

Malaysia Company Guide

Sunway

Version 9 | Bloomberg: SWB MK | Reuters: SWAY.KL

Refer to important disclosures at the end of this report

DBS Group Research . Equity

11 Jul 2018

HOLD

Last Traded Price (10 Jul 2018): RM1.50 (KLCI : 1,687.13)

Price Target 12-mth: RM1.65 (10% upside) (Prev RM1.60)

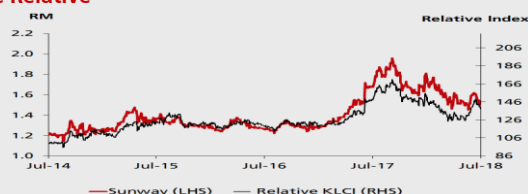
Analyst

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What's New

- Rising contribution from Property Investment and Construction to offset weaker Property Development
- Spinoff of healthcare business not in the near term
- Resilient integrated business model to weather challenging property market
- Maintain HOLD with RM1.65 TP

Price Relative



Forecasts and Valuation

FY Dec (RMm)	2017A	2018F	2019F	2020F
Revenue	5,375	5,224	5,731	5,983
EBITDA	971	954	998	1,082
Pre-tax Profit	882	762	797	900
Net Profit	640	577	610	688
Net Pft (Pre Ex.)	566	577	610	688
Net Pft Gth (Pre-ex) (%)	3.5	1.9	5.7	12.8
EPS (sen)	13.0	11.7	12.4	14.0
EPS Pre Ex. (sen)	11.5	11.7	12.4	14.0
EPS Gth Pre Ex (%)	(2)	2	6	13
Diluted EPS (sen)	13.0	11.7	12.4	14.0
Net DPS (sen)	5.99	5.87	6.20	6.99
BV Per Share (sen)	159	165	172	179
PE (X)	11.5	12.8	12.1	10.7
PE Pre Ex. (X)	13.0	12.8	12.1	10.7
P/Cash Flow (X)	9.5	10.4	11.1	10.6
EV/EBITDA (X)	12.2	12.6	12.2	11.5
Net Div Yield (%)	4.0	3.9	4.1	4.7
P/Book Value (X)	0.9	0.9	0.9	0.8
Net Debt/Equity (X)	0.5	0.4	0.4	0.4
ROAE (%)	8.4	7.2	7.4	8.0
Earnings Rev (%):		(1)	2	N/A
Consensus EPS (sen):		12.4	13.3	15.1
Other Broker Recs:		B: 5	S: 0	H: 8

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

Resilient business model

Challenging property market to limit share price re-rating potential. Sunway's focus on sustainable township developments has resulted in stable property sales (RM1.7bn-1.8bn in FY12-14). However, the weak sentiment in the property markets in Malaysia has made it challenging for Sunway to sustain its high sales momentum, as property sales dipped to RM1bn in FY17 which is the lowest over the past five years. While non-property divisions have been growing healthily over the years, the slowdown in property development may dampen its overall growth prospects given its still sizeable contributions. Therefore, we reiterate our HOLD rating in view of the lack of re-rating catalysts.

Where we differ? Our FY18-20F earnings are lower than consensus, probably due to our more conservative projection for its property development division. Nevertheless, its aggressive expansion in building up investment properties has started to contribute meaningfully to grow its recurring income base.

Potential catalyst? The potential spinoff of Sunway's healthcare business is a strong re-rating catalyst. Management plans to embark on an aggressive expansion to grow its hospital beds to more than 1,000 over the next three years from its existing 618 beds.

Valuation:

We nudge up our SOP-derived TP to RM1.65, after rolling forward our valuation base to FY19. While we continue to like Sunway for its superior and unrivalled 'build-own-operate' model, there is no re-rating catalyst in the near term in view of the challenging property market outlook.

Key Risks to Our View:

Slow property sales. Weak sentiment in the property market could drag its property sales.

At A Glance

Issued Capital (m shrs)	4,866
Mkt. Cap (RMm/US\$m)	7,299 / 1,812
Major Shareholders (%)	
Sungei Way Corp	58.3
EPF	6.3
Free Float (%)	35.4
3m Avg. Daily Val (US\$m)	0.83
ICB Industry : Financials / Real Estate	

WHAT'S NEW

Lack of catalysts

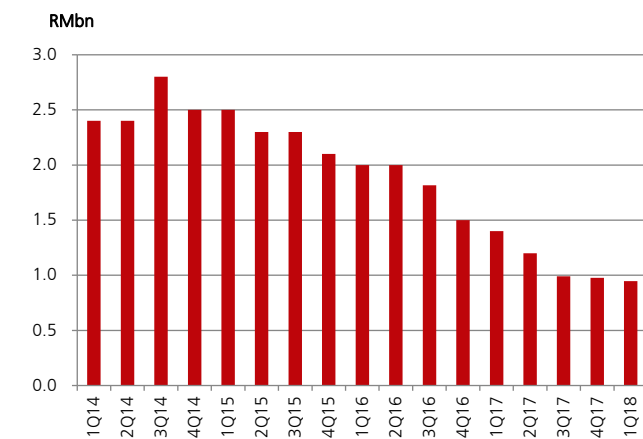
Low unbilled sales. Sunway's unbilled sales have been on a declining trend in recent years, in tandem with the weak property market in Malaysia. Unbilled sales stood at RM947m as at end-1Q18, which is also the lowest in recent years. This is expected to result in weaker earnings contribution to the group given the low earnings visibility, although property development has always been a major contributor in the past.

Banking on aggressive launch pipeline. Management has a sales target of RM1.3bn in FY18, though it has only achieved RM166m sales in 1Q18. It has an indicative launch target of RM2bn in FY18, but we believe the launch timeline for some of the earmarked projects may be deferred to 1H2019 given the delays in 1H2018 due to the recent general election.

Nevertheless, we understand that its recently-launched executive condominium, Rivercove Residences in Sengkang, Singapore has received overwhelming response with the units almost fully sold (SG\$950psf pricing). Sunway's 30% stake in the project is expected to translate into an effective RM485m property sales to the group.

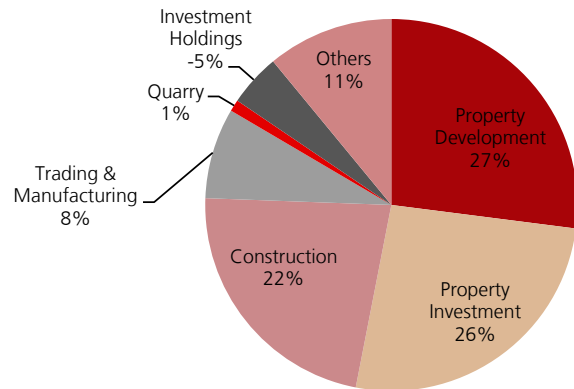
However, profit contribution from Rivercove Residences will only be recognised upon completion due to the eligibility requirement, which suggests that unconditional completion of the sale and purchase agreement can only be assured upon handover of the property. Therefore, this will result in a lumpy recognition upon the project's completion in FY20.

Declining unbilled sales



Source: AllianceDBS, Company

Core EBIT breakdown in FY17



Source: AllianceDBS, Company

Solid investment properties: Thanks to Sunway's unique 'build-own-operate' integrated approach, its portfolio of quality investment properties have been growing from strength to strength. Some of its recently-completed assets including Sunway Velocity Mall (~1m sf gross floor area), Sunway Velocity Hotel (350 rooms), Sunway Geo Tower (240k sf gross floor area) are expected to contribute further to Sunway's growing recurring stream of income as the assets mature. It has also become the largest operating profit (exclude associate/JV) contributor to the group, offsetting the earnings drop from property development.

Opportunity to recycle asset into Sunway REIT. Sunway still has a large portfolio of mature investment properties that could be easily monetised via injection into Sunway REIT, though there is no immediate need for the group to do so given its healthy balance sheet with a net gearing of 38% as at end-1Q18. We believe the group may only look at recycling the assets into Sunway REIT when the property market recovers in the future while enjoying strong recurring cash flow.

High order book for construction arm. Sunway Construction has an exceptional 2017 with new order wins of RM4bn in the bag, taking its order book to RM6.1bn. This will easily provide strong earnings visibility for the construction arm over the next three years. Therefore, the segmental profit will remain strong despite concerns over order book replenishment following the cancellation of several mega projects by the new Pakatan Harapan government.

Too early for healthcare spinoff. Sunway's healthcare business contributed RM51m pretax profit in FY17 (from RM38m in FY16), constituting 6% of overall FY17 core pretax profit. Currently, it has 618 beds at its flagship Sunway Medical Centre in Bandar Sunway. Sunway Velocity Medical Centre in Cheras is set to open in 1Q19 which will then add an additional 240 beds to its healthcare portfolio.

Management has drawn up an aggressive expansion plan to more than double its total number of patient beds over the next few years to further capitalise on the rising healthcare demand in the country. We believe a separate listing for the healthcare division is on the horizon when the business matures given the typically rich valuation for healthcare players, though such a move seems still premature at this juncture.

Expansion plan for healthcare

Sunway Medical	Location	Bed	Opening
Sunway Medical Centre Phase 1	Bandar Sunway		2001
Sunway Medical Centre Phase 2	Bandar Sunway	373	2009
Sunway Medical Centre Phase 3	Bandar Sunway	245	end 2017
Sunway Velocity	Cheras	240	1Q2019
Sunway Seberang Jaya	Seberang Jaya	180	2020
Sunway City Ipoh	Ipoh	200	2023
Sunway Damansara	Kota Damansara	250	2022
	Total	1488	

Source: AllianceDBS, Company

Maintain HOLD. There is no change to our recommendation in view of the lack of re-rating catalysts for the group, although we like its superior and unrivalled 'build-own-operate' integrated model. We nudge up our SOP-derived TP slightly to RM1.65 after rolling forward our valuation base to FY19.

SOP

Segment	RMm	RM/share	Method
Property Development	2,895.1	1.38	40% discount to RNAV
Property Investment	3,041.8	1.45	Market Value
REIT	2,227.2	1.06	AllianceDBS TP of RM1.85
Construction	1,533.8	0.73	AllianceDBS TP of RM2.18
Quarry	96.5	0.05	12x FY19 PE
Building Materials & trading	529.6	0.25	12x FY19 PE
Medical	1,250.0	0.60	25x FY19 PE
Net cash / (debt)	(3,368.2)	(1.61)	
Total SOP	8,205.9	1.67	
Target price		1.65	

Source: AllianceDBS, Company

CRITICAL DATA POINTS TO WATCH

Critical Factors

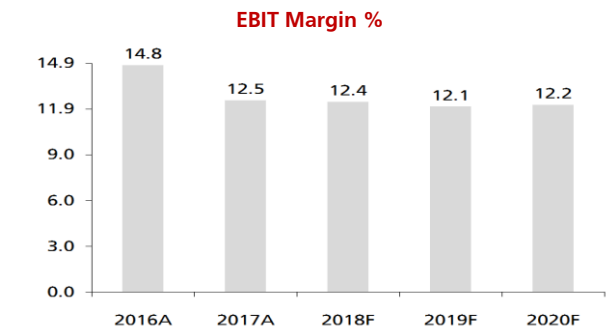
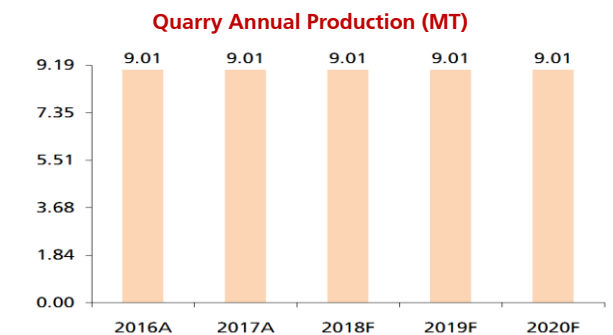
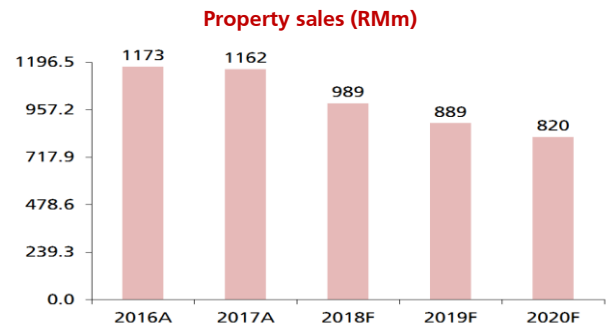
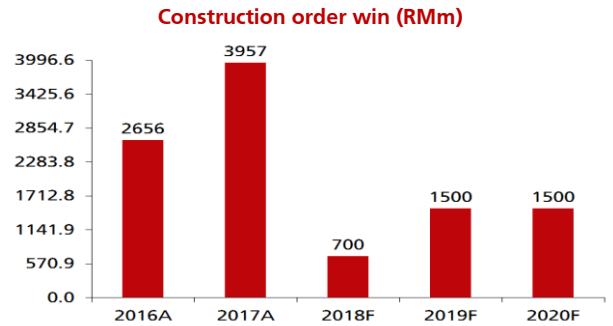
Integrated property developer. Sunway boasts an integrated real estate business model which includes property development, property investment, construction, trading & manufacturing, quarry & building materials as well as healthcare. Property development, investment properties and construction are the largest EBIT contributors with ~25% share each. We are projecting relatively subdued earnings growth in FY18F-19F as the rising contribution from construction and investment properties offset the weaker profit from property development.

High-end projects may see weak sales. Supported by an established brand name that is synonymous with resort lifestyle integrated townships, Sunway’s properties are generally priced at a premium. Sales had been stable in the past few years, but the impact of the property market’s weak sentiment has already been felt since FY15 when property sales dipped to RM1.2bn, compared to its usual level of sales of RM1.7-1.8bn during FY12-14. Sunway is targeting RM1.3bn sales in FY18 but the weak demand for high-end properties may continue to pressure the sales momentum.

Construction arm rides on high order book. Sunway Construction is set to benefit from its good reputation and track record in the construction sector. It also gets internal jobs from Sunway’s property arm which awards them through competitive bidding. While huge order wins may be hard to come by in view of the cancellation of certain mega projects, its outstanding order book of RM6.1bn could underpin near-term earnings visibility.

Resilient contribution from investment properties. Sunway has a strong portfolio of investment properties in the retail, office, education, and hospitality sectors, stemming from its integrated business model for township development. The strong recurring cash flow from the investment properties has been growing from strength to strength as the group continues to enhance and nurture its quality assets.

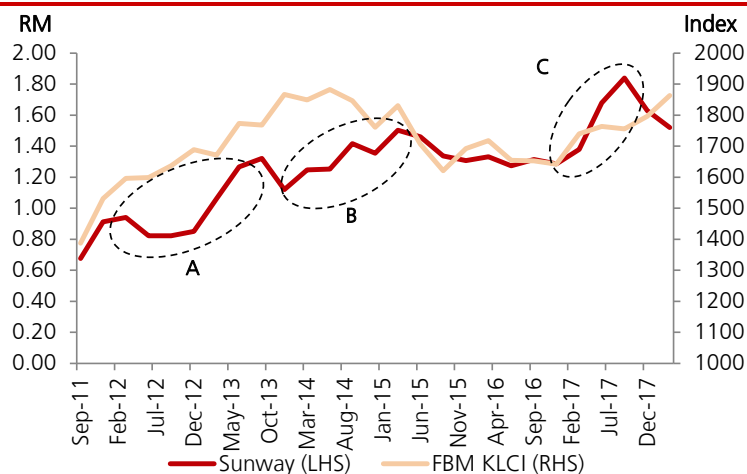
Recycling assets through Sunway REIT. Its 40%-owned associate, Sunway REIT, continues to do well as the owner of prime asset, Sunway Pyramid Shopping Centre. Sunway REIT offers an avenue for Sunway Group to unlock the value of its mature investment properties, and this has proven to be synergistic for both entities.



Source: Company, AllianceDBS

Appendix 1: A look at Company's listed history – what drives its share price?

Share price vs FBM KLCI



Source: Bloomberg L.P., AllianceDBS

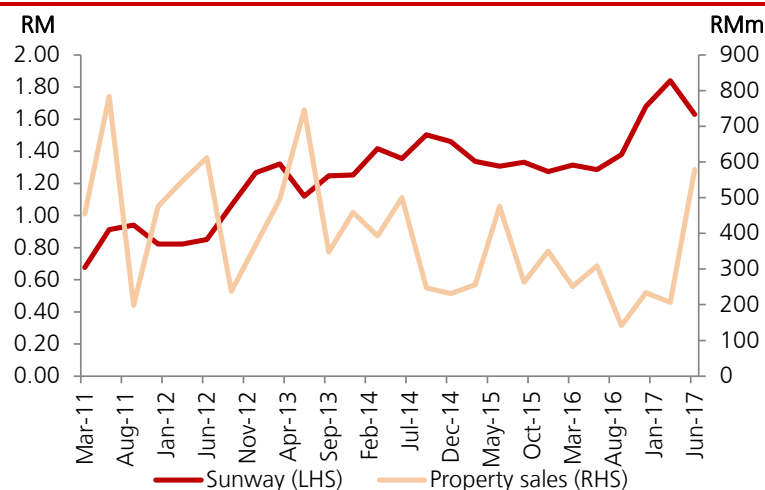
Remarks

A – Share price rallied in tandem with the broad rally in the overall market. Sunway also expanded its land bank in Iskandar Malaysia by purchasing another 1,079 acres of land at favourable pricing, which made it one of the largest land owners in Iskandar Puteri.

B – In Sep 2014, Sunway proposed to list its construction arm via Sunway Construction Berhad where existing shareholders will be rewarded with free Sunway Construction shares and special cash dividend which served as a strong re-rating catalyst.

C – In Jun 2017, Sunway proposed to undertake bonus issues of shares and warrants to reward shareholders. Management also shared its future plans to embark on aggressive expansion for its healthcare division with an ultimate goal to have a separate listing which could fetch high valuations.

Share price vs property sales



Source: Bloomberg L.P., AllianceDBS

Remarks

The correlation between share price performance and property sales is weak, probably due to its diversified business nature. Its property sales have been declining over the past few years due to the challenging property market.

Sunway

Balance Sheet:

Expanding recurring income stream. Sunway's net gearing stood at 0.38x as at end-Mar 2018 due to its aggressive expansion in the investment property division to boost recurring income. Sunway could always recycle mature investment properties through Sunway REIT to lock in development gains.

Share Price Drivers:

Higher-than-expected property sales. We have conservatively assumed RM0.7bn property sales in FY18, which is lower than management's effective target of RM1bn (RM1.3bn gross target). Sunway's product mix comprises mainly relatively higher-end properties, which may be challenging to sell as buyers are increasingly going for affordable homes. Nevertheless, its unique offering of a resort lifestyle township could help to sustain sales.

Strong replenishment of construction order book. While the current order book of RM6.1bn could still last until FY20, strong replenishment is critical to re-rate the share price. The right of first refusal granted by the group for internal construction jobs might address part of the replenishment concern.

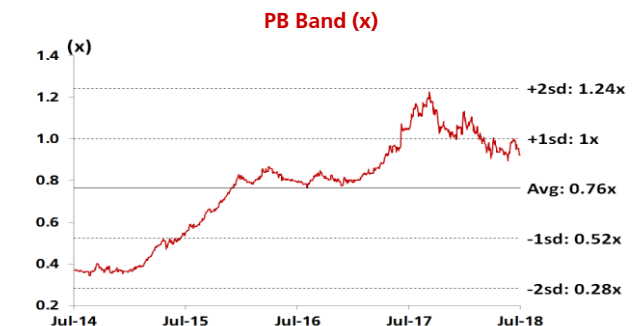
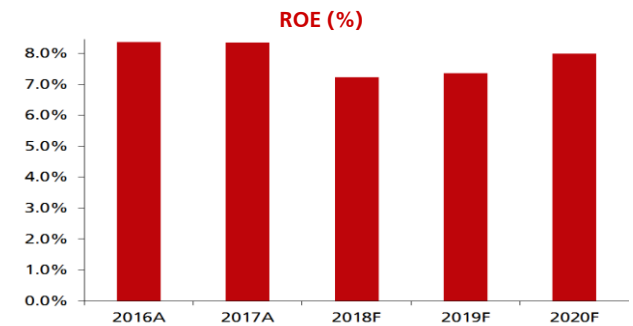
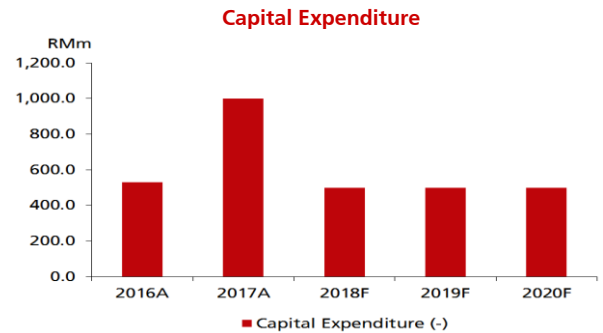
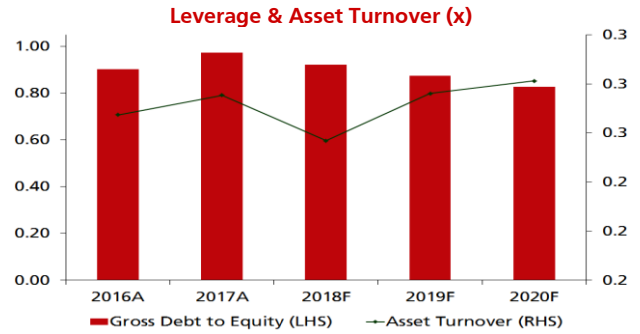
Key Risks:

Delay in contract awards. Construction contract awards could be delayed by a weaker-than-expected economic outlook.

Slowdown in property sales. Given several tightening policies aimed at Malaysia's property sector, demand for property (residential and commercial) could weaken in the near future.

Company Background

Sunway is a property and construction group which also has interests in quarrying, building materials manufacturing and trading.



Source: Company, AllianceDBS

Key Assumptions

FY Dec	2016A	2017A	2018F	2019F	2020F
Construction order win (RMm)	2,656	3,957	700	1,500	1,500
Property sales (RMm)	1,173	1,162	989	889	820
Quarry Annual Production (MT)	9.01	9.01	9.01	9.01	9.01
EBIT Margin %	14.8	12.5	12.4	12.1	12.2

Segmental Breakdown

FY Dec	2016A	2017A	2018F	2019F	2020F
Revenues (RMm)					
Property Development	1,203	990	551	714	627
Property Investment	692	865	876	921	957
Construction	1,137	1,628	1,982	2,229	2,476
Trading & Manufacturing	833	996	919	965	1,013
Others	790	896	897	903	909
Total	4,656	5,375	5,224	5,731	5,983
EBIT (RMm)					
Property Development	273	199	103	139	135
Property Investment	125	192	201	216	230
Construction	129	166	175	166	190
Trading & Manufacturing	51.0	58.2	56.0	58.9	61.8
Others	110	54.7	110	111	111
Total	688	670	646	691	727
EBIT Margins (%)					
Property Development	22.7	20.1	18.7	19.5	21.5
Property Investment	18.1	22.2	23.0	23.5	24.0
Construction	11.4	10.2	8.8	7.4	7.7
Trading & Manufacturing	6.1	5.8	6.1	6.1	6.1
Others	N/A	N/A	N/A	N/A	N/A
Total	14.8	12.5	12.4	12.1	12.2

Driven by unbilled sales

Income Statement (RMm)

FY Dec	2016A	2017A	2018F	2019F	2020F
Revenue	4,656	5,375	5,224	5,731	5,983
Cost of Goods Sold	(3,060)	(3,554)	(3,460)	(3,814)	(3,975)
Gross Profit	1,596	1,821	1,764	1,917	2,008
Other Opg (Exp)/Inc	(908)	(1,150)	(1,118)	(1,227)	(1,280)
Operating Profit	688	670	646	691	727
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	192	161	169	168	215
Net Interest (Exp)/Inc	(59.9)	(22.6)	(52.4)	(62.0)	(42.4)
Exceptional Gain/(Loss)	38.5	73.2	0.0	0.0	0.0
Pre-tax Profit	859	882	762	797	900
Tax	(140)	(149)	(122)	(128)	(144)
Minority Interest	(133)	(93.3)	(63.1)	(59.8)	(68.4)
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Profit	586	640	577	610	688
Net Profit before Except.	547	566	577	610	688
EBITDA	994	971	954	998	1,082
Growth					
Revenue Gth (%)	4.6	15.4	(2.8)	9.7	4.4
EBITDA Gth (%)	7.0	(2.4)	(1.7)	4.7	8.4
Opg Profit Gth (%)	26.5	(2.6)	(3.6)	7.0	5.3
Net Profit Gth (Pre-ex) (%)	(7.3)	3.5	1.9	5.7	12.8
Margins & Ratio					
Gross Margins (%)	34.3	33.9	33.8	33.5	33.6
Opg Profit Margin (%)	14.8	12.5	12.4	12.1	12.2
Net Profit Margin (%)	12.6	11.9	11.0	10.6	11.5
ROAE (%)	8.4	8.4	7.2	7.4	8.0
ROA (%)	3.4	3.3	2.8	2.9	3.2
ROCE (%)	3.9	3.4	3.1	3.3	3.4
Div Payout Ratio (%)	42.7	46.1	50.0	50.0	50.0
Net Interest Cover (x)	11.5	29.7	12.3	11.2	17.1

Resilient earnings

Source: Company, AllianceDBS

Sunway

Quarterly / Interim Income Statement (RMm)

FY Dec	1Q2017	2Q2017	3Q2017	4Q2017	1Q2018
Revenue	1,089	1,241	1,320	1,723	1,308
Cost of Goods Sold	(991)	(1,072)	(1,192)	(1,592)	(1,200)
Gross Profit	97.8	169	128	131	109
Other Oper. (Exp)/Inc	17.5	24.5	25.9	75.3	21.5
Operating Profit	115	194	154	206	130
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	43.1	39.5	49.5	29.3	38.5
Net Interest (Exp)/Inc	(6.7)	(18.7)	(6.3)	9.18	(7.6)
Exceptional Gain/(Loss)	0.0	56.8	0.0	16.4	0.0
Pre-tax Profit	152	271	197	261	161
Tax	(27.2)	(38.2)	(29.0)	(54.9)	(23.4)
Minority Interest	(17.5)	(36.4)	(16.9)	(22.2)	(15.6)
Net Profit	107	197	151	184	122
Net profit bef Except.	107	140	151	167	122
EBITDA	193	267	239	271	169

Growth

Revenue Gth (%)	(20.2)	14.0	6.3	30.6	(24.1)
EBITDA Gth (%)	(32.7)	38.2	(10.4)	13.2	(37.7)
Opg Profit Gth (%)	(49.3)	68.2	(20.8)	34.2	(36.9)
Net Profit Gth (Pre-ex) (%)	(34.0)	31.1	7.6	11.0	(27.2)

Margins

Gross Margins (%)	9.0	13.6	9.7	7.6	8.3
Opg Profit Margins (%)	10.6	15.6	11.6	12.0	9.9
Net Profit Margins (%)	9.8	15.9	11.4	10.7	9.3

Within expectation

Balance Sheet (RMm)

FY Dec	2016A	2017A	2018F	2019F	2020F
Net Fixed Assets	1,876	2,050	2,411	2,772	3,133
Invt in Associates & JVs	3,223	3,527	3,695	3,863	4,079
Other LT Assets	4,581	5,255	5,255	5,255	5,255
Cash & ST Invt	4,060	4,427	4,245	4,007	3,761
Inventory	662	681	663	733	765
Debtors	2,828	2,221	2,159	2,368	2,472
Other Current Assets	1,601	2,047	2,047	2,047	2,047
Total Assets	18,831	20,208	20,475	21,046	21,512
ST Debt	4,831	4,911	4,911	4,911	4,911
Creditor	2,708	2,907	2,827	3,128	3,265
Other Current Liab	44.4	149	244	250	266
LT Debt	2,591	3,348	3,248	3,148	3,048
Other LT Liabilities	438	406	406	406	406
Shareholder's Equity	7,456	7,844	8,133	8,438	8,782
Minority Interests	764	643	706	766	835
Total Cap. & Liab.	18,831	20,208	20,475	21,046	21,512
Non-Cash Wkg. Capital	2,339	1,894	1,798	1,771	1,753
Net Cash/(Debt)	(3,361)	(3,832)	(3,914)	(4,052)	(4,198)
Debtors Turn (avg days)	214.3	171.4	153.0	144.1	147.6
Creditors Turn (avg days)	319.3	300.1	315.1	295.7	304.1
Inventory Turn (avg days)	83.9	71.8	73.8	69.3	71.3
Asset Turnover (x)	0.3	0.3	0.3	0.3	0.3
Current Ratio (x)	1.2	1.2	1.1	1.1	1.1
Quick Ratio (x)	0.9	0.8	0.8	0.8	0.7
Net Debt/Equity (X)	0.4	0.5	0.4	0.4	0.4
Net Debt/Equity ex MI (X)	0.5	0.5	0.5	0.5	0.5
Capex to Debt (%)	7.1	12.1	6.1	6.2	6.3
Z-Score (X)	1.1	1.1	1.2	1.2	1.2

Healthy balance sheet

Source: Company, AllianceDBS

Cash Flow Statement (RMm)

FY Dec	2016A	2017A	2018F	2019F	2020F
Pre-Tax Profit	859	882	762	797	900
Dep. & Amort.	114	139	139	139	139
Tax Paid	(111)	(178)	(26.7)	(122)	(128)
Assoc. & JV Inc/(loss)	(192)	(161)	(169)	(168)	(215)
Chg in Wkg.Cap.	(329)	(236)	0.90	20.9	1.09
Other Operating CF	197	334	0.0	0.0	0.0
Net Operating CF	538	780	707	667	698
Capital Exp.(net)	(530)	(1,000)	(500)	(500)	(500)
Other Invts.(net)	0.0	0.0	0.0	0.0	0.0
Invts in Assoc. & JV	0.0	(105)	0.0	0.0	0.0
Div from Assoc & JV	(916)	0.0	0.0	0.0	0.0
Other Investing CF	(147)	51.3	0.0	0.0	0.0
Net Investing CF	(1,592)	(1,054)	(500)	(500)	(500)
Div Paid	(219)	(276)	(289)	(305)	(344)
Chg in Gross Debt	1,457	1,240	(100.0)	(100.0)	(100.0)
Capital Issues	0.0	0.0	0.0	0.0	0.0
Other Financing CF	334	(257)	0.0	0.0	0.0
Net Financing CF	1,571	707	(389)	(405)	(444)
Currency Adjustments	916	(66.1)	0.0	0.0	0.0
Chg in Cash	1,433	367	(182)	(238)	(246)
Opg CFPS (sen)	18.6	20.6	14.4	13.1	14.2
Free CFPS (sen)	0.17	(4.5)	4.21	3.40	4.02

Source: Company, AllianceDBS

Target Price & Ratings History



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

S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	14 Jul 17	1.70	1.63	HOLD
2:	02 Aug 17	1.87	1.63	HOLD
3:	04 Aug 17	1.86	1.63	HOLD
4:	30 Aug 17	1.86	1.74	HOLD
5:	11 Oct 17	1.80	1.70	HOLD
6:	28 Nov 17	1.65	1.70	HOLD
7:	03 Jan 18	1.78	1.70	HOLD
8:	19 Feb 18	1.70	1.70	HOLD
9:	01 Mar 18	1.62	1.70	HOLD
10:	22 May 18	1.52	1.60	HOLD
11:	12 Jun 18	1.59	1.60	HOLD

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

Completed Date: 11 Jul 2018 08:07:03 (MYT)

Dissemination Date: 11 Jul 2018 08:10:13 (MYT)

Sources for all charts and tables are AllianceDBS unless otherwise specified.

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