

13 September 2019

## Sunway Berhad

### Wins Land Bid in Tianjin, China

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We are positive with SUNWAY's land tender win in Tianjin, China for RMB438.0m as they continue their diversification effort from the local development scene. However, no change in FY19-20E earnings as the launch is scheduled for 1H20. Maintain MARKET PERFORM with an unchanged SoP-driven Target Price of RM1.60 even after factoring the replenishment into our RNAV.

**News.** Yesterday, SUNWAY announced that their 60%-owned joint venture in Singapore has won a tender to acquire from Sino-Singapore Tianjin Eco-City Investment and Development Co. Ltd a parcel of land measuring 6.85 acres in Tianjin, China for a total consideration of RMB438.0m or c.RM257.8m. Based on their indicative GDV of RMB1.3b, we deem the purchase consideration to be fair as it represents land cost to GDV ratio of 31%, which is not untypical for China projects.

**Positive move.** We are positive with SUNWAY's continuous effort in replenishing its land bank overseas albeit only holding an effective stake of 60%, due to the sluggishness in the local development scene. The replenishment will boost its total GDV from RM56.8b to c.RM57.6b, and we believe that they are able to maintain their net gearing at healthy levels of below 0.5x, as the acquisition would only inch up its net gearing from 0.36x (as of 2Q19) to 0.39x.

**Outlook.** Its current unbilled sales stand at RM2.7b providing them at least 2-year visibility. That said, management is looking to launch RM2.0b worth of projects of which 50% are in Singapore. We believe our FY19E sales target of RM1.3b is achievable. We also do not rule out further land banking activities for the year. As for its construction division, it has an outstanding order-book of RM5.8b, which is sufficient for 3- year's visibility.

**No changes in earnings.** We make no changes to our FY19-20E earnings, as the project is scheduled for launch in 1H20.

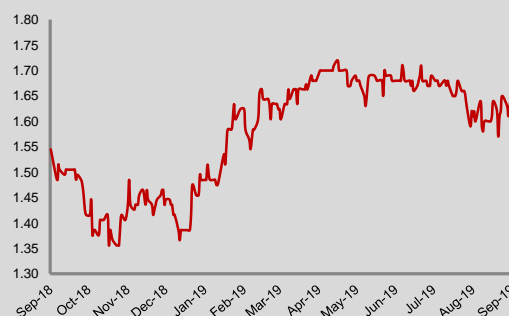
**Maintain MARKET PERFORM, with unchanged Target Price of RM1.60.** Currently, we are comfortable with our valuations as follows; (i) applied property RNAV discount of 64% that is close to the sector average of 72% after including the GDV for the newly acquired land into our RNAV, (ii) premium valuation of 25.0x Fwd. PER to its healthcare division, and (iii) 11.0x FY20E PER to its construction division, highest multiple ascribed for the construction sector. Our TP implies FY20E PER of 11.9x, which is above our contractors' ascribed multiple of 11.0x, but below our developers' average of 15.1x.

**Upside risks to our call include:** Higher-than-expected property sales and construction replenishment, lower-than-expected administrative costs, positive real estate policies, and encouraging lending environment.

## MARKET PERFORM ↔

**Price :** RM1.64  
**Target Price :** RM1.60 ↔

### Share Price Performance



KLCI 1,601.00  
YTD KLCI chg -5.3%  
YTD stock price chg 12.7%

### Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	SWB MK Equity
Market Cap (RM m)	7,988.4
Issued shares	4,871.0
52-week range (H)	1.72
52-week range (L)	1.34
3-mth avg daily vol:	4,020,784
Free Float	32%
Beta	0.8

### Major Shareholders

Sungei Way Corp SdnBhd	56.6%
Employees Provident Fund Board	7.4%
Fook Ling Cheah	4.1%

### Summary Earnings Table

FYE Dec (RM m)	2018A	2019E	2020E
Turnover	5410	5265	5926
EBIT	560	687	768
PBT	851	787	789
<b>Net Profit</b>	<b>658</b>	<b>540</b>	<b>597</b>
<b>Core PATAMI</b>	<b>590</b>	<b>540</b>	<b>597</b>
Consensus (NP)	N.A.	624	678
Earnings Revision	N.A.	0%	0%
Core EPS (sen)	12.0	11.0	12.1
Core EPS growth (%)	8	-9	11
NDPS (sen)	5.5	5.9	6.1
NTA per Share (RM)	1.66	1.71	1.77
Price to NTA (x)	1.0	0.9	0.9
PER (x)	13.7	14.3	12.9
Debt-to-Equity ratio (x)	1.0	1.0	0.9
Return on Asset (%)	2.8	2.6	2.8
Return on Equity (%)	7.8	6.2	6.6
Net Div. Yield (%)	3.3	3.7	3.9



13 September 2019

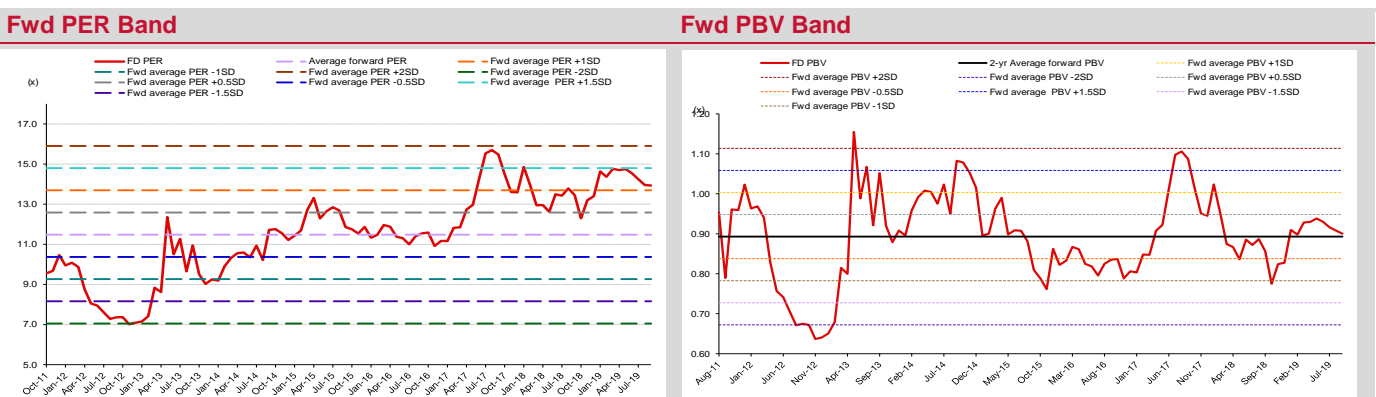
<b>Sum-of-Parts</b>						
	<b>Stake</b>	<b>Value @ Stake</b>	<b>PER</b>	<b>Discount</b>	<b>Value</b>	<b>Assumptions</b>
		<b>RM'm</b>	<b>(x)</b>	<b>(%)</b>	<b>RM'm</b>	
Property Development & Investment	100%	7,995	n.a	64%	2,878	(i) Property Dev: DCF of Future Profits @ 11% WACC, 18% net margin property rnav discount of 64% (ii) Property Inv: Zero surplus on Book Value
Sunway Reit	35%	1,834	n.a		1,834	SUNREIT TP RM1.80
Construction	56%	1,019	11		1,019	11x FY20E PER (Sum-of-Parts)
Quarry & Buildings Mat	100%	168	8		168	8x FY20E PER
Trading & manufacturing	100%	268	8		268	8x FY20E PER
Healthcare	100%	1,571	28		1,571	25x FY20E PER
Group Shareholders Funds						
<b>Total SOP</b>		<b>12,855</b>			<b>7,738</b>	
Adjustment for Dilution					1,157	
<b>FD SOP (RM)</b>					<b>2.53</b>	
Implied SOP Discount Rate					-37%	
<b>TP (RM)</b>					<b>1.60</b>	
Diluted no. of shares ('m)					5,539	

Source: Kenanga Research

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Income Statement						Financial Data & Ratios					
<b>FY Dec (RM'm)</b>	<b>2016A</b>	<b>2017A</b>	<b>2018A</b>	<b>2019E</b>	<b>2020E</b>	<b>FY Dec (RM'm)</b>	<b>2016A</b>	<b>2017A</b>	<b>2018A</b>	<b>2019E</b>	<b>2020E</b>
Revenue	4656	5239	5410	5265	5926	<b>Growth (%)</b>					
EBITDA	750	793	685	811	886	Revenue	5%	13%	3%	-3%	13%
Depreciation	-137	-139	-125	-123	-117	EBITDA	73%	106%	86%	118%	109%
EBIT	613	653	560	687	768	EBIT	-32%	7%	-14%	23%	12%
Interest Expense	-30	20	62	-11	-94	Pre-tax Income	-8%	2%	-2%	-7%	0%
Associates/JV	192	200	229	111	114	Net Income	-20%	6%	6%	-18%	11%
Exceptional Items	44	73	68	0	0	Core Net Income	-9%	1%	8%	-9%	11%
PBT	859	872	851	787	789	<b>Profitability (%)</b>					
Taxation	-140	-149	-122	-188	-189	EBITDA Margin	16%	15%	13%	15%	15%
MI/Perps	-133	-102	-71	-59	-4	EBIT Margin	13%	12%	10%	13%	13%
Net Profit	586	621	658	540	597	PBT Margin	18%	17%	16%	15%	13%
Core Net Profit	542	547	590	540	597	Net Margin	13%	12%	12%	10%	10%
						Core Net Margin	12%	10%	11%	10%	10%
						Effective Tax Rate	-16%	-17%	-14%	-24%	-24%
						ROE	8%	8%	8%	6%	7%
						ROA	3%	3%	3%	3%	3%
						<b>DuPont Analysis</b>					
						Net margin (%)	13%	12%	12%	10%	10%
						Assets Turnover (x)	0.2	0.3	0.3	0.3	0.3
						Leverage Factor (x)	2.5	2.6	2.5	2.4	2.4
						ROE (%)	8%	8%	8%	6%	7%
						<b>Leverage</b>					
						Debt/Asset (x)	0.4	0.4	0.4	0.4	0.4
						Debt/Equity (x)	1.0	1.1	1.0	1.0	0.9
						Net Debt/(Cash)	3462.7	3868.5	3763.8	3875.7	4326.3
						Net Debt/Equity (x)	0.5	0.5	0.4	0.4	0.5
						<b>Valuations</b>					
						Core EPS (sen)	11.0	11.1	12.0	11.0	12.1
						FD Core EPS (sen)	9.8	9.9	10.7	9.7	10.8
						NDPS (sen)	3.7	6.0	5.5	5.9	6.1
						BV/share (RM)	1.52	1.59	1.73	1.78	1.84
						Core PER (x)	14.9	14.7	13.7	14.3	12.9
						FD Core PER (x)	14.3	16.8	16.6	15.4	16.1
						Net Div. Yield (%)	2%	4%	3%	4%	4%
						PBV (x)	1.08	1.03	0.95	0.88	0.85
						EV/EBITDA (x)	15.5	14.6	16.9	14.3	13.1

Source: Kenanga Research



Source: Bloomberg, Kenanga Research

13 September 2019

## Peer Comparison

Name	Last Price	Market Cap (RM'm)	Shariah Compliant	Current FYE	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)		Net Div.Yld. (%)	Target Price (RM)	Rating
	(RM)				1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	Price (RM)		
<b>PROPERTY DEVELOPERS UNDER COVERAGE</b>																		
AMVERTON BHD	1.07	390.6	Y	12/2019	-22.4%	-3.1%	-75.5%	-3.8%	16.3	66.5	69.1	0.5	0.5	0.8%	0.0%	1.00	UP	
ECO WORLD DEVELOPMENT GROUP	0.690	2,031.6	Y	10/2019	-4.4%	-18.3%	9.5%	18.8%	12.3	11.2	9.4	0.5	0.4	4.8%	1.3%	1.15	OP	
HUA YANG BHD	0.335	117.9	Y	03/2020	-11.0%	-1.2%	153.2%	-11.8%	N.A.	14.4	16.3	0.2	0.2	1.4%	0.0%	0.335	UP	
IOI PROPERTIES GROUP BHD	1.17	6,442.2	Y	06/2020	1.4%	2.6%	-3.0%	8.2%	9.8	10.1	9.3	0.4	0.3	3.5%	4.3%	1.65	OP	
LBS BINA GROUP BHD	0.515	801.3	Y	12/2019	31.3%	0.9%	-22.4%	9.5%	9.4	12.2	11.1	0.6	0.5	4.8%	2.5%	0.495	MP	
MAGNA PRIMA BHD	1.02	339.3	Y	12/2019	-5.6%	28.8%	-572.6%	-139.5%	N.A.	N.A.	N.A.	0.6	0.7	-2.0%	0.0%	0.710	UP	
MAH SING GROUP BHD	0.835	2,027.1	Y	12/2019	-0.1%	10.3%	-16.4%	14.1%	12.3	14.6	12.9	0.6	0.6	4.5%	4.8%	1.00	OP	
MALAYSIAN RESOURCES CORP BHD	0.785	3,463.5	Y	12/2019	-41.9%	70.5%	-95.3%	2791.2%	45.7	975.4	33.7	0.7	0.7	1.2%	0.0%	0.700	UP	
SIME DARBY PROPERTY BHD	0.830	5,644.7	Y	12/2019	127.9%	3.9%	7861.6%	-2.3%	807.6	10.1	10.4	0.6	0.6	5.9%	3.9%	1.10	OP	
SP SETIA BHD	1.43	5,780.7	Y	12/2019	5.5%	24.3%	27.2%	46.0%	26.3	20.7	14.2	0.4	0.4	1.9%	4.9%	1.85	MP	
SUNSURIA BHD	0.695	622.7	Y	09/2019	-2.7%	7.3%	-4.0%	4.8%	4.7	4.9	4.6	0.7	0.6	14.5%	0.0%	0.760	MP	
SUNWAY BHD	1.64	7,988.4	Y	12/2019	-2.7%	12.5%	-8.5%	10.6%	13.7	14.3	12.9	1.0	1.0	6.2%	3.7%	1.60	MP	
UEM SUNRISE BHD	0.710	3,221.6	Y	12/2019	37.0%	-14.3%	5.9%	-18.1%	9.9	9.3	11.4	0.5	0.5	4.8%	2.2%	0.835	OP	
UOA DEVELOPMENT BHD	1.99	3,912.4	Y	12/2019	0.6%	-0.4%	4.4%	0.8%	11.0	10.6	10.5	0.8	0.8	7.4%	7.0%	2.15	MP	
<b>Simple Average</b>					<b>8.0%</b>	<b>8.8%</b>	<b>518.9%</b>	<b>194.9%</b>	<b>81.6</b>	<b>90.4</b>	<b>17.4</b>	<b>0.6</b>	<b>0.6</b>	<b>4.3%</b>	<b>2.5%</b>			
<i>*SIMEPROP change of FY-end from 30-Jun to 31-Dec. Out historical numbers are based on FY18A while 1-Yr and 2-Yr Fwd are based on FY19E and FY20E figures</i>																		
<b>CONSENSUS NUMBERS</b>																		
GLOMAC BHD	0.370	288.1	Y	04/2020	12.9%	38.7%	15.8%	90.6%	19.6	16.9	8.9	0.3	N.A.	1.6%	2.4%	0.405	N.A	
MATRIX CONCEPTS HOLDINGS BHD	1.93	1,566.8	Y	03/2020	4.6%	3.2%	11.4%	3.8%	7.2	6.4	6.2	1.1	1.0	16.3%	6.7%	2.28	BUY	
PARAMOUNT CORP BHD	1.33	806.9	Y	12/2019	-1.4%	8.4%	2.4%	5.3%	8.8	8.6	8.2	1.0	N.A.	7.2%	4.8%	N.A.	BUY	
TAMBUN INDAH LAND BHD	0.750	325.1	Y	12/2019	-11.1%	1.5%	-21.2%	1.9%	5.9	7.5	7.3	0.5	0.5	6.7%	6.0%	0.863	BUY	
TITIJAYA LAND BHD	0.295	373.7	Y	06/2020	8.7%	20.9%	22.4%	21.5%	10.7	8.7	7.2	0.3	0.3	2.9%	42.7%	0.280	N.A	
YONG TAI BHD	0.210	144.7	Y	06/2020	132.7%	8.3%	-3768.9%	-134.2%	N.A.	N.A.	N.A.	0.3	0.3	-1.9%	0.0%	0.230	N.A	

**Stock Ratings are defined as follows:****Stock Recommendations**

OUTPERFORM	: A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM	: A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM	: A particular stock's Expected Total Return is LESS than -5%

**Sector Recommendations\*\*\***

OVERWEIGHT	: A particular sector's Expected Total Return is MORE than 10%
NEUTRAL	: A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT	: A particular sector's Expected Total Return is LESS than -5%

**\*\*\*Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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