Discount	Value	Assumptions
		RM'm	(x)	(%)	RM'm	
Property Development & Investment	100%	7,862	n.a	52%	3,774	(i) Property Dev: DCF of Future Profits @ 11% WACC, 18% net margin property rnav discount of 52% (ii) Property Inv: Zero surplus on Book Value
Sunway Reit	35%	1,906	n.a		1,906	SUNREIT TP RM1.87
Construction	56%	1,438	16		1,438	16x FY18E PER - Inline with Big-Cap peers range of 16-18x.
Quarry & Buildings Mat	100%	158	8		158	8x FY18E PER
Trading & manufacturing	100%	288	8		288	8x FY18E PER
Healthcare	100%	1,334	27		1,334	27x FY18E PER inline with KPJ
Group Shareholders Funds						
Total SOP		12,987			8,899	
Adjustment for Dilution					1,157	
FD SOP (RM)					2.55	
Implied SOP Discount Rate					-29%	
TP (RM)					1.82	
Diluted no. of shares ('m)					5,539	

Source: Kenanga Research

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Peer Comparison

NAME	Price (27/11/17)	Mkt Cap	PER (x)			Est. NDiv. Yld.	Hist. ROE	Fwd ROE	P/BV	Net Profit (RMm)			FY17/18 NP Growth	FY18/19 NP Growth	Target Price	Rating
	(RM)	(RMm)	FY16/17	FY17/18	FY18/19	(%)	(%)	(%)	(x)	FY16/17	FY17/18	FY18/19	(%)	(%)	(RM)	
DEVELOPERS UNDER COVERAGE																
IOI PROPERTIES GROUP BHD*	1.94	10,682	12.4	12.1	11.8	3.1%	5.0%	5.0%	0.61	910.6	928.6	951.9	2.0%	2.5%	2.20	OUTPERFORM
S P SETIA BHD*#	3.34	10,016	16.0	15.7	17.9	3.9%	9.7%	8.0%	1.37	808.0	761.3	653.4	-5.8%	-14.2%	4.08	OUTPERFORM
UEM SUNRISE BHD*	1.03	4,674	31.8	16.9	16.0	0.0%	2.2%	4.0%	0.72	147.3	276.8	293.4	87.9%	6.0%	1.30	OUTPERFORM
SUNWAY BHD^	1.64	8,003	14.9	15.4	14.9	3.6%	7.3%	6.7%	1.04	541.6	521.7	542.6	-3.7%	4.0%	1.82	OUTPERFORM
MAH SING GROUP BHD	1.53	3,711	12.4	12.7	13.1	4.4%	10.1%	10.0%	1.06	346.8	338.9	327.6	-2.3%	-3.3%	1.63	MARKET PERFORM
ECO WORLD DEVELOPMENT GROUP BHD	1.45	4,269	39.6	45.3	20.6	0.0%	3.7%	4.4%	1.13	129.3	112.9	248.8	-12.7%	120.4%	1.72	MARKET PERFORM
UOA DEVELOPMENT BHD*	2.45	4,246	10.7	10.5	10.4	6.1%	19.4%	9.8%	1.01	373.9	380.6	384.2	1.8%	1.0%	2.47	MARKET PERFORM
MALAYSIAN RESOURCES CORP BHD	1.00	4,387	23.2	71.4	47.6	1.5%	8.6%	2.4%	0.83	244.1	77.6	122.3	-68%	57.6%	1.14	OUTPERFORM
SUNSURIA BERHAD	1.42	1,134	12.5	10.1	6.8	0.0%	6.9%	11.6%	1.28	90.7	111.9	166.4	23.3%	48.8%	1.50	MARKET PERFORM
CRESCENDO CORPORATION BHD*	1.49	339	13.4	9.3	8.9	4.0%	2.2%	8.0%	0.44	28.9	42.5	44.6	47.2%	4.9%	1.60	OUTPERFORM
HUA YANG BHD	0.63	220	3.1	41.7	18.9	0.3%	21.9%	12.2%	0.37	70.0	5.0	12.0	-92.9%	140.0%	0.65	UNDERPERFORM
AMVERTON BHD	1.40	511	25.5	23.3	19.4	0.0%	3.0%	4.0%	0.78	20.1	22.1	26.1	10.1%	18.1%	2.00	OUTPERFORM
MAGNA PRIMA BHD	1.29	429	80.8	838.9	54.5	0.0%	7.4%	1.1%	1.06	7.9	0.8	11.7	-89.9%	1362.5%	1.30	MARKET PERFORM
CONSENSUS NUMBERS																
IGB CORPORATION BHD	2.97	3,966	13.3	11.9	14.9	3.4%	6.6%	6.7%	0.80	298.0	333.9	267.1	12.0%	-20.0%	3.00	NEUTRAL
GLOMAC BHD	0.63	452	4.2	8.1	6.6	4.8%	0.7%	5.1%	0.40	108.2	55.7	68.0	-48.5%	22.1%	0.65	SELL
PARAMOUNT CORP BHD	1.75	743	9.9	13.5	10.3	9.7%	14.6%	13.6%	0.83	75.0	55.2	72.1	-26.5%	30.8%	2.37	BUY
TAMBUN INDAH LAND BHD	1.02	442	3.9	4.9	6.0	8.3%	18.8%	14.9%	0.74	112.2	91.0	74.1	-18.9%	-18.6%	1.13	NEUTRAL
LBS BINA GROUP BHD	2.18	1,481	17.4	13.5	10.6	4.4%	9.2%	9.1%	1.17	85.3	110.1	140.0	29.0%	27.2%	2.34	BUY

* Core NP and Core PER

^ Last price and TP is Ex-Bonus.

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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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KENANGA INVESTMENT BANK BERHAD (15678-H)

Level 12, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia
Telephone: (603) 2172 0880 Website: www.kenanga.com.my E-mail: research@kenanga.com.my



Chan Ken Yew
Head of Research

