

UOBKH HIGHLIGHTS

Sunway Bhd (SWB MK/HOLD/RM1.65/Target: RM1.88)

4Q17: Below Expectations

Year to 31 Dec	4Q17 (RMm)	3Q17 (RMm)	qoq % chg	yoy % chg	2017 (RMm)	yoy % chg	Year	EPS (sen)	PE (x)
Revenue	1,722.9	1,319.6	30.6	33.2	5,374.8	15.4	2018F	12.0	13.7
- Construction	583.3	416.6	40.0	102.0	1,627.7	43.1	2019F	12.7	13.0
- Property Development	413.0	162.2	154.6	1.7	989.7	(17.7)	2020F	13.1	12.6
- Investment Property	245.7	225.4	9.0	42.1	865.4	25.0			
Pre-tax Profit	260.9	196.7	32.6	(3.6)	882.2	2.7			
- Construction	54.1	41.0	31.8	82.2	174.4	30.0			
- Property Development	105.4	35.5	197.3	(22.6)	241.1	(26.5)			
- Investment Property	47.1	50.0	(5.8)	25.0	212.7	34.3			
PBT	260.9	196.7	32.6	(3.6)	882.2	2.7			
PATAMI	183.8	150.9	21.8	(1.1)	639.5	9.2			
Core PATAMI	167.4	150.9	11.0	3.5	566.3	3.5			
Margins	(%)	(%)	ppt	ppt	(%)	ppt			
Pretax - Construction	9.3	9.8	(0.6)	(1.0)	10.7	(1.1)			
Pretax - Property Development	25.5	21.9	3.7	(8.0)	24.4	(2.9)			

Source: Sunway, UOB Kay Hian

WHAT'S NEW

- **Below expectations.** Sunway reported a 4Q17 core net profit of RM167.4m (+11% qoq, -4% yoy) and revenue of RM1,722.9m (+30% qoq, +33% yoy). Cumulatively, core net profit (excluding fair value gains of RM56.8m and fair value ESOS of RM16.4m) of RM566.3m (+3% yoy) accounts for 95% of our and 98% of consensus' full-year estimates. Results missed estimates due to slower-than-expected progress billings at its property development division.
- **Property: Slow progress billings.** For the quarter, the property division recorded revenue of RM413m (155% qoq, +2% yoy) and PBT of RM105.4m (+197% qoq, -23% yoy) with a healthy pre-tax margin of 25.5%. Revenue was down yoy due to lower sales and billings at its local property development division. On a sequential basis, revenue and PBT increased due to a low base effect.
- **Construction: Continued to be key earnings driver.** Revenue grew 102% yoy to RM583.3m which propelled construction PBT to RM54.1m (+82% yoy) on the back of stronger progress billings. The division recorded a PBT margin of 9.3%, which we deem healthy. Earnings from this division should continue to see steady growth, particularly in 2018 as the MRT Line 2 and LRT3 move into a more advanced stage of construction.
- **Investment property: Revenue improved to RM245.7m in 4Q17.** Revenue for the division grew 9% qoq and 42% yoy due to: a) additional revenue from Sunway Velocity Mall which opened in Dec 16; and b) higher revenue from Sunway Pyramid Hotel (following a refurbishment exercise). The division recorded PBT of RM47.1m, (-6% qoq, +25% yoy). The increase was due to a higher number of properties that generated income for the quarter.
- **Clinched RM417m of property sales in 4Q17,** lifting 2017 sales to RM1b. Sales was driven by Sunway Iskandar (RM169m), Sunway Serene (RM145m) and Singapore projects (RM445m). Earnings for its property division will continue to be steady, given healthy unbilled sales of about RM861m, which represents about 0.9x 2017 property development revenue.
- We trim our earnings by 4%/1% in 2018F-19F, as reduce our property development sales assumptions. We also introduce our 2020F forecast of RM643m.

RECOMMENDATION

- **Maintain HOLD and target price of RM1.88.** Our target price is based on a 15% discount to our SOTP valuation of RM2.21/share, and implies 15.7x 2018F PE, above its long-term average of 13x. We think the premium valuation is justified, given the growing prominence of its healthcare portfolio, a sector that trades at 35-50x. A good entry price is RM1.50.

ANALYST

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