

Sunway (SWB MK)

3Q beat due to lower taxes

Profit above expectations but sales in line

Sunway's 3Q19 core net profit of MYR167m (+15% YoY) was above our and consensus estimates. 9M19 property sales of MYR720m were however on track to meet management's effective sales target of MYR1b. Elsewhere, Sunway Construction Group (SCG)'s MYR1.7b job win YTD has lifted its outstanding orderbook to MYR5.6b end-Sep 2019. We raise Sunway's core net profit forecasts by 9-19% to factor in lower tax rate and higher earnings contribution from SCG. Our RNAV-TP is raised to MYR1.74 (+5sen; on 0.6x P/RNAV) to factor in a higher TP for SCG (+15sen). Reiterate HOLD due to limited upside potentials. The re-rating catalyst i.e. the IPO listing of its healthcare business could only happen in 2022. We prefer SP Setia (SPSB MK, CP MYR1.37, BUY, TP MYR1.85) and Sime Darby Property (SDPR MK, CP MYR0.81, BUY, TP MYR1.18) for their undemanding valuations.

Lower tax rate boosted earnings

Excluding the MYR16.5m distribution to perpetual sukuk holders, Sunway's 3Q19 core net profit was MYR167m (+15% YoY, -11% QoQ), lifting 9M19 core net earnings to MYR523m (+29% YoY), at 81%/77% of our/consensus full-year estimates. The variance relative to our forecast was largely due to a lower-than-expected tax rate of 9%. 9M19 tax rate was low at 6% (9M18: 14%; ours' 15% tax rate assumption) due to the provision for deferred taxation pertaining to balancing charge was reversed in 2Q19 on the disposal of an investment property.

Property sales on track

In 9M19, Sunway locked in MYR720m in effective property sales, which was on track as it met 72% of its MYR1b effective sales target for 2019. Effective unbilled sales were MYR2.1b as at end-Sep 2019 (3x FY20F property revenue). Elsewhere, 54.4%-owned SCG (SCG MK; SP MYR1.93; TP MYR2.05; HOLD) won MYR1.7b worth of jobs YTD, increasing its outstanding orderbook to MYR5.6b as at end-Sep 2019.

Earnings adjustments

We raise our FY19/20/21 core net profit forecasts for Sunway by 9%/10%/19% after factoring in: 1) a lower tax rate of 10% for 2019 and 14% for 2020 and 2021 (from 15%); and 2) higher earnings contributions from SCG ([link](#)). Our new RNAV est. for Sunway is raised to MYR2.90 (+8sen) after factoring a higher TP for SCG (+15 sen). We maintain HOLD on Sunway in view of a total return (incl. dividend) of +1.4%.

FYE Dec (MYR m)	FY17A	FY18A	FY19E	FY20E	FY21E
Revenue	5,239	5,410	5,936	6,399	6,485
EBITDA	653	560	819	898	929
Core net profit	547	581	647	664	683
Core FDEPS (sen)	11.3	11.9	13.3	13.6	14.0
Core FDEPS growth(%)	(4.7)	5.2	11.2	2.6	3.0
Net DPS (sen)	6.0	7.1	6.0	6.1	6.3
Core FD P/E (x)	14.1	12.1	13.3	13.0	12.6
P/BV (x)	1.0	0.9	1.0	1.0	0.9
Net dividend yield (%)	3.8	4.9	3.4	3.5	3.6
ROAE (%)	8.1	9.2	7.8	7.6	7.3
ROAA (%)	2.9	2.9	2.9	2.8	2.7
EV/EBITDA (x)	17.9	20.4	16.7	15.8	16.0
Net gearing (%) (incl perps)	39.4	41.3	45.9	50.1	54.8
Consensus net profit	-	-	628	666	707
MKE vs. Consensus (%)	-	-	3.1	(0.1)	(5.9)

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HOLD

Share Price	MYR 1.77
12m Price Target	MYR 1.74 (-2%)
Previous Price Target	MYR 1.69

Company Description

Sunway Bhd is involved in property development, investment properties, healthcare and construction businesses

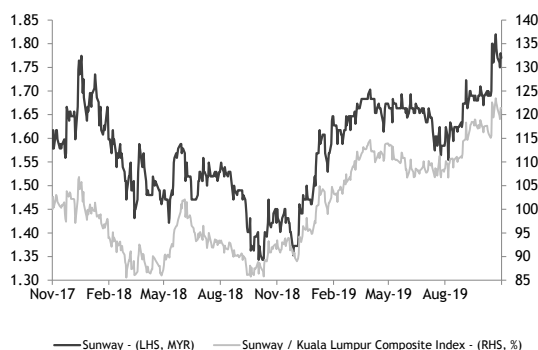
Statistics

52w high/low (MYR)	1.82/1.35
3m avg turnover (USDm)	1.4
Free float (%)	29.1
Issued shares (m)	4,926
Market capitalisation	MYR8.7B
	USD2.1B

Major shareholders:

Active Equity Sdn. Bhd.	55.9%
Employees Provident Fund	7.1%
CHEAH FOOK LING	5.1%

Price Performance



	-1M	-3M	-12M
Absolute (%)	5	12	25
Relative to index (%)	3	11	32

Source: FactSet

Fig. 1: Results summary table - Sunway

FY Dec (MYRm)	Quarterly					Cumulative		
	3Q19	3Q18	%YoY	2Q19	%QoQ	9M19	9M18	%YoY
Revenue	1,226.5	1,416.1	(13.4)	1,077.2	13.9	3,427.3	3,957.8	(13.4)
- Property dev	126.2	194.8	(35.2)	113.6	11.1	327.7	415.8	(21.2)
- Property inv	209.7	209.3	0.2	176.1	19.1	582.5	592.2	(1.6)
- Construction	315.6	465.4	(32.2)	293.5	7.5	955.2	1,358.8	(29.7)
- Trading	246.2	296.9	(17.1)	230.0	7.0	727.6	861.6	(15.5)
- Quarry	114.9	56.3	104.2	52.6	118.2	211.7	164.2	29.0
- Healthcare	154.4	116.9	32.1	140.8	9.6	422.0	327.0	29.1
- Others	59.5	76.6	(22.4)	70.6	(15.7)	130.9	238.4	(45.1)
PBIT	174.2	150.0	16.1	167.3	4.1	459.2	443.9	3.5
Finance costs	1.1	(0.8)	(235.6)	3.8	(72.0)	22.7	(18.6)	(222.1)
Other income	48.1	41.7	15.4	82.1	(41.5)	171.9	167.8	2.5
Pretax profit	223.3	190.9	17.0	253.2	(11.8)	653.8	593.1	10.2
- Property dev	59.0	44.6	32.3	37.3	58.3	129.1	122.2	5.7
- Property inv	67.0	52.6	27.3	122.3	(45.3)	246.7	214.4	15.1
- Construction	33.1	40.2	(17.6)	47.4	(30.1)	124.2	132.5	(6.3)
- Trading	13.8	15.5	(11.2)	6.6	109.5	26.9	43.0	(37.5)
- Quarry	4.9	2.9	67.2	2.1	129.9	8.7	10.0	(13.0)
- Healthcare	15.8	15.8	(0.1)	19.3	(18.0)	50.5	37.5	34.5
- Others	29.8	19.3	54.6	18.3	62.9	67.7	33.5	102.4
Pretax profit ex-EI	223.3	190.9	17.0	209.6	6.5	610.2	533.9	14.3
Taxation	(21.1)	(27.0)	(21.9)	9.4	(324.0)	(37.0)	(75.9)	(51.3)
Minority interest*	(35.4)	(19.0)	86.1	(32.4)	9.2	(50.5)	(52.9)	(4.4)
Net profit	166.9	144.9	15.2	230.3	(27.5)	566.3	464.3	22.0
Net profit ex-EI	166.9	144.9	15.2	186.7	(10.6)	522.7	405.1	29.0
Exceptional item (pretax)	0.0	0.0	NA	(43.6)	(100.0)	(43.6)	(59.2)	(26.4)
	3Q19	3Q18	+/- ppt	2Q19	+/- ppt	9M19	9M18	+/- ppt
Pretax margin (%)	18.2	13.5	4.7	23.5	(5.3)	17.8	13.5	4.3
- Property dev	46.7	22.9	23.8	32.8	13.9	39.4	29.4	10.0
- Property inv	31.9	25.1	6.8	69.5	(37.5)	42.3	36.2	6.2
- Construction	10.5	8.6	1.9	16.2	(5.7)	13.0	9.8	3.3
- Trading	5.6	5.2	0.4	2.9	2.7	3.7	5.0	(1.3)
- Quarry	4.2	5.2	(0.9)	4.0	0.2	4.1	6.1	(2.0)
- Healthcare	10.2	13.5	(3.3)	13.7	(3.4)	12.0	11.5	0.5
- Others	50.1	25.2	24.9	25.9	24.2	51.7	14.0	37.7
Tax rate (%)	(9.4)	(14.1)	4.7	4.5	(13.9)	(6.1)	(14.2)	8.2

*Including distribution to perpetual sukuk holders of MYR16.5m in 3Q19; YTD: MYR38m

Source: Company

Our RNAV estimate

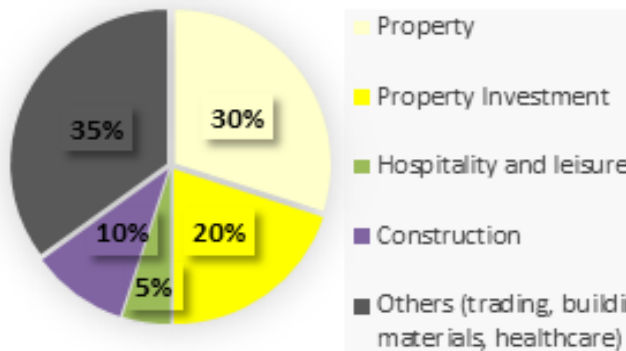
	Stake	Acres	MV (MYR m)	BV (MYR m)	Surplus (MYR m)
1. Landbank - MARKET VALUE					
Sunway Semenyih	70%	398.1	433.5	128.0	213.9
Suncity Ipoh	96%	440.5	76.8	58.7	17.3
Sunway Integrated Resort	100%	14.9	9.3	8.3	1.1
Sunway Tower KL 1	100%	1.0	65.3	28.3	37.0
Sunway JB, Bukit Lenang	80%	64.8	70.6	134.5	(51.2)
Sg Long Balakong	80%	111	140.2	21.8	94.8
Mont Putra Rawang	100%	163	49.7	35.1	14.6
Sunway Iskandar - Pendas, freehold	60%	1079	1175.1	596.6	347.1
Sub-total (1)					674.6
2. Active developments - WACC (10.5-13.1%)					
	Stake				(MYR m)
South Quay	100%				308.9
Sunway Cheras	100%				1.7
Sunway Damansara	60%				5.4
Bangi	100%				3.3
Sunway Melawati	100%				2.1
Casa Kiara III	80%				14.4
Sunway Velocity	85%				120.5
Penang projects	100%				28.3
Wonderland Business Park, Australia	31%				2.2
Singapore Sembawang	100%				1.3
Mount Sophia	30%				30.0
Sunway Iskandar -leasehold (Medini)	51%				368.6
Kelana Jaya	100%				106.1
Industrial projects at Kelana Jaya and Subang	100%				18.3
Sunway Velocity extension	50%				78.8
Belfield	100%				97.2
Kajang	100%				34.2
Subang	100%				58.1
Wangsamaju	55%				30.9
PKNS Kota Damansara	60%				27.1
Sub-total (2):					1,337.4
3. Investment properties - MARKET VALUE					
	Stake		MV (MYR m)	BV (MYR m)	Surplus (MYR m)
Sunway Velocity Mall	59%		1,600	1,172	252.3
Sub-total (3)					252.3
4. Other businesses or assets					
37.3% stake in SunREIT on Maybank IB's MYR1.95 TP					681.1
54.4% stake in SCG based on Maybank IB's MYR1.90 TP					1,292.0
Healthcare (20x 2020 PER)					825.0
Building material (10x 2020 PER)					474.8
Trading (10x 2020 PER)					579.3
Sub-total (4)					3852.1
Grand total = (1) + (2) + (3) + (4)					
					6,116.4
Shareholders' funds (MYR m) - Dec 2019					8,580.4
Proceeds from warrants (MYR1.86 exercise price; expiring in Oct 2024)					1,171.7
RNAV (MYR m)					15,868.6
Number of shares (m)					4,849.0
Number of warrants (m)					630.0
FD RNAV/share (MYR)					2.90
Target price (MYR) - based on 0.6x RNAV					1.74

Source: Maybank KE

Value Proposition

- A conglomerate with core business in property development and businesses in other sectors comprising property investment, construction, building materials, leisure and healthcare.
- Property development landbank is located throughout Malaysia. Sunway also has property projects in Singapore (in partnership with Hoi Hup), India and China.
- Sunway also owns a 37% stake in SunREIT (SREIT MK, HOLD, TP: MYR1.95) and 54% in SCG (SCGB MK, HOLD, TP: MYR2.05). Sunway intends to grow its healthcare business and list the healthcare business post-2022.

PATAMI (FY18) breakdown by businesses



Source: Company

Financial Metrics

- Effective unbilled sales (property) stood at MYR2.1b (or 3x our FY20F property revenue) as at end-Sep 2019.
- Sunway targets to achieve MYR1.0b in effective property sales in 2019 (-36% YoY).

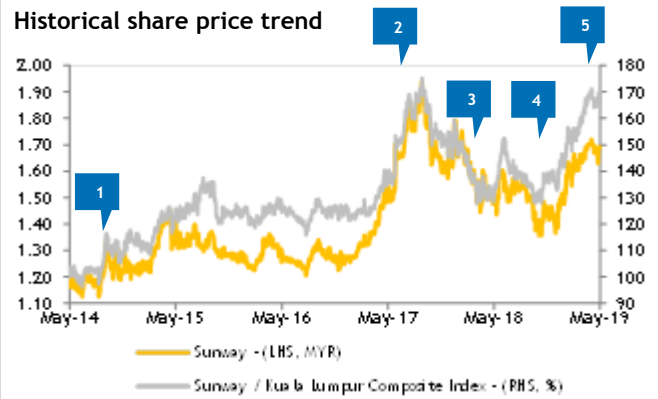
Sunway's effective sales trend (actual and target) (MYRm)



Source: Company

Price Drivers

Historical share price trend



Source: Company, Maybank Kim Eng, Factset

1. 2014: Property stocks were hit by stricter property measures announced during Budget 2014.
2. June 2017: Proposed bonus issue of new shares and free warrants. Also announced plans to list healthcare business by 2022.
3. 1H18: Weak sentiment on property stocks pre-GE14.
4. 2H18: Weak sentiment on property stocks pre Budget 2019.
5. 1H19: Better sentiment on construction stocks (including SCG) after the revival of the ECRL project.

Swing Factors

Upside

- Earlier-than-expected listing of its healthcare business.
- RNAV-accretive land acquisitions.
- Higher-than-expected job wins at its construction business under SCG.

Downside

- Slow-than-expected property sales and longer-than-expected downturn in the property sector.
- Earnings risks at its construction business on cost-down of the KVLRT 3 project.
- Country/currency risks as Sunway has property projects in Singapore and China.

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FYE 31 Dec	FY17A	FY18A	FY19E	FY20E	FY21E
Key Metrics					
P/E (reported) (x)	12.1	10.0	13.3	13.0	13.0
Core P/E (x)	14.0	12.1	13.3	13.0	12.6
Core FD P/E (x)	14.1	12.1	13.3	13.0	12.6
P/BV (x)	1.0	0.9	1.0	1.0	0.9
P/NTA (x)	0.9	0.8	0.9	0.9	0.9
Net dividend yield (%)	3.8	4.9	3.4	3.5	3.6
FCF yield (%)	nm	nm	nm	nm	nm
EV/EBITDA (x)	17.9	20.4	16.7	15.8	16.0
EV/EBIT (x)	17.9	20.4	17.7	16.8	17.1

INCOME STATEMENT (MYR m)

Revenue	5,239.3	5,410.3	5,936.3	6,398.7	6,485.2
Gross profit	490.6	327.0	819.3	898.1	928.9
EBITDA	653.0	559.9	819.3	898.1	928.9
Depreciation	0.0	0.0	(46.6)	(51.0)	(55.6)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	653.0	559.9	772.7	847.0	873.4
Net interest income / (exp)	19.6	61.6	(162.3)	(181.6)	(202.6)
Associates & JV	199.7	229.2	209.6	220.5	237.1
Exceptionals	71.7	89.1	0.0	1.7	(18.0)
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	872.2	939.7	820.0	887.7	889.9
Income tax	(149.4)	(121.6)	(82.0)	(124.0)	(127.1)
Minorities	(102.2)	(79.8)	(91.3)	(98.1)	(97.3)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	620.6	738.3	646.7	665.5	665.5
Core net profit	547.4	581.4	646.7	663.8	683.5

BALANCE SHEET (MYR m)

Cash & Short Term Investments	4,418.6	5,134.4	5,494.7	5,904.3	6,229.0
Accounts receivable	2,098.8	1,945.6	1,945.6	1,945.6	1,945.6
Inventory	1,693.6	1,857.9	2,038.6	2,197.4	2,227.1
Reinsurance assets	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	1,522.9	1,856.2	1,700.8	1,851.9	2,007.4
Intangible assets	327.1	331.6	331.6	331.6	331.6
Investment in Associates & JVs	3,637.1	3,400.0	3,400.0	3,400.0	3,400.0
Other assets	5,873.4	6,560.7	7,906.0	8,758.7	9,663.5
Total assets	19,571.5	21,086.4	22,817.3	24,389.5	25,804.2
ST interest bearing debt	4,911.0	6,057.4	6,557.1	7,057.1	7,557.1
Accounts payable	2,812.6	2,610.1	2,845.8	3,052.9	3,091.6
Insurance contract liabilities	0.0	0.0	0.0	0.0	0.0
LT interest bearing debt	2,868.3	2,840.8	3,340.8	3,840.8	4,340.8
Other liabilities	459.0	474.0	474.0	474.0	474.0
Total Liabilities	11,050.8	11,981.8	13,217.2	14,424.3	15,463.0
Shareholders Equity	7,899.2	8,084.7	8,580.4	8,945.5	9,321.4
Minority Interest	621.5	619.8	619.8	619.8	619.8
Total shareholder equity	8,520.7	8,704.5	9,200.2	9,565.3	9,941.2
Perpetual securities	0.0	400.0	400.0	400.0	400.0
Total liabilities and equity	19,571.5	21,086.4	22,817.3	24,389.5	25,804.2

CASH FLOW (MYR m)

Pretax profit	872.2	939.7	820.0	887.7	889.9
Depreciation & amortisation	0.0	0.0	46.6	51.0	55.6
Adj net interest (income)/exp	350.2	346.7	(162.3)	(181.6)	(202.6)
Change in working capital	(214.7)	(195.5)	(79.4)	(16.2)	(95.9)
Cash taxes paid	(175.0)	(109.5)	(82.0)	(124.0)	(127.1)
Other operating cash flow	(30.0)	(98.0)	0.0	0.0	0.0
Cash flow from operations	802.7	794.3	542.9	615.1	537.8
Capex	(971.2)	(914.5)	(914.5)	(914.5)	(914.5)
Free cash flow	(168.5)	(120.2)	(371.5)	(299.4)	(376.7)
Dividends paid	(228.1)	(316.5)	(267.8)	(291.0)	(298.7)
Equity raised / (purchased)	(2.7)	(70.2)	0.0	0.0	0.0
Change in Debt	760.5	1,544.2	999.8	1,000.0	1,000.0
Other invest/financing cash flow	64.3	(292.0)	0.0	0.0	0.0
Effect of exch rate changes	(2.3)	0.0	0.0	0.0	0.0
Net cash flow	423.3	745.4	360.4	409.6	324.6

FYE 31 Dec	FY17A	FY18A	FY19E	FY20E	FY21E
Key Ratios					
Growth ratios (%)					
Revenue growth	12.5	3.3	9.7	7.8	1.4
EBITDA growth	(8.7)	(14.3)	46.3	9.6	3.4
EBIT growth	13.0	(14.3)	38.0	9.6	3.1
Pretax growth	1.5	7.7	(12.7)	8.2	0.2
Reported net profit growth	5.9	19.0	(12.4)	2.9	0.0
Core net profit growth	0.0	6.2	11.2	2.6	3.0
Profitability ratios (%)					
EBITDA margin	12.5	10.3	13.8	14.0	14.3
EBIT margin	12.5	10.3	13.0	13.2	13.5
Pretax profit margin	16.6	17.4	13.8	13.9	13.7
Payout ratio	46.5	47.0	45.0	44.9	46.2
DuPont analysis					
Net profit margin (%)	11.8	13.6	10.9	10.4	10.3
Revenue/Assets (x)	0.3	0.3	0.3	0.3	0.3
Assets/Equity (x)	2.5	2.6	2.7	2.7	2.8
ROAE (%)	8.1	9.2	7.8	7.6	7.3
ROAA (%)	2.9	2.9	2.9	2.8	2.7
Leverage & Expense Analysis					
Asset/Liability (x)	1.8	1.8	1.7	1.7	1.7
Net gearing (%) (incl perps)	39.4	41.3	45.9	50.1	54.8
Net gearing (%) (excl. perps)	39.4	43.2	47.9	52.2	57.0
Net interest cover (x)	na	na	4.8	4.7	4.3
Debt/EBITDA (x)	11.9	15.9	12.1	12.1	12.8
Capex/revenue (%)	18.5	16.9	15.4	14.3	14.1
Net debt/ (net cash)	3,360.8	3,763.8	4,403.2	4,993.6	5,668.9

Source: Company; Maybank

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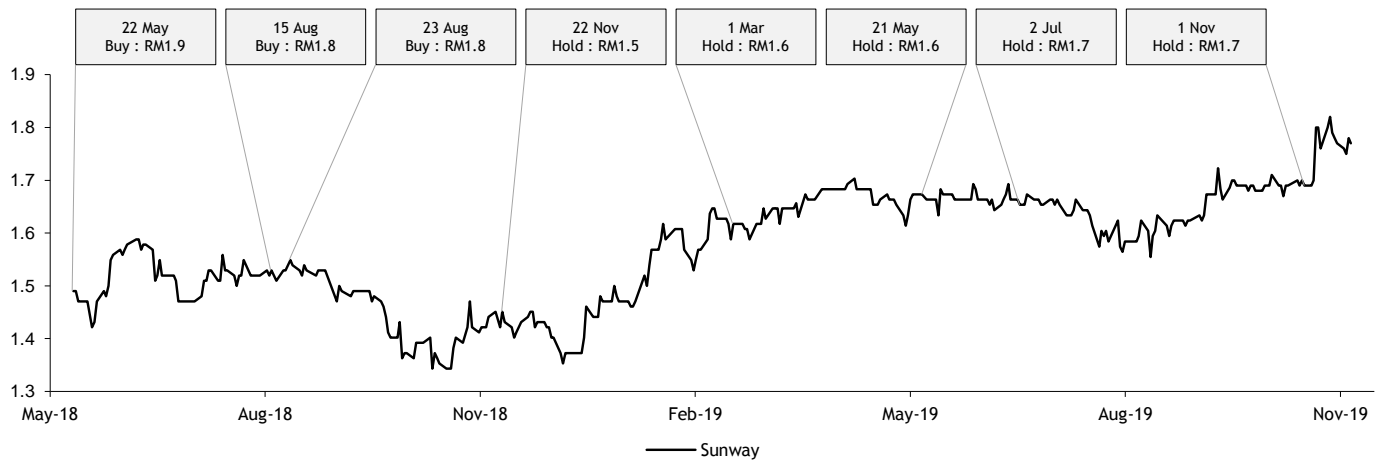
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