UOBKH HIGHLIGHTS

Sunway Bhd (SWB MK/HOLD/RM1.62/Target: RM1.63)

2018: Within Expectations

Year to 31 Dec	4Q18 (RMm)	3Q18 (RMm)	qoq % chg	yoy % chg	2018 (RMm)	yoy % chg
Revenue	1,370.2	1,444.6	(5.1)	(15.8)	5,410.3	3.3
Construction	489.1	465.4	5.1	(16.1)	1,847.9	13.5
Property Development	203.8	194.8	4.6	(48.8)	619.6	(33.8)
Investment Property	140.3	237.8	(41.0)	(14.7)	814.8	3.9
Pre-tax Profit	253.6	194.0	30.7	(2.8)	850.6	(2.5)
Construction	50.7	49.8	1.8	(9.2)	190.1	1.4
Property Development	47.5	40.9	16.2	(52.8)	158.6	(34.2)
Investment Property	78.6	54.6	44.0	22.3	291.4	14.1
PBT	253.6	194.0	30.7	(2.8)	850.6	(2.5)
Net Profit	192.3	145.3	32.4	4.6	659.0	6.2
Core Net Profit	183.7	145.3	26.4	9.7	591.2	8.0
Margins (%)			qoq ppt chg	yoy ppt chg		yoy ppt chg
Pre-tax – Construction	10.4	10.7	(0.3)	1.1	10.3	(0.4)
Pre-tax – Property Development	23.3	32.6	(9.3)	(2.2)	28.8	(0.2)

Source: Sunway, UOB Kay Hian

RESULTS

- **WIthin expectations.** Sunway reported 4Q18 core net profit of RM183.7m (+26% qoq, +10% yoy) and revenue of RM1.37b (-5% qoq, -16% yoy). Exclude revaluation gain of RM68m, core net profit accounts for 100% of our full-year estimates, driven by stronger performances of investment property and construction, while partly negated by sluggish property segment.
- **Property: Slower progress billings.** For the quarter, the property division recorded revenue of RM204m (+5% qoq, -49% yoy) and PBT of RM48m (+16% qoq, -55% yoy) with a pre-tax margin of 23%. The segment was impacted by lower sales and progress billings from local development projects. In addition, there is high-base effect in 4Q18 due to completion and handover of several local development projects in 4Q17.
- **Construction: Continued to drive earnings.** Revenue grew 14% yoy to RM1.8b which propelled segment PBT to RM190m (+1% yoy) on the back of stronger progress billings and lower intra-group elimination. The division recorded a still healthy pre-tax margin of 10.3% largely due to weaker precast divisions and higher intra-group elimination. Meanwhile, we expect earnings to pick up considerably in 2H19 driven by LRT3 project, which are expected to kick start upon finalization of redesigning work package slated in 2Q19.
- **Investment property: New properties boosted 2018 earnings.** Revenue for the division grew 4% yoy due higher revenue from the additional contribution of new properties like Sunway Geo and additional room inventory in The Banjaran Hot Spring. Meanwhile, 4Q18 PBT increased substantially to RM79m largely due to gains from revaluation of investment properties of RM30m in the current quarter.

EARNINGS REVISION

- No changes in earnings forecasts.

RECOMMENDATION

- **Maintain HOLD with a target price of RM1.63.** Our target price is based on a 15% discount to our SOTP valuation of RM1.92/share and implies 12.8x 2019F PE. A good entry price is RM1.35.

ANALYST

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