

28 August 2019

Property | Real Estate

Sunway Berhad (SWB MK)

Buy (Maintained)

Encouraging Sales From Local Projects; BUY

Target Price (Return)	MYR1.85 (+18%)
Price:	MYR1.57
Market Cap:	USD1,844m
Avg Daily Turnover (MYR/USD)	6.5m/1.56m

- Maintain BUY with unchanged TP of MYR1.85, 18% upside and 5% yield.** Sunway's 2Q19 results beat expectations. Property sales were strong in 2Q, mainly due to a few successful launches of projects in the Klang Valley. Given the sales momentum and the launch of the Brookvale project in Singapore in 4Q, we think full-year sales may potentially surpass management's target of MYR1.3bn. We are impressed with management's capability and the company's diversified business model. Despite the challenging market conditions, Sunway is still able to exhibit an encouraging earnings growth.

- 2Q19 results.** The strong earnings growth in 2Q19 was mainly driven by higher billings and sales from local projects, as well as higher revenue from the healthcare division, due to an increased number of beds and higher outpatient treatments. Headline net profit was also boosted by the fair value gain from the REIT and disposal gain on Sunway University assets. A 4.57 sen first interim dividend (comprising 3 sen cash dividend and share distribution of 1 treasury share for every 100 existing shares) was declared, up from 3.5 sen in 2Q18.

- Successful launches of a few local projects.** New property sales in 2Q19 hit MYR472m vs MYR263m in 1Q19. 1H sales of MYR735m were contributed by Velocity Two (MYR198m), Sunway Avila (MYR113m), Sunway GeoLake townhouses/South Quay (MYR109m), as well as Sunway Gardens in Tianjin (MYR121m). The three local projects have seen encouraging response thus far, mainly due to their strategic locations and right pricing.

- Brookvale Singapore in 4Q.** Brookvale in Clementi Singapore (GDV of MYR1bn by effective stake) is slated for launch in 4Q. Given the sales momentum thus far, we believe full year property sales may potentially exceed management's target of MYR1.3bn for the year. On the local front, Sunway Lenang Heights in Johor Bahru (GDV of MYR150m) is the only project that will be rolled out by year end.

- Forecast.** We raise our FY19-21 earnings forecasts by 2-5% in view of the strong growth from the healthcare division. Given the higher property sales, unbilled sales rose to MYR2.7bn from MYR2.2bn as at 1Q19, while outstanding construction orderbook remained relatively unchanged at MYR5.8bn (vs MYR5.7bn as at 1Q19).

- No change to our TP.** Our SOP TP is based on a 40% discount to RNAV for the property division and a 10% holding company discount. Management's emphasis on other business divisions has helped to shield the company from the sluggish property sector.

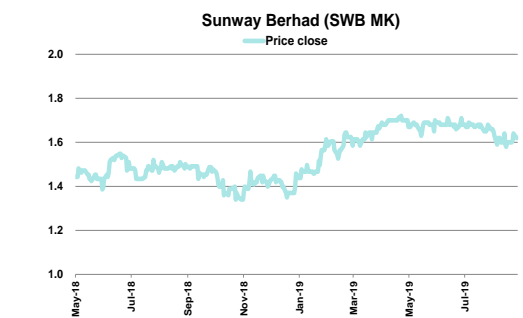
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	11.3	(3.6)	(3.6)	(0.8)	4.9
Relative	16.8	(0.0)	(3.1)	6.4	16.1
52-wk Price low/high (MYR)					1.337 – 1.72



Source: Bloomberg

Forecasts and Valuation	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
Total turnover (MYRm)	5,375	5,410	5,543	5,818	6,193
Recurring net profit (MYRm)	566	591	654	706	724
Recurring net profit growth (%)	3.5	4.4	10.6	8.0	2.6
Recurring EPS (MYR)	0.12	0.12	0.13	0.14	0.14
DPS (MYR)	0.06	0.07	0.08	0.09	0.09
Recurring P/E (x)	13.6	12.9	11.8	11.1	10.9
P/B (x)	0.98	0.90	0.88	0.86	0.84
Dividend Yield (%)	3.8	4.5	5.1	5.4	5.4
Return on average equity (%)	8.4	8.1	7.6	7.9	7.9
Net debt to equity (%)	48.6	47.6	46.4	45.8	46.5
Interest coverage (x)	3.1	2.6	2.3	2.4	2.6

Source: Company data, RHB

Financial Exhibits

Asia	Financial summary	Dec-17	Dec-18	Dec-19	Dec-20	Dec-21
Malaysia	Core EPS (MYR)	0.12	0.12	0.13	0.14	0.14
Property	EPS (MYR)	0.13	0.14	0.13	0.14	0.14
Sunway Berhad	DPS (MYR)	0.06	0.0712	0.08	0.085	0.085
SWB MK	BVPS (MYR)	1.59	1.74	1.78	1.82	1.86
	ROE (%)	8.36	8.07	7.59	7.94	7.89
	ROA (%)	3.28	3.19	3.05	3.21	3.23
Valuation basis						
Based on SOP derived TP						
Key drivers	Valuation metrics	Dec-17	Dec-18	Dec-19	Dec-20	Dec-21
Our FY19-21 forecasts are driven by:	Core P/E (x)	13.6	12.9	11.8	11.1	10.9
i. Sales from new projects and existing stocks;	P/B (x)	1.0	0.9	0.9	0.9	0.8
ii. Unbilled sales	Dividend yield (%)	3.8	4.5	5.1	5.4	5.4
	EV/EBITDA (x)	15.8	19.7	18.8	18.6	18.3
Key risks	Income statement (MYRm)	Dec-17	Dec-18	Dec-19	Dec-20	Dec-21
The downside risks include:	Total turnover	5,375	5,410	5,543	5,818	6,193
i. Worse-than-expected economic growth;	Gross profit	1,532	1,404	1,441	1,425	1,495
ii. Delay in launches;	EBITDA	826	701	748	785	829
iii. Cancellation of infrastructure projects.	Operating profit	687	560	597	631	662
	Net interest	(23)	62	11	18	25
	Exceptional items	73	68	0	0	0
	Pre-tax profit	882	851	874	943	968
	Taxation	(149)	(122)	(133)	(143)	(147)
	Net profit	640	659	654	706	724
	Core net profit	566	591	654	706	724
Company Profile	Cash flow (MYRm)	Dec-17	Dec-18	Dec-19	Dec-20	Dec-21
Sunway is a well-known developer in the Klang Valley. Its flagship project, Bandar Sunway, is a well-established integrated township. The company has successfully transformed mining land into a matured residential and commercial cluster.	Cash flow from operations	803	794	778	731	786
	Capex	(970)	(914)	(700)	(700)	(700)
	Cash flow from investing activities	(621)	(912)	(700)	(700)	(700)
	Cash flow from financing activities	243	868	169	540	418
	Cash at beginning of period	1,823	2,237	2,975	3,222	3,793
	Net change in cash	413	738	247	571	504
	Ending balance cash	2,237	2,975	3,222	3,793	4,296
	Balance sheet (MYRm)	Dec-17	Dec-18	Dec-19	Dec-20	Dec-21
	Total cash and equivalents	4,446	5,134	5,329	5,118	4,899
	Tangible fixed assets	5,346	6,192	6,245	6,297	6,420
	Intangible assets	327	332	332	332	332
	Total investments	5,211	5,327	5,327	5,327	5,327
	Total other assets	4,884	4,101	4,538	5,075	5,734
	Total assets	20,214	21,086	21,771	22,149	22,711
	Short-term debt	4,910	6,057	6,057	6,057	6,057
	Total long-term debt	3,349	3,118	3,332	3,196	3,179
	Total liabilities	11,731	11,982	12,319	12,319	12,487
	Shareholders' equity	7,840	8,485	8,745	9,028	9,326
	Minority interests	643	620	707	802	898
	Total equity	8,483	9,105	9,452	9,830	10,224
	Total liabilities & equity	20,214	21,086	21,771	22,149	22,711
	Key metrics	Dec-17	Dec-18	Dec-19	Dec-20	Dec-21
	Revenue growth (%)	13.7	0.7	2.5	5.0	6.5
	Core net profit growth (%)	3.5	4.4	10.6	8.0	2.6
	Core EPS growth (%)	3.5	5.4	9.5	6.9	1.6
	Gross margin (%)	13.1	(8.4)	2.7	(1.1)	4.9
	Core net profit margin (%)	10.5	10.9	11.8	12.1	11.7
	Dividend payout ratio (%)	46.1	52.6	60.2	59.8	58.9

Source: Company data, RHB

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Results At a Glance

Figure 1: Quarterly results

FY/Dec (MYR mil)	2Q18	1Q19	2Q19	QoQ (%)	YoY (%)	1H18	1H19	YoY (%)	Comments
Turnover	1,287.1	1,123.6	1,077.2	(4.1)	(16.3)	2,595.5	2,200.8	(15.2)	
Prop dev	88.7	87.9	113.6	29.3	28.1	221.0	201.4	(8.8)	Revenue was higher due to higher sales and progress billings from local projects.
Prop invt	216.7	196.7	176.1	(10.5)	(18.7)	436.7	372.8	(14.6)	The drop in revenue was due to the loss of rental income after the disposal of Sunway University assets to Sunway REIT, as well as lower visitorship and occupancy rates to theme parks and hospitality properties.
Construction	449.7	346.2	293.5	(15.2)	(34.7)	893.4	639.6	(28.4)	
Trading & Manufacturing	286.4	251.3	230.0	(8.5)	(19.7)	564.7	481.4	(14.8)	
Quarry	57.9	44.2	52.6	19.1	(9.1)	107.9	96.8	(10.3)	
Healthcare	108.2	126.8	140.8	11.1	30.2				Revenue was higher YoY due to increased number of beds and higher outpatient treatments.
Investment holdings	0.8	0.8	0.9	n.m.	n.m.	1.6	1.7	10.6	
Others	186.9	69.7	69.7	(0.0)	(62.7)	370.3	139.4	(62.4)	
EBIT	166.0	117.8	167.3	42.0	0.8	296.0	285.0	(3.7)	
EBIT Margin (%)	12.9%	10.5%	15.5%			11.4%	0.0%		
Prop dev	44.0	18.9	21.6	14.7	(50.8)	61.6	40.5	(34.2)	EBIT was lower YoY, as 2Q18 saw the forex gains realised from the accumulated profits from the company's projects in Singapore.
Prop invt	54.1	52.8	67.1	27.0	24.0	113.4	119.9	5.7	
Construction	46.2	40.0	41.5	3.8	(10.2)	85.0	81.5	(4.2)	
Trading & Manufacturing	16.4	8.8	8.5	(3.4)	(48.1)	30.4	17.3	(42.9)	
Quarry	3.6	1.1	1.2	12.8	(66.2)	5.8	2.3	(60.7)	
Healthcare	11.0	13.1	17.6	34.6	60.9				
Investment holdings	(20.0)	(21.5)	3.5	n.m.	(117.3)	(36.7)	(18.0)	(50.8)	
Others	21.6	4.6	6.2	35.4	(71.2)	36.4	10.8	(70.3)	
Exceptional items	(59.2)	0.0	(43.6)	n.m.	n.m.	(59.2)	(43.6)	(26.4)	
Finance cost	(12.8)	17.8	(66.8)	(475.3)	421.9	(20.4)	(49.0)	139.8	
Asso & JV	89.0	41.7	82.1	96.9	(7.7)	127.5	123.9	(2.9)	
Other Income	0.0	0.0	0.0	n.m.	n.m.	0.0	0.0	0.0	
Pretax profit	242.2	177.3	253.2	42.9	4.6	403.1	430.5	6.8	
PBT margin (%)	18.8%	15.8%	23.5%			15.5%	0.0%		
Tax	(26.5)	(25.3)	9.4	(137.1)	(135.5)	(49.9)	(15.9)	(68.1)	The lower tax in 2Q19 was due to the reversal of provision for deferred tax pertaining to balancing charge due to a disposal of property.
Tax (%)	10.9%	14.3%	-3.7%			12.4%	0.0%		
PAT	215.8	151.9	262.6	72.9	21.7	353.3	414.6	17.4	
MI	(16.3)	(15.5)	(16.2)	4.0	(1.1)	(31.9)	(31.7)	(0.6)	
Net profit	199.4	136.4	246.5	80.7	23.6	321.4	382.9	19.2	2Q19 net profit included fair value gains from Sunway REIT and disposal gain on Sunway University assets.
Core net profit	140.2	136.4	202.9	48.7	44.7	262.2	339.3	29.4	Above expectations.
Net margin (%)	10.9	12.1	18.8						
EPS (sen)	4.1	2.7	4.7			6.6	7.4		
NTA (RM)	1.65	1.66	1.68			1.65	1.68		
DPS (sen)	3.5	0.0	4.6			3.5	4.6		
EBIT margin:									
Prop dev	49.6%	21.5%	19.1%			27.9%	20.1%		
Prop invt	25.0%	26.8%	38.1%			26.0%	32.2%		
Construction	10.3%	11.5%	14.1%			9.5%	12.7%		
Trading & Manufacturing	5.7%	3.5%	3.7%			5.4%	3.6%		
Quarry	6.1%	2.4%	2.3%			5.4%	2.3%		
Healthcare	0.0%	10.3%	12.5%						
Investment holdings	n.m.	n.m.	n.m.			n.m.	n.m.		
Others	11.6%	6.6%	8.9%			9.8%	7.8%		

Source: Company data, RHB

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Figure 2: RNAV estimate

Developments	Remaining	Remaining	Effective stake	NPV @ 10%	
	Landbank (acre)	GDV (MYR m)			
Selangor/KL					
Sunway Damansara	15.36	1,691.28	60%	166.9	
Sunway South Quay	33.67	2,586.66	100%	353.7	
Sunway Monterez	4.40	38.00	60%	2.9	
Sunway Semenyih	398.11	728.59	70%	57.2	
Sunway Cheras	5.97	16.82	100%	1.7	
Sunway Duta	3.16	120.00	60%	7.1	
Sunway Montana	1.99	55.51	100%	6.7	
Sunway Resort City	14.9	660	100%	103.5	
Sunway Velocity	10.00	1,983.98	85%	201.9	
Sunway Velocity 2	8.45	2,000.00	50%	66.8	
Sunway Tower KL 1	1.00	240.00	100%	21.0	
Melawati	2.00	43.00	100%	4.4	
Sg Long	111.00	277.00	80%	20.9	
Mont Putra, Rawang	163.00	156.00	100%	13.6	
Kelana Jaya	17.88	1,450.00	100%	110.3	
Subang industrial	6.35	110.00	80%	8.9	
Jalan Belfield	4.53	1,100.00	100%	83.7	
Kajang TOD	5.28	460.00	60%	20.6	
USJ 1	14.80	1,400.00	100%	107.8	
Wangsa Maju	4.34	500.00	55%	24.5	
Kota Damansara	9.46	544.00	60%	34.9	
Perak					
Sunway City Ipoh	440.5	1,048.38	96%	135.5	
Penang					
Sunway Hills	80.70	849.00	100%	72.2	
Sunway Wellesley, Bukit Mertajam	51.47	710.47	100%	72.4	
Paya Terubong	24.46	1,500.00	100%	129.3	
Sunway Tunas, Balik Pulau	9.00	60.00	100%	6.2	
Sunway Betong, Balik Pulau	19.87	110.00	100%	11.4	
S'pore					
Anchorvale Lane, Sengkang (Rivercove EC)	5.19	1,560.00	30%	42.0	
Brookvale Park (Clementi)	8.56	3,000.00	30%	83.0	
Canberra Link, Sembawang	4.46	1,500.00	35%	44.7	
Tampines EC	6.16	2,400.00	35%	61.1	
Johor					
Bukit Lenang	64.79	698.40	80%	52.5	
Medini	642.93	10,743.00	60%	426.1	
Pendas	1,079.07	18,000.00	60%	523.7	
China					
Sunway Guanghao	3.73	66.78	65%	4.3	
Tianjin Eco City	6.23	575.02	60%	26.8	
India					
Sunway OPUS Grand India	23.80	702.36	50%	20.3	
Sunway MAK Signature Residence (JV with M.A.K Builders)	14.00	181.22	60%	6.6	
Unbilled sales				264.0	
TOTAL	3,355.02	64,764.03		3,400.98	
Investment properties					
	Est. market value	Book value	Equity	Net surplus	
	(MYR m)	(MYR m)	interest	(MYR m)	
Monash University Campus	302.8	302.8	100%	0	
Monash U Residence	271.1	271.1	100%	0	
Sunway Geo Tower	168.0	120.0	100%	48.0	
Sunway Hotel Georgetown	74.0	37.6	100%	36.4	
Sunway Hotel Phnom Penh	17.3	17.3	53%	0	
Sunway Hotel Hanoi	8.8	8.8	100%	0	
Sunway Giza	55.1	55.1	60%	0	
Sunway Pinnacle	493.0	360.7	100%	125.7	
Sunway Velocity Mall	1,800.0	1,205.2	59%	333.4	
Subtotal				3,944.43	
Shareholders' equity (ex cons. & healthcare)				6,905.72	
Total				10,850.15	
Discount to Property RNAV				40%	
Discounted Property RNAV				6,510.09	
Other divisions					
	Market value	Book value	Est. FY19 earnings	PE target	Equity value surplus
	(MYR m)	(MYR m)	(MYR m)	(x)	(MYR m)
40.9% Sunway REIT	2,312.6	1,479.0			833.65
54.4% Sunway Construction	1,512.3	844.1			668.22
Healthcare			50	25	1,250.00
Others			55	15	825.00
Gain on disposal of Sunway CLIO					29.40
Gain on disposal of Sunway University					43.00
Total					10,159.36
ESOS proceeds					151.21
Warrants conversion @ MYR1.86					1,171.74
Total RNAV					11,482.32
Holding company discount				10%	
Discounted RNAV					10,334.09
Share base (mil)					5,548.08
TP (MYR)					1.86

Source: RHB

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