

Malaysia Flash Note

Refer to important disclosures at the end of this report

DBS Group Research . Equity

22 May 2018

Sunway (SWB MK) : HOLD

Mkt. Cap: US\$1,849m | 3m Avg. Daily Val: US\$1.2m

Last Traded Price (21 May 2018): RM1.51

Price Target 12-mth: RM1.60 (6% upside) (Prev RM1.70)

Analyst

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Another steady quarter

- 1Q18 results met expectations
- Lifted by strong performance from property investment
- Maintain HOLD but lower SOP-derived TP to RM1.60 on lower valuation for construction arm

Forecasts and Valuation

FY Dec (RMm)	2016A	2017A	2018F	2019F
Revenue	4,726	5,375	5,437	5,554
EBITDA	994	971	1,017	991
Pre-tax Profit	859	882	809	783
Net Profit	586	640	586	598
Net Pft (Pre Ex.)	547	566	586	598
Net Pft Gth (Pre-ex) (%)	(7.3)	3.5	3.4	2.1
EPS (sen)	12.6	13.0	11.9	12.2
EPS Pre Ex. (sen)	11.8	11.5	11.9	12.2
EPS Gth Pre Ex (%)	(17)	(2)	3	2
Diluted EPS (sen)	12.6	13.0	11.9	12.2
Net DPS (sen)	5.39	5.99	5.95	6.08
BV Per Share (sen)	160	159	165	171
PE (X)	12.0	11.6	12.7	12.4
PE Pre Ex. (X)	12.8	13.1	12.7	12.4
P/Cash Flow (X)	13.0	9.9	64.8	11.5
EV/EBITDA (X)	11.2	11.9	12.0	12.5
Net Div Yield (%)	3.6	4.0	3.9	4.0
P/Book Value (X)	0.9	1.0	0.9	0.9
Net Debt/Equity (X)	0.4	0.4	0.4	0.4
ROAE (%)	8.4	8.4	7.4	7.3

Source of all data on this page: Company, AllianceDBS, Bloomberg Finance L.P.

Company Guide



Summary of our point of view, and highlights the relevant data points, which are actively tracked

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What's New

In-line 1Q18 earnings: Sunway reported a 1Q18 profit of RM121.9m (-27% q-o-q, +14% y-o-y), which formed 21% of our full-year projection. This is deemed within expectation as 1Q is a seasonally weak quarter and its earnings are expected to be stronger in the subsequent quarters.

Weak property contribution: 1Q18 property segmental pretax profit grew dipped 5% y-o-y and 77% q-o-q to RM23.8m as a result of lower sales and progress billings from local development projects. Therefore, the property division pretax profit only contributed 15% of the group's overall pretax profit which is also the lowest in recent years, reflecting the subdued property market conditions.

Slow property sales. Sunway's 1Q18 property sales only came in at RM166m (+17% y-o-y) as the group has yet to ramp up its launches. It is targeting RM1.3bn sales in FY18, premised on a launch pipeline of RM2bn this year. Note that Sunway only achieved 12% of its full-year sales of RM1.16bn in 1Q17, which underlines the typically much stronger sales momentum in 2H.

Downtrend for unbilled sales. Unbilled sales have been on a declining trend, coming in at RM947m as at end-1Q18 compared to RM1.5bn in end-FY16. This is also the lowest in recent years, hence necessitating strong replenishment efforts to ensure earnings visibility going forward as the property development division remains a major earnings contributor.

Flash Note

Steady recurring income from investment properties. The property investment segment delivered impressive pretax earnings of RM55.6m (+79% y-o-y, +73% q-o-q), thanks to the better performance from Sunway Velocity Mall which was opened in Dec 2016. Its portfolio of quality investment property assets accounted for 35% of the group's 1Q18 core pretax profit which is an all-time high.

Construction continues to deliver. Its construction arm continued to deliver a commendable performance, as pretax profit came in at RM40.1m (+9% y-o-y, -26% q-o-q). This makes it the second largest earnings contributor with 25% share. Earnings visibility for its construction division remains positive, with an impressive order book of RM6.1bn.

TP revision. We revise down our SOP-derived TP to RM1.60 after incorporating the latest valuation of Sunway Construction. We reiterate our HOLD recommendation given the lack of catalysts.

Quarterly / Interim Income Statement (RMm)

FY Dec	1Q2017	4Q2017	1Q2018	% chg yoy	% chg qoq
Revenue	1,089	1,723	1,308	20.2	(24.1)
Cost of Goods Sold	(991)	(1,592)	(1,200)	21.1	(24.6)
Gross Profit	97.8	131	109	11.0	(17.0)
Other Oper. (Exp)/Inc	17.5	75.3	21.5	23.0	(71.4)
Operating Profit	115	206	130	12.8	(36.9)
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	nm	nm
Associates & JV Inc	43.1	29.3	38.5	(10.7)	31.4
Net Interest (Exp)/Inc	(6.7)	9.18	(7.6)	(13.2)	nm
Exceptional Gain/(Loss)	0.0	16.4	0.0	nm	(100.0)
Pre-tax Profit	152	261	161	6.1	(38.3)
Tax	(27.2)	(54.9)	(23.4)	(14.0)	(57.4)
Minority Interest	(17.5)	(22.2)	(15.6)	11.0	(29.8)
Net Profit	107	184	122	14.1	(33.7)
Net profit bef Except.	107	167	122	14.1	(27.2)
EBITDA	193	271	169	(12.6)	(37.7)
Margins (%)					
Gross Margins	9.0	7.6	8.3		
Opg Profit Margins	10.6	12.0	9.9		
Net Profit Margins	9.8	10.7	9.3		

Source of all data: Company, AllianceDBS

Target Price & Ratings History



Note: Share price and Target price are adjusted for corporate actions.

Source: AllianceDBS

Analyst: QUAH He Wei, CFA

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STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

BUY (>15% total return over the next 12 months for small caps, >10% for large caps)

HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

FULLY VALUED (negative total return i.e. > -10% over the next 12 months)

SELL (negative total return of > -20% over the next 3 months, with identifiable catalysts within this time frame)

Share price appreciation + dividends

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