

Sunway Bhd

FY18 Sales Target Revised Higher to RM1.7bn

TP: RM1.51 (+4.1%)

Last Traded: RM1.45

HOLD

Thiam Chiann Wen

Tel: +603-2167 9615

cwthiam@ta.com.my

www.taonline.com.my

Review

- Excluding the fair value gain from Sunway REIT of RM59.2mn recognised in 2Q18, Sunway's 9M18 normalised net profit of RM407.5mn came in within ours but below consensus expectations. The results accounted for 72% and 69% of ours and consensus full-year forecasts respectively.
- YoY, Sunway's 9M18 revenue and normalised net profit grew 12% and 4% respectively to RM4.0bn and RM407.5mn. The improvement was largely due to higher contribution from property investment and construction divisions.
- By segment, the group's property development division revenue and PBT decreased by 28% and 18% YoY respectively in 9M18, mainly due to lower progress billings from local development projects. Meanwhile, the group's property investment division was the star performer during the period under review, with the division's revenue and adjusted PBT (excluding fair value gains) increasing 9% and 42% YoY in 9M18. The increase was underpinned by higher occupancy at the group's portfolio of investment properties, and additional contribution from new properties such as Sunway Velocity Hotel and Sunway Geo in Sunway South Quay.
- QoQ, 3Q18 normalised net profit expanded by 3.6% to RM145.3mn largely supported by stronger performance from the property investment division.
- Sunway's 3Q18 property sales surged 280% YoY to RM787mn from RM207mn a year ago. This brings the group's 9M18 sales to RM1.6bn (+179% YoY). Overseas projects are the key sales contributor, with Singapore and China accounting for 41% and 25% respectively of the group's total property sales in 9M18. Excluding overseas sales, Sunway's domestic sales also more-than-doubled (+140% YoY) to RM555mn in 9M18. Stronger sales performance lifted the group's unbilled sales higher to RM2.1bn (effective RM1.8bn), from RM1.5bn a quarter ago.

Impact

- Our FY18/19/20 earnings are adjusted by -2.2%/+1.7%/+4.0% after factoring in the followings;
- Higher FY18/19/20 new sales assumptions of RM1.7bn/RM1.8bn/RM1.9bn from RM1.6bn/RM1.5bn/RM1.6bn previously;
- Revised earnings for SunCon (kindly refer to report dated 21 Nov, 2018 for more information).

Outlook

- Sunway has revised its FY18 sales target higher to RM1.7bn from RM1.3bn previously. With 9M18 property sales already accounted for >90% of the revised sales target, we believe the group is on track to

Share Information

Bloomberg Code	SWB MK
Stock Code	5211
Listing	Main Market
Share Cap (mn)	4,853.2
Market Cap (RMmn)	7,037.1
52-wk Hi/Lo (RM)	1.82/1.35
12-mth Avg Daily Vol ('000 shrs)	2,781.7
Estimated Free Float (%)	27.4
Beta	0.9

Major Shareholders (%)

Sungei Way Corp	(56.2)
EPF	(7.1)
Tan Sri Dr Jeffrey Cheah	(5.1)

Forecast Revision

	FY18	FY19
Forecast Revision (%)	(2.2)	1.7
Net profit (RMmn)	553.7	598.8
Consensus	594.0	636.1
TA's / Consensus (%)	93.2	94.1
Previous Rating	Hold (Maintained)	

Financial Indicators

	FY18	FY19
Net gearing (%)	43.3	37.1
CFPS (sen)	10.6	12.6
P/CFPS (x)	13.7	11.5
ROE (%)	6.9	7.2
ROA (%)	2.7	2.9
NTA/Share (RM)	1.6	1.7
Price/NTA (x)	0.9	0.9

Scorecard

	% of FY	
vs TA	72.0	Within
vs Consensus	69.0	Below

Share Performance (%)

Price Change	SWB	FBM KLCI
1 mth	1.4	(1.6)
3 mth	(7.1)	(5.7)
6 mth	(4.6)	(8.1)
12 mth	(9.9)	(1.6)

(12-Mth) Share Price relative to the FBMKLCI

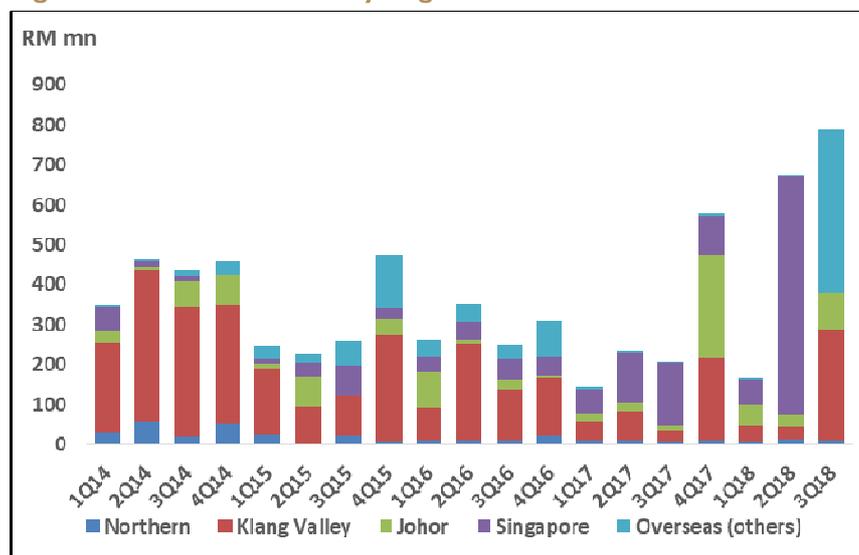


Source: Bloomberg

achieve its new sales target. Recent launches have been well-received – see **Figure 2**. Specifically, we expect 4Q18 sales to be anchored by Sunway Velocity TWO (GDV: RM320mn), which was 80% booked since its official launched in Oct-18.

- The group’s unbilled sales of RM2.1bn and outstanding construction order book of RM3.5bn (external jobs only) should provide earnings visibility for the next 2-3 years.

Figure 1: Sales Breakdown by Region



Source: Sunway

Valuation

- Following the change in earnings, our target price is adjusted slightly to **RM1.51** (previous RM1.50), based on unchanged target average blended CY19 PE/PB of 12x/0.9x. Maintain **Hold** with a potential total return of 8.2%

Figure 2: New Launches for 2018

Development	Location	Type	Launch Date	GDV (RM mn)	Take-up (inc bookings)
Rivercove Residences	Singapore	Executive Condo	Apr-18	590	99%
Sunway GEOLake	South Quay, Bandar Sunway	Condominium	Jul-18	480	60%
Sunway Citrine Lakehomes	Iskandar	Townhouse	Jul-18	80	80%
Sunway Gardens	Tianjin	Condominium	Jul-18	600	85%
Sunway Velocity TWO	Kuala Lumpur	Service Apartments	Oct-18	320	80%
Total				2070	

Earnings Summary (RM mn)

YE Dec 31 (RM'mn)	2016	2017	2018F	2019F	2020F
Revenue	4655.6	5374.8	5959.1	5978.6	6507.5
EBITDA	853.1	797.2	856.6	898.4	965.2
EBITDA margin (%)	18.3	14.8	14.4	15.0	14.8
Pretax profit	803.6	810.5	757.1	797.1	906.3
Net profit	585.9	639.5	612.9	598.8	685.0
Net profit -adj	547.4	566.3	553.7	598.8	685.0
EPS (sen)	28.4	13.3	12.7	12.4	14.2
EPS - adj (sen)	11.4	11.8	11.5	12.4	14.2
EPS Growth (Core) (%)	(7.3)	3.5	(2.2)	8.1	14.4
PER (x)	12.8	12.3	12.6	11.7	10.2
GDPS (sen)	5.2	6.0	6.0	6.0	6.0
Div Yield (%)	3.6	4.1	4.1	4.1	4.1
ROE (%)	7.8	7.4	6.9	7.2	7.9

Note: EPS, DPS adjusted for 4 for 3 bonus issue completed in FY17

3Q18 Results Analysis (RM mn)

YE 31 Dec (RM'mn)	3Q17	2Q18	3Q18	QoQ (%)	YoY (%)	9MFY17	9MFY18	YoY(%)
Revenue	1,319.6	1,287.1	1,444.6	12.2	9.5	3,612.2	4,040.1	11.8
Property Development	162.2	88.7	194.8	119.6	20.1	576.6	415.8	(27.9)
Property Investment	225.4	216.7	237.8	9.7	5.5	619.7	674.5	8.8
Construction	416.6	449.7	465.4	3.5	11.7	1,044.4	1,358.8	30.1
Trading & Manufacturing	292.9	286.4	296.9	3.6	1.3	764.1	861.6	12.8
Quarry	50.3	57.9	56.3	(2.8)	11.9	149.2	164.2	10.1
Others	172.2	187.7	193.5	3.1	12.4	497.9	3.4	(99.3)
EBIT	153.6	166.0	159.7	(3.8)	4.0	454.0	455.8	0.4
Gain on derivative	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Finance income	56.2	56.3	66.5	18.2	18.4	142.7	177.7	24.5
Finance costs	(62.5)	(69.1)	(70.0)	1.3	11.9	(174.5)	(201.6)	15.5
Associates	29.9	90.0	29.9	(66.8)	(0.2)	139.9	142.3	1.8
JV	19.6	4.0	7.8	92.9	(60.1)	48.6	22.8	(53.0)
EI	0.0	59.2	0.0	>-100	nm	56.8	59.2	4.2
PBT	196.7	242.2	194.0	(19.9)	(1.4)	610.7	597.1	(2.2)
Core PBT	196.7	183.0	194.0	6.0	(1.4)	553.9	537.9	(2.9)
Property Development	35.5	46.4	40.9	(11.9)	15.4	135.7	111.1	(18.2)
Property Investment	50.0	43.3	54.6	26.1	9.2	108.8	153.6	41.2
Construction	18.9	49.6	49.8	0.4	163.4	98.1	139.4	42.1
Trading & Manufacturing	4.4	13.4	14.2	6.0	219.8	23.6	39.1	66.1
Quarry	1.3	2.9	1.7	(41.9)	33.8	5.5	6.4	16.8
Others	86.7	27.4	32.8	19.7	(62.2)	192.9	88.3	(54.2)
Tax	(29.0)	(26.5)	(27.1)	2.3	(6.6)	(92.7)	(76.9)	(17.1)
MI	(16.9)	(16.3)	(21.6)	32.2	27.6	(70.0)	(53.5)	(23.6)
Net profit	150.9	199.4	145.3	(27.1)	(3.7)	447.9	466.7	4.2
Core net profit	150.9	140.2	145.3	3.6	(3.7)	391.1	407.5	4.2
Reported EPS (sen)	3.2	4.1	3.0	(26.9)	(5.5)	9.4	9.6	2.2
Adj EPS (sen)	3.2	2.9	3.0	4.0	(5.5)	8.2	8.4	2.2
DPS (sen)	0.0	3.5	0.0	>-100	0.0	3.0	3.5	16.7
EBIT margin (%)	11.6	12.9	11.1	(1.8)	(0.6)	12.6	11.3	(1.3)
PBT margin (%)	14.9	14.2	13.4	(0.8)	(1.5)	15.3	13.3	(2.0)
Property Development (%)	21.9	52.3	21.0	(31.3)	(0.9)	23.5	26.7	3.2
Property Investment (%)	22.2	20.0	23.0	3.0	0.8	17.6	22.8	5.2
Construction (%)	4.5	11.0	10.7	(0.3)	6.2	9.4	10.3	0.9
Trading & Manufacturing (%)	1.5	4.7	4.8	0.1	3.3	3.1	4.5	1.5
Quarry (%)	2.5	5.0	3.0	(2.0)	0.5	3.7	3.9	0.2
Others (%)	50.3	14.6	16.9	2.3	(33.4)	38.7	>100	>100
Net margin (%)	11.4	10.9	10.1	(0.8)	(1.4)	10.8	10.1	(0.7)
Effective tax rate (%)	14.7	14.5	13.9	(0.5)	(0.8)	16.7	14.3	(2.4)

(THIS PAGE IS INTENTIONALLY LEFT BLANK)

Stock Recommendation Guideline

- BUY** : Total return within the next 12 months exceeds required rate of return by 5%-point.
HOLD : Total return within the next 12 months exceeds required rate of return by between 0-5%-point.
SELL : Total return is lower than the required rate of return.
Not Rated: The company is not under coverage. The report is for information only.

Total Return is defined as expected share price appreciation plus gross dividend over the next 12 months. Gross dividend is excluded from total return if dividend discount model valuation is used to avoid double counting.

Required Rate of Return of 7% is defined as the yield for one-year Malaysian government treasury plus assumed equity risk premium.

Disclaimer

The information in this report has been obtained from sources believed to be reliable. Its accuracy and/ or completeness is not guaranteed and opinions are subject to change without notice. This report is for information only and not to be construed as a solicitation for contracts. We accept no liability for any direct or indirect loss arising from the use of this document. We, our associates, directors, employees may have an interest in the securities and/or companies mentioned herein.

As of Thursday, November 22, 2018, the analyst, Thiam Chiann Wen, who prepared this report, has interest in the following securities covered in this report:
(a) nil

Kaladher Govindan – Head of Research

TA SECURITIES HOLDINGS BERHAD (14948-M)

A Participating Organisation of Bursa Malaysia Securities Berhad

Menara TA One | 22 Jalan P. Ramlee | 50250 Kuala Lumpur | Malaysia | Tel: 603 – 2072 1277 | Fax: 603 – 2032 5048
www.ta.com.my