Construction and trading boosted earnings

Sunway's 1Q15 core earnings (+19% yoy) came in within our expectation. The higher earnings were underpinned by higher contribution from the construction and trading segments. Maintain forecast and BUY recommendation with an unchanged TP of RM3.90.

1Q15 core earnings came in within our and street expectations

In 1Q15, Sunway reported core earnings of RM124m (+19% yoy) on the back of a 3.3% growth in revenue and +2.9%-pts EBIT margin expansion. Our core net profit excludes capital gain from the disposal of Sunway Hotel Georgetown and Wisma Sunway amounting to RM22.9m. Results are within our expectation, accounting for 24% of our full year forecast. No dividend was declared (1Q14: Nil).

The construction and trading business supported sales

Revenue was driven by strong growth from its trading and construction divisions, but partially mitigated by softer sales from its property segment (-18.7& yoy), on slower progress billing, in tandem with the soft property environment. Growth from the trading and manufacturing division was mainly boosted by pre-goods and services tax (GST) demand, while the construction sector was supported by higher progress billings from the local building projects and precast product projects in Singapore.

Unbilled sales stood at RM2.5bn

In 1Q15, Sunway achieved property sales of RM247m (1Q14: 348m; -29% yoy), mainly contributed by projects like Velocity, South Quay, and Eastwood. Effective unbilled sales stood at RM2.5bn as at end-March 15. Meanwhile, total outstanding construction order book stood at RM2.8bn as at end-March 2015.

Maintain BUY with an unchanged target price of RM3.90

For now, we maintain our forecast and BUY rating and TP of RM3.90 (based on 30% discount to RNAV). We continue to like Sunway for its strategic property land bank, extensive experience in the construction sector, and inexpensive valuation of 0.7x P/RNAV. Risk to our recommendation include: i) sharper-than-expected slowdown in the domestic property market; ii) prolonged oversupply within the Johore region, iii) lower-than-expected construction contract wins.

Earnings & Valuation Summary

FYE 31 Dec	2013	2014	2015E	2016E	2017E
Revenue (RMm)	4,721.4	4,841.9	5,429.0	5,727.4	5,907.9
EBITDA (RMm)	608.3	735.6	737.2	769.3	795.6
Pretax profit (RMm)	1,900.4	968.8	718.3	766.5	789.8
Net profit (RMm)	1,490.4	743.2	516.9	574.6	590.4
EPS (sen)	98.8	43.0	29.9	33.2	34.1
PER (x)	3.6	8.2	11.8	10.6	10.3
Core net profit (RMm)	482.7	743.2	531.9	589.6	605.4
Core EPS (sen)	32.0	43.0	29.9	33.2	34.1
Core EPS growth (%)	18.0	34.4	(30.6)	11.2	2.8
Core PER (x)	11.0	8.2	11.8	10.6	10.3
Net DPS (sen)	10.0	11.0	9.0	10.0	11.0
Dividend Yield (%)	2.8	3.1	2.6	2.8	3.1
EV/EBITDA (x)	12.1	10.7	10.1	9.4	8.7
Chg in EPS (%)			-	-	-
Affin/Consensus (x)			0.9	1.0	1.0

Source: Company, Affin Hwang estimates

Results Note

Sunway

SWB MK
Sector: Property

RM3.52 @ 25 May 2015

BUY (maintain)
Upside 11%

Price Target: RM3.90
Previous Target: RM3.90

Price Performance

	1M	3M	12M
Absolute	-5.3%	+7.6%	+16.2%
Rel to KLCI	0.0%	+11.1%	+22.8%

Stock Data

Issued shares (m)	1,751.0
Mkt cap (RMm)/(US$m)	6,163/1,699
Avg daily vol - 6mth (m)	1.7
52-wk range (RM)	2.91-3.81
Est free float	18%
BV per share (RM)	3.45
P/BV (x)	1.02
Net cash/ (debt) (RMm) (1Q15)	(1,975)
ROE (2015F)	8.4%
Derivatives	
Warr 2016 (SP:RM2.50)	
Shariah Compliant	Yes

Key Shareholders

Tan Sri Jeffrey Cheah	55.4%
GIC	8.7%

Source: Affin Hwang, Bloomberg

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Fig 1: Results Comparison

FYE 31 Dec (RMm)	1QFY15	QoQ % chg	YoY % chg	Comment
Revenue	1060.0	(28.3)	3.3	Driven by property investment (+2%), construction (+5% yoy), trading (+29% yoy), but negated by property development (-18.7% yoy)
Op costs	(916.2)	(24.5)	0.0	
EBIT	143.8	(45.4)	31.3	
EBIT margin (%)	*13.6*	*-4.3ppt*	*+2.9ppt*	
Int expense	(26.0)	18.0	44.2	Total debt stood at RM4.0bn (+6% yoy)
Int and other income	14.6	(1.1)	43.2	
Associates	38.1	(14.6)	(5.7)	
EI	22.9	nm	nm	Gain from disposal of Sunway Hotel Georgetown and Wisma Sunway
Pretax profit	193.5	(52.6)	36.1	
Core pretax	170.6	(43.3)	20.0	
Tax	(36.1)	(29.0)	18.5	Lower due to deferred taxation
Tax rate (%)	18.6	n.m	n.m	
MI	(10.9)	(75.3)	40.1	
Net profit	146.5	(53.2)	40.9	
EPS (sen)	8.5	(53.4)	40.1	
Core net profit	123.6	(40.0)	18.9	In line; Accounts for 24% of our full year forecast

Source: Affin Hwang, Company data

Fig 2: Segmental breakdown

	1Q15		1Q14		Chg (%)		Net margin (%)	
	Turnover	Net profit	Turnover	Net profit	Turnover	Net profit	1Q15	1Q14
Property development	180.7	35.0	222.3	50.3	(18.7)	(30.5)	19.4	22.6
Property Investment	139.3	35.2	136.2	17.6	2.2	100.2	25.3	12.9
Construction	375.3	47.8	358.7	24.9	4.6	91.9	12.7	6.9
Trading & Manufacturing	191.9	9.2	149.0	6.0	28.8	53.8	4.8	4.0
Quarry	53.8	5.7	48.3	3.6	11.4	57.3	10.6	7.5
Investment Holdings	0.8	-2.8	0.0	-2.3	nm	26.3	nm	nm
Others	118.2	16.5	111.2	3.8	6.3	330.5	14.0	3.5
	1,060.0	**146.5**	**1,025.7**	**104.0**	**3.3**	**40.9**		

Source: Affin Hwang, Company data

Equity Rating Structure and Definitions

BUY	Total return is expected to exceed +10% over a 12-month period
HOLD	Total return is expected to be between -5% and +10% over a 12-month period
SELL	Total return is expected to be below -5% over a 12-month period
NOT RATED	Affin Hwang Investment Bank Berhad does not provide research coverage or rating for this company. Report is intended as information only and not as a recommendation

The total expected return is defined as the percentage upside/downside to our target price plus the net dividend yield over the next 12 months.

OVERWEIGHT	Industry, as defined by the analyst's coverage universe, is expected to outperform the KLCI benchmark over the next 12 months
NEUTRAL	Industry, as defined by the analyst's coverage universe, is expected to perform inline with the KLCI benchmark over the next 12 months
UNDERWEIGHT	Industry, as defined by the analyst's coverage universe is expected to under-perform the KLCI benchmark over the next 12 months

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